# 2014 ANNUAL REPORT

ATLANTIC LTD

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# CORPORATE INFORMATION

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

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## COMPANY SECRETARY
Tony Veitch

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## HOME EXCHANGE
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# DIRECTORS' REPORT

Your Directors have pleasure in submitting their report on the Consolidated Entity, being Atlantic Ltd (**Atlantic** or the **Company**) and its controlled entities (the **Consolidated Entity** or the **Group**), for the year ended 30 June 2014.

## 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 Gary Lewis – Non-Executive Chairman

Appointed 11 March 2014

BCom, MBT

Mr Lewis is the founding director of Robust Resources Limited and holds a Bachelor of Commerce and Masters of Business & Technology (MBT) from the University of NSW. He has more than 25 years experience in capital markets and business and strategy development in Australia and Asia, having worked in senior management positions in both private and public enterprises, predominantly in industries as diverse as mining/exploration and pharmaceuticals.

During the past three years he has also served as a Director of the following listed companies:

Robust Resources Ltd (ROL); and

Medical Australia Ltd (MLA).

### Mr Phiong Phillipus Darma – Non-Executive Director

Appointed 18 November 2010

BAcc, MAcc

Mr Phillipus is a senior executive of the Salim Group of Companies. Mr Phillipus has extensive experience in the resources sector. He was involved in the acquisition of PT Sebuku Iron Lateritic Ore, an iron ore mining company located in South Kalimantan and currently appointed as commissioner of the company. He is also a member of the Steering Committee of PT Ithaca Resources, an emerging coal company in East Kalimantan. In addition to his current roles, Mr Phillipus has previously held senior positions with PT Indocement Tunggal Prakarsa, the largest cement company in Indonesia.

During the past three years he has also served as a Director of the following listed companies:

Gallant Venture Ltd; and

PT Indosiar Karya Media Tbk.

### Mr Bradley Ellis – Non-Executive Director

Appointed 16 December 2013

BAppSci (Extractive Metallurgy), Grad Dip (App Fin Inv), FAusIMM, FFin and Member of SME

Mr Ellis is a metallurgist with more than 30 years experience in the mining industry and is a Fellow of the AusIMM and the Financial Services Institute of Australasia, and a Member of the Society for Mining, Metallurgy and Exploration. He has worked on projects in

# DIRECTORS' REPORT

Australia, Ghana, Russia, Myanmar, Mongolia, Papua New Guinea, Zambia and DRC in a variety of technical, operational, and management roles. Since 1999 he has worked as an independent consultant on various projects for companies including First Quantum Minerals, Ivanhoe Mines, Minara, Lihir Gold, Keegan Resources and Newcrest.

During the past three years he has also served as a Director of the following listed company:

KGL Resources Ltd (KGL).

**Dr Mike Daniel – Non-Executive Director**

Appointed 13 January 2014

Masters and PhD, University of Queensland

Dr Daniel is a respected independent mineral processing consultant, specialising in comminution (crushing and grinding), with over 25 years industry experience. Following a career in project management and mineral resource management with Anglo American Corporation and De Beers (DebTech) in South Africa, Dr Daniel migrated to Australia in 2000 and completed a Masters (2002) and PhD (2007) degrees at the University of Queensland. He then established his own consulting business, CMD Consulting Pty Ltd. The firm offers specialised consulting services in the areas of ore characterisation, circuit design and eco-comminution (energy efficient processing). Dr Daniel has extensive experience in the design and application of high pressure grinding rolls (**HPGR**) technology. Dr Daniel's clients have included Anglo American, Xstrata/Glencore, Straits Resources, Vale, Ausenco, Cliffs, Vedanta, CBH Resources, Boteti Mining and CITIC-HI.

**Mr Michael Minosora – Executive Chairman and Managing Director**

Appointed 25 September 2009

Resigned 11 March 2014

BBus, MBA, FCA

Mr Minosora is a fellow of the Institute of Chartered Accountants in Australia who has over 20 years' experience in the corporate advisory arena, advising on significant corporate transactions both in Australia and South East Asia. Mr Minosora was previously Chief Financial Officer of Fortescue Metals Group, Managing Director of Azure Capital and Managing Partner of Ernst & Young in Western Australia.

During the past three years he has also served as a Director of the following listed company:

Alloy Steel International Inc.

**Mr Tony Veitch – Executive Director**

Appointed 4 July 2007

Resigned 26 November 2013

BCom, MBA

# DIRECTORS' REPORT

Mr Veitch has a Bachelor of Commerce degree and a Master of Business Administration. Mr Veitch previously acted as a consultant to a wide range of private and public companies. Prior to that, Mr Veitch was the Manager of Corporate Projects for the London Stock Exchange and worked with the Australian Securities Exchange.

During the past three years he has also served as a Director of the following listed company:
Baraka Energy & Resources Limited.

## COMPANY SECRETARY

### Mr Tony Veitch – Company Secretary

Appointed 2 February 2012

## DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at the date of this report, the interests of the current Directors in the shares and options of the Company were:

| Directors | Shares | Unlisted options | Class B performance shares |
|---|---|---|---|
| Gary Lewis | - | - | - |
| Phiong Phillipus Darma | - | - | - |
| Bradley Ellis | - | - | - |
| Mike Daniel | 173,196 | - | - |

## PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Group during the year related to the operation of the Windimurra vanadium project (**Windimurra**).

## DIVIDENDS

No dividends were paid during the year and no recommendation is made for the payment of a dividend.

## REVIEW AND RESULTS OF OPERATIONS

### Windimurra Vanadium Project

During the financial year, Atlantic was focused on firstly increasing production from Windimurra, and later in the financial year, the rebuild of the beneficiation plant.

Early in the financial year, Atlantic's wholly-owned subsidiary, Midwest Vanadium Pty Ltd (Administrators Appointed)(Receivers and Managers Appointed – 11 and 12 February 2015) (**MVPL**), the 100% owner of Windimurra, completed the last of the major modification works on the crushing, milling and beneficiation (**CMB**) plant. Upon completion, a step change in CMB throughput and reliability was achieved, providing a material increase in magnetite concentrate production.

# DIRECTORS' REPORT

Both availability and throughput of the CMB plant continued to improve in the first half of the financial year. The roasting kiln showed sound performance in terms of availability and throughput.

The performance of the refinery, including the ferrovanadium (**FeV**) electric arc furnace, initially was below expectation due to a number of unrelated operating and mechanical failures. These failures were rectified, allowing this area of the plant to catch up with the CMB circuit and the roasting kiln during the first half of the financial year.

This work enabled record levels of vanadium production from Windimurra, with December production reaching 142 tonnes of contained vanadium. Significant maintenance shutdowns were completed in January 2014. These maintenance shutdowns focused on the roasting kiln and refinery area.

The maintenance shutdown work on the roasting kiln took substantially longer than planned due to the identification of further works during the course of the shutdown. This extended shutdown of the roasting kiln deprived the refinery of feed stock. The maintenance shutdown of the refinery area was in line with plan. By the end of January 2014, the roasting kiln was back in production and vanadium inventories began moving through the refinery.

In late January 2014, the Windimurra project was adversely affected by a major rain event. The access road to the project was flooded and closed. Mining was suspended for a period and the crusher circuit sustained some damage. The screening and crushing of high titanium iron ore lump was suspended and the associated trucking campaign suspended for more than a week. By the end of January, almost all of these issues had been rectified and operations resumed.

As a result of the above, a planned January shutdown of the CMB plant was postponed until early February 2014. Inventory of magnetite concentrate was built up in January so that the roasting kiln and refinery would have feed stock to keep running when the CMB plant was shut down for maintenance works.

**Substantial fire in the beneficiation plant**

On 4 February 2014, whilst it was undergoing planned maintenance works, there was a substantial fire in the beneficiation plant at Windimurra. 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. A subsequent structural analysis of the damage to the beneficiation plant was undertaken and recommended that the most cost and time effective option was to demolish the existing plant and rebuild from the foundations.

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

# DIRECTORS' REPORT

**Beneficiation plant rebuild**

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

Following the review that recommended that the most cost and time effective option was to demolish the existing structure and rebuild the plant from the foundations, demolition work commenced late in the financial year and was completed in early July 2014.

During the financial year, MVPL completed all 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 was well advanced by the end of the financial year. As at 30 June 2014, MVPL had capital commitments of $5.984 million as disclosed in note 27.

Towards the end of the financial year, Atlantic 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 was nearly completed at year end, including the key deliverables of a detailed cost estimate for the rebuild project and comprehensive scopes of work for the rebuild phase.

**Insurance**

At the time of the fire, the Group held comprehensive industrial special risks insurance that covered both the material damage to the beneficiation plant and business interruption.

The Group's insurers granted indemnity for the fire during the March 2014 quarter, and the Group received a series of progress payments under its insurance policy in the amount of $26.250 million up to 30 June 2014.

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.

**Plant technical review**

During February 2014, independent consultants, SRK Consulting (**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 were required to be addressed to enable the plant to reach sustainable levels of production.

The SRK review triggered an impairment assessment at year end. This assessment resulted in the Group recognising an impairment expense of $478.463 million for the financial year.

# DIRECTORS' REPORT

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

The team was 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 be implemented in parallel with the beneficiation plant rebuild project.

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

**Safety**

The Group maintained an excellent safety record during the year, however one lost time injury was recorded in the September 2013 quarter and four lost time injuries were recorded during the December 2013 quarter.

The Group is pleased to report that there were no injuries as a result of the fire at Windimurra.

**Costs**

During the year, the Group continued efforts to improve business efficiencies across all areas of its operations. The Group implemented a number of measures that resulted in material cost savings.

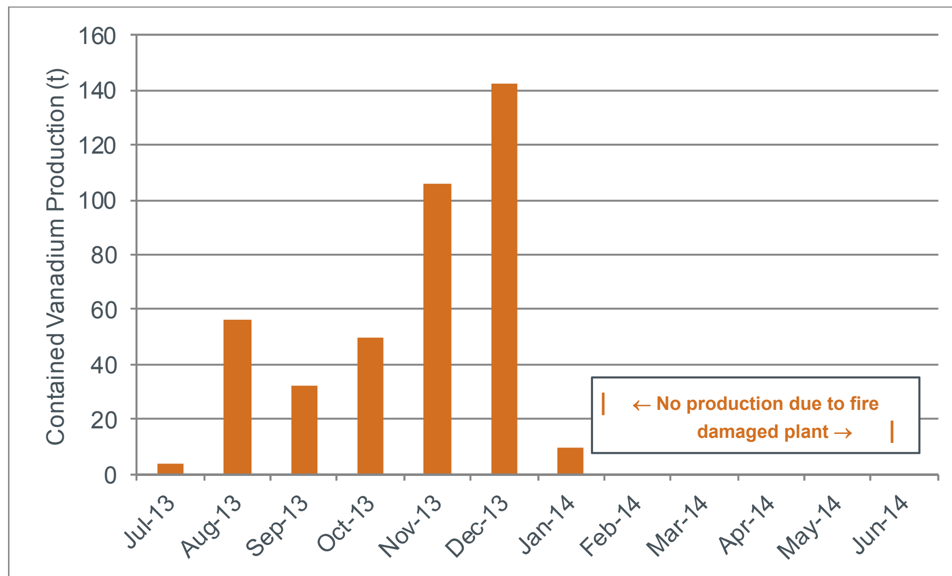
The Group took immediate steps following the fire to reduce its expenditure. These steps included invoking force majeure clauses in contracts and the standing down of contractors involved in mining, reagent deliveries and vanadium production activities.

In addition, the Group made approximately 90 employees redundant in view of the time expected to rebuild the beneficiation plant. This decisive action was considered appropriate in the circumstances.

**Production and sales**

Production for the year was 400 tonnes of contained vanadium. This was lower than expected as a consequence of the substantial fire in the beneficiation plant, a major rain event, mechanical failures and the maintenance shut down.

# DIRECTORS' REPORT




Major FeV crushing equipment issues limited shipments to the Perth warehouse during the first half of the year and consequently limited sales. During the first half a revised smelting approach was adopted which made the crushing of FeV a much easier operation.

At year end, MVPL had 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.

During the December 2013 quarter, the terms of MVPL's off take agreement for the sale of 100% of its FeV production was amended to increase the prepayment received by MVPL from 80% to 85% of the market value of its FeV on delivery to the Perth warehouse.

Sales of FeV in inventory from production prior to the fire continued during the year. Total sales for the year were 390 tonnes of contained vanadium.

**Iron ore**

Hematite iron ore is produced at Windimurra as a by-product of MVPL's FeV production. As well, Windimurra also produces, directly from the mine pit, a high titanium iron ore. This is a mix of high titanium lump product and a high titanium fines product.

During the year, MVPL shipped five cargoes of hematite iron ore fines by-product from Geraldton to China, each of approximately 30,000 tonnes. These shipments had an iron content of approximately 52% and low impurities of phosphorus, sulphur, alumina and silica. All of the supporting truck haulage and storage operations performed well, with warehouse storage and ship loading performance exceeding expectations. Regulatory approvals were received during the year for continuous shipments of hematite iron ore fines from Geraldton. Following customer acceptance, prices for the hematite iron ore fines by-product continued to firm during the year.

# DIRECTORS' REPORT

Sales for the year of hematite iron ore fines by-product totalled 151,758 tonnes.

MVPL entered into its first contract for the sale of its high titanium iron ore lump product early in 2014, undertaking crushing, screening and trucking of this direct shipping ore (**DSO**) product to Geraldton. The price achieved for this product was at a premium to MVPL's hematite iron ore fines by-product.

In February 2014, MVPL 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 achieved during crushing and haulage.

At the time of cessation of crushing, screening and haulage of the DSO high titanium iron ore lump, MVPL held approximately 10,000 tonnes of lump in its storage warehouse at Geraldton. MVPL subsequently concluded settlement discussions with the customer for this high titanium lump shipment and exported the product after year end.

During the March 2014 quarter, MVPL ceased all iron ore related activities as it assessed the market conditions for its products and the latest cost estimates to deliver products to those markets.

**Internal growth**

During the year, MVPL continued research and development activities, focused on unlocking value from the Windimurra project.

A decision was made early in the year to install an initial bank of gravity separation spirals in the beneficiation plant. It was considered that the spirals would:

1. Increase the capacity of the beneficiation plant;
2. Recover vanadium lost to the non-magnetic tailings; and
3. Recover ilmenite from the non-magnetic tailings.

MVPL also commenced a scoping study to examine the further option of adopting a pyrometallurgical separation process to produce pig iron and titanium dioxide (**$TiO_2$**) rich slag from the iron ore fines by-product produced at Windimurra.

During the year, the Group also announced that it would look to commence exports of vanadium trioxide (**$V_2O_3$**).

The export of $V_2O_3$ would enable MVPL to produce vanadium carbonitride (**VCN**) through specialist converter companies located in China. The cost of converting $V_2O_3$ to VCN is estimated to be less than the cost of converting $V_2O_3$ to FeV.

The production of $V_2O_3$ does not require the operation of the FeV electric arc furnace and related infrastructure. It therefore is produced at a lower cost per unit of vanadium (and avoids the FeV crushing equipment issues which limited shipments during the year). No major capital expenditure is required by MVPL to produce VCN as the conversion would be outsourced to specialist converter companies located in China.

# DIRECTORS' REPORT

In early 2014, MVPL received approval for the export of $V_2O_3$. However, no sales of $V_2O_3$ occurred during the financial year.

All work on internal growth projects was suspended subsequent to the fire in the beneficiation plant at Windimurra.

**Exploration and resource development**

The Group undertook no material exploration activities during the year.

**Vietnam**

Work continued during the year on advancing Atlantic's proposal to develop an integrated mine-rail-port bauxite project in Vietnam.

Atlantic has worked in close collaboration with Vietnam's National Institute of Mining-Metallurgy Science and Technology (**Vimluki**) and has completed a Development Study for an integrated mine-rail-port bauxite operation in the Central Highlands of Vietnam.

To date, Atlantic has not been granted any licenses or approvals to progress the mine-rail-port project beyond the development study. Given the lack of progress to date and the current financial position of Atlantic, the Board decided to cease further expenditure on its Vietnam projects, with the closure of the operations completed by year end.

**Funding**

During the financial year, Atlantic and MVPL undertook the following funding activities:

1. MVPL received a further $2.213 million reimbursement from the Australian Taxation Office (**ATO**) following lodgement of an amendment to its Research and Development Tax Incentive Program claim for the financial year ended 30 June 2013.
2. MVPL executed a short-term funding facility of $19.100 million with a leading Australian bank. This facility was secured by a priority lien over MVPL's rights to receive reimbursement payments from the ATO under the above-mentioned Research and Development Tax Incentive Program in respect of the year ended 30 June 2013.
3. MVPL secured approval for the release of its $8.495 million in cash-backed environmental performance bonds.
4. Atlantic secured an additional $20.000 million funding through the issue of Class D Convertible Bonds to Droxford International Limited (**Droxford**), the Company's largest shareholder. The Class D Convertible Bonds were issued on materially the same terms as the existing Class A, Class B and Class C Convertible Bonds, but with a lower conversion price of 26.25 cents. The Class D conversion price reset the conversion price for all other classes of existing Convertible Bonds.
5. Atlantic exchanged its short-term funding facility with a face value of $35.368 million provided by Droxford for Class C Convertible Bonds. Conversion of the Class C and subsequently issued Class D Convertible Bonds was subject to Foreign Investment Review Board (**FIRB**) and Atlantic shareholder approval. FIRB approval was granted in relation to the future conversion of the Class C and Class D Convertible Bonds, however the Company failed to obtain shareholder approval for conversion of the Class C and Class D Convertible Bonds by the required date.
6. In the period between 10 October 2013 and 2 December 2013, Atlantic raised an additional $20.000 million in unsecured loan facilities from Droxford.

# DIRECTORS' REPORT

7. MVPL received a $27.333 million reimbursement under the Research and Development Tax Incentive Program in respect of the year ended 30 June 2013, and a portion of these funds were used to settle, in full, the short-term funding facility of $19.100 million mentioned above.
8. When MVPL paid its August 2013 bi-annual interest payment to MVPL's Senior Secured Note holders, it did not replenish the interest reserve account (**IRA**) minimum balance of US$5.000 million, as required under the Senior Secured Notes indenture (**Indenture**). This was a technical breach of the Indenture that was required to be cured within 45 business days. On 16 October 2013, Atlantic announced that it had allocated funds to MVPL to enable it to cure this breach.

   Agreement was later reached with the holders of a majority of MVPL's Senior Secured Notes (**Notes Group**) to reduce the minimum holding requirement in the IRA to $nil until 3 February 2014, after which MVPL was required to deposit US$5.000 million into the IRA.

   MVPL did not make the IRA deposit or its US$19.260 million February 2014 bi-annual interest payment, and as a result was in breach of the terms of the Indenture. MVPL subsequently agreed a standstill arrangement – providing forbearance and support – with the Notes Group.

   Under the standstill arrangement, the Notes Group agreed to forbear MVPL's default for failure to deposit US$5.000 million in the IRA and MVPL's failure to pay the US$19.260 million February interest payment on its Senior Secured Notes. The forbearance applied until 15 August 2014 and was 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 agreed with MVPL to use their good faith efforts to negotiate and execute a definitive agreement among MVPL and the supporting note holders to effect a restructuring during the forbearance period.
9. On 10 March 2014, Atlantic announced that MVPL had agreed the above-mentioned standstill arrangement with the Notes Group and signed a new funding facility with Droxford (**Droxford Secured Loan**). This new $29.700 million Droxford Secured Loan is secured pari passu with MVPL's Senior Secured Notes.

Together, the Droxford Secured Loan and the standstill agreement with the Notes Group provided:

- A sound funding basis to take the Windimurra project forward during the rebuild of the beneficiation plant and the wider plant review; and
- Flexibility to negotiate a longer term solvent restructure of MVPL incorporating any further funding required for work identified as part of the plant technical review.

The ongoing plant technical review enabled the Group to develop a new strategic business plan for the Windimurra project which formed the basis of the negotiations of the longer term restructure of MVPL.

### ASX Suspension

Following the fire in the beneficiation plant on 4 February 2014, the Company requested a voluntary suspension in the trading of its securities. This suspension of trading remains in place.

# DIRECTORS' REPORT

### Key Appointments

Scott Nicholas was appointed to the role of Chief Financial Officer effective 1 July 2013. Mr Nicholas was previously Atlantic's Corporate Development Manager, holding this position since 2010. Prior to working for Atlantic, Mr Nicholas spent three years working within Ernst & Young's Corporate Finance division, specialising in mining and resource transactions. Mr Nicholas started his career in audit with a focus on mining and energy clients.

The Company appointed Daniel Harris as Chief Executive Officer effective 12 March 2014 to lead the Windimurra beneficiation plant rebuild and evolution of Atlantic's management team. Mr Harris has been the Chief Operating Officer of Atlantic since October 2012.

## FINANCIAL RESULTS

The total comprehensive loss for the year increased to $637.092 million, from $125.189 million in 2013. The results for the financial year were negatively impacted by the slower than expected Windimurra production ramp-up in the first half followed by the beneficiation plant fire that resulted in the suspension of vanadium production. These factors triggered an impairment assessment that resulted in a $478.463 million impairment loss being recognised in the financial year.

## LIKELY DEVELOPMENTS

The likely developments of the Consolidated Entity and the expected results of those developments in the coming financial year were expected to be as follows:

1. Continuation of the above-mentioned restructuring negotiations between the Group and the Notes Group; and
2. Depending on the outcome of those negotiations, either (i) the implementation of the agreed restructuring and roll-out of the new agreed strategic business plan for the Group; or (ii) development of a new strategic business plan for Atlantic separate from MVPL and the Windimurra project.

## BUSINESS RISKS

The Group operates in a dynamic and changing environment and is therefore subject to business risks that will affect the future financial performance and prospects of the Group. The following factors and risks could have a material effect on the Group's future operational and financial results:

### Funding

There is a risk that adverse movements in production, commodity prices, operating costs or exchange rates will require the Group to raise additional funding and/or renegotiate existing funding arrangements. Should the Group not be able to raise further funding or renegotiate existing funding arrangements if required, there would be a significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern. Refer to note 2B for additional disclosure regarding going concern.

For detailed information on funding and restructure discussions subsequent to year end, refer to Events Subsequent to Balance Date that forms part of the Directors' Report.

# DIRECTORS' REPORT

### Vanadium and Iron Ore Production

There is a risk that vanadium and iron ore production targets at Windimurra may not be met. Any delays in production, a slower rate of ramp-up of production or lower than forecast production will adversely affect the Group's future operational and financial results.

### Commodity Prices

The Group is exposed to fluctuations in vanadium and iron ore commodity prices due to changes in demand and supply and other external factors beyond its control.

### Exchange Rates

The Group is exposed to fluctuations in the value of the US dollar as all vanadium and iron ore sales are denominated in US dollars. The Group also borrows money and holds a portion of cash in US dollars in addition to having a portion of operating costs that are US dollar denominated. Whilst these US dollar borrowings and operating costs provide a partial hedge against the US dollar exposure, fluctuations in the US dollar value will impact the financial performance of the Group.

### Single Asset Group

The Group's only asset is the Windimurra vanadium project. Operating a single site exposes the Group to a lack of diversity in operations and commodities which may impact the future financial performance of the Group.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group holds licenses and abides by Acts and Regulations issued by the relevant mining and environmental protection authorities of Australia. These licenses, Acts and Regulations specify limits and regulate the management of discharges to the air, surface waters and groundwater associated with its mining operations as well as the storage and use of hazardous materials.

The Group is registered under the *National Greenhouse and Energy Reporting Act*, under which it is required to report energy consumption and greenhouse gas emissions for the Windimurra project. The Group has data collection systems and processes in place to meet these requirements.

In addition, the Group's Windimurra project was required to comply with the Australian Federal Government's *Carbon Pollution Reduction Scheme* up to 30 June 2014.

In 2013, the Group voluntarily opted to join and was granted permission to participate in the Department of Mines and Petroleum's Mining Rehabilitation Fund.

There were no significant breaches of the Group's license conditions or of the relevant Acts and Regulations during the financial year.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year not otherwise dealt with in this report.

# DIRECTORS' REPORT

## EVENTS SUBSEQUENT TO BALANCE DATE

### Funding and Restructure

After year end, MVPL entered into a new forbearance and support agreement with the Notes Group to extend the existing standstill arrangements that ended on 15 August 2014 until 14 November 2014.

Under the forbearance agreement, the Notes Group agreed to continue the existing standstill arrangements in relation to MVPL's failure to deposit funds in its IRA and pay the February interest payment on its Senior Secured Notes and extend the standstill arrangements to include the failure to pay the interest payment on MVPL's Senior Secured Notes due 15 August 2014 until 14 November 2014.

In November and December 2014, MVPL entered into two further forbearance and support agreements with the Notes Group to extend the existing standstill arrangements that ended on 14 November 2014 to 15 December 2014 and 15 January 2015 respectively.

Under the above-mentioned forbearance agreements, the Notes Group agreed with Atlantic and MVPL to use their good faith efforts to negotiate and execute a definitive agreement between MVPL and the Notes Group to effect a solvent restructuring of the Group during the forbearance period.

In conjunction with the above forbearance agreements, MVPL also agreed related amendments to the existing $29.700 million Droxford Secured Loan to extend the maturity date of that facility to align with the termination of each forbearance and support agreement.

During the forbearance period, Atlantic and MVPL continued discussions with its stakeholders regarding the additional funding required to implement the Company's new business plan, as well as an appropriate longer term capital structure for the business.

On 11 February 2015, the Notes Group informed Atlantic and MVPL that discussions regarding a solvent and consensual restructure of MVPL had been terminated as the relevant parties had not been able to reach a mutually acceptable agreement on the additional funding required to implement MVPL's business plan as well as the long-term capital structure for the Windimurra project. At this date Atlantic lost control of the Group and the assets and liabilities of MVPL and AVHPL will be deconsolidated from this date. Refer to note 30 for the assets and liabilities of the parent entity at 30 June 2014 which excluding MVPL and AVHPL.

As a result of the discussions being terminated, the Director of Atlantic's wholly-owned subsidiaries MVPL and Atlantic Vanadium Holdings Pty Ltd (Administrators Appointed)(Receivers and Managers Appointed) (**AVHPL**) appointed Darren Weaver, Martin Jones and Ben Johnson of Ferrier Hodgson as Joint and Several Administrators of MVPL and AVHPL on 11 February 2015.

The Notes Group subsequently appointed Norman Oehme, Keith Crawford and Matthew Caddy of McGrathNicol as Receivers and Managers of MVPL and AVHPL on 12 February 2015.

# DIRECTORS' REPORT

Atlantic has sufficient cash to meet its ongoing commitments in addition to having a forbearance agreement with Droxford in relation to the Convertible Bonds and Promissory Notes.

In May 2015, Atlantic entered into a formal forbearance agreement with Droxford. Under the terms of the forbearance agreement, Droxford agrees that it will forbear and not take any action to accelerate any of its Convertible Bond or Promissory Note debts that matured in March 2015 until 6 October 2015, subject to certain conditions including that there are no further defaults by Atlantic under those finance documents.

In consideration for this forbearance, Atlantic agreed to pay a total of $2.260 million to Droxford in part payment of outstanding Convertible Bond interest due for payment.

Atlantic also has on issue a $2.500 million Promissory Note with a third party. The forbearance agreement contemplates that this amount plus accrued interest of $0.720 million will be repaid immediately.

As a result of the administration of MVPL and AVHPL, Atlantic will need to deconsolidate these entities for reporting purposes. The financial position of the parent entity as at 30 June 2014 is shown in note 30 (Parent Entity Disclosures).

### Beneficiation Plant Rebuild

Following year end, the Group appointed engineering contractor Lycopodium to complete the front end engineering and design work for the beneficiation plant rebuild.

The Group subsequently went to tender for the design and construct contract for the plant rebuild, which culminated in the award of the Engineering, Procurement and Construction (**EPC**) contract to Primero Group (**Primero**) in early October 2014.

Fabrication of critical long lead time items for the beneficiation plant rebuild work was completed after 30 June 2014, including the magnetic separators, screens and cyclones, with the majority delivered to site by December 2014.

Following completion of the detailed design and construction work, Primero mobilised to site subsequent to year end. As at the date of the appointment of administrators to MVPL and AVHPL on 11 February 2015, Primero had completed the civils, earthworks, fabrication and commenced construction of the beneficiation plant.

### Insurance

The Group has received further progress payments of $63.503 million since 30 June 2014, bringing the total progress payments received under its material damage and business interruption insurance policy to date to $89.753 million.

# DIRECTORS' REPORT

### Plant Technical Review

Shortly after year end, the Company completed the Windimurra plant technical review, which incorporated independent reviews of the CMB circuit and the downstream refinery.

The primary production bottleneck identified in the reviews related to the inability of the crushing and milling circuits in 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 involved a revision to the Windimurra process flow sheet which included 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 grind a wide variety of ore bodies and was used successfully by the previous operator of the Windimurra project before being removed.

In addition, the review identified a number of less significant de-bottlenecking projects which can be completed concurrently with the 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 plant technical review and a wider business review demonstrated that, following implementation of this new process flow sheet and the rebuild of the fire damaged beneficiation plant, the Windimurra project would be expected to produce approximately 4,800 – 5,200 tonnes per annum of contained vanadium at steady state.

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

To fund the proposed capital expenditure and working capital required to implement the proposed process improvements identified as part of the business review, the Company required additional funding. Atlantic was in discussions with its stakeholders regarding this additional funding as well as an appropriate longer term capital structure for the business when administrators were appointed to MVPL and AVHPL.

### Iron Ore

Since year end, the Group completed the trial shipment of 10,500 tonnes of its high titanium lump product that was already held in the Group's storage shed at Geraldton Port. This sale was completed on a Free on Board Geraldton Port basis.

# DIRECTORS' REPORT

### Research and Development Tax Incentive

Subsequent to period end, the Company received a $16.032 million Research and Development Tax Incentive for the financial year ended 30 June 2014.

## DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director is set out below.

| | Directors' meetings | |
|---|---|---|
| **Number of meetings held:** | **Eligible to attend** | **Attended** |
| Gary Lewis | 3 | 3 |
| Phiong Phillipus Darma | 18 | 15 |
| Bradley Ellis | 13 | 13 |
| Mike Daniel | 12 | 12 |
| Michael Minosora | 15 | 15 |
| Tony Veitch | 4 | 4 |

## REMUNERATION REPORT

The following information has been audited.

This report outlines the remuneration arrangements in place for the Key Management Personnel (**KMP**) of Atlantic for the financial year ended 30 June 2014. The information provided in this Remuneration Report has been audited as required by Section 308(3C) of the *Corporations Act 2001*.

The Remuneration Report details the remuneration arrangements of KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the parent company.

### Key Management Personnel

**(i) Directors**

Gary Lewis (Non-Executive Chairman), appointed 11 March 2014

Phiong Phillipus Darma (Non-Executive Director)

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

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

Michael Minosora (Chairman and Managing Director), resigned 11 March 2014

Tony Veitch (Executive Director), resigned 26 November 2013

# DIRECTORS' REPORT

**(ii) Executives**

Tony Veitch (Chief Commercial Officer), appointed 26 November 2013

Daniel Harris (Chief Executive Officer), appointed 11 March 2014 (previously Chief Operating Officer, appointed 9 October 2012)

John Gardener (General Manager Sales & Marketing)

Terry Perles (President North America)

Terry Bourke (General Counsel)

Scott Nicholas (Chief Financial Officer), appointed 1 July 2013, resigned 13 June 2014, re-appointed 20 September 2014

Thanh Nguyen (Executive Director Azure Mining International Pty Ltd and Atlantic (Middle East) Pty Ltd), resigned 10 June 2014

Shane Entriken (Executive General Manager Human Resources and External Affairs), appointed 5 August 2013, made redundant 18 March 2014

Mark Greenaway (General Manager Operations), appointed 12 August 2013, resigned 28 February 2014

There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue, other than that noted above.

## Remuneration Philosophy

The performance of the Company depends upon the quality of the Directors and executives. The philosophy of the Company in determining remuneration levels is to:

- Set competitive fixed annual remuneration packages to attract and retain high calibre employees;
- Provide competitive variable remuneration plans to reward exceptional performance;
- Link executive rewards to shareholder value creation; and
- Establish demanding performance objectives which are derived from the Group's Strategic Plan.

## Company Performance and Link to Remuneration

As the Company is not profitable yet, the Group's earnings do not reflect the Company's performance and cannot be used as a long-term incentive measure. Consideration of the Group's earnings will be more relevant as the Company matures.

| | 30 June 2010 | 30 June 2011 | 30 June 2012 | 30 June 2013 | 30 June 2014 |
|---|---|---|---|---|---|
| Atlantic Ltd (share price) | $0.043 | $1.84 | $0.41 | $0.235 | $0.175* |
| EPS/(loss per share) | ($0.18) | $0.13 | ($0.15) | ($0.81) | ($4.12) |

* Atlantic's shares were suspended from trading on the ASX on 4 February 2014 at which time the share price was $0.175.

## Board

The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the Managing Director, Executive Director, Chief Executive Officer and the executive team.

# DIRECTORS' REPORT

The Board assesses the appropriateness of the nature and amount of remuneration of Directors and executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

## Remuneration Report Approval at 2013 AGM

The Remuneration Report for the 2012/2013 financial year was approved by an overwhelming majority at the 2013 Annual General Meeting.

## Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct from other remuneration plans.

## Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Non-Executive Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by General Meeting. The maximum aggregate amount of Directors' fees that may be paid to Non-Executive Directors of the Company is set at $0.500 million as approved by shareholders on 25 November 2011. The maximum aggregate amount of Directors' fees may be divided among those Directors in the manner determined by the Board.

Each Non-Executive Director receives a fee for being a Director of the Company. An additional fee is also paid for each Board committee on which a Non-Executive Director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by Non-Executive Directors who serve on one or more sub-committees.

The remuneration of Non-Executive Directors for the year ended 30 June 2014 is detailed in Table 1 of this report.

## Executive Director and Senior Executive Remuneration

Remuneration consists of fixed annual remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

### Fixed annual remuneration

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary. No external remuneration consultants have been engaged during the current year.

# DIRECTORS' REPORT

Senior executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the Group's KMP and Directors is detailed in Table 1.

**Variable remuneration – short-term incentive**

The Group operates a discretionary annual short-term incentive (**STI**) program that is available to executives and awards a cash bonus subject to the attainment of clearly defined Group, business unit and individual measures.

The objective of the STI is to reward performance that is over and above expectation levels and is linked to the achievement of the Company's operational targets by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

The executive has to demonstrate outstanding performance in order to trigger payments under the short-term incentive scheme.

There was no STI issued to executives during the current financial year.

**Variable remuneration – long-term incentive Atlantic Share Incentive Plan**

The objective of Atlantic's Share Incentive Plan (**Incentive Plan**) is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential long-term incentive available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets such that the cost to the Group is reasonable in the circumstances.

The aggregate of shares available for executives across the Group is subject to the approval of the Remuneration Committee and must not exceed 5% of the total number of shares on issue, except in certain permitted circumstances detailed in the key terms of the Incentive Plan.

The key features of the Incentive Plan are set out below.

**Share Incentive Plan limits**

Under the Incentive Plan, the Company must not offer shares under the Incentive Plan if, at the time of offer, the total number of shares issued under the Incentive Plan (including shares which are proposed to be issued pursuant to offers made under the Incentive Plan) during the five year period up to and including the date of offer, exceeds 5% of the total number of shares on issue. For the purposes of calculating this 5% limit, offers made under a disclosure document or Product Disclosure Statement, or offers that do not otherwise require a disclosure document or Product Disclosure Statement, are excluded.

# DIRECTORS' REPORT

**Special conditions**

The Incentive Plan provides that the Board has the power to impose special conditions on the issue of Incentive Plan shares under the Incentive Plan (such as performance hurdles or retention periods). The vesting conditions of the Incentive Plan are time-based and relate to duration of employment with the Company. There is no market or other performance conditions associated with the Incentive Plan. The objective of the Incentive Plan is to retain and reward employees of the Company. The Company believes that because all the Incentive Plan shares are issued at greater than the current market price there is an inherent performance hurdle on all Incentive Plan shares.

**Loan**

The Board may, in its absolute discretion, grant a loan to a participant for the purposes of subscribing for Incentive Plan shares. Loans granted under the Incentive Plan are non-recourse (other than against the Incentive Plan shares held by the participant to which the loan relates) and interest free unless otherwise determined by the Board at the time of granting the loan. If the Incentive Plan shares have vested, the loan will become immediately repayable (subject to the non-recourse loan provisions) upon the first to occur of:

- Cessation of employment;
- The participant selling, transferring, mortgaging, charging or otherwise disposing of or dealing with an interest in the Incentive Plan shares;
- The participant creating or attempting to create a third party interest in the Incentive Plan shares; or
- The participant becoming bankrupt.

Where a non-recourse loan is granted to a participant, the award is accounted for as an in substantial option award.

If the Incentive Plan shares have vested, a participant may repay the loan at any time during the term of the loan.

**Trustee arrangements**

Where the Board provides a loan to assist an eligible employee to participate in the Incentive Plan, the Board may determine that the Incentive Plan shares acquired be held by a trustee (appointed by the Board) on trust for the benefit of the participant. In such circumstances, and subject to any special conditions imposed on the offer of Incentive Plan shares, the trustee may only transfer the Incentive Plan shares to the participant after the loan has been repaid in full. If the participant fails to repay the loan when it becomes due and payable, then subject to any special conditions, the trustee may sell the relevant Incentive Plan shares and apply the net proceeds against the outstanding amount of the loan. Any excess proceeds will be remitted to the participant.

**Dividend and voting rights**

The participant will be entitled to dividends and to vote at a General Meeting of the Company. However, whilst any loan is still outstanding in relation to the acquisition of Incentive Plan shares, dividends will be applied on the participant's behalf in repayment of the principal amount outstanding under the loan. Further, whilst Incentive Plan shares are held by a trustee, voting rights will be exercised on the participant's behalf by proxy through the trustee.

# DIRECTORS' REPORT

**Takeovers and schemes of arrangements**

If a takeover bid is made for the Company, or an application is to be made to the Court under Section 411 of the *Corporations Act 2001* in respect of a proposed reconstruction or amalgamation relating to the Company, the Board has the discretion to waive any of the conditions restricting the participant from selling, transferring, mortgaging, charging or otherwise disposing or dealing with any interest in the Incentive Plan shares.

**Amendments to Share Incentive Plan rules**

The Board may amend the Incentive Plan rules from time to time.

**Hedging of equity awards**

It is Company policy that executives cannot hedge unvested equity awards.

There have been no alterations to the terms and conditions of Incentive Plan shares awarded as remuneration since their award date.

**Executive Share Incentive Plan**

Vesting conditions of shares issued to Executive Directors and senior executives

(a) 3,960,000 shares to Michael Minosora, Chairman and Managing Director, on 24 December 2009.

These shares comprise:

- 1,320,000 shares at $0.825 per share which vest after six months;
- 1,320,000 shares at $1.000 per share which vest after 12 months; and
- 1,320,000 shares at $1.250 per share which vest after 18 months.

The shares are not tradeable until the Company's shares have traded above $1.250 each for more than 10 consecutive trading days. As at 30 June 2014, all shares had vested to Michael Minosora but were subsequently cancelled due to his resignation in March 2014.

(b) 1,000,000 shares at $1.750 per share to Tony Veitch, Executive Director, on 5 July 2010.

The shares are not tradeable until the Company's shares have traded above $1.875 for more than 10 consecutive trading days. As at 30 June 2014, all shares are not currently tradeable, but had vested to Tony Veitch.

(c) 227,272 shares at $0.880 per share were issued to each of Alan Bradshaw and John Gardener on 6 March 2012. One third of these shares vest each year for three years. Alan Bradshaw's shares were forfeited upon his resignation. At 30 June 2014, 151,514 shares had vested to John Gardener. The vesting conditions are service-based only, as the objective of the Incentive Plan is to retain and reward employees of the Company.

# DIRECTORS' REPORT

(d) 454,545 shares at $0.880 per share were issued to Ross Glossop and Scott Mathewson on 6 March 2012. One third of these shares vest each year for three years. At the resignation date of Ross Glossop on 14 November 2012, no shares had vested and these shares were forfeited. At the resignation date of Scott Mathewson, being 9 April 2013, no shares had vested to Mr Mathewson. The vesting conditions are service-based only, as the objective of the Incentive Plan is to retain and reward employees of the Company.

(e) 400,000 shares at $0.500 per share were issued to Daniel Harris on 5 March 2013. One third of these shares vest each year for three years. At 30 June 2014, 133,333 shares had vested. The vesting conditions are service-based only, as the objective of the Incentive Plan is to retain and reward employees of the Company.

(f) 200,000 shares at $0.500 per share were issued to Terry Perles on 5 March 2013. One third of these shares vest each year for three years. At 30 June 2014, 66,666 shares had vested. The vesting conditions are service-based only, as the objective of the Incentive Plan is to retain and reward employees of the Company.

# DIRECTORS' REPORT

### Table 1 Remuneration for the Year Ended 30 June 2014

| | Short-term benefits | | | Post employment | | | Share-based payment | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary & fees $ | Consulting fees $ | Other short-term employee benefits $ | Non-monetary benefits $ | Super-annuation $ | Termination payments $ | Share Incentive Plan $ | Total $ | Performance related % |
| **Non-Executive Directors** | | | | | | | | | |
| Gary Lewis (appointed 11/03/2014) | 40,000 | - | - | - | - | - | - | 40,000 | - |
| Phiong Phillipus Darma | 87,156 | - | - | - | 8,062 | - | - | 95,218 | - |
| Bradley Ellis (appointed 16/12/2013) | 47,920 | - | - | - | 4,433 | - | - | 52,353 | - |
| Mike Daniel (appointed 13/01/2014) | 40,673 | - | - | - | 3,762 | - | - | 44,435 | - |
| **Total Non-Executive Directors** | 215,749 | - | - | - | 16,257 | - | - | 232,006 | - |
| **Executive Directors** | | | | | | | | | |
| Michael Minosora (i) (resigned 11/03/2014) | 473,771 | - | - | - | 13,593 | 447,513 | - | 934,877 | - |
| Tony Veitch (resigned as Director 26/11/2013) (but remains a KMP) | 507,225 | - | - | - | 17,775 | - | - | 525,000 | - |
| **Other Key Management Personnel** | | | | | | | | | |
| Daniel Harris | 585,187 | - | 85,874 | - | 14,812 | - | 14,447 | 700,320 | 2.06% |
| John Gardener | 257,225 | - | - | - | 17,775 | - | 49,445 | 324,445 | 15.24% |
| Terry Perles | 273,526 | - | - | - | 1,670 | - | 7,223 | 282,419 | 2.56% |
| Terry Bourke | 253,944 | - | 40,000 | - | 17,775 | - | - | 311,719 | - |
| Scott Nicholas (from 1/07/2013 to 13/06/2014) | 279,818 | - | - | - | 17,005 | 52,006 | (3,657) | 345,172 | - |
| Thanh Nguyen (resigned 10/06/2014) | - | 223,492 | - | - | - | - | - | 223,492 | - |
| Shane Entriken (from 5/08/2013 to 18/03/2014) | 221,732 | - | - | - | 11,850 | 92,266 | - | 325,848 | - |
| Mark Greenaway (from 12/08/2013 to 28/02/2014) | 213,620 | - | - | - | 10,383 | 194,679 | - | 418,682 | - |
| **Total Executive Key Management Personnel** | 3,066,048 | 223,492 | 125,874 | - | 122,638 | 786,464 | 67,458 | 4,391,974 | - |
| **Totals** | 3,281,797 | 223,492 | 125,874 | - | 138,895 | 786,464 | 67,458 | 4,623,980 | - |

(i) During the year, Mr Minosora received payments totalling $157,433 relating to annual leave entitlements not disclosed in above table in accordance with the accounting standard this was accrued when earned in prior years.

(ii) There were no short-term incentives issued to executives during the year.

# DIRECTORS' REPORT

## Key Management Personnel Transactions

Ambrosia Empire Limited, (**Ambrosia**) a company in which Thanh Nguyen (a KMP of the Group) has a beneficial interest, was paid consulting fees of US$209,000 (2013: US$485,000). At 30 June 2014, an amount of US$19,000 (30 June 2013: US$20,000) was owed to Ambrosia. Consulting fees were paid during the year to Ambrosia in relation to the Group's development study for an integrated mine-rail-port bauxite project in Vietnam.

There were no further loans or other transactions made to/with KMP.

# DIRECTORS' REPORT

## Table 2 Remuneration for the Year Ended 30 June 2013

| | Short-term benefits | | | | Post employment | | Share-based payment | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary & fees $ | Consulting fees $ | Bonuses $ | Non-monetary benefits $ | Super-annuation $ | Termination benefits $ | Share Incentive Plan $ | Total $ | Performance related % |
| **Non-Executive Directors** | | | | | | | | | |
| Phiong Phillipus Darma | 87,156 | - | - | - | 7,844 | - | - | 95,000 | - |
| **Total Non-Executive Directors** | 87,156 | - | - | - | 7,844 | - | - | 95,000 | - |
| **Executive Directors** | | | | | | | | | |
| Michael Minosora | 683,530 | - | - | - | 16,470 | | - | 700,000 | - |
| Tony Veitch | 508,530 | - | - | - | 16,470 | | - | 525,000 | - |
| **Other Key Management Personnel** | | | | | | | | | |
| Ross Glossop (from 1/07/201 to 14/11/2012) | 291,952 | - | - | - | 6,863 | - | (65,999) | 232,816 | - |
| Alan Bradshaw (from 1/07/2012 to 31/07/2012) | 35,220 | - | - | - | 1,373 | - | (32,999) | 3,594 | - |
| Scott Mathewson (from 1/07/2012 to 9/04/2013) | 320,969 | - | - | - | 12,353 | 121,177 | (65,999) | 388,500 | - |
| John Gardener (ii) | 258,530 | - | - | - | 16,470 | - | 72,621 | 347,621 | - |
| Thanh Nguyen | 136,150 | 349,126 | - | - | - | - | - | 485,276 | - |
| Peter Patterson (from 3/09/2012 to 28/02/2013) | 159,307 | - | - | - | 8,235 | - | - | 167,542 | - |
| Daniel Harris (i) (appointed 9/10/2012) | 400,242 | - | 22,500 | - | 11,309 | - | 4,244 | 438,295 | 6.10% |
| Terry Bourke (appointed 10/06/2013) | 16,000 | - | - | - | 1,373 | - | - | 17,373 | - |
| Terry Perles (from 1/07/2012 to 30/06/2013) | 251,730 | - | - | - | 2,002 | - | 2,122 | 255,854 | 0.83% |
| **Total Executive Key Management Personnel** | 3,062,160 | 349,126 | 22,500 | - | 92,918 | 121,177 | (86,010) | 3,561,871 | - |
| **Totals** | 3,149,316 | 349,126 | 22,500 | - | 100,762 | 121,177 | (86,010) | 3,656,871 | - |

(i) On 12 November 2012, Mr Harris was awarded a sign on bonus of $22,500. The bonus was a one off payment with no associated service or performance requirements.

(ii) Included in the share-based payments column for John Gardener is an adjustment to previous period financial statements. This adjustment corrects an incorrect allocation of the vesting expense for options issued to John Gardener in March 2012.

# DIRECTORS' REPORT

### Table 3 Rights Over Shares Awarded, Exercised, Lapsed and Vested Through the Share Incentive Plan During the Year Ended 30 June 2014 (Consolidated)

| | Rights over shares awarded during the year No. | Grant date | Fair value per rights over shares at grant date $ | Fair value of rights over shares granted during the year $ | Fair value of rights over shares exercised during the year $ | Fair value of rights over shares lapsed during the year $ | Rights over shares vested during the year No. |
|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | |
| Gary Lewis (appointed 11/03/2014) | - | - | - | - | - | - | - |
| Phiong Phillipus Darma | - | - | - | - | - | - | - |
| Bradley Ellis (appointed 16/12/2013) | - | - | - | - | - | - | - |
| Mike Daniel (appointed 3/01/2014) | - | - | - | - | - | - | - |
| **Executive Directors** | | | | | | | |
| Michael Minosora (resigned 11/03/2014) | - | - | - | - | - | - | - |
| Tony Veitch (resigned 26/11/2013) (but remains a KMP) | - | - | - | - | - | - | - |
| **Other Key Management Personnel** | | | | | | | |
| Daniel Harris | - | - | - | - | - | - | 133,333 |
| John Gardener | - | - | - | - | - | - | 151,514 |
| Terry Perles | - | - | - | - | - | - | 66,666 |
| Terry Bourke | - | - | - | - | - | - | - |
| Scott Nicholas (from 1/07/2013 to 13/06/2014) | - | - | - | - | - | - | 37,880 |
| Thanh Nguyen (resigned 10/06/2014) | - | - | - | - | - | - | - |
| Shane Entriken (from 5/08/2013 to 18/03/2014) | - | - | - | - | - | - | - |
| Mark Greenaway (from 12/08/2013 to 28/02/2014) | - | - | - | - | - | - | - |
| **Totals** | - | - | - | - | - | - | 389,393 |

# DIRECTORS' REPORT

## Service Agreements

Remuneration and other terms of employment for the Directors and senior executives are formalised in Service Agreements. Major provisions of the agreements relating to remuneration are set out below:

| Name | Fixed annual remuneration $ | Contract duration | Notice period Company | Notice period employee | Termination provision |
|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | |
| Gary Lewis (appointed 11/03/2014) | 120,000 per annum | No fixed term | N/A | N/A | No provision |
| Phiong Phillipus Darma | 95,000 per annum | No fixed term | N/A | N/A | No provision |
| Bradley Ellis (appointed 16/12/2013) | 95,000 per annum | No fixed term | N/A | N/A | No provision |
| Mike Daniel (appointed 13/01/2014) | 95,000 per annum | No fixed term | N/A | N/A | No provision |
| **Executive Directors** | | | | | |
| Michael Minosora (resigned 11/03/2014) | 700,000 per annum | No fixed term | 6 months | 6 months | Accrued leave entitlements |
| Tony Veitch (resigned 26/11/2013) (but remains a KMP) | 525,000 per annum | No fixed term | 6 months | 6 months | Accrued leave entitlements |
| **Other Key Management Personnel** | | | | | |
| Daniel Harris | 600,000 per annum | No fixed term | 3 months | 3 months | Accrued leave entitlements |
| John Gardener | 275,000 per annum | No fixed term | 3 months | 3 months | Accrued leave entitlements |
| Terry Perles | US$250,000 per annum | 31 Dec 16 | 10 business days | 10 business days | - |
| Terry Bourke | 350,000 per annum | No fixed term | 3 months | 3 months | Accrued leave entitlements |
| Scott Nicholas (from 1/07/2013 to 13/06/2014) | 350,000 per annum | No fixed term | 3 months | 3 months | Accrued leave entitlements |
| Thanh Nguyen (resigned 10/06/2014) | US$140,000 per annum | No fixed term | 1 month | 1 month | No provision |
| Shane Entriken (from 5/08/2013 to 18/03/2014) | 385,000 per annum | No fixed term | 3 months | 3 months | Accrued leave entitlements |
| Mark Greenaway (from 12/08/2013 to 28/02/2014) | 380,000 per annum | No fixed term | 3 months | 3 months | Accrued leave entitlements |

# DIRECTORS' REPORT

## Shareholdings of Key Management Personnel - 2014

| | Balance 1 July 2013 | Granted as remuneration | Net change resignation | Balance 30 June 2014 |
|---|---|---|---|---|
| **2014** | | | | |
| **Executive Directors** | | | | |
| Michael Minosora (resigned 11/03/2014) | 17,131,669 | - | (17,131,669) | - |
| Tony Veitch (resigned 26/11/2013) (but remains a KMP) | 480,000 | - | - | 480,000 |
| **Non-Executive Directors** | | | | |
| Gary Lewis (appointed 11/03/2014) | - | - | - | - |
| Phiong Phillipus Darma | - | - | - | - |
| Bradley Ellis (appointed 16/12/2013) | - | - | - | - |
| Mike Daniel (appointed 13/01/2014) | - | - | - | - |
| **Other Key Management Personnel** | | | | |
| Daniel Harris | - | - | - | - |
| John Gardener | - | - | - | - |
| Terry Perles | 40,000 | - | - | 40,000 |
| Terry Bourke | - | - | - | - |
| Scott Nicholas (from 1/07/2013 to 13/06/2014) | - | - | - | - |
| Thanh Nguyen (from 1/07/2013 to 10/06/2014) | 2,196,350 | - | (2,196,350) | - |
| Shane Entriken (from 5/08/2013 to 18/03/2014) | - | - | - | - |
| Mark Greenaway (from 12/08/2013 to 28/02/2014) | - | - | - | - |
| **Totals** | 19,848,019 | - | (19,328,019) | 520,000 |

# DIRECTORS' REPORT

### Rights Over Shares and Option Holdings of Key Management Personnel - 2014

| | Rights or options type | Balance 1 July 2013 | Granted as remuneration | Exercise of options | Net change resignation | Balance 30 June 2014 | Vested at 30 June 2014 exercisable | Vested but not exercisable |
|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Michael Minosora | Rights over shares | 3,960,000 | - | - | (3,960,000) | - | - | - |
| Tony Veitch | Rights over shares | 1,000,000 | - | - | - | 1,000,000 | - | 1,000,000 |
| **Non-Executive Directors** | | | | | | | | |
| Gary Lewis | - | - | - | - | - | - | - | - |
| Phiong Phillipus Darma | - | - | - | - | - | - | - | - |
| Bradley Ellis | - | - | - | - | - | - | - | - |
| Mike Daniel | - | - | - | - | - | - | - | - |
| **Other Key Management Personnel** | | | | | | | | |
| John Gardener | Rights over shares | 227,272 | - | - | - | 227,272 | 151,514 | - |
| Daniel Harris | Rights over shares | 400,000 | - | - | - | 400,000 | 133,333 | - |
| Terry Perles | Rights over shares | 200,000 | - | - | - | 200,000 | 66,666 | - |
| **Totals** | | 5,787,272 | - | - | (3,960,000) | 1,827,272 | 1,351,513 | - |

This is the end of the audited Remuneration Report.

## SHARES UNDER OPTION

As at the date of this report, the Company has no options over ordinary shares on issue. No ordinary shares were issued as a result of the exercise of options during the year ended 30 June 2014.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Group incurred premiums to insure the Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officers of the Group, other than conduct involving a wilful breach of duty. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

# DIRECTORS' REPORT

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## NON-AUDIT SERVICES

The following non-audit services were provided by the Group's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.*

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | $ |
|---|---|
| Advice and assistance on taxation matters | 659,700 |
| **Total** | 659,700 |

## 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.

## 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 34.

Signed in accordance with a resolution of the Board of Atlantic Ltd.

**MR GARY LEWIS**

Non-Executive Chairman

Dated this 25th day of June 2015

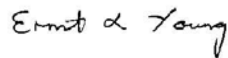
# AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

## Auditor's Independence Declaration to the Directors of Atlantic Ltd

In relation to our audit of the financial report of Atlantic Ltd for the financial year ended 30 June 2014, 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

Gavin Buckingham
Partner
25 June 2015

A member firm of Ernst & Young Global Limited
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GB:EH:ATL:053

# TENEMENTS, ORE RESERVES AND MINERAL RESOURCES

## TENEMENTS

The Windimurra project's tenements cover a 27 kilometre strike length of the vanadiferous magnetite Shepherd's Discordant Zone. Of this strike length, approximately six kilometres, inclusive of the existing pit, has been drill tested and included within the existing Mineral Resource estimate at Windimurra. Details of the tenements are below.

MVPL has valued its mine property and development assets including licenses, tenements and stripping activity assets. These intangible assets have been valued at $nil as at 30 June 2014. Refer to note 12 for further information.

## SCHEDULE OF TENEMENTS

| Tenement No | Prospect | Status | Grant date | Expiry date | Conversion | Area | Rent $ | Commit $ | Rpt/Code |
|---|---|---|---|---|---|---|---|---|---|
| **WESTERN AUSTRALIA** | | | | | | | | | |
| **Exploration** | | | | | | | | | |
| E 58/113 | Windimurra | G | 8 Mar 1991 | | M 58/275-9 (Sec 67) | 35.8 $km^2$ | 5,673.60 | 100,000 | C 79/1999 |
| E 58/117 | Windimurra | G | 19 Jan 1992 | | M 58/279, M 58/282 (Sec 67) | 2.0 blocks | 975.80 | 50,000 | C 79/1999 |
| **Miscellaneous** | | | | | | | | | |
| L58/27 | Stag Well | G | 23 Jun 1998 | 22 Jun 2018 | | 1,675.0 HA | 23,868.75 | 0 | |
| L 58/28 | Stag Well | G | 23 Jun 1998 | 22 Jun 2018 | | 790.0 HA | 11,257.50 | 0 | |
| L 58/29 | Stag Well | G | 12 Nov 1998 | 11 Nov 2018 | | 46.2 HA | 669.35 | 0 | |
| L 58/30 | Windimurra | G | 12 Nov 1998 | 11 Nov 2018 | | 2,275.7 HA | 32,433.00 | 0 | |
| L 58/32 | Windimurra | G | 3 Jul 2001 | 2 Jul 2022 | | 202.0 HA | 2,878.50 | 0 | |
| L 58/35 | Windimurra | G | 12 Jun 2009 | 11 Jun 2030 | | 670.0 HA | 335.00 | 0 | |
| **Mining** | | | | | | | | | |
| M 58/178 | Windimurra | G | 12 Jul 1991 | 11 Jul 2033 | | 966.9 HA | 15,568.70 | 96,700 | C 79/1999 |
| M 58/275 | Windimurra | A | 5 Mar 1998 | Appl'n | | 990.0 HA | 0.00 | 0 | |
| M 58/276 | Windimurra | A | 5 Mar 1998 | Appl'n | | 996.6 HA | 0.00 | 0 | |
| M 58/277 | Windimurra | A | 5 Mar 1998 | Appl'n | | 905.1 HA | 0.00 | 0 | |
| M 58/278 | Windimurra | A | 5 Mar 1998 | Appl'n | | 970.9 HA | 0.00 | 0 | |
| M 58/279 | Windimurra | G | 4 Jun 1999 | 3 Jun 2020 | | 835.9 HA | 13,459.60 | 83,600 | C 79/1999 |
| M 58/280 | Windimurra | G | 4 Jun 1999 | 3 Jun 2020 | | 534.6 HA | 8,613.50 | 53,500 | C 79/1999 |
| M 58/281 | Windimurra | A | 5 Mar 1998 | Appl'n | | 157.3 HA | 0.00 | 0 | |
| M 58/282 | Windimurra | A | 5 Mar 1998 | Appl'n | | 71.7 HA | 0.00 | 0 | |

**STATUS REFERENCES:** A Application G Granted

# TENEMENTS, ORE RESERVES AND MINERAL RESOURCES

## ORE RESERVES AND MINERAL RESOURCES

The most recent Ore Reserve Statement, as at 1 March 2012, estimated a proven and probable Ore Reserve of 159.9 million tonnes with a grade of 0.47% vanadium pentoxide (**$V_2O_5$**) for 421,100 tonnes of contained vanadium.

At the date Atlantic lost control of MVPL on 11 February 2015, MVPL was carrying out a review of the Windimurra project's life of mine plan and an assessment of the data on the operation of the Windimurra processing plant. The purpose of the review was to critically examine the assumptions and data used to calculate the Ore Reserves, based on the latest operating information. At the time Atlantic lost control it was unknown when the revised Ore Reserves Statement would be available.

Because the Windimurra project was in commissioning and ramp-up phase during the year ended 30 June 2014, there has been minimal depletion of the Ore Reserves and Mineral Resources since the publication of the Ore Reserves Statement and Mineral Resources Statement as at 30 June 2013. Those Statements are reproduced below, along with notes about depletion in the period to 30 June 2014. Because of the minimal depletion and because of the present review of the mine plan referred to above, Statements as at 30 June 2014 are not being provided in this report.

### Mineral Resources Statement

| | April 2012 ** | | | |
|---|---|---|---|---|
| | Tonnes (Mt) * | Grade $V_2O_5$ % | Tonnes (V) | Grade V% |
| Measured | 49.7 | 0.48 | 132,500 | 0.27 |
| Indicated | 142.1 | 0.49 | 390,100 | 0.27 |
| Inferred | 50.8 | 0.46 | 130,000 | 0.25 |
| **Total** | **242.6** | **0.48** | **652,600** | **0.27** |

* Grades reported to a lower cut-off of 0.275% $V_2O_5$.

** Calculated as at 1 March 2012. See Atlantic's ASX Release of 31 July 2012, being its Quarterly Report for the June 2012 Quarter, for the details of the JORC compliant Mineral Resources for the Windimurra project (in terms of the then applicable 2004 edition of the JORC Code).

| | Tonnes (Mt) * | Grade $V_2O_5$ % | Tonnes (V) | Grade V% |
|---|---|---|---|---|
| Depletion March 2012 to June 2013 | 0.7 | 0.49 | 1,900 | 0.27 |
| Depletion July 2013 to June 2014 | 1.1 | 0.47 | 2,800 | 0.26 |

These Mineral Resources are inclusive of the Ore Reserves stated below.

# TENEMENTS, ORE RESERVES AND MINERAL RESOURCES

### Ore Reserves Statement

| | July 2012 ## | | | |
|---|---|---|---|---|
| | Tonnes (Mt) # | $V_2O_5$ % | Tonnes (V) | Grade V% |
| Proved | 41.8 | 0.46 | 107,300 | 0.23 |
| Probable | 118.1 | 0.47 | 313,800 | 0.27 |
| **Total** | **159.9** | **0.47** | **421,100** | **0.26** |

\# Grades reported to a lower cut-off of 0.34% $V_2O_5$ oxide, 0.32% $V_2O_5$ transitional, 0.27% $V_2O_5$ fresh.

\## Calculated as at 1 March 2012. See Atlantic's ASX Release of 31 July 2012, being its Quarterly Report for the June 2012 Quarter, for the details of the JORC compliant Ore Reserves for the Windimurra project (in terms of the then applicable 2004 edition of the JORC Code).

| | Tonnes (Mt) # | Grade $V_2O_5$ % | Tonnes (V) | Grade V% |
|---|---|---|---|---|
| Depletion March 2012 to June 2013 | 0.7 | 0.49 | 1,900 | 0.27 |
| Depletion July 2013 to June 2014 | 1.1 | 0.47 | 2,800 | 0.26 |

Please note the tabulations have been rounded to the nearest 100,000 tonnes and nearest 100 tonnes contained vanadium, resulting in summation rounding.

## COMPETENT PERSON STATEMENT

### Ore Reserves

The information in this report that relates to Ore Reserves as at July 2012 is based on information compiled by Quinton de Klerk who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr de Klerk is a Director and Principal of Cube Consulting Pty Ltd.

Mr de Klerk has sufficient experience which is relevant to the activity that he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr de Klerk consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

# TENEMENTS, ORE RESERVES AND MINERAL RESOURCES

## Mineral Resources

The information in this report that relates to Mineral Resources as at April 2012 is based on information compiled by Colin Arthur, who is a Chartered Geologist, Member of The Australasian Institute of Mining and Metallurgy and Fellow of the Geology Society of London. Colin Arthur was, until 20 September 2012, a full-time employee of MVPL in the capacity of Chief Geologist. Colin Arthur has over 20 years experience in this style of mineralisation and the type of deposit under consideration and related mining method and project evaluation. He has sufficient experience which is relevant to the style of mineralisation and to the activity which he is undertaking. He is therefore qualified as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Arthur consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

# CORPORATE GOVERNANCE STATEMENT

Atlantic is committed to building a world class resources company that delivers superior returns to shareholders. Atlantic will seek to achieve this through strong relationships with our project partners, employees, customers, shareholders, local communities and other stakeholders, which are based on honesty, transparency and mutual value creation. These principles underpin our corporate governance policies and procedures.

The Board of Directors recognises that high standards of corporate governance are essential to achieving our objectives. The Company continues to review its corporate governance practices as the business evolves.

This statement summarises the corporate governance policies and practices adopted by the Company and its controlled entities (collectively **the Group**) during the financial year.

Consistent with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**CGC Recommendations**), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

## ROLE OF THE BOARD

The Board is responsible to shareholders for developing and operating a successful business and maximising shareholder value.

The Board operates within the principles set out in the Board Charter, a copy of which is available on the Atlantic website (www.atlanticltd.com.au).

The Board is responsible for evaluating and setting the strategic direction for the Group, establishing goals for management and monitoring the achievement of those goals. The Managing Director or Chief Executive Officer is responsible to the Board for the day-to-day management of the Group's operations and implementation of the Company's strategic direction.

The Board has sole responsibility for the following:

- Developing, reviewing and monitoring the Company's long-term business strategies;
- Providing strategic direction to management;
- Approving and monitoring budgets, major capital commitments, capital management, acquisitions and divestments;
- Ensuring that the Company has systems in place for risk management, internal compliance and control, codes of conduct and compliance with legislative requirements and ethical standards;
- Reviewing and approving the Company's financial statements and other reporting obligations;
- Appointing and removing the Managing Director, Executive Director and Chief Executive Officer and approving their remuneration;

# CORPORATE GOVERNANCE STATEMENT

- Appointing and removing the Chief Financial Officer and Company Secretary and approving their remuneration;
- Establishing and maintaining corporate governance standards;
- Establishing a culture within the Company which strives for and rewards best practice in all areas of the business;
- Monitoring Board performance and whether the Board is appropriately skilled to meet the changing needs of the Company;
- Measuring performance of management against approved strategies;
- Reviewing and monitoring the adequacy of resources for management to properly carry out approved strategies and business plans;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Group's financial affairs; and
- Ensuring that policies and compliance systems consistent with the Company's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship, the Board has from time to time established specialist committees where necessary and or appropriate. These specialist committees are able to focus on a particular area of responsibility and provide informed feedback to the Board.

During the year, the Board did not operate any committees.

## MANAGEMENT FUNCTIONS

The Company has established the functions that are reserved for management. Management is responsible, on a shared-basis with and subject to the approval of the Board, for developing corporate and operational strategy for the Group, and is directly responsible for implementing the Company's strategy. Management is also responsible for:

- Safeguarding the Company's assets;
- Managing the executive team responsible for the Group's operations;
- Assessing business opportunities which are of potential benefit to the Company;
- Overseeing shareholder communications;
- Reporting relevant matters to the Board; and
- Maximising the utilisation of available resources.

## DIVERSITY

The Company is an equal opportunity employer and believes in treating all people with respect and dignity. These core principles of equality, diversity and recruitment and promotion on the basis of merit are at the heart of everything that Atlantic does.

Atlantic believes that people are the key to its success and that a talented and diverse workforce is a key competitive advantage. Training and development is focused on developing employee's strengths.

# CORPORATE GOVERNANCE STATEMENT

The Company values the contribution that people from a diverse range of backgrounds, cultures and communities can make. Our equal opportunity employment strategy supports the contribution from people with differences in ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking styles, experience and education.

During the reporting period, the Group continued various strategies aimed at promoting and encouraging a diverse and talented workforce. By reasons of the uniqueness of the Group's vanadium project in both the Australian and global context, the Group has recruited highly talented operational personnel from various countries and with diverse cultural and operational backgrounds. The Group has flexible working arrangements, both generally and with specific employees, that are designed to encourage women to either remain in, or return to, the workforce and to allow all employees to accommodate work and family arrangements.

The Company has adopted a Diversity Policy as an extension of the Company's Equal Opportunity Employment Policy and makes provision for the Board to determine measurable objectives in line with the overall objectives of the policy.

As at 30 June 2014, the proportion of women employed across the Group, as a whole, at manager/supervisor level, at senior management level and at Board level were:

| | Number of employees | Number of women | Percentage |
|---|---|---|---|
| Employees | 70 | 9 | 13% |
| Managers/supervisors | 38 | 4 | 11% |
| Senior management | 3 | 0 | 0% |
| Board (including subsidiaries) | 4 | 0 | 0% |

The Board has set an initial gender diversity target of 10% for the Group's employees as a whole and 20% for manager/supervisor level and above. Not all of these targets have been achieved but the Group has continued to appoint women to positions across the organisation where practical to do so.

## COMPOSITION OF BOARD AND DIRECTOR INDEPENDENCE

As at the date of this report, the Board comprises one Non-Executive Chairman and three Non-Executive Directors The Non-Executive Chairman and one Non-Executive Director (Phiong Phillipus Darma) are considered not to be independent due to their roles with a substantial shareholder of the Company.

As at the date of this report the Board has two independent Directors. The Company continues to monitor the composition of the Board.

Up to 11 March 2014, the Chairman of the Board was Michael Minosora who was considered non-independent as he was also the Managing Director of the Company and as such did not satisfy the test of independence in CGC Recommendation 2.2. The Board believed up to 11 March 2014 that Michael Minosora was the most appropriate person for the position as Chairman because of his business experience and knowledge. The Board appointed Gary Lewis on 11 March 2014 as a non-independent Chairman, but

# CORPORATE GOVERNANCE STATEMENT

continues to monitor for any conflicts of interest that may arise because of this situation and will seek to appoint an independent Chairman when appropriate.

| Director | Independent | Non-Executive | Appointment date |
| --- | --- | --- | --- |
| Gary Lewis | No | Yes | 11 March 2014 |
| Phiong Phillipus Darma | No | Yes | 18 November 2010 |
| Bradley Ellis | Yes | Yes | 16 December 2013 |
| Mike Daniel | Yes | Yes | 13 January 2014 |
| Michael Minosora | No – Managing Director | No | 25 September 2009 |
| Tony Veitch | No – Executive Director | No | 4 July 2007 |

The skills, experience and expertise of each Director of the Company during the year are included in the Director's Report.

Atlantic's Constitution requires Directors (other than the Managing Director) to retire from office at the third Annual General Meeting of the Company after their election or re-election, provided that at least one Director (being the Director who has held office the longest since last being elected or re-elected) must retire from office at each Annual General Meeting. A retiring Director may stand for re-election at the Annual General Meeting.

## EVALUATION OF THE BOARD AND SENIOR MANAGEMENT

The Board has adopted a self-evaluation process to measure its own performance.

The Managing Director or Chief Executive Officer currently reviews the performance of all senior executives. This is conducted by a formal performance review process involving two way dialogue and interviews with the Managing Director or Chief Executive Officer to assess the performance of each executive.

## BOARD COMMITTEES

### Audit Committee

The Board had in the past established an Audit Committee which operated under a charter approved by the Board. During the financial year the Audit Committee did not function as the Board assumed all of the Committee's responsibilities given the current circumstances of the Company. It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations. During the year, the Board did not delegate responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

A copy of the Audit Committee Charter is available on the Company's website.

# CORPORATE GOVERNANCE STATEMENT

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis.

### Remuneration and Nomination Committee

The Board had in the past established a Remuneration and Nomination Committee. The role of the Remuneration and Nomination Committee was to assist the Board in establishing policies and practices which:

- Enables the Company to attract and retain capable Directors and employees who achieve operational excellence and create value for shareholders;
- Reward employees fairly and responsibly, taking into consideration the results of the Company, individual performance and industry remuneration conditions;
- Assist the Board to meet its oversight responsibilities in relation to corporate governance practices; and
- Prohibits executives from entering into transactions or arrangements which limit the economic risk of participating in unvested Company share entitlements.

During the financial year the Remuneration and Nomination Committee did not function as the Board assumed all of the Committee's responsibilities given the current circumstances of the Company.

A copy of the Remuneration Nomination Committee Charter is available on the Company's website.

Non-Executive Directors are remunerated at a fixed fee for their time, commitment and responsibilities. Remuneration for Non-Executive Directors is not directly linked to individual performance and therefore the Board considers that Non-Executive Directors should not be entitled to participate in the Company's Incentive Plan or other equity-based remuneration schemes. There are no termination or retirement benefits for Non-Executive Directors (other than for statutory superannuation).

Pay and rewards for Executive Directors and senior executives consists of a base salary and performance incentives. Fixed annual remuneration for executives is based on competitive market rates and reviewed annually. Short-term incentives can, at the discretion of the Board, include annual bonuses based on performance against pre-determined performance indicators.

Long-term performance incentives can include participation in the Company's Incentive Plan at the discretion of the Board and subject to obtaining any relevant shareholder approvals.

# CORPORATE GOVERNANCE STATEMENT

## INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

All Directors have the right of access to all relevant Company information, to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice concerning any aspect of the Company's operations or undertakings at the Company's expense.

## CODE OF CONDUCT

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance and ethical conduct by all Directors and employees of the Company.

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a Code of Conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the Code of Conduct for Directors are:

- A Director must act honestly, in good faith and in the best interests of the Company as a whole;
- A Director has a duty to use due care and diligence in fulfilling the functions of the office and exercising the powers attached to that office;
- A Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole;
- A Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the Company;
- A Director must not make improper use of information acquired as a Director;
- A Director must not take improper advantage of the position of Director;
- A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company;
- A Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board;
- Confidential information received by a Director in the course of the exercise of Directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law;
- A Director should not engage in conduct likely to bring discredit upon the Company; and
- A Director has an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code of Conduct.

These principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Conduct, as outlined below.

The Company's Code of Conduct, which is available on the Atlantic website, provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

# CORPORATE GOVERNANCE STATEMENT

All Directors and employees are expected to:

- Uphold high moral and ethical standards in conducting the Company's business;
- Comply with all relevant laws and regulations;
- Avoid real or perceived conflicts of interest;
- Respect confidentiality and not misuse Company information, assets or facilities;
- Value and maintain professionalism when dealing with others both internally and externally;
- Act in the best interests of shareholders;
- By their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- Perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- Exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- Act with honesty, integrity, decency and responsibility at all times.

## CONFLICTS OF INTEREST

In accordance with the *Corporations Act 2001* and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

## DEALINGS IN COMPANY SECURITIES

The Company's Securities Dealing Policy imposes trading restrictions on all Directors, employees, contractors, consultants and advisors of the Company who are in possession of unpublished price-sensitive information in relation to the securities of the Company. This Policy also restricts Directors and senior executives from trading during defined blackout periods.

If an employee possesses inside information, the person must not:

- Trade in the Company's securities;
- Advise others or procure others to trade in the Company's securities; or
- Pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information. Directors and senior executives of Atlantic are required to notify the Company Secretary before dealing in the Company's securities.

# CORPORATE GOVERNANCE STATEMENT

In addition to the above, Directors and senior executives must notify the Company Secretary as soon as practicable, but not later than three business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the *Corporations Act 2001* and the ASX Listing Rules, the Company must notify ASX within five business days of any transactions conducted by Directors in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

A copy of the Securities Dealing Policy is available on the Company's website.

## CONTINUOUS DISCLOSURE

The Company is committed to providing relevant up-to-date information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*.

The Board has implemented a Continuous Disclosure Policy to ensure that information considered material by the Company is immediately reported to the ASX. Other information such as Company presentations are also disclosed to the ASX and are on the Company's website.

The Company also has a Market Communications Policy regulating the manner in which information is released to the market. The Company's website provides access to all current and historical information, including ASX announcements, financial reports and other releases.

## SHAREHOLDER COMMUNICATION

In adopting a Continuous Disclosure Policy, the Board ensures that shareholders are provided with up-to-date information.

Communication to shareholders is facilitated by the production of the annual report, quarterly and half yearly reports, public announcements and the posting of all ASX announcements and other information on the Company's website.

Shareholders are encouraged to attend and participate in the Annual General Meeting of the Company. Shareholders may raise questions at shareholder meetings and the external auditor is in attendance at the Annual General Meeting to address any questions in relation to the conduct of the audit.

## RISK MANAGEMENT

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company, with the Managing Director, Executive Director or Chief Executive Officer having ultimate responsibility to the Board for the risk management and control framework.

# CORPORATE GOVERNANCE STATEMENT

Areas of significant business risk to the Company are highlighted in the budget and plans presented to the Board by the Managing Director or Chief Executive Officer each year.

Arrangements put in place by the Board to monitor risk management include regular reporting to the Board in respect of operations and the financial position of the Group.

The Chief Executive Officer and Chief Financial Officer have provided a declaration to the Board in accordance with Section 295A of the *Corporations Act 2001* and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk. A summary of the Company's Risk Management Policy is available on the Company's website.

## ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS

The table below contains a list of each of the ASX Corporate Governance Council Recommendations and whether the Company was in compliance with the recommendations throughout the year ended 30 June 2014. Where the Company considers that it does not meet these recommendations, or that it is not practical to comply, there is an explanation of the Company's reasons set out in this Statement.

| | Principle/Recommendation | Complied |
|---|---|---|
| **1** | **Lay solid foundations for management and oversight** | |
| 1.1 | Establish and disclose the functions reserved to the Board and those delegated to management. | √ |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | √ |
| **2** | **Structure the Board to add value** | |
| 2.1 | A majority of the Board should be independent Directors. | See above section "Composition of Board and Director Independence" |
| 2.2 | The Chair should be an independent Director. | See above section "Composition of Board and Director Independence" |
| 2.3 | The roles of Chair and Chief Executive Officer should not be exercised by the same individual. | See above section "Composition of Board and Director Independence" |
| 2.4 | The Board should establish a Nomination Committee. | See above section "Composition of Board and Director Independence" |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual Directors. | √ |

# CORPORATE GOVERNANCE STATEMENT

| | Principle/Recommendation | Complied |
|---|---|---|
| **3** | **Promote ethical and responsible decision making** | |
| 3.1 | Establish a Code of Conduct and disclose a code, or a summary of the code, as to:<br>• the practices necessary to maintain confidence in the Company's integrity;<br>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | √ |
| 3.2 | Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. | √ |
| 3.3 | Disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them. | √ |
| 3.4 | Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board. | √ |
| **4** | **Safeguard integrity in financial reporting** | |
| 4.1 | The Board should establish an Audit Committee. | See above section on "Audit Committee" |
| 4.2 | The Audit Committee should be structured so that it:<br>• consists only of Non-Executive Directors;<br>• consists of a majority of independent Directors;<br>• is chaired by an independent Chair, who is not Chair of the Board; and<br>• has at least three members. | See above section on "Audit Committee" |
| 4.3 | The Audit Committee should have a formal charter. | √ |
| **5** | **Make timely and balanced disclosure** | |
| 5.1 | Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. | √ |
| **6** | **Respect the rights of shareholders** | |
| 6.1 | Design and disclose a Communications Policy for promoting effective communication with shareholders and encouraging their participation at General Meetings. | √ |

# CORPORATE GOVERNANCE STATEMENT

| | Principle/Recommendation | Complied |
|---|---|---|
| **7** | **Recognise and manage risk** | |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | √ |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | √ |
| 7.3 | The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with Section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | √ |
| **8** | **Remunerate fairly and responsibly** | |
| 8.1 | The Board should establish a Remuneration Committee. | See above section on "Remuneration and Nomination Committee" |
| 8.2 | The Remuneration Committee should be structured so that it:<br>• consists of a majority of independent Directors;<br>• is chaired by an independent Chair;<br>• has at least three members. | See above section on "Remuneration and Nomination Committee" |
| 8.3 | Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives. | √ |

# CORPORATE GOVERNANCE STATEMENT

## POLICIES ON THE COMPANY'S WEBSITE

The following policies and charters are contained in the Our Commitment/Corporate Governance Policies section of the Company's website: www.atlanticltd.com.au.

- Audit Committee Charter;
- Board Charter;
- Code of Conduct;
- Constitution;
- Continuous Disclosure Policy;
- Diversity Policy;
- Market Communications Policy;
- Remuneration Nomination Committee Charter;
- Risk Management Policy; and
- Securities Dealing Policy.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Revenue | 4 | 16,038 | - |
| Cost of sales | 4 | (71,504) | (842) |
| Gross loss | | (55,466) | (842) |
| | | | |
| Selling and distribution expenses | | (627) | - |
| Other net operating income/(expenses) | 4 | 75,694 | (43,726) |
| Corporate expenses | 4 | (15,321) | (9,461) |
| Inventory net realisable value expense | 10 | (7,920) | - |
| Impairment | 4 | (478,463) | (69,737) |
| **Loss before interest and tax** | | (482,103) | (123,766) |
| | | | |
| Finance expenses | 4 | (154,995) | (1,423) |
| **Loss before tax** | | (637,098) | (125,189) |
| | | | |
| Tax benefit | 6 | - | - |
| **Loss after tax** | | (637,098) | (125,189) |
| | | | |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the period** | | (637,098) | (125,189) |
| | | | |
| | | Cents | Cents |
| Basic and diluted loss per share (cents) | 7 | (433.6) | (85.2) |

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

## FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 8,075 | 75 |
| Trade and other receivables | 9 | 17,970 | 37,586 |
| Inventory | 10 | 12,480 | 14,052 |
| Other current assets | 11 | 2,389 | 3,483 |
| **Total current assets** | | 40,914 | 55,196 |
| **Non-current assets** | | | |
| Trade and other receivables | 9 | - | 1,132 |
| Property, plant and equipment | 12 | 18,534 | 480,338 |
| Financial derivative asset | 13 | - | 743 |
| **Total non-current assets** | | 18,534 | 482,213 |
| **Total assets** | | 59,448 | 537,409 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 69,311 | 46,545 |
| Loans and borrowings | 15 | 608,649 | 32,058 |
| Financial derivative liability | 16 | - | 42,742 |
| Provisions | 17 | 3,575 | 4,764 |
| **Total current liabilities** | | 681,535 | 126,109 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 15 | - | 415,151 |
| Provisions | 17 | 42,930 | 24,303 |
| **Total non-current liabilities** | | 42,930 | 439,454 |
| **Total liabilities** | | 724,465 | 565,563 |
| **Net liabilities** | | (665,017) | (28,154) |
| **Shareholders' deficit** | | | |
| Contributed equity | 18 | 129,814 | 129,814 |
| Reserves | 19 | (3,864) | (4,099) |
| Accumulated losses | | (790,967) | (153,869) |
| **Total shareholders' deficit** | | (665,017) | (28,154) |

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 YEAR ENDED 30 JUNE 2014

| | Note | Ordinary shares $'000 | Option reserve $'000 | Shares reserved for Incentive Plan $'000 | Accumulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2013** | | 129,814 | - | (4,099) | (153,869) | (28,154) |
| Loss for the year | | - | - | - | (637,098) | (637,098) |
| Other comprehensive income | | - | - | - | - | - |
| **Total comprehensive loss for the year** | | - | - | - | (637,098) | (637,098) |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Amounts expensed for shares issued under Share Incentive Plan | 19 | - | - | 313 | - | 313 |
| Shares forfeited and settled under Share Incentive Plan | 19 | - | - | (78) | - | (78) |
| **Balance at 30 June 2014** | | 129,814 | - | (3,864) | (790,967) | (665,017) |

| | Note | Ordinary shares $'000 | Option reserve $'000 | Shares reserved for Incentive Plan $'000 | Accumulated losses $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2012** | | 119,738 | 204 | (4,293) | (28,680) | 86,969 |
| Loss for the year | | - | - | - | (125,189) | (125,189) |
| Other comprehensive income | | - | - | - | - | - |
| **Total comprehensive loss for the year** | | - | - | - | (125,189) | (125,189) |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Shares issued | | 10,000 | - | - | - | 10,000 |
| Amounts expensed for shares issued under Share Incentive Plan | | 76 | (204) | 672 | - | 544 |
| Shares forfeited and settled under Share Incentive Plan | | - | - | (478) | - | (478) |
| **Balance at 30 June 2013** | | 129,814 | - | (4,099) | (153,869) | (28,154) |

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 YEAR ENDED 30 JUNE 2014

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 15,730 | - |
| Payments to suppliers and employees | | (113,837) | (13,825) |
| Interest received | | 102 | 830 |
| Interest paid | | (23,027) | (152) |
| Royalties paid | | (496) | (34) |
| **Net cash flows used in operating activities** | 22 | (121,528) | (13,181) |
| | | | |
| **Cash flows from investing activities** | | | |
| Research and Development Tax Incentive receipts | | 29,546 | 22,632 |
| Release of restricted cash | | 8,495 | - |
| Insurance claim proceeds | | 26,250 | - |
| Receipts from customers | | - | 785 |
| Interest paid | | - | (37,281) |
| Payments for exploration activities | | (353) | (167) |
| Purchase of property, plant and equipment | | (10,632) | (85,541) |
| **Net cash flows from/(used in) investing activities** | | 53,306 | (99,572) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 10,000 |
| Proceeds from Convertible Bonds | | 20,000 | 50,000 |
| Proceeds from Research and Development Tax Incentive facility | | 19,100 | - |
| Repayment of Research and Development Tax Incentive facility | | (19,100) | - |
| Proceeds from Droxford Secured Loan | | 29,700 | - |
| Proceeds from Promissory Notes | | 22,500 | 28,808 |
| Advances for product financing | | 8,930 | 602 |
| Repayment of product financing | | (4,908) | - |
| Transaction costs incurred | | - | (206) |
| Repayment of other borrowings | | - | (612) |
| **Net cash flows from financing activities** | | 76,222 | 88,592 |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 8,000 | (24,161) |
| Cash and cash equivalents at beginning of the year | | 75 | 24,084 |
| Net foreign exchange differences | | - | 152 |
| **Cash and cash equivalents at end of the year** | 8 | 8,075 | 75 |

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 YEAR ENDED 30 JUNE 2014

### 1 CORPORATE INFORMATION

The consolidated financial report of Atlantic Ltd for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 25 June 2015.

Atlantic Ltd (**Atlantic** or the **Company**) is a for-profit 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 11, Brookfield Place, 125 St Georges Terrace, Perth WA 6000. The financial report of the Company for the year ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the **Consolidated Entity** or **Group**).

The nature of the operations and principal activities of the Group are described in the Directors' Report on pages 4 to 33, which does not form part of these financial statements.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial report has been prepared on a historical cost basis, except for derivatives which have been measured at fair value as disclosed below in the accounting policies and notes to the financial statements.

The financial report also complies with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

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

The accounting policies adopted are consistent with those of the previous year except as disclosed below.

#### B Going Concern

As at 30 June 2014, the Group has the following going concern indicators:

- A working capital deficiency of $640.621 million with cash on hand of $8.075 million;
- A net asset deficiency of $665.017 million; and
- The Group incurred a loss after impairment of $637.098 million for the year ended 30 June 2014 and had cash outflows from operating and investing activities of $68.222 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B Going Concern (Continued)

The Company's wholly-owned subsidiary, Midwest Vanadium Pty Ltd (Administrators Appointed)(Receivers and Managers Appointed – 11 and 12 February 2015) (**MVPL**) breached the Senior Secured Notes indenture (**Indenture**) governing its Senior Secured Notes by failing to maintain adequate cash levels in the interest reserve account (**IRA**) (US$5.000 million) in addition to failing to pay the February 2014 (US$19.262 million) half yearly interest payment.

In addition, subsequent to year end, MVPL also failed to pay the August 2014 half yearly interest payment (US$20.519 million).

MVPL's ongoing breaches of its Indenture were subject to forbearance and support agreements with the majority of MVPL's Senior Secured Notes (**Notes Group**). These agreements stated that the stakeholders must use their good faith efforts to negotiate and execute a definitive agreement between them to effect a solvent restructuring of MVPL during the forbearance period.

On 11 February 2015, the Notes Group informed Atlantic and MVPL that discussions regarding a solvent consensual restructure of MVPL had been terminated as the relevant parties had not been able to reach a mutually acceptable agreement on the additional funding requirement and the long-term capital structure for the Windimurra project.

As a result of the discussion being terminated, the Director of MVPL appointed Darren Weaver, Martin Jones and Ben Johnson of Ferrier Hodgson as Joint and Several Administrators of MVPL and Atlantic Vanadium Holdings Pty Ltd (Administrators Appointed)(Receivers and Managers Appointed) (**AVHPL**). The Notes Group subsequently appointed Norman Oehme, Keith Crawford and Matthew Caddy of McGrathNicol as Receivers and Managers of MVPL and AVHPL.

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

- Atlantic had $13.505 million in available cash at the date of losing control of MVPL and AVHPL and has cash on hand of $6.625 million as at 31 May 2015;
- Atlantic did not guarantee any of the debts of MVPL and AVHPL and accordingly it is not exposed to the creditors of these entities;
- As at 30 June 2014 Atlantic has $264.032 million (including MVPL and AVHPL loans with Droxford International Limited (**Droxford**) of $30.812 million at 30 June 2014) in due and payable facilities to Droxford. Atlantic (excluding MVPL and AVHPL, which are no longer subsidiaries of the Group) has entered into a forbearance agreement with Droxford to forbear the outstanding principal and interest on the Convertible Bonds and Promissory Notes until 6 October 2015; and
- During the forbearance period Atlantic and Droxford intend to use their best efforts to negotiate and effect a solvent restructuring.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B Going Concern (Continued)

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

- Successful negotiation of a solvent restructuring with Droxford;
- Successful consent and approval of the solvent restructuring by all required stakeholders; and
- Managing Atlantic's ongoing working capital requirements.

Should Atlantic not be able to manage the inherent uncertainties referred to above, there would be significant uncertainty as to whether Atlantic would be able to meet its debts as and when they fall due and thus continue as a going concern. The Directors believe there is a reasonable prospect of a solvent restructuring being effected with Droxford during the forbearance period and therefore it is appropriate to prepare the financial statements on a going concern basis.

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

### C New Accounting Standards and Interpretations

The following amended Australian Accounting Standards and Interpretations relevant to the operations of the Consolidated Entity and effective 1 July 2013 have been adopted from 1 July 2013.

| Reference | Title | Impact |
|---|---|---|
| AASB 10 | **Consolidated Financial Statements**<br>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statement and UIG-112 Consolidation – Special Purpose Entities.<br>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than majority voting rights may give control.<br>Consequential amendments were also made to this and other Standards via AASB 2011-7 and AASB 2012-10. | There was no material impact on the Annual Report |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C New Accounting Standards and Interpretations (Continued)

| Reference | Title | Impact |
| --- | --- | --- |
| AASB 12 | **Disclosure of Interests in Other Entities**<br>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests. | There was no material impact on the Annual Report |
| AASB 13 | **Fair Value Measurement**<br>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. | Additional disclosure requirements for the Group's assets and liabilities carried at fair value or where a fair value measurement is disclosed.<br>The Group has reassessed its policies for measuring fair values, in particular, its valuation inputs in relation to the financial derivative liability. There was no required change to the accounting policy. 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 26. |
| AASB 119 | **Employee Benefits**<br>The revised Standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.<br>Consequential amendments were also made to other Standards via AASB 2011-10. | There was no material impact on the Annual Report. |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C New Accounting Standards and Interpretations (Continued)

| Reference | Title | Impact |
|---|---|---|
| Interpretation 20 | **Stripping Costs in the Production Phase of a Surface Mine**<br>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".<br>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.<br>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 and development. The implementation of Interpretation 20 therefore has had no impact on prior periods as the Group began commercial production on 1 July 2013 consistent with the timing of the implementation of Interpretation 20. The policy adopted by the Group in relation to deferred stripping costs is detailed in note 2(O)(iv). |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2014 are outlined in the table below.

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 2012-3 | Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities | AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. | 1 Jan 2014 | 1 Jul 2014 |
| Interpretation 21 | Levies | This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. | 1 Jan 2014 | 1 Jul 2014 |
| AASB 9/IFRS 9 | Financial Instruments | AASB 9 (December 2014) is a new principal Standard which replaces AASB 139. This new principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.<br>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. | 1 Jan 2018 | 1 Jul 2018 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective (Continued)

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 9/IFRS 9<br>(Continued) | Financial Instruments<br>(Continued) | The final version of AASB 9 introduces a new expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.<br>Amendments to AASB 9 (December 2009 and 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.<br>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.<br>The main changes are described below.<br>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.<br>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. | 1 Jan 2018<br>(Continued) | 1 Jul 2018<br>(Continued) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective (Continued)

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 9/IFRS 9<br>(Continued) | Financial Instruments<br>(Continued) | c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:<br>• The change attributable to changes in credit risk are presented in other comprehensive income (**OCI**).<br>• The remaining change is presented in profit or loss.<br>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.<br>Consequential amendments were also made to other Standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.<br>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in December 2014. | 1 Jan 2018<br>(Continued) | 1 Jul 2018<br>(Continued) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective (Continued)

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 9/IFRS 9 (Continued) | Financial Instruments (Continued) | AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on or after 1 January 2015. | 1 Jan 2018 (Continued) | 1 Jul 2018 (Continued) |
| AASB 2013-3 | Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets | AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. | 1 Jan 2014 | 1 Jul 2014 |
| AASB 2014-1 Part A – Annual Improvements 2010–2012 Cycle | Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRSs 2010–2012 Cycle | AASB 2014-1 Part A: This Standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (**IASB**) of International Financial Reporting Standards (**IFRSs**) *Annual Improvements to IFRSs 2010–2012 Cycle* and *Annual Improvements to IFRSs 2011–2013 Cycle.*<br>Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:<br>• AASB 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.<br>• AASB 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137. | 1 Jul 2014 | 1 Jul 2014 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective (Continued)

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 2014-1 Part A – Annual Improvements 2010–2012 Cycle<br><br>(Continued) | Amendments to Australian Accounting Standards – Part A Annual Improvements to IFRSs 2010–2012 Cycle<br>(Continued) | • AASB 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.<br>• AASB 116 and AASB 138 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.<br>• AASB 124 – Defines a management entity providing Key Management Personnel (**KMP**) services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed. | 1 Jul 2014<br>(Continued) | 1 Jul 2014<br>(Continued) |
| AASB 1031 | Materiality | The revised AASB 1031 is an interim Standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.<br>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.<br>AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014*. | 1 Jan 2014 | 1 Jul 2014 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective (Continued)

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 2013-9 | Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments | The Standard contains three main parts and makes amendments to a number Standards and Interpretations.<br>Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.<br>Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other Standards.<br>Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments*. | 1 Jan 2014 | 1 Jul 2014 |
| AASB 2014-4 | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138) | AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.<br>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.<br>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. | 1 Jan 2016 | 1 Jul 2016 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D Accounting Standards and Interpretations Issued But Not Yet Effective (Continued)

| Reference | Title | Summary of change | Application date of Standard | Application date for Group |
|---|---|---|---|---|
| AASB 15 | Revenue from Contracts with Customers | In December 2014, the AASB issued AASB 15 *Revenue from Contracts with Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*).<br>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.<br>An entity recognises revenue in accordance with that core principle by applying the following steps:<br>(a) Step 1: Identify the contract(s) with a customer.<br>(b) Step 2: Identify the performance obligations in the contract.<br>(c) Step 3: Determine the transaction price.<br>(d) Step 4: Allocate the transaction price to the performance obligations in the contract.<br>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.<br>Early application of this Standard is permitted. | 1 Jan 2017 | 1 Jul 2017 |

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

An assessment of the impact of the new Standards and Interpretations has not been completed, however those effective 1 July 2014 are not expected to have a material impact.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E Basis of Consolidation

The consolidated financial statements comprise the financial statements of Atlantic and its subsidiaries as at and for the period ended 30 June 2014 (the **Group**).

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Atlantic are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

### F Foreign Currency Translation

#### (i) Functional and presentation currency

Both the functional and presentation currency of Atlantic and its subsidiaries is Australian dollars ($).

#### (ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for qualifying cash flow hedges, which are recognised directly in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G Share-Based Payments

#### (i) Equity-settled transactions

The Group provides benefits to its employees in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (see note 21).

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Atlantic (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

The Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G Share-Based Payments (Continued)

#### (i) Equity-settled transactions (Continued)

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### (ii) Executive Share Incentive Plan and Employee Loyalty and Alignment Share Plan

The Incentive Plan is accounted for as “in substance” option plan due to the limited recourse nature of the loans between the employees and the Company to finance the purchase of ordinary shares. The dilutive effect, if any, of the outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. The total fair value of the awards under the plans are recognised as share-based payment expenses over the vesting period, with a corresponding increase in reserves.

Shares in the Company held under the Incentive plan are classified and disclosed as reserved shares and are deducted from equity.

### H Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

### I Trade and Other Receivables

Trade and other receivables, which generally have 30 to 90 day terms, are recognised at fair value less an allowance for impairment.

Collectability of trade and other receivables are reviewed on an ongoing basis. Individual debts that are known to be uncollectable are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default are considered indicators that the trade receivable is impaired. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### J Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### K Financial Instruments

Financial instruments in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The classification depends on the purpose for which the investments were acquired or originated. Designation is determined at the point of initial recognition. When financial instruments are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value, through profit or loss, and directly attributable transactions costs.

#### (i) Recognition and de-recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are de-recognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it de-recognises the asset if it has transferred control of the assets.

#### (ii) Subsequent measurement

Loans and receivables

Loans and receivables including loan notes and loans to KMP are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm’s length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged. Changes in fair value of non-hedging derivatives are recognised immediately in profit or loss and are included in "other income" or "other expenses". The Group does not have any derivatives designated as hedging instruments.

### M Convertible Bonds

Convertible Bonds are split into two components: a debt component and a component representing the embedded derivative in the Convertible Bonds. The debt component represents the Group's liability for future interest coupon payments and the redemption amount. The embedded derivatives component represents the value of the option that Bond holders have to convert into ordinary shares in the Company.

The debt component of the Convertible Bonds is measured at amortised cost and therefore increases as the present value of the interest coupon payments and redemption amount increases, with a corresponding charge to finance cost. The debt component is decreased by any cash interest coupon payments made. The embedded derivative is measured at fair value at each balance sheet date, and the change in the fair value recognised in the income statement.

### N Impairment of Assets

#### (i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. All impairment losses are recognised in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### N Impairment of Assets (Continued)

#### (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### O Property, Plant and Equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### O Property, Plant and Equipment (Continued)

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, or on a units-of-production basis. Land is not depreciated.

The estimated useful lives used are as follows:

| | |
|---|---|
| Site buildings | 4-28 years |
| Site plant and equipment | 2-28 years |
| Office equipment | 2-6 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**(iv) Mine properties and development**

Mine properties

Once a development decision has been taken, expenditure for the establishment of access to mineral reserves, together with capitalised exploration and evaluation expenditure, including an appropriate portion of related overhead expenditure directly attributable to the development property are capitalised and classified under non-current assets as mine properties and development.

No amortisation is provided in respect of mine properties and development until commercial production is declared by the Group (for new operations).

After the commencement of commercial production, amortisation of costs is provided on the unit-of-production method which results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves over the life of the mine (comprising proven and probable reserves).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### O Property, Plant and Equipment (Continued)

#### (iv) Mine properties and development (Continued)

Deferred stripping

As part of its mining operations, the Group incurs mining stripping (waste removal) costs during the production phase of its operations.

Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset in mine properties.

If mining of waste occurs in a period in excess of the expected life-of-component average waste-to-ore strip ratio, the excess is recognised as part of the stripping asset. Where mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided on the units-of-production method over the life of the identified component of the ore body. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves).

#### (v) De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use.

### P Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Q Exploration and Evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) The rights to tenure of the area of interest are current; and

(ii) At least one of the following conditions is also met:

- (a) The exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
- (b) Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to mine properties and development within property, plant and equipment.

### R Trade and Other Payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### S Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### (i) Employee leave benefits

Short-term benefits

Liabilities for wages and salaries, and other benefits expected to be wholly settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and disclosed as a short-term benefit. They are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long-term employee benefits

The liability for long-term benefits is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national Government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (ii) Rehabilitation

The Group is required to decommission and rehabilitate mines and processing sites, to the extent that an environmental disturbance has occurred, to a condition acceptable to the relevant authorities.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### S Provisions (Continued)

#### (ii) Rehabilitation (Continued)

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

### T Interest-Bearing Loans

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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.

### U Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### V Earnings per Share

Basic earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### W Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### X Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss as a change to other comprehensive income. If contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

### Y Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### (i) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Y Revenue Recognition (Continued)

#### (ii) Sale of goods

Revenue from the sale of goods is recognised when there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed.

### Z Income Tax and Other Taxes

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Z Income Tax and Other Taxes (Continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (**GST**) except:

- When the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (**ATO**), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

**Carbon tax**

Carbon emission units granted by the Australian Government are recognised at $nil value. Carbon emission units purchased for compliance purposes under the Australian Carbon Pricing Mechanism are recognised at cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Z Income Tax and Other Taxes (Continued)

**Carbon tax (Continued)**

An emissions liability is recognised as a liability when actual emissions exceed the emission units granted by the Australian Government. Any liability recognised is measured at the value of the purchased units held, with any excess liability measured at the current market value of carbon units at the reporting date. The movement in the liability is recognised in the Statement of Comprehensive Income.

### AA Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Geographical location;
- National regulatory environment;
- Nature of the products and services; and
- Nature of the production processes.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### AB Research and Development Incentive Rebate

Research and Development Incentive rebate of the Group is accounted for as a Government grant. Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

### AC Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

### A Significant Accounting Judgements

#### (i) Insurance proceeds

Insurance proceeds are recognised only when they are virtually certain as a consequence of the uncertainty that the insurer will acknowledge the Group's claim and quantify the amount of benefits payable.

#### (ii) Pre-production accounting

Considerations must be given to determine the point at which development ceases and production commences for a mine development project. This point determines the cut-off between pre-production and production accounting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

### A Significant Accounting Judgements (Continued)

#### (ii) Pre-production accounting (Continued)

The Group ceases capitalising pre-production costs and begins depreciation and amortisation of mine assets at the point commercial production commences. This is based on the specific circumstances of the project, and takes into account when the mine's plant becomes 'available for use' as intended by management.

Determining when the production start date is achieved requires an assessment by management and includes the following factors:

- The level of development expenditure compared to project cost estimates;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Achievement of mineral recoveries, availability and throughput levels at or near expected/budgeted levels;
- The ability to produce ferrovanadium (**FeV**) into a saleable form (where more than an insignificant amount is produced); and
- The achievement of continuous production.

The Group assessed the above factors and decided the mine plant and equipment was in a condition necessary to operate as intended and therefore costs including interest were no longer capitalised for accounting purposes from 1 July 2013. From this date it was considered production commenced and the Group's mine assets began being depreciated and amortised.

#### (iii) Research and Development Tax Incentive

The Research and Development Tax Incentive is administered jointly by AusIndustry (on behalf of Innovation Australia) and the ATO.

The Research and Development Tax Incentive is a self-assessment program that forms part of MVPL's annual tax return. The incentive is based on various stages of research and development activities relating to the Windimurra vanadium project. These various stages will then determine the eligibility of expenditure able to be claimed under the Research and Development Tax Incentive.

The Research and Development Tax Incentive has been recognised as a receivable at 30 June 2014 based on MVPL's calculations supporting its annual tax return. Subsequent to year end, MVPL received the Research and Development Tax Incentive recognised at 30 June 2014.

#### (iv) Borrowing costs

Significant assumptions are made in determining the level of borrowing costs that are capitalised in accordance with note 2W. The amount of borrowing costs, including foreign currency gains or losses, that are capitalised are capped to the hypothetical interest rate that the Group would have paid had the borrowings been denominated in the functional currency of the Group. This hypothetical interest rate on the US dollar denominated seniors notes was calculated at 13.992% for 2013 (not applicable for 2014).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

### B Significant Accounting Estimates and Assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities are as follows:

#### (i) Determination of mineral resources and ore reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates and the provision for rehabilitation. During the year, the Group estimated its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserve 2004 (the **JORC code**). There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

#### (ii) Impairment of property plant and equipment, capitalised mine property and development expenditure

The future recoverability of capitalised mine property and development expenditure is dependent on a number of factors, including whether the Group is able to commercially extract the resource itself or, if not, whether it can successfully recover the expenditure on the related mine property and development asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes which could impact the cost of mining and processing ore, future legal changes (including changes to environmental rehabilitation obligations), changes to foreign exchange rates and changes to commodity prices. To the extent that capitalised mine property and development expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

Property, plant and equipment is reviewed for any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit (**CGU**)) and 'fair value less costs to sell'.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

### B Significant Accounting Estimates and Assumptions (Continued)

#### (ii) Impairment of property plant and equipment, capitalised mine property and development expenditure (Continued)

In determining value in use, future cash flows are estimated and discounted to net present value based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices;
- Future exchange rate movements;
- Future costs of production; and
- Real pre-tax discount rate of 17%.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to the value of the CGU and hence property, plant and equipment. Any resulting impairment gains or losses recognised could in turn impact future financial results.

Fair value less costs to sell is determined based on similar recent market transactions. If no recent market transactions can be identified, then fair value has been determined based on current replacement cost less an adjustment for obsolescence and cost of disposal. The adjustment for obsolescence factors include a combination of physical deterioration, installation and relocation costs and the uniqueness of the asset.

Fair value has been based on the assets best use and highest value. It has been determined that a market participant acquiring the assets would place a higher value on individual assets rather than as a separate CGU.

Details of impairment charges recognised in the income statement are provided in note 4 and details on the carrying amounts of assets are shown in note 12.

#### (iii) Rehabilitation provision

Significant estimates and assumptions are made in determining the provision for rehabilitation of the mine as there are numerous factors that will affect the ultimate liability payable.

These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from amounts currently provided.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

### B Significant Accounting Estimates and Assumptions (Continued)

#### (iv) Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experiences as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once a year and considered against remaining useful life. Adjustments to useful life are made when considered necessary.

#### (v) Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognised in the Statement of Financial Position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise net deferred tax assets recognised could be impacted. Additionally, future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods.

The Group has not recognised deferred tax assets arising from tax losses and other temporary differences. The ability of the Group to utilise its tax losses are subject to meeting the relevant statutory tests.

#### (vi) Share-based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The related assumptions are detailed in note 21. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next reporting period but may affect expenses and equity.

#### (vii) Acquisition levy provision

Significant estimates and assumptions are made in determining the acquisition levy provision as there are numerous factors that will affect the ultimate levy payable.

These factors include estimates on the value attributable to the property, plant and equipment and the probability weighting applied to the property, plant and equipment value. These uncertainties may result in the future actual payment being different to the amount currently provided.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

### B Significant Accounting Estimates and Assumptions (Continued)

**(viii) Fair value of financial derivative instruments**

The Group assesses the fair value of its financial derivative instruments in accordance with the accounting policy stated in note 2L. When the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, fair value is determined using valuation techniques including the discounted cash flow model and Black-Scholes valuation model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as market volatility, probabilities, commodity prices and commodity consumption. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 REVENUE AND EXPENSES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Revenue** | | |
| Ferrovanadium | 5,744 | - |
| Iron ore | 10,294 | - |
| | 16,038 | - |
| **Cost of sales** | | |
| Ferrovanadium | 52,822 | - |
| Iron ore | 12,082 | - |
| Depreciation | 5,777 | - |
| Government royalties | 615 | 52 |
| Carbon tax | 208 | 790 |
| | 71,504 | 842 |
| **Other net operating income/(expenses)** | | |
| Care and maintenance post fire at beneficiation plant | (19,312) | - |
| Foreign exchange gain/(loss) | 5,248 | (35,473) |
| Fair value movement of Convertible Bonds derivative | 50,584 | (8,121) |
| Fair value movement of gas contract derivative | (743) | (747) |
| Interest revenue | 95 | 615 |
| Insurance claim proceeds | 26,250 | - |
| Research and Development Tax Incentive | 16,039 | - |
| Sundry income | 448 | - |
| Loss of assets from fire at beneficiation plant | (2,915) | - |
| | 75,694 | (43,726) |
| **Corporate expenses** | | |
| Non-mine site depreciation | 253 | 140 |
| Business development expenses | - | 46 |
| Employee benefits expense | 5,556 | 4,970 |
| Other corporate costs | 9,512 | 4,305 |
| | 15,321 | 9,461 |
| **Impairment** | | |
| Impairment of property, plant and equipment | 477,100 | 69,737 |
| Impairment of prepayments | 1,363 | - |
| | 478,463 | 69,737 |
| **Finance expenses** | | |
| Interest expense – Senior Secured Notes | 49,306 | - |
| Loss on remeasure of liability (Senior Secured Notes) | 6,168 | - |
| Interest expense – Droxford Secured Loan | 1,035 | - |
| Interest expense – Class A, B, C and D Convertible Bonds and Promissory Notes | 46,478 | - |
| Loss on remeasure of liability (Class A, B, C and D Convertible Bonds) | 46,644 | - |
| Interest expense – other loans and borrowing | 949 | 152 |
| Unwinding of the discount on the rehabilitation provision | 1,508 | 1,271 |
| Finance and bank charges | 2,907 | - |
| | 154,995 | 1,423 |
| **Cost of sales and administrative expenses above include:** | | |
| Salaries, wages and other employee benefits | 34,476 | 4,970 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 DIVIDENDS

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

## 6 INCOME TAX

### (a) Income Tax Expense/(Benefit) Attributable to Continuing Operations

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Current income tax (benefit)/expense | - | - |
| Deferred income tax expense/(benefit) | - | - |
| | - | - |

### (b) Numerical Reconciliation of Income Tax Expense/(Benefit) to Prima Facie Tax Expense/(Benefit)

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Current income tax (benefit)/expense | - | - |
| Deferred income tax expense/(benefit) | - | - |
| | - | - |
| Loss before income tax | (637,098) | (125,189) |
| Income tax benefit at 30% (2013: 30%) | (191,129) | (37,557) |
| Tax effect of: | | |
| Non-deductible expenses and non-assessable income | 9,888 | 5,471 |
| Adjustments in respect of income tax in prior years | (228) | 6,276 |
| Deferred tax assets not brought to account as future income tax benefits | 181,469 | 25,810 |
| Income tax benefit attributable to operating loss | - | - |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable in Australia by corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

### (c) Deferred Tax Assets Not Recognised

The Consolidated Entity has gross income tax losses of $354.493 million (2013: $216.956 million) that are available indefinitely for offset against future assessable income as at 30 June 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 INCOME TAX (CONTINUED)

### (c) Deferred Tax Assets Not Recognised (Continued)

This future income tax benefit will only be obtained if:

(i) The Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) The Consolidated Entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) No changes in tax legislation adversely affect the Consolidated Entity in realising the benefit from the deductions for the losses.

The following deferred tax assets are not brought to account, as it is not considered probable that future assessable income is sufficient to enable the benefit from the deferred tax assets to be realised:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Income tax losses | 106,348 | 65,087 |
| Deductible temporary differences | 180,193 | 39,985 |
| | 286,541 | 105,072 |

### (d) Deferred Tax Assets and Liabilities

| | Deferred tax assets 2014 $'000 | Deferred tax liabilities 2014 $'000 | Net 2014 $'000 |
|---|---|---|---|
| Borrowing costs | 3,104 | - | 3,104 |
| Business related costs | 1,963 | - | 1,963 |
| Inventories | 2,676 | - | 2,676 |
| Annual leave provision | 379 | - | 379 |
| Trade and other payables | 229 | - | 229 |
| Loans and borrowings | 6,677 | - | 6,677 |
| Acquisition levy provision | 694 | - | 694 |
| Rehabilitation provision | 9,247 | - | 9,247 |
| Property, plant and equipment | 155,224 | - | 155,224 |
| Tax losses carried forward | 106,348 | - | 106,348 |
| Deferred tax assets | 286,541 | - | 286,541 |
| Set-off of deferred tax liabilities | - | - | - |
| Unrecognised net deferred tax assets | (286,541) | - | (286,541) |
| Net deferred tax assets/(liabilities) | - | - | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 INCOME TAX (CONTINUED)

### (d) Deferred Tax Assets and Liabilities (Continued)

| | Deferred tax assets 2013 $'000 | Deferred tax liabilities 2013 $'000 | Net 2013 $'000 |
|---|---|---|---|
| Borrowing costs | 3,553 | - | 3,553 |
| Business related costs | 2,363 | - | 2,363 |
| Cash and cash equivalents | - | - | - |
| Other current assets | - | (18) | (18) |
| Inventory | - | | - |
| Derivatives | 3,257 | (223) | 3,034 |
| Employee benefits | 499 | - | 499 |
| Other payables | - | | - |
| Foreign exchange | 20,654 | - | 20,654 |
| Provision for rehabilitation | 3,658 | - | 3,658 |
| Property, plant and equipment | 6,005 | - | 6,005 |
| Other | 237 | | 237 |
| Tax losses carried forward | 65,087 | - | 65,087 |
| Deferred tax assets/(liabilities) | 105,313 | (241) | 105,072 |
| Set-off of deferred tax liabilities | (241) | 241 | - |
| Unrecognised net deferred tax assets | (105,072) | - | (105,072) |
| Net deferred tax assets/(liabilities) | - | - | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 INCOME TAX (CONTINUED)

### (e) Movement in Temporary Differences During the Year

| | Balance 1 July 2013 $'000 | Recognised in profit or loss $'000 | Recognised in equity $'000 | Balance 30 June 2014 $'000 |
|---|---|---|---|---|
| Borrowing costs | 3,553 | (449) | - | 3,104 |
| Business related costs | 2,363 | (400) | - | 1,963 |
| Trade and other receivables | (18) | 18 | - | - |
| Inventories | - | 2,676 | - | 2,676 |
| Derivatives | 3,034 | (3,034) | - | - |
| Annual leave provision | 499 | (120) | - | 379 |
| Trade and other payables | - | 229 | - | 229 |
| Loans and borrowings | 20,654 | (13,977) | - | 6,677 |
| Acquisition levy provision | - | 694 | - | 694 |
| Rehabilitation provision | 3,658 | 5,589 | - | 9,247 |
| Property, plant and equipment | 6,005 | 149,219 | - | 155,224 |
| Carbon tax provision | 237 | (237) | - | - |
| Tax losses carried forward | 65,087 | 41,261 | - | 106,348 |
| Unrecognised net deferred tax assets | (105,072) | (181,469) | - | (286,541) |
| | - | - | - | - |

| | Balance 1 July 2012 $'000 | Recognised in profit or loss $'000 | Recognised in equity $'000 | Balance 30 June 2013 $'000 |
|---|---|---|---|---|
| Borrowing costs | 3,405 | 148 | - | 3,553 |
| Business related costs | 1,303 | 1,060 | - | 2,363 |
| Cash and cash equivalents | 203 | (203) | - | - |
| Other current assets | (95) | 77 | - | (18) |
| Inventory | 29 | (29) | - | - |
| Derivatives | 3,500 | (466) | - | 3,034 |
| Employee benefits | 335 | 164 | - | 499 |
| Other payables | (79) | 79 | - | - |
| Foreign exchange | (8,590) | 29,244 | - | 20,654 |
| Acquisition levy provision | 693 | 2,965 | - | 3,658 |
| Property, plant and equipment | 38,610 | (32,605) | - | 6,005 |
| Provision for rehabilitation | 5,843 | (5,606) | - | 237 |
| Tax losses carried forward | 34,105 | 30,982 | - | 65,087 |
| Unrecognised net deferred tax assets | (79,262) | (25,810) | - | (105,072) |
| | - | - | - | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 LOSS PER SHARE

| | 2014 | 2013 |
|---|---|---|
| Weighted average number of ordinary shares for basic loss per share | 146,912,428 | 146,850,122 |
| Effect of dilution: | | |
| Share options | - | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 146,912,428 | 146,850,122 |

At 30 June 2014, Droxford had the right to acquire 416.987 million ordinary shares (2013: 266.423 million) under the Class A and Class B Convertible Bonds (2013: Class A and B Convertible Bonds). There are also 7,844,951 employee's right over shares which are currently held in trust by the Company. Both the Droxford and employee rights have been excluded from the calculation of diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

## 8 CASH AND CASH EQUIVALENTS

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

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Cash at bank and on hand | 8,075 | 75 |

## 9 TRADE AND OTHER RECEIVABLES

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| **Current trade and other receivables** | | |
| Trade receivables | 428 | 387 |
| Goods and Services Tax (**GST**) receivable | 355 | 1,095 |
| Restricted cash on deposit (i) | 791 | 8,495 |
| Research and Development Tax Incentive receivable | 16,039 | 27,333 |
| Sundry receivables | 357 | 276 |
| | 17,970 | 37,586 |
| **Non-current trade and other receivables** | | |
| Restricted cash on deposit (i) | - | 761 |
| Term deposit - building lease guarantee | - | 371 |
| | - | 1,132 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

### (i) Restricted cash on deposit

Restricted cash on deposit relates to cash-backed bank guarantees for the operation of corporate credit cards and other facilities. The financial institution has taken security by way of right of offset against term deposits. In 2013, the Group opted into the Department of Mines and Petroleum's *Mining Rehabilitation Fund (***MRF***)*, and as a result, $8.495 million of the 2013 balance representing cash-backed unconditional environmental performance bonds was released.

At 30 June 2014, the ageing analysis of trade receivables, GST receivables and sundry receivables is as follows:

| | Total | 0-30 days | 31-60 days | 61-90 days | +91 days |
|---|---|---|---|---|---|
| 2014 | 1,140 | 1,140 | - | - | - |
| 2013 | 1,758 | 1,758 | - | - | - |

The balances above do not contain impaired assets and are not past due. It is expected that these balances will be received when due. The Research and Development Tax Incentive claim is excluded from the above analysis and was received subsequent to year end in January 2015.

### Fair Value and Credit Risk

Due to the short-term nature of these GST and sundry receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of GST and sundry receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

### Foreign Exchange and Interest Rate Risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 26.

## 10 INVENTORIES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Stores and consumable supplies - at net realisable value (2013: cost) | 5,985 | 12,727 |
| Finished inventory on consignment - at net realisable value | 6,495 | 1,325 |
| | 12,480 | 14,052 |

Stores and consumable supplies have been written down to net realisable value and an expense of $7.920 million (2013: $nil) was recognised for the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 OTHER ASSETS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Prepayments | 3,752 | 3,483 |
| Impairment allowance | (1,363) | - |
| | 2,389 | 3,483 |

Prepayments at 30 June 2014 include a number of prepayments for long lead equipment items in relation to the beneficiation plant rebuild. These items have been impaired at 30 June 2014 consistent with the methodology applied to property, plant and equipment at year end. Refer to note 12 for more detail.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | Site plant & equipment $'000 | Office equipment $'000 | Assets under construction $'000 | Mine properties & development $'000 | Total $'000 |
|---|---|---|---|---|---|
| **For the year ended 30 June 2014** | | | | | |
| At 1 July 2013 net of accumulated depreciation | 109,033 | 270 | 341,317 | 29,718 | 480,338 |
| Transfer | 345,386 | 1,324 | (338,160) | (8,550) | - |
| Additions | 6,916 | - | - | 2,419 | 9,335 |
| Change in rehabilitation provision | - | - | - | 17,119 | 17,119 |
| Research and Development Tax Incentive refund | (2,213) | - | - | - | (2,213) |
| Impairment | (431,802) | (1,435) | (3,157) | (40,706) | (477,100) |
| Loss of assets from fire in beneficiation plant | (2,915) | - | - | - | (2,915) |
| Depreciation | (5,911) | (119) | - | - | (6,030) |
| At 30 June 2014 net of accumulated depreciation | 18,494 | 40 | - | - | 18,534 |
| | | | | | |
| **At 30 June 2014** | | | | | |
| Cost | 495,897 | 2,108 | 3,157 | 45,023 | 546,185 |
| Accumulated depreciation and impairment | (477,403) | (2,068) | (3,157) | (45,023) | (527,651) |
| Net carrying amount | 18,494 | 40 | - | - | 18,534 |

There were no borrowing costs capitalised during the current year (2013: $36.589 million) due to the commencement of production accounting on 1 July 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 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 | 451 | 299,986 | 33,868 | 459,499 |
| Borrowing costs capitalised | - | - | 36,589 | - | 36,589 |
| Additions | - | - | 90,206 | 167 | 90,373 |
| Research and Development Tax Incentive refund | - | - | (27,333) | - | (27,333) |
| Impairment | (15,839) | - | (49,581) | (4,317) | (69,737) |
| Change in rehabilitation provision | - | - | (8,550) | - | (8,550) |
| Depreciation charge for the year | (322) | (181) | - | - | (503) |
| At 30 June 2013 net of accumulated depreciation | 109,033 | 270 | 341,317 | 29,718 | 480,338 |
| | | | | | |
| **At 30 June 2013** | | | | | |
| Cost | 125,766 | 785 | 390,898 | 34,035 | 551,484 |
| Accumulated depreciation and impairment | (16,733) | (515) | (49,581) | (4,317) | (71,146) |
| Net carrying amount | 109,033 | 270 | 341,317 | 29,718 | 480,338 |

### Pre-Production Accounting

During the year, 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 site plant and equipment;
- The ability to produce FeV in a saleable form; and
- The achievement of continuous production.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Impairment

As at 30 June 2014, the Group had identified the following factors indicating a potential trigger for impairment:

- It had not been able to achieve nameplate production capacity at the Windimurra project;
- Independent consultants, SRK Consulting (**SRK**), completed a review of the Windimurra plant 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;
- A major fire occurred in the beneficiation plant on 4 February 2014 resulting in extensive damage to the plant and the suspension of vanadium production for an extended period; and
- Subsequent to year end, it was identified that approximately $130.000 million additional capital was required to rectify the bottlenecks identified, which included replacing the existing secondary and tertiary crushers and high pressure grinding rolls (**HPGR**) with a semi-autogenous grinding (**SAG**) mill.

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.

### Property, plant and equipment

Fair value has been determined based on the highest and best use. It was determined that a market participant acquiring the assets would place a higher value on individual assets rather than as a separate CGU.

The Company engaged an independent valuation consultant, Valquip Consulting (**Valquip**), to undertake the fair value less costs to sell valuation of its property, plant and equipment assets as at 30 June 2014, except mine property and development assets.

Valquip adopted the fair value less costs to sell methodology for tangible assets and determined the fair value utilising either the market approach and/or cost approach.

### Mine property and development assets

The Group's mine property and development assets include licenses, tenements and stripping activity assets. The Company has valued its license and tenement assets as at 30 June 2014 after analysis of recent comparable vanadium transactions and comparable vanadium enterprise values at year end. This analysis derived a range of values, and the Company has selected the low end of the valuation range, which was $nil. Both the recent depressed equity markets for resource projects and the over supplied vanadium market were key attributing factors to this valuation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Prior Year Impairment

As at 30 June 2013, the market capitalisation of the Company was below the book value of its net assets. Additionally, the Group had been unable to achieve its forecast ramp-up of production at Windimurra, and as a result continued to capitalise expenditure. These factors indicated a potential trigger for impairment of assets and a full assessment of the carrying value of the related assets was completed as at 30 June 2013.

The recoverable amounts of the Windimurra project had been determined based on a life of mine value in use calculation using a discounted cash flow forecast model from financial budgets covering the life of the mine based on current reserves. The real pre-tax discount rate applied to cash flow projections was 17%. These project areas did not have goodwill allocated to them.

As a result of this assessment, a total impairment charge of $69.737 million was allocated across the Windimurra project plant and equipment, capital work in progress and exploration and evaluation expenditure as at 30 June 2013. This value in use calculation was materially sensitive to the production profile, commodity prices and exchange rates.

### Property, Plant and Equipment Pledged as Security for Liabilities

Refer to note 15 for details of the security that exists over these assets.

## 13 FINANCIAL ASSET

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Gas transportation contract | - | 743 |

The asset relates to a gas transport contract MVPL has entered into that contains a variable tariff linked to vanadium pentoxide (**$V_2O_5$**) price movements. At year end, Windimurra was not in production (due to the major fire event in February 2014) and therefore transporting minimal gas. This has resulted in the hybrid contract having a $nil value at year end (2013: $0.743 million).

Information regarding the fair value of the contract is disclosed in note 26.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 TRADE AND OTHER PAYABLES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Trade payables | 8,063 | 13,682 |
| Interest payable - Promissory Notes | 1,702 | 6,782 |
| Interest payable – Bond liabilities | 15,729 | 1,688 |
| Interest payable – Senior Secured Notes | 37,488 | 14,526 |
| Interest payable – Droxford Secured Loan | 157 | - |
| Other payables | 6,172 | 9,867 |
| | 69,311 | 46,545 |

The large increase in interest payable from 2013 relates primarily to:

(a) MVPL's failure to pay the bi-annual 15 February 2014 interest payment of US$19.262 million; and

(b) The interest payable on the Bond liabilities, including further Bonds issued during the year and interest payable on capitalised interest.

### Fair Value

Due to the short-term nature of these payables, their carrying value approximates fair value.

### Interest Rate, Foreign Exchange and Liquidity Risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 26.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOANS AND BORROWINGS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current loans and borrowings** | | |
| Insurance funding (i) | 509 | 516 |
| FeV product financing (ii) | 4,692 | 1,092 |
| Promissory Notes (iii) | 24,224 | 30,450 |
| Droxford Secured Loan (iv) | 30,654 | - |
| Senior Secured Notes (v) | 357,005 | - |
| Bond liability (vi) | 191,565 | - |
| | 608,649 | 32,058 |
| **Non-current loans and borrowings** | | |
| Senior Secured Notes (v) | - | 349,044 |
| Class A and B Convertible Bonds liability (vi) | - | 66,107 |
| | - | 415,151 |

All loans and borrowings are disclosed as current in 2014 as a consequence of breaches of the Indenture (for non-payment of the bi-annual 15 February 2014 interest payment amongst others), and the consequential cross-default on all other loans and borrowings. It is assumed that all loans and borrowings mature on 15 August 2014, being the termination date of the standstill arrangements in place at 30 June 2014, except the insurance funding and FeV product financing. Refer note 31 for subsequent events relating to the standstill arrangements and restructure.

### (i) Insurance funding

The Group has premium funded insurance for its assets. The insurance funding contract expires within one year.

### (ii) FeV product financing

Graceland Industry Pty Ltd (**Graceland**) provides advances to MVPL for 85% (2013: 80%) of the calculated market value of the delivered Windimurra vanadium product under the sales and marketing agreement with Wengfu (Group) Co Ltd. The advance is paid back to Graceland upon final sale of vanadium product to end customers. Interest is payable on the advance at 4.13% (2013: 4.23%) per annum, with the security for the advance being the vanadium inventory.

### (iii) Promissory Notes

In August 2013, Droxford took up its option to exchange the existing Promissory Notes issued in March and April 2013 (totalling $30.450 million) into a $35.368 million Class C Bond.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOANS AND BORROWINGS (CONTINUED)

### (iii) Promissory Notes (Continued)

Further unsecured Promissory Notes were issued to Droxford in four tranches during the period October to December 2013 for a total of $20.000 million. The original maturity date of the Promissory Notes was 6 March 2015 and interest was payable at the rate of 22.5% per annum semi-annually in arrears. Droxford has the option to elect whether to receive cash or capitalise the interest on the Promissory Notes. As at 30 June 2014, the facility has been fully drawn and all interest due and payable has been capitalised into the principal balance.

A further unsecured $2.500 million Promissory Note was drawn down in January 2014. This Promissory Note matured on 21 July 2014 with interest payable at the rate of 22.5% and payable in cash on the maturity date.

### (iv) Droxford Secured Loan

In March 2014, MVPL secured a new funding facility of $29.700 million with Droxford (**Droxford Secured Loan**). The Droxford Secured Loan is secured parri passu with the Senior Secured Notes and has a coupon of 17% per annum maturing on 15 August 2014. The Droxford Secured Loan was fully drawn down in April 2014.

### (v) Senior Secured Notes

Senior Secured Notes were issued by MVPL on 17 February 2011. The Senior Secured Notes initial proceeds of US$335.000 million were converted to $333.832 million at $1.000:US$1.0035.

As consideration for Indenture amendments agreed during the year relating to further IRA relief, MVPL issued an additional US$1.675 million payment amount to the Senior Secured Note holders. This additional payment amount has been recognised as a finance expense during the year and is governed by the Indenture, accrues interest from the effective date of the Indenture amendments, and has the same maturity date as the initial Senior Secured Notes.

In February 2014, MVPL failed to deposit US$5.000 million into its IRA and as a result was in technical breach of the Indenture. In addition, MVPL failed to pay the half yearly interest payment in February 2014 (US$19.262 million) and August 2014 (US$20.519 million) resulting in further breaches under the Indenture.

In March 2014, MVPL agreed a standstill arrangement – providing forbearance and support – with a majority of the Notes Group. Under the standstill arrangement, the Notes Group agreed to forbear MVPL's default for failure to deposit US$5.000 million in the IRA and its failure to pay the February 2014 interest payment until 15 August 2014.

At 30 June 2014, the Senior Secured Notes have a carrying value calculated by using the amortised cost method assuming they become due and payable at the end of the standstill arrangement being 15 August 2014. The Senior Secured Notes have a maturity date of August 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOANS AND BORROWINGS (CONTINUED)

### (v) Senior Secured Notes (Continued)

Collateral

As at 30 June 2014, the Senior Secured Notes are senior to all of MVPL's existing and future unsecured indebtedness to the extent of the value of the collateral, other than the Droxford Secured Loan.

The obligations of MVPL under the Indenture are secured by:

- First-ranking fixed and floating charges or other equivalent security interests over all present and future assets, except the credit balance of certain bank accounts established as collateral for permitted hedging obligations in an amount not to exceed US$60.000 million ($nil as at 30 June 2014 and 30 June 2013) and any restricted cash-backed unconditional environmental performance bonds ($nil as at 30 June 2014 and $8.507 million as at 30 June 2013);
- First-ranking share mortgages over all of the shares in the capital of MVPL;
- First-ranking mortgage over the mining tenements related to the Windimurra project held by MVPL; and
- A "featherweight charge" over all the assets and undertakings of MVPL (other than the assets of MVPL which are subject to the fixed and floating charge referred to above).

The total assets (post impairment) over which security exist as at 30 June 2014 amounts to $18.734 million (2013: $420.077 million).

Interest on the Senior Secured Notes accrued at 11.5% per annum and is payable semi-annually in arrears on 15 February and 15 August of each year until 15 February 2014. Effective 16 February 2014, the coupon rate of the Senior Secured Notes increased to 12.25% per annum. Effective 16 February 2015, the coupon rate of the Senior Secured Notes increases to 13.25% per annum.

### (vi) Bond liability

Reconciliation of movement

| | 2014 $'000 |
|---|---|
| Balance 1 July 2013 | 66,107 |
| Promissory Notes exchanged into Class C Bond | 27,268 |
| Promissory Notes borrowing costs | 9,478 |
| Issue of Class D Bond | 16,136 |
| Remeasure Class A, B, C and D Bonds on cross-default breach | 46,644 |
| Capitalise interest payable | 25,932 |
| Balance 30 June 2014 | 191,565 |

The Bond liability relates to Class A, B, C and D Convertible Bonds issued to Droxford and have been classified as current liabilities due to the cross-default associated with the breaches of the Indenture.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOANS AND BORROWINGS (CONTINUED)

### (vi) Bond liability (Continued)

| | 2013 $'000 |
|---|---|
| Balance 1 July 2012 | 19,208 |
| Issue of Class B Convertible Bond | 31,597 |
| Remeasure Class A and B Convertible Bond | 6,467 |
| Capitalise interest payable | 8,835 |
| Balance 30 June 2013 | 66,107 |

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. In August 2013, Atlantic entered into a new $20.000 million Class D Bond with Droxford.

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 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.

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.

As at 31 December 2013 and 30 June 2014, Class C and D Bonds have been classified as current liabilities. As the conversion option is no longer available, there has been no financial derivative recognised for Class C and D Bonds at 30 June 2014 (2013: $nil).

As at 30 June 2014, Class A and B Convertible Bonds have also been classified as current liabilities. Although the conversion option is available for these Bonds, the Company has determined there is no likelihood this option will be exercised by the holder. The fair value of the associated embedded derivative has been valued at $nil (2013: $0.269 million). Refer note 16 for further detail.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOANS AND BORROWINGS (CONTINUED)

### (vi) Bond liability (Continued)

The Bond liabilities have the following key terms:

| | Class A Convertible Bonds | Class B Convertible Bonds | Class C Convertible Bonds | Class D Convertible Bonds |
|---|---|---|---|---|
| **Amount** | $30.000 million | $50.000 million | $35.368 million | $20.000 million |
| **Original maturity** | 6 March 2015 | 6 March 2015 | 6 March 2015 | 6 March 2015 |
| **Coupon** | 17.5% Interest can be paid in cash or capitalised at Bond holder's election | 22.5% Interest can be paid in cash or capitalised at Bond holder's election | 22.5% Interest can be paid in cash or capitalised at Bond holder's election | 22.5% Interest can be paid in cash or capitalised at Bond holder's election |
| **Ranking** | Unsecured | Unsecured | Unsecured | Unsecured |
| **Conversion price** | $0.500[1] | $0.500[1] | n/a | n/a |
| [1] **Conversion price reset** | The conversion price will be reset upon any future issue of securities at a price lower than the conversion price. During the year the conversion price was reset by the issue of Class D Convertible Bonds convertible at $0.2625. | The conversion price will be reset upon any future issue of securities at a price lower than the conversion price. During the year the conversion price was reset by the issue of Class D Convertible Bonds convertible at $0.2625. | n/a | n/a |

As at 30 June 2014, the assumed maturity date of all Bonds is 15 August 2014 as a consequence of the expiry of the standstill agreement. The carrying value of the debt is carried at amortised cost by discounting the future payments using the original effective interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 LOANS AND BORROWINGS (CONTINUED)

**(vi) Bond liability (Continued)**

A reconciliation of the Bond liabilities by Class is provided below.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Class A Convertible Bond | 41,079 | 26,446 |
| Class B Convertible Bond | 66,492 | 39,661 |
| Class C Bond | 55,019 | - |
| Class D Bond | 28,975 | - |
| | 191,565 | 66,107 |

### Interest Rate, Foreign Exchange, Liquidity Risk and Fair Value

Details regarding interest rate, foreign exchange, liquidity risk and fair value are disclosed in note 26.

## 16 FINANCIAL DERIVATIVE LIABILITY

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Embedded derivative associated with Promissory Notes | - | 12,473 |
| Embedded derivative associated with Class A and Class B Convertible Bonds | - | 30,269 |
| | - | 42,742 |

### Reconciliation of Financial Derivative Liability

| | 2014 $'000 |
|---|---|
| Balance 1 July 2013 | 42,742 |
| Class D embedded derivative at inception | 3,926 |
| Class A capitalised interest embedded derivatives | 661 |
| Class B capitalised interest embedded derivatives | 1,822 |
| Class C capitalised interest embedded derivatives | 944 |
| Class D capitalised interest embedded derivatives | 489 |
| Fair value of embedded derivatives recognised in profit or loss | (50,584) |
| Balance 30 June 2014 | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16 FINANCIAL DERIVATIVE LIABILITY (CONTINUED)

### Reconciliation of Financial Derivative Liability (Continued)

The significant fair value amount recognised in the profit and loss is primarily attributable to:

- Class C and D Bonds losing their conversion option as the Company failed to obtain shareholder approval by 30 November 2013; and
- Class A and B Convertible Bonds being fair valued with the assumption that the Company's share price is $nil due to the restructuring discussions underway at 30 June 2014 and the likely negative impact on equity value.

| | 2013 $'000 |
|---|---|
| Balance 1 July 2012 | 13,157 |
| Class B Convertible Bonds embedded derivatives at inception | 18,403 |
| Class A and Class B Convertible Bonds capitalised interest embedded derivatives | 1,520 |
| Promissory Notes embedded derivatives at inception | 1,541 |
| Fair value of embedded derivatives recognised in profit or loss | 8,121 |
| Balance 30 June 2013 | 42,742 |

Class A, B, C and D Bonds were all issued with a feature that allowed Droxford to elect to convert the outstanding principal and interest into Atlantic ordinary shares at a set conversion price.

Due to the conversion price reset clauses the conversion right is treated as an embedded derivative and is carried at fair value. The fair value of the embedded derivative is determined 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16 FINANCIAL DERIVATIVE LIABILITY (CONTINUED)

### Reconciliation of Financial Derivative Liability (Continued)

The fair value of the embedded derivative associated with Class C and D Convertible Bonds is $nil as the Company failed to obtain shareholder approval for this conversion by the required date. Failure to obtain such approval resulted in the holder's ability to convert the Bonds into Atlantic shares being extinguished.

| | |
|---|---|
| Conversion price per share ($) | 0.2625 |
| Valuation date | 30 June 2014 |
| Loan expiry date | 6 March 2015 |
| Underlying security spot price at valuation date ($) | $nil |
| Expected price volatility of the Company's shares | 100% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 2.508% |
| Black-Scholes valuation per right ($) | $nil |

The fair value of the embedded derivative associated with the Class A and B Convertible Bonds is $nil. The Company has determined the fair value to be $nil based on the following:

- Atlantic ordinary shares have been suspended from trading on ASX since February 2014;
- Atlantic's closing share price prior to suspension was $0.1750;
- The Group has a shareholder deficit at 30 June 2014 of $665.017 million;
- MVPL defaulted on its Indenture obligations in February 2014, resulting in cross-defaults with the Bond liabilities; and
- At 30 June 2014, Atlantic was negotiating with its stakeholders a solvent restructure of the equity and debt that would likely have a negative impact on equity value.

Refer to note 15 for the liability carrying value of the Class A, B, C and D Bonds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 PROVISIONS

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current provisions** | | |
| Acquisition levy (i) | 2,312 | 2,312 |
| Annual leave | 1,263 | 1,662 |
| Carbon tax (ii) | - | 790 |
| | 3,575 | 4,764 |
| **Non-current provisions** | | |
| Rehabilitation provision (iii) | 42,930 | 24,303 |
| | 42,930 | 24,303 |

### Movements in Provisions

| | Acquisition levy $'000 | Carbon tax $'000 | Rehabilitation provision $'000 |
|---|---|---|---|
| At 1 July 2013 | 2,312 | 790 | 24,303 |
| Unwinding of discount | - | - | 1,508 |
| Movement due to changes in assumptions | - | - | 17,119 |
| Expensed during the year | - | 208 | - |
| Paid during the year | - | (998) | - |
| At 30 June 2014 | 2,312 | - | 42,930 |

### Nature of Provisions

**(i) Acquisition levy**

The acquisition levy provision represents the Group's best estimate of the amount payable in connection with the acquisition of MVPL in September 2010.

**(ii) Carbon tax provision**

Under the Commonwealth Government's *Clean Energy Act 2011*, MVPL is considered a liable entity as:

- It is responsible for a facility that gives rise to a liability (a direct emitter); and
- It holds an Obligation Transfer Number (**OTN**). An OTN allows MVPL to manage its own liability in relation to natural gas supply.

A direct emitter will be liable for a facility during the financial year if the operation of the facility releases covered emissions of more than 25,000 tonnes of carbon dioxide (**$CO_2$**) or the facility is a large gas consuming facility.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 PROVISIONS (CONTINUED)

### Nature of Provisions (Continued)

**(ii) Carbon tax provision (Continued)**

MVPL is a direct emitter that gave rise to carbon emissions of between 25,000 and 35,000 tonnes of $CO_2$ in the financial year (2013: 25,000 to 35,000 tonnes of $CO_2$).

MVPL can either purchase directly from the Commonwealth Government at the fixed price of $24.150 per tonne of $CO_2$ emissions (2013: $23.000 per tonne of $CO_2$), or on the secondary market in order to meet its obligations, or rely on the grant of carbon emission units by the Australian Government to offset carbon liabilities.

MVPL had a carbon tax obligation at year end but has not raised a provision. This is because the grant of carbon emission units by the Australian Government for the years ended 30 June 2013 and 2014 has offset the liability for the year ended 30 June 2014 (2013: Provision raised and obligations settled in February 2014).

**(iii) Rehabilitation provision**

The rehabilitation provision represents the Group's best estimate of the costs required to rehabilitate the existing environmental disturbance relating to the plant, tailings storage facilities, pits and waste dump at the Windimurra project site.

Key assumptions include:

- Inflation: 2.620% per annum (2013: 2.506%);
- Discount rate: 3.540% per annum (2013: 4.774%); and
- Years before rehabilitation activities will need to be undertaken: 11 years (2013: 28.5 years).

The significant reduction in the life of mine to 11 years is as a consequence of applying the updated 2012 edition of the JORC Code. The revised JORC Code requires a stricter interpretation of the oxide, fresh and transitional ores with less fresh ore meeting the definition of ore reserve. The impact of this life of mine reduction is to significantly increase the present value of the rehabilitation provision as at 30 June 2014, with a consequential increase in the value of mine properties and development assets.

In accordance with Western Australian law, land disturbed by the Group in Western Australia must be restored in accordance with the environmental conditions attached to Government approval upon the decommissioning of the mine. Because of the long-term nature of the liability, the estimate of the provision is subject to change based on amendments to the laws and regulations, and as new information concerning the Group's operations become available. In particular, the Group has assumed that the site will be restored using technology and materials that are currently available.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 CONTRIBUTED EQUITY

| | No. Shares | 2014<br>$'000 |
|---|---|---|
| Issued and fully paid ordinary shares | 154,757,339 | 129,814 |

| | No. Shares | 2013<br>$'000 |
|---|---|---|
| Issued and fully paid ordinary shares | 154,757,339 | 129,814 |

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

| | No. Shares | 2014<br>$'000 |
|---|---|---|
| **Ordinary shares** | | |
| Movements in ordinary shares on issue | | |
| At 1 July 2013 | 154,757,339 | 129,814 |
| At 30 June 2014 | 154,757,339 | 129,814 |

| | No. Shares | $'000 |
|---|---|---|
| **Performance shares** | | |
| At 1 July 2013 | 66 | - |
| At 30 June 2014 | 66 | - |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 CONTRIBUTED EQUITY (CONTINUED)

| | No. Shares | 2013 $'000 |
|---|---|---|
| **Ordinary shares** | | |
| Movements in ordinary shares on issue | | |
| At 1 July 2012 | 143,393,703 | 119,738 |
| Issue of shares @ $0.88 on 2 July 2012 | 11,363,636 | 10,000 |
| Amount expensed under Share Incentive Plan | - | 76 |
| At 30 June 2013 | 154,757,339 | 129,814 |

| | No. Shares | $'000 |
|---|---|---|
| **Performance shares** | | |
| At 1 July 2012 | 66 | - |
| At 30 June 2013 | 66 | - |

Class B performance shares do not participate in dividends and the proceeds on a winding up of the parent entity. Class B performance shares hold no voting rights at shareholders' meetings when a poll is called, and are not eligible to participate in votes on a show of hands.

The Class B performance shares convert to a total of 6 million ordinary shares upon the delineation of a resource of not less than 30 million tonnes of greater than 35% aluminium oxide on the Bao Loc exploration area. As at 30 June 2014 and 30 June 2013, the above condition has not been met and the dilutive effect of the Class B performance shares has not been considered in the earnings per share calculation (note 7).

## 19 RESERVES

| | No. Shares | 2014 $'000 |
|---|---|---|
| Shares reserved for Executive Share Incentive Plan | 4,960,000 | (2,010) |
| Shares reserved for Employee Loyalty and Alignment Share Plan | 3,484,951 | (1,854) |
| At 30 June 2014 | 8,444,951 | (3,864) |

| | No. Shares | 2013 $'000 |
|---|---|---|
| Shares reserved for Executive Share Incentive Plan | 4,960,000 | (2,010) |
| Shares reserved for Employee Loyalty and Alignment Share Plan | 3,484,951 | (2,089) |
| At 30 June 2013 | 8,444,951 | (4,099) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19 RESERVES (CONTINUED)

### Movement in Reserves

| | No. Shares | $'000 |
|---|---|---|
| **Shares reserved for Executive Share Incentive Plan** | | |
| At 1 July 2013 | 4,960,000 | (2,010) |
| At 30 June 2014 | 4,960,000 | (2,010) |

| | No. Shares | $'000 |
|---|---|---|
| **Shares reserved for Employee Loyalty and Alignment Share Plan** | | |
| At 1 July 2013 | 3,484,951 | (2,089) |
| Amount of expenses for shares issued to employees | - | 313 |
| Forfeited shares | - | (78) |
| At 30 June 2014 | 3,484,951 | (1,854) |

Atlantic's Incentive Plan is offered to senior executives of the Group as the Executive Share Incentive Plan (**ESIP**) and to a broader group of managers and employees pursuant to the Employee Loyalty and Alignment Share Plan (**ELAS**).

The shares reserved for the ESIP Reserve are used to record the fair value of shares issued under this plan. At the time of grant the total value of shares issued under the plan is recognised in issued capital, with a corresponding charge to the ESIP Reserve. The ESIP is accounted for as an "in substance" option plan due to the limited recourse nature of the loan between executives and the Company to finance the purchase of ordinary shares. The total fair value of the award under the plan is recognised as a share-based payment expense over the vesting period, with a corresponding increase in the ESIP Reserve. Information on the valuation of the award under the ESIP during the period is disclosed in note 21.

The shares reserved for the ELAS Reserve are used to record the fair value of shares issued under this plan. At the time of grant the loan value of shares issued under the plan is recognised in issued capital, with a corresponding charge to the ELAS Reserve. The ELAS is accounted for as an "in substance" option plan due to the limited recourse nature of the loan between employees and the Company to finance the purchase of ordinary shares. The total fair value of the award under the plan is recognised as a share-based payment expense over the vesting period, with a corresponding increase in the ELAS Reserve. Information on the valuation of the award under the ELAS during the period is disclosed in note 21.

## 20 OPTIONS OVER ORDINARY SHARES

During the year ended 30 June 2013, 169,811 unlisted options over ordinary shares with an exercise price of $1.325 expired on 31 August 2012.

As at 30 June 2014, the Company had a total of 4,960,000 (2013: 4,960,000) issued ordinary shares related to ESIP grants where the loans remain outstanding (refer note 21 for more information on the ESIP). The awards have been accounted for as "in substance" options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 OPTIONS OVER ORDINARY SHARES (CONTINUED)

As at 30 June 2014, the Company had a total of 3,484,951 (2013: 3,484,951) issued ordinary shares related to ELAS grants where the loans remain outstanding (refer note 21 for more information on the ELAS). The awards have been accounted for as “in substance” options.

## 21 SHARE-BASED PAYMENTS

### Share-Based Payment Transactions

Share-based payment transactions recognised during the period were as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Amounts expensed for shares issued under the Share Incentive Plan (i) | 313 | 76 |

### (i) Shares issued under the Employee Loyalty and Alignment Share Plan (ELAS)

Under this plan, eligible employees are offered shares in Atlantic at prices determined by the Board. The Board has the ultimate discretion to impose special conditions on the shares issued under the ELAS and can grant a loan to a participant for the purposes of subscribing for plan shares. Shares issued under loan facilities are held on trust for the benefit of the participant and will only be transferred into the participant’s name once the loan has been fully repaid. ELAS participants receive all the rights associated with the ordinary shares.

Loans granted to participants are limited recourse and interest free unless otherwise determined by the Board. The loans are to be repaid via the application of any dividends received from the shares and/or the sale of the plan shares. Where the loan is repaid by the sale of shares, any remaining surplus on sale is remitted to the participant while any shortfall is borne by the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 SHARE-BASED PAYMENTS (CONTINUED)

### Share-Based Payment Transactions (Continued)

**(i) Shares issued under the Employee Loyalty and Alignment Share Plan (ELAS) (Continued)**

Fair value of shares granted

Shares granted under the ELAS are accounted for as "in substance" options due to the limited recourse nature of the loan between the employees and the Company to finance the purchase of ordinary shares. The fair value at grant date for the various tranches of shares issued under the ELAS is determined using a Black-Scholes model using the following model inputs:

| ELAS A – Granted 6 March 2012 | |
|---|---|
| Shares granted for no consideration | 2,884,951 |
| Loan price ($) | 0.88 |
| Grant date | 6 March 2012 |
| Expiry date | 6 March 2017 |
| Underlying security spot price at grant date ($) | 0.90 |
| Expected price volatility of the Company's shares | 88% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 6% |
| Black-Scholes valuation per option ($) | 0.65 |

| ELAS B – Granted 5 March 2013 | |
|---|---|
| Shares granted for no consideration | 600,000 |
| Loan price ($) | 0.50 |
| Grant date | 5 March 2013 |
| Expiry date | 5 March 2018 |
| Underlying security spot price at grant date ($) | 0.20 |
| Expected price volatility of the Company's shares | 92% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 3% |
| Black-Scholes valuation per option ($) | 0.11 |

Upon employee resignation, any unvested rights are relinquished with the associated expense written back to the ELAS Reserve. Total forfeited shares by employees during the period were 276,522 (2013: 1,712,243) amounting to $0.078 million (2013: $0.478 million) previously recognised as a share-based payment expense reversed to the ELAS Reserve. The rights to shares under the Incentive Plan vest one third each year and are exercisable up to the expiry date of 6 March 2017 for ELAS A and 5 March 2018 for ELAS B.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 SHARE-BASED PAYMENTS (CONTINUED)

### Share-Based Payment Transactions (Continued)

**(i) Shares issued under the Employee Loyalty and Alignment Share Plan (ELAS) (Continued)**

Movements during the year

The following table illustrates the number, weighted average exercise prices (**WAEP**) and movements in shares during the year:

| | 2014 Number | 2014 WAEP | 2013 Number | 2013 WAEP |
|---|---|---|---|---|
| Outstanding at 1 July | 1,712,243 | 0.75 | 2,884,951 | 0.88 |
| Forfeited during the year | (268,946) | - | (1,772,708) | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Granted during the year | - | 0.75 | 600,000 | 0.50 |
| Outstanding at 30 June | 1,443,297 | - | 1,712,243 | 0.75 |
| Exercisable at 30 June | 824,026 | 0.75 | 370,748 | 0.88 |

The ELAS shares outstanding at 30 June 2014 have an exercise price in the range of $0.500 to $0.880 (2013: $0.500 to $0.880) and a weighted average contractual life of 0.72 years (2013: 1.72 years).

**(ii) Shares issued under the Executive Share Incentive Plan (ESIP)**

Under this plan, eligible employees are offered shares in Atlantic at prices determined by the Board. The Board has the ultimate discretion to impose special conditions on the shares issued under the ESIP and can grant a loan to a participant for the purposes of subscribing for plan shares. Shares issued under loan facilities are held on trust for the benefit of the participant and will only be transferred into the participant's name once the loan has been fully repaid. ESIP participants receive all the rights associated with the ordinary shares.

1,000,000 shares were issued to Tony Veitch on 5 July 2010. The shares are not tradeable until the Company's shares have traded above $1.875 each for more than 10 consecutive trading days. As at 30 June 2014 and 30 June 2013, all shares are fully vested but not tradeable.

3,960,000 shares were issued to Michael Minosora on 24 December 2009. These shares comprise:

- 1,320,000 shares at $0.825 per share which vest after six months;
- 1,320,000 shares at $1.000 per share which vest after 12 months; and
- 1,320,000 shares at $1.250 per share which vest after 18 months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 SHARE-BASED PAYMENTS (CONTINUED)

### Share-Based Payment Transactions (Continued)

**(ii) Shares issued under the Executive Share Incentive Plan (ESIP) (Continued)**

The shares are not tradeable until the Company's shares have traded above $1.250 each for more than 10 consecutive trading days. As at 30 June 2014 and 30 June 2013, all shares are fully vested but not tradeable.

Loans granted to participants are limited recourse and interest free unless otherwise determined by the Board. The loans are to be repaid via the application of any dividends received from the shares and/or the sale of the plan shares. Where the loan is repaid by the sale of shares, any remaining surplus on sale is remitted to the participant while any shortfall is borne by the Company.

Shares granted under the ESIP are accounted for as "in substance" options due to the limited recourse nature of the loan between the employees and the Company to finance the purchase of ordinary shares. The fair value at grant date for the various tranches of shares issued under the ESIP is determined using a Black-Scholes model using the following model inputs:

Shares issued to Tony Veitch on 5 July 2010:

| | |
|---|---:|
| Loan price per share ($) | 1.75 |
| Valuation date | 5 July 2010 |
| Loan expiry date | - |
| Underlying security spot price at valuation date ($) | 0.975 |
| Expected price volatility of the Company's shares | 100% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 4.57% |
| Black-Scholes valuation per share ($, post-consolidation) | 0.75 |

Shares issued to Michael Minosora on 24 December 2009 (tranche 1):

| | |
|---|---:|
| Loan price per share ($) | 0.83 |
| Valuation date | 27 November 2009 |
| Loan expiry date | 24 December 2014 |
| Underlying security spot price at valuation date ($) | 1.000 |
| Expected price volatility of the Company's shares | 100% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 4.81% |
| Black-Scholes valuation per share ($, post-consolidation) | 0.79 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 SHARE-BASED PAYMENTS (CONTINUED)

### (ii) Shares issued under the Executive Share Incentive Plan (ESIP) (Continued)

Shares issued to Michael Minosora on 24 December 2009 (tranche 2):

| | |
|---|---|
| Loan price per share ($) | 1.00 |
| Valuation date | 27 November 2009 |
| Loan expiry date | 24 December 2014 |
| Underlying security spot price at valuation date ($) | 1.000 |
| Expected price volatility of the Company's shares | 100% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 4.81% |
| Black-Scholes valuation per share ($, post-consolidation) | 0.77 |

Shares issued to Michael Minosora on 24 December 2009 (tranche 3):

| | |
|---|---|
| Loan price per share ($) | 1.25 |
| Valuation date | 27 November 2009 |
| Loan expiry date | 24 December 2014 |
| Underlying security spot price at valuation date ($) | 1.00 |
| Expected price volatility of the Company's shares | 100% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 4.81% |
| Black-Scholes valuation per share ($, post-consolidation) | 0.74 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 CASH FLOW STATEMENT RECONCILIATION

### (i) Reconciliation of (Loss)/Profit for the Year to Net Cash Flows from Operations

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Loss after income tax | (637,098) | (125,189) |
| **Adjustments for:** | | |
| Depreciation | 6,030 | 140 |
| Loss of assets from fire at beneficiation plant | 2,915 | - |
| Inventory net realisable value expense | 7,920 | - |
| Insurance claim proceeds | (26,250) | - |
| Non-cash finance expenses | 108,262 | - |
| Net foreign exchange (gains)/losses | (4,964) | 35,453 |
| Share-based payments expense | 234 | 66 |
| Unwinding of the discount on the rehabilitation provision | 1,508 | 1,270 |
| Impairment | 478,463 | 69,737 |
| Fair value of derivatives | (49,841) | 8,868 |
| **Changes in assets and liabilities:** | | |
| Decrease in trade and other receivables | (15,174) | (8,402) |
| Decrease in prepayments | (268) | (26) |
| Decrease in inventories | (6,347) | - |
| (Decrease)/increase in trade and other payables | 14,270 | (3,983) |
| Increase in restricted cash deposited | - | 8,095 |
| (Decrease)/increase in provisions | (1,188) | 790 |
| Net cash used in operating activities | (121,528) | (13,181) |

## 23 OPERATING SEGMENTS

The Group has assessed its operating segments for the year ended 30 June 2014 and has identified one operating segment being the Windimurra vanadium project. This is based on the internal reports that are reviewed and used by the Board of Directors for assessing performance and determining the allocation of resources in the Group. The Vietnam operating segment for the year ended 30 June 2014 has not been identified as an operating segment due to cessation of activities during the year.

In 2014, the three most significant customers equated on a proportionate basis to 62% of total revenue. There were three major customers who individually accounted for more than 10% of total revenue, contributing 26%, 24% and 13% of total revenue between the three customers. All revenue during the year was generated by customers domiciled outside of Australia.

All non-current assets stated in the balance sheet are located in Australia.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 RELATED PARTY DISCLOSURES

### Subsidiaries

The consolidated financial statements include the financial statements of Atlantic and the subsidiaries listed in the following table.

| Name | Note | Country of incorporation | % Equity interest | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| Atlantic Vanadium Holding Pty Ltd | | Australia | 100% | 100% |
| Azure Mining International Pty Ltd | (a) | Australia | 100% | 100% |
| Atlantic (Middle East) Pty Ltd | (a) | Australia | 100% | 100% |
| Atlantic Incentive Plan Pty Ltd | (a) | Australia | 100% | 100% |
| Midwest Vanadium Pty Ltd | | Australia | 100% | 100% |
| Atlantic (Mining) Pty Ltd | (a) | Australia | 100% | 100% |

(a) These entities are not required to be separately audited. An audit of these entity's results and position is performed for the purpose of inclusion in the Consolidated Entity accounts.

### Ultimate Parent

Atlantic is the ultimate Australian parent entity and ultimate parent of the Group.

### Loans to Subsidiaries

**Terms and conditions of loans**

Loans between entities in the wholly-owned Group are non-interest bearing, unsecured and are payable upon reasonable notice having regard to the financial situation of the entity.

### Directors

The names of the persons who were Directors of Atlantic at any time during the financial year are as follows:

Gary Lewis (Non-Executive Chairman), appointed 11 March 2014

Phiong Phillipus Darma (Non-Executive Director)

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

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

Michael Minosora (Chairman and Managing Director), resigned 11 March 2014

Tony Veitch (Executive Director), resigned 26 November 2013

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 RELATED PARTY DISCLOSURES (CONTINUED)

### Droxford

Droxford is a substantial shareholder of Atlantic, holding 17.42% of the shares as at 30 June 2014. During the year, Droxford has provided funding in the form of various loans and borrowing facilities (Promissory Notes, Convertible Bonds and Droxford Secured Loan, refer note 15), which has resulted in outstanding liabilities as at 30 June 2014, accrued interest payable (note 14), and the recognition of interest expense during the year ended 30 June 2014 (note 4).

### Transactions with Directors and Director-Related Entities

The following transactions were undertaken between any Group company and the following Director-related parties during the years ended 30 June 2014 and 30 June 2013:

Ambrosia Empire Limited, (**Ambrosia**) a company in which Thanh Nguyen (a KMP of the Group) has a beneficial interest, was paid consulting fees of US$209,000 (2013: US$485,000). At 30 June 2014, an amount of US$19,000 (30 June 2013: US$20,000) was owed to Ambrosia. Consulting fees were paid during the year to Ambrosia in relation to the Group's development study for an integrated mine-rail-port bauxite project in Vietnam.

All transactions with related parties are made in arm's length transactions both at normal market prices and on normal commercial terms unless otherwise stated.

## 25 KEY MANAGEMENT PERSONNEL

### (a) Key Management Personnel

#### (i) Executive Directors

Michael Minosora (Chairman and Managing Director), resigned 11 March 2014

Tony Veitch (Executive Director), resigned 26 November 2013

#### (ii) Non-Executive Directors

Gary Lewis (Non-Executive Chairman), appointed 11 March 2014

Phiong Phillipus Darma (Non-Executive Director)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 KEY MANAGEMENT PERSONNEL (CONTINUED)

### (a) Key Management Personnel (Continued)

#### (iii) Other Key Management Personnel

Tony Veitch (Chief Commercial Officer), appointed 26 November 2013

Daniel Harris (Chief Executive Officer), appointed 11 March 2014 (previously Chief Operating Officer, appointed 9 October 2012)

John Gardener (General Manager Sales & Marketing), appointed 16 January 2012

Terry Perles (President North America), appointed 1 May 2012

Terry Bourke (General Counsel)

Scott Nicholas (Chief Financial Officer), appointed 1 July 2013, resigned 13 June 2014, re-appointed 20 September 2014

Thanh Nguyen (Executive Director Azure Mining International Pty Ltd and Atlantic (Middle East) Pty Ltd), resigned 10 June 2014

Shane Entriken (Executive General Manager Human Resources and External Affairs), appointed 5 August 2013, made redundant 18 March 2014

Mark Greenaway (General Manager Operations), appointed 12 August 2013, resigned 28 February 2014

### (b) Compensation for Key Management Personnel

| | 2014 $ | 2013 $ |
|---|---|---|
| Short-term employee benefits | 3,788,596 | 3,520,942 |
| Post-employment benefits | 138,895 | 100,762 |
| Termination benefits | 786,464 | 121,177 |
| Share-based payment | 67,458 | (158,631) |
| Total compensation for Key Management Personnel | 4,781,413 | 3,584,250 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the group as at 30 June 2014:

| | Liabilities/loans and receivables $'000 | Fair value through profit and loss $'000 | Fair value through other comprehensive income $'000 |
|---|---|---|---|
| **Financial assets:** | | | |
| Receivables | 17,970 | - | - |
| **Total current** | 17,970 | - | - |
| Financial asset | - | 743 | - |
| **Total non-current** | - | 743 | - |
| **Total** | 17,970 | 743 | - |
| **Financial liabilities:** | | | |
| Payables | 69,311 | - | - |
| Loans and borrowings | 608,649 | - | - |
| Financial derivative liability | - | 50,584 | - |
| **Total current** | 677,960 | 50,584 | - |
| Loans and borrowings | - | - | - |
| **Total non-current** | - | - | - |
| **Total** | 677,960 | 50,584 | - |

### (a) Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash, restricted cash on deposit, trade and other receivables, trade and other payables, Senior Secured Notes, Convertible Bonds and Promissory Notes.

Exposure to key financial risks are monitored at Board level but there are currently no formal financial risk management policies in place. The objective of financial risk management is to support the delivery of the Group's financial targets while protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage the different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate risk and foreign currency risk and assessments of market forecasts for interest rates and foreign exchange. Ageing analysis and monitoring of the credit ratings of financial institutions are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash forecasts. Primary responsibility for identification and control of financial risks rests with the Board, which agrees actions for managing each of the risks identified below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Capital Risk Management

When managing capital (being equity and long-term debt), management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders. Management also aims to maintain a capital structure that ensures the lowest possible cost of capital available to the entity reflecting the current business status of the entity.

Management constantly monitors its capital structure to take advantage of favourable costs of capital or high return on assets.

The Group does not currently have a Dividend Policy.

The Company monitors its capital through monthly Board reporting including management accounts and forecasts combined with appropriate external financial, corporate and legal advice when required. To a lesser extent, gearing ratios are also used to monitor capital.

### (c) Commodity Price Risk

The Group's principal commodity price risk is fluctuations in market prices in vanadium and iron ore.

**Vanadium**

Vanadium is not traded in any significant volume on global commodity exchanges. The Group has a marketing agreement for FeV in place for delivery over the period 2012 to 2016. The contracted selling price is the prevailing market price subject to a fixed floor and ceiling price for 65% of annual FeV production from Windimurra.

**Vanadium linked gas transport contract**

The Company has entered into a gas transport contract for the use of the Midwest Pipeline that contains a variable tariff linked to $V_2O_5$ price movements.

If the $V_2O_5$ price had moved as illustrated in the table below, with all other variables held constant, (loss)/profit after income tax and equity would have been affected as follows:

| | (Loss)/profit after income tax | | Equity | |
|---|---|---|---|---|
| | 2014<br>$'000 | 2013<br>$'000 | 2014<br>$'000 | 2013<br>$'000 |
| + 10% (2013: + 3%) | 549 | 1,730 | 549 | 1,730 |
| - 10% (2013: - 3%) | - | (408) | - | (408) |

Reasonably possible movements in the $V_2O_5$ price were determined based on observations of historical movements in the past two years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Commodity Price Risk (Continued)

**Vanadium linked gas transport contract (Continued)**

The reasonably possible movement was calculated by taking the $V_2O_5$ price at the acquisition date of MVPL, moving the $V_2O_5$ price by the reasonably possible movements, which resulted in new commodity tariff charges and then multiplying by the estimated gas usage over the remaining term of the contract, discounted to present value.

**Iron ore**

Iron ore sales are generally based on an international iron ore index. The Group monitors market expectations for future commodity prices consistent with its risk management objectives.

### (d) Interest Rate Risk

The Group's main interest rate risk arises from variable interest rate exposure on cash and fixed deposits. The Group's policy is to manage its exposure to interest rate risk by holding cash in short-term, fixed rate and variable rate deposits with reputable high credit quality financial institutions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Interest Rate Risk (Continued)

The following table summarises the financial assets and liabilities of the Group, together with effective interest rates as at the balance date.

| | Floating interest rate $'000 | Fixed Interest rate $'000 | Non-interest bearing $'000 | Total $'000 | Floating % | Average interest rate fixed % |
|---|---|---|---|---|---|---|
| **30 June 2014** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 8,075 | - | - | 8,075 | 1.5% | - |
| Trade and other receivables | - | 791 | 17,179 | 17,970 | - | 3.0% |
| Financial asset | - | - | - | - | - | - |
| | 8,075 | 791 | 17,179 | 26,045 | - | - |
| **Financial liabilities** | | | | | | |
| Trade and other payables | - | - | 69,311 | 69,311 | - | - |
| Bond liabilities | - | 191,565 | - | 191,565 | - | 17.5% to 22.5% |
| Promissory Note | - | 24,224 | - | 24,224 | - | 22.5% |
| Senior Secured Notes | - | 357,005 | - | 357,005 | - | 11.5% to 13.25% (i) |
| Droxford Secured Loan | - | 30,654 | - | 30,654 | - | 17.0% |
| Advance from sales agent | 4,692 | - | - | 4,692 | 3.9% plus Libor | - |
| Financial derivative liability | - | | - | - | - | - |
| | 4,692 | 603,448 | 69,311 | 677,451 | - | - |

(i) The interest rate increased from 11.5% to 12.25% effective 16 February 2014. A further increase from 12.25% to 13.25% is effective from 16 February 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Interest Rate Risk (Continued)

| | Floating interest rate $'000 | Fixed Interest rate $'000 | Non-interest bearing $'000 | Total $'000 | Floating % | Average interest rate fixed % |
|---|---|---|---|---|---|---|
| **30 June 2013** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 115 | - | (40) | 75 | 1.5% | - |
| Trade and other receivables | - | 9,590 | 27,996 | 37,586 | - | - |
| Financial derivative asset | - | - | 743 | 743 | - | - |
| | 115 | 9,590 | 28,699 | 38,404 | - | - |
| **Financial liabilities** | | | | | | |
| Trade and other payables | - | - | 46,547 | 46,547 | - | - |
| Convertible Bonds | - | 66,107 | - | 66,107 | - | 22.5% |
| Promissory Note | - | 31,542 | - | 31,542 | - | 22.5% |
| Senior Secured Notes | - | 349,044 | - | 349,044 | - | 11.5% |
| Financial derivative liability | - | - | 42,742 | 42,742 | - | - |
| | - | 446,693 | 89,289 | 535,982 | - | - |

At 30 June 2014, if interest rates had moved as illustrated in the table below, with all other variables held constant, (loss)/profit after income tax and equity would have been affected as follows:

| | (Loss)/profit after income tax | | Equity | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| + 1% | 34 | 2 | 34 | 2 |
| - 1% | (34) | (2) | (34) | (2) |

The movements in (loss)/profit after income tax are due to changes in interest rates on variable rate cash balances. Reasonably possible movements in interest rates were determined based on observations of historical movements in the past two years.

The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next 12 months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Foreign Currency Risk

The Group operates internationally and is exposed to foreign exchange risk primarily arising from currency exposures to the US dollar.

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through undertaking certain transactions denominated in US dollars and US dollar denominated Senior Secured Notes and cash. Foreign currency risks are monitored at Board level but there are currently no formal hedging policies in place.

At reporting date, the Group had the following exposure to US dollar foreign currency that is not designated in cash flow hedges:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 13 | - |
| Trade and other receivables | 428 | 252 |
| | 441 | 252 |
| **Financial liabilities** | | |
| Trade and other payables | 38,234 | 11,349 |
| Promissory Note | - | 14,300 |
| Senior Secured Notes | 357,005 | 349,044 |
| Advance from sales agent | 4,692 | - |
| | 399,931 | 374,693 |
| Net exposure | (399,490) | (374,441) |

At 30 June 2014, if the Australian dollar to US dollar exchange rate had moved as illustrated in the table below, with all other variables held constant, (loss)/profit after income tax and equity would have been affected as follows:

| | (Loss)/profit after income tax | | Equity | |
|---|---|---|---|---|
| | 2014<br>$'000 | 2013<br>$'000 | 2014<br>$'000 | 2013<br>$'000 |
| + 10% | 37,632 | 34,140 | 37,632 | 34,140 |
| - 10% | (37,632) | (41,727) | (37,632) | (41,727) |

Reasonably possible movements in exchange rates were determined based on observations of historical movements in the past two years.

The reasonably possible movement was calculated by taking the US dollar spot rate as at balance date, moving this spot rate by the reasonably possible movements and then re-converting the US dollar into Australian dollar with the "new spot rate".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Foreign Currency Risk (Continued)

The net exposure at balance date is representative of what the Group was expecting to be exposed to in the next 12 months.

As at 30 June 2014, the AU$:US$ exchange rate is A$1.000:US$0.9420 (2013: A$1.000:US$0.9275) and the year to date average AU$:US$ exchange rate is A$1.000:US$0.9182 (2013: A$1.000:US$1.0271).

### (f) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, restricted cash on deposits and trade and other receivables. The Group's exposure to credit risk arises from the potential default of a counterparty, with a maximum exposure equal to the carrying amount of the financial assets, as outlined in each applicable note.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its receivables. Receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

The credit quality of the Group's financial assets as at 30 June 2014 is as follows:

| | Standard & Poor's rated | | | | | Internally rated | |
|---|---|---|---|---|---|---|---|
| | AAA $'000 | AA $'000 | A $'000 | BAA $'000 | BBB $'000 | No default $'000 | Total $'000 |
| **30 June 2014** | | | | | | | |
| Cash and cash equivalents | - | 8,075 | - | - | - | - | 8,075 |
| Trade and other receivables | 16,395 | 799 | - | - | - | 776 | 17,970 |
| Financial derivative asset | - | - | - | - | - | - | - |
| | 16,395 | 8,874 | - | - | - | 776 | 26,045 |
| **30 June 2013** | | | | | | | |
| Cash and cash equivalents | - | - | 75 | - | - | - | 75 |
| Trade and other receivables | 28,774 | 371 | 9,273 | - | - | 300 | 38,718 |
| Financial derivative asset | - | - | - | - | 743 | - | 743 |
| | 28,774 | 371 | 9,348 | - | 743 | 300 | 39,536 |

The equivalent Standard & Poor's rating of the financial assets represents the rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

Internally rated no default customers are customers with whom the Group has traded and have no history of default.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (g) Liquidity Risk

The liquidity position of the Group is managed to try to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group's treasury function continually reviews the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and appropriate liquidity levels. Sensitivity analysis is conducted on pricing and production to ensure the Group has the ability to meet commitments. This enables the Group to manage cash flows on a short-term and long-term basis and provides the flexibility to pursue a range of funding alternatives if necessary.

**Non-derivative financial liabilities**

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2014. For the other obligations, the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay. The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments.

Loan and borrowing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant, equipment and investments in working capital (e.g. inventories and trade receivables). Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group attempts to ensure that sufficient liquid assets are available to meet all required short-term cash payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (g) Liquidity Risk (Continued)

**Non-derivative financial liabilities (Continued)**

| | ≤ 6 months $'000 | 6 – 12 months $'000 | 1 – 5 years $'000 | > 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **30 June 2014** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables | 69,311 | - | - | - | 69,311 |
| Bond liability | 200,192 | - | - | - | 200,192 |
| Promissory Notes (ii) | 24,224 | - | - | - | 24,224 |
| Senior Secured Notes (ii) | 363,554 | - | - | - | 363,554 |
| Droxford Secured Loan (ii) | 30,654 | - | - | - | 30,654 |
| Insurance funding (ii) | 509 | - | - | - | 509 |
| Advance from sales agent (ii) | 4,692 | - | - | - | 4,692 |
| | 693,136 | - | - | - | 693,136 |
| **30 June 2013** | | | | | |
| **Financial liabilities** | | | | | |
| Trade and other payables (i) | 35,482 | - | - | - | 35,482 |
| Convertible Bonds (ii) | - | - | 80,000 | - | 80,000 |
| Interest payable – Convertible Bonds | 9,242 | 9,242 | 13,210 | - | 31,694 |
| Promissory Notes (ii) | - | 31,542 | - | - | 31,542 |
| Interest payable – Promissory Notes | 3,422 | 1,347 | - | - | 4,769 |
| Loans and borrowings (ii) | 20,768 | 20,768 | 491,213 | - | 532,749 |
| | 68,914 | 62,899 | 584,423 | - | 716,236 |

(i) Trade and other payables in 2013 excludes the interest accrued on the Senior Secured Notes, Promissory Notes and Convertible Bonds, which are disclosed separately.

(ii) Represents gross cash outflow on the loans and borrowings (including interest payments).

### (h) Equity Price Risk

Equity price risk arises from the embedded derivative associated with the Convertible Bonds. For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants (Level 2). These valuation techniques use both observable and unobservable market inputs. The fair value of any equity conversion option is derived on the Black-Scholes valuation technique. Refer to note 16 for an analysis of the movement in the fair value of the embedded derivative, and further details on the valuation method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (h) Equity Price Risk (Continued)

At 30 June 2014, if the Company's share price had moved as illustrated in the table below, with all other variables held constant, (loss)/profit after income tax and equity would have been affected as follows:

| | (Loss)/profit after income tax | | Equity | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| + 10% | - | 7,866 | - | 7,866 |
| - 10% | - | (7,471) | - | (7,471) |

The Company's share price has been deemed to be $nil as at 30 June 2014 and therefore any percentage change in the share price will have no impact to either the 2014 (loss)/profit after income tax or 2014 equity.

As at 30 June 2013, reasonably possible movements in the Company's share price were determined based on observations of historical movements from the date of execution of the Class A Convertible Bond contract.

### (i) Fair Value

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2014:

| | Carrying amount $'000 | Fair value $'000 |
|---|---|---|
| **Financial assets:** | | |
| Receivables | 17,970 | 17,970 |
| **Total current** | 17,970 | 17,970 |
| Financial asset | - | - |
| **Total non-current** | - | - |
| **Total** | 17,970 | 17,970 |
| **Financial liabilities:** | | |
| Payables | 69,311 | 33,165 |
| Loans and borrowings | 608,649 | 203,800 |
| Financial derivative liability | - | - |
| **Total current** | 677,960 | 236,965 |
| Loans and borrowings | - | - |
| **Total non-current** | - | - |
| **Total** | 677,960 | 236,965 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (i) Fair Value (Continued)

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.

The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate to their carrying values, as a result of their short maturity or because they carry floating rates of interest.

There have been no transfers between Level 1 and Level 2 as at 30 June 2014.

**Class A and Class B Convertible Bonds embedded derivative**

As at 30 June 2014, the value of the embedded derivative associated with the Class A and Class B Convertible Bonds is $nil. 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, the 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 16). This is then multiplied against the amount of securities that the Company would be required to issue.

**Gas transportation contract**

MVPL has entered into a contract with a third party for the use of the Midwest Pipeline for the transportation of gas to the Windimurra project. Under the contract, MVPL is required to pay both a reservation charge and variable commodity tariff for each gigajoule of gas transported.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (i) Fair Value (Continued)

**Gas transportation contract (Continued)**

Included in the payment arrangements for transportation of gas is a variable commodity tariff which changes in relation to the average $V_2O_5$ price achieved during the quarter. The contract represents a non-financial contract containing an embedded derivative. MVPL has designated this hybrid contract at fair value through the Consolidated Statement of Comprehensive Income. At the acquisition date of MVPL, the fair value of the contract was measured at $nil based on the quantitative inputs of future gas transport forecasts and vanadium price forecasts. As at 30 June 2014, the fair value of the contract was measured at $nil (2013: $0.828 million) representing a $0.828 million (2013: $0.662 million) decrease during the period.

The following methods have been used for the Group's valuation of derivatives.

| | |
|---|---|
| Gas contract | Level 3 |
| Convertible Bonds derivative | Level 2 |

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants (Level 2). These valuation techniques use both observable and unobservable market inputs.

**Financial Instruments**

As at 30 June 2014, the Group held the following financial instruments measured at fair value:

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial liabilities measured at fair value:** | | | | |
| Gas transport contract (i) | - | - | - | - |
| Convertible Bond derivative (ii) | - | - | - | - |
| **Financial liabilities for which fair values are disclosed:** | | | | |
| Senior Secured Notes (iii) | 167,945 | - | - | 167,945 |
| Bond liability (iv) | - | - | - | - |
| Trade payables (v) | - | 33,165 | - | 33,165 |
| **Total** | 167,945 | 33,165 | - | 201,110 |

(i) The fair value of $nil has been estimated using inputs for the gas transport derivative that are not based on observable market data. The inputs that have a significant impact on fair value include forecast gas transport quantities and $V_2O_5$ price forecasts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 FINANCIAL INSTRUMENTS (CONTINUED)

### (i) Fair Value (Continued)

**Financial Instruments (Continued)**

(ii) The fair value of $nil for the embedded derivative associated with the Class A and B Convertible Bonds has been determined on inputs not based on observable market data. These include an estimate of Atlantic's share price of $nil based on the suspension of the shares from trading on the ASX and the shareholders' deficit at 30 June 2014.

(iii) The fair value has been determined using a valuation technique based on the quoted market price of the Senior Secured Notes in an over-the-counter market. The quoted price of the Senior Secured Notes was $0.47 cents in the $1.00 with the discount representing the credit risk of the borrower.

(iv) The fair value of $nil has been estimated using inputs for the Bond liability that are not based on observable market data. The fair value estimate takes into account the total assets of the Group of $59.498 million, and the secured loans and borrowings of $387.659 million, and the unsecured return of the Bond liabilities.

(v) Trade payables includes accrued interest for both the Senior Secured Notes and the Bond liabilities. The Senior Secured Note interest has been determined based on (iii) above and the Bond liability based on (iv) above.

**Valuation methods and assumptions**

The fair value of the financial liabilities is the amount at which the liability could be transferred in a current transaction between market participants, other than in a forced or liquidation sale.

The following methods and assumptions have been used to estimate fair value:

- Fair value of the Senior Secured Notes is based on over-the-counter pricing at reporting date.
- Fair value of the Bond liabilities is derived from the forward pricing model. The forward pricing model has a significant unobservable input being the discount on non-performance risk. This discount has been estimated as $nil based on the Bond liabilities unsecured position, the total shareholders' deficit, and the default event that occurred subsequent to year end.
- Fair value of trade payables for the accrued interest on the Senior Secured Notes is based on over-the-counter pricing at reporting date. The fair value for the Bond liability accrued interest is based on the forward pricing model with the same discount as the Bond liability mentioned above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 CAPITAL AND OTHER COMMITMENTS

### Capital Commitments

MVPL has entered into a number of contracts to secure long lead items as part of the beneficiation rebuild project. Capital commitments contracted for at reporting date but not recognised as liabilities, payable:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Within one year | 5,984 | - |
| After one year but not more than five years | - | - |
| After more than five years | - | - |
| **Total capital commitment** | 5,984 | - |

### Operating Lease Commitments

The Group has entered into a commercial lease to rent office space. The lease has a term of four years five months with no renewal option included in the contract. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals and rectification payable under the non-cancellable operating lease as at year end are as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Within one year | 380 | 662 |
| After one year but not more than five years | - | 246 |
| After more than five years | - | - |
| **Total commitment** | 380 | 908 |

### Gas Transportation Contract Commitments

MVPL has two long-term gas transport agreements to transport gas to the Windimurra vanadium project. These agreements include a tariff based on a fixed quantity of gas to be transported. This tariff is payable regardless of actual quantity of gas transported to the Windimurra vanadium project.

Future fixed gas transport commitments under the long-term agreements are as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Within one year | 2,632 | 1,483 |
| After one year but not more than five years | 10,018 | 11,141 |
| After more than five years | 5,335 | 7,339 |
| **Total commitment** | 17,985 | 19,963 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 CAPITAL AND OTHER COMMITMENTS (CONTINUED)

### Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the Western Australian State Government. These obligations are subject to renegotiation when application to convert the exploration tenement to a mining lease is made and at other times. These obligations are not provided for in the financial report.

The approximate level of exploration expenditure expected in the year ending 30 June 2015 for the Group is approximately $0.116 million (2013: $0.404 million). This includes the minimum amounts required to retain tenure. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond this period are dependent upon whether existing rights of tenure are renewed or new rights of tenure are acquired.

## 28 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Subsequent to year end, the Group received insurance proceeds of $61.003 million which were not recognised at 30 June 2014.

Other than as disclosed above and elsewhere in this report, the Directors are not aware of any further contingent liabilities or contingent assets as at 30 June 2014.

## 29 AUDITORS' REMUNERATION

The auditor of the Company is Ernst & Young.

| | 2014 $ | 2013 $ |
|---|---|---|
| Audit or review of the financial report of the entity and any other entity in the Consolidated Group | 235,000 | 190,000 |
| Research and Development Tax Incentive Program advice | 518,031 | 546,845 |
| Tax planning | 141,669 | 41,813 |
| | 894,700 | 778,658 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30 PARENT ENTITY DISCLOSURES

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Current assets | 7,940 | 15,860 |
| Non-current assets | - | 105,593 |
| **Total assets** | 7,940 | 121,453 |
| Current liabilities | 234,282 | 9,775 |
| Non-current liabilities | - | 139,832 |
| **Total liabilities** | 234,282 | 149,607 |
| Contributed equity | 129,814 | 129,814 |
| Reserves | (3,864) | (4,099) |
| Accumulated losses | (352,292) | (153,869) |
| **Total shareholders' deficit** | (226,342) | (28,154) |
| Loss for the year | (180,450) | (120,393) |
| Other comprehensive income | - | - |
| **Total comprehensive loss for the year** | (180,450) | (120,393) |

The Company has no contingent liabilities, however it has a contractual obligation in the form of a commercial lease to rent office space. Refer to note 27 for further details of this commitment.

## 31 EVENTS AFTER THE BALANCE SHEET DATE

### Funding and Restructure

After year end, MVPL entered into a new forbearance and support agreement with the Notes Group to extend the existing standstill arrangements that ended on 15 August 2014 until 14 November 2014.

Under the forbearance agreement, the Notes Group agreed to continue the existing standstill arrangements in relation to MVPL's failure to deposit funds in its IRA and pay the February interest payment on its Senior Secured Notes and extend the standstill arrangements to include the failure to pay the interest payment on MVPL's Senior Secured Notes due 15 August 2014 until 14 November 2014.

In November and December 2014, MVPL entered into two further forbearance and support agreements with the Notes Group to extend the existing standstill arrangements that ended on 14 November 2014 to 15 December 2014 and 15 January 2015 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

### Funding and Restructure (Continued)

Under the above-mentioned forbearance agreements, the Notes Group agreed with Atlantic and MVPL to use their good faith efforts to negotiate and execute a definitive agreement between MVPL and the Notes Group to effect a solvent restructuring of the Group during the forbearance period.

In conjunction with the above forbearance agreements, MVPL also agreed related amendments to the existing $29.700 million Droxford Secured Loan to extend the maturity date of that facility to align with the termination of each forbearance and support agreement.

During the forbearance period, Atlantic and MVPL continued discussions with its stakeholders regarding the additional funding required to implement the Company's new business plan, as well as an appropriate longer term capital structure for the business.

On 11 February 2015, the Notes Group informed Atlantic and MVPL that discussions regarding a solvent and consensual restructure of MVPL had been terminated as the relevant parties had not been able to reach a mutually acceptable agreement on the additional funding required to implement MVPL's business plan as well as the long-term capital structure for the Windimurra project. At this date Atlantic lost control of the Group and the assets and liabilities of MVPL and AVHPL will be deconsolidated from this date. Refer to note 30 for the assets and liabilities of the parent entity at 30 June 2014 which excludes MVPL and AVHPL.

As a result of the discussions being terminated, the Director of Atlantic's wholly-owned subsidiaries MVPL and AVHPL appointed Darren Weaver, Martin Jones and Ben Johnson of Ferrier Hodgson as Joint and Several Administrators of MVPL and AVHPL on 11 February 2015.

The Notes Group subsequently appointed Norman Oehme, Keith Crawford and Matthew Caddy of McGrathNicol as Receivers and Managers of MVPL and AVHPL on 12 February 2015.

Atlantic has sufficient cash to meet its ongoing commitments in addition to having a forbearance agreement with Droxford in relation to the Convertible Bonds and Promissory Notes.

In May 2015, Atlantic entered into a formal forbearance agreement with Droxford. Under the terms of the forbearance agreement, Droxford agrees that it will forbear and not take any action to accelerate any of its Convertible Bond or Promissory Note debts that matured in March 2015 until 6 October 2015, subject to certain conditions including that there are no further defaults by Atlantic under those finance documents.

In consideration for this forbearance, Atlantic agreed to pay a total of $2.260 million to Droxford in part payment of outstanding Convertible Bond interest due for payment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

### Funding and Restructure (Continued)

Atlantic also has on issue a $2.500 million Promissory Note with a third party. The forbearance agreement contemplates that this amount plus accrued interest of $0.720 million will be repaid immediately.

As a result of the administration of MVPL and AVHPL, Atlantic will need to deconsolidate these entities for reporting purposes. The financial position of the parent entity as at 30 June 2014 is shown in note 30 (Parent Entity Disclosures).

### Beneficiation Plant Rebuild

Following year end, the Group appointed engineering contractor Lycopodium to complete the front end engineering and design work for the beneficiation plant rebuild.

The Group subsequently went to tender for the design and construct contract for the plant rebuild, which culminated in the award of the Engineering, Procurement and Construction (**EPC**) contract to Primero Group (**Primero**) in early October 2014.

Fabrication of critical long lead time items for the beneficiation plant rebuild work was completed after 30 June 2014, including the magnetic separators, screens and cyclones, with the majority delivered to site by December 2014.

Following completion of the detailed design and construction work, Primero mobilised to site subsequent to year end. As at the date of the appointment of administrators to MVPL and AVHPL on 11 February 2015, Primero had completed the civils, earthworks, fabrication and commenced construction of the beneficiation plant.

### Insurance

The Group has received further progress payments of $63.503 million since 30 June 2014, bringing the total progress payments received under its material damage and business interruption insurance policy to date to $89.753 million.

### Plant Technical Review

Shortly after year end, the Company completed the Windimurra plant technical review, which incorporated independent reviews of the crushing, milling and beneficiation (**CMB**) plant and the downstream refinery.

The primary production bottleneck identified in the reviews related to the inability of the crushing and milling circuits in 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 involved a revision to the Windimurra process flow sheet which included replacing the existing secondary and tertiary crushers and high pressure grinding rolls (**HPGR**) with a semi-autogenous grinding (**SAG**) mill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

### Plant Technical Review (Continued)

SAG mill technology is used throughout the world to grind a wide variety of ore bodies and was used successfully by the previous operator of the Windimurra project before being removed.

In addition, the review identified a number of less significant de-bottlenecking projects which can be completed concurrently with the 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 plant technical review and a wider business review demonstrated that, following implementation of this new process flow sheet and the rebuild of the fire damaged beneficiation plant, the Windimurra project would be expected to produce approximately 4,800 – 5,200 tonnes per annum of contained vanadium at steady state.

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

To fund the proposed capital expenditure and working capital required to implement the proposed process improvements identified as part of the business review, the Company required additional funding. Atlantic was in discussions with its stakeholders regarding this additional funding as well as an appropriate longer term capital structure for the business when administrators were appointed to MVPL and AVHPL.

### Iron Ore

Since year end, the Group completed the trial shipment of 10,500 tonnes of its high titanium lump product that was already held in the Group's storage shed at Geraldton Port. This sale was completed on a Free on Board Geraldton Port basis.

### Research and Development Tax Incentive

Subsequent to period end, the Company received a $16.032 million Research and Development Tax Incentive for the financial year ended 30 June 2014.

# 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 financial year ended 30 June 2014 are in accordance with the *Corporations Act 2001*, including:

   a) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

   b) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2014 and of its performance for the year ended on that date.

2. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and

3. Subject to note 2B, there are reasonable grounds to believe that Atlantic will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014.

On behalf of the Board

**MR GARY LEWIS**
Non-Executive Chairman

Dated this 25th day of June 2015

# INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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## Independent audit report to the members of Atlantic Ltd

### Report on the financial report

We have audited the accompanying financial report of Atlantic Ltd, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2A, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit 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.

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GB:EH:ATI:050

# INDEPENDENT AUDITOR'S REPORT

## Basis for qualified opinion

We issued a disclaimer of opinion on the financial report of the consolidated entity for the year ended 30 June 2013 as we were unable to obtain sufficient appropriate audit evidence to assess:

(i) whether the consolidated entity could achieve specific matters relating to its ability to continue as a going concern, and;

(ii) the appropriateness of the Windimurra operation's forecasted production assumption underpinning the impairment assessment of the Windimurra project, and the resultant impairment charge of $69,737,000 for the year ended 30 June 2013 and impaired carrying value of $480,338,000 at 30 June 2013.

Since the 30 June 2013 carrying value of the Windimurra project enters into the determination of the impairment charge and therefore the financial performance of the consolidated entity for the year ended 30 June 2014, we were unable to determine whether an adjustment might have been necessary in respect of the impairment change and the loss reported in the statement of comprehensive income for the year ended 30 June 2014.

Our opinion on the current period's financial report is also modified because of the possible effect of these matters on the comparability of the current period's figures and the corresponding figures.

## Qualified opinion

In our opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs:

(a) the financial report of Atlantic Ltd is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2A.

## Emphasis of matter

Without further qualification to our Qualified opinion, we draw attention to Note 2B in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity (which at the date of signing this report excludes the two subsidiaries which own the Vanadium operation being Atlantic Holdings Pty Ltd and Midwest Vanadium Pty Ltd due to them being in receivership) may be unable to realise its assets and discharge its liabilities in the normal course of business.

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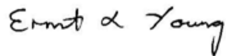
# INDEPENDENT AUDITOR'S REPORT

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Atlantic Ltd for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young

Gavin Buckingham
Partner
Perth
25 June 2015

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# ASX SHAREHOLDER INFORMATION

Additional information as at 30 April 2015 required by the Australian Securities Exchange Listing Rules not shown elsewhere in this report is as follows:

## 1 DISTRIBUTION OF EQUITY SECURITIES

### (i) Ordinary Share Capital

154,757,339 fully paid ordinary shares are held by 1,176 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

### (ii) Class B Performance Shares

66 fully paid Class B performance shares are held by 12 individual shareholders.

Class B performance shares do not participate in dividends and the proceeds on winding up of the Company. Class B performance shares hold no voting rights at shareholders' meetings when a poll is called, and are not eligible to participate in votes on a show of hands.

The number of shareholders, by size of holding, in each class are:

| | Fully paid ordinary shares | Class B performance shares |
|---|---|---|
| 1 - 1,000 | 438 | 12 |
| 1,001 - 5,000 | 285 | - |
| 5,001 - 10,000 | 146 | - |
| 10,001 - 100,000 | 251 | - |
| 100,001 and over | 56 | - |
| | 1,176 | 12 |

# ASX SHAREHOLDER INFORMATION

## 2 SUBSTANTIAL SHAREHOLDERS

| | Fully paid | |
|---|---|---|
| | Number | Percentage |
| **Ordinary shareholders** | | |
| DROXFORD INTNL LTD | 26,958,333 | 17.42% |
| MINOSORA MICHAEL JOHN | 21,091,661 | 13.62% |
| PROSPEROUS GLOBAL ASSETS | 13,496,214 | 8.72% |
| | 61,546,208 | 39.76% |

## 3 TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

| | Fully paid | |
|---|---|---|
| | Number | Percentage |
| **Ordinary shareholders** | | |
| DROXFORD INTNL LTD | 26,958,333 | 17.42% |
| HSBC CUSTODY NOM AUST LTD | 23,432,674 | 15.14% |
| JP MORGAN NOM AUST LTD | 16,333,303 | 10.55% |
| MINOSORA MICHAEL JOHN | 15,916,969 | 10.29% |
| PROSPEROUS GLOBAL ASSETS | 13,496,214 | 8.72% |
| NATIONAL NOM LTD | 9,678,906 | 6.25% |
| CITICORP NOM PL | 6,575,630 | 4.25% |
| PLUS ADVANTAGE | 6,200,000 | 4.01% |
| ATLANTIC INCENTIVE PLAN | 4,960,000 | 3.21% |
| TRINITY MGNT PL | 2,884,951 | 1.86% |
| AMBROSIA EMPIRE LTD | 2,154,250 | 1.39% |
| ABN AMRO CLEARING SYDNEY | 1,351,306 | 0.87% |
| HSBC CUSTODY NOM AUST LTD | 1,294,263 | 0.84% |
| MINOSORA WENDY | 1,214,692 | 0.78% |
| DWELLERS NOM PL | 1,030,000 | 0.67% |
| PETERSON JASON & LISA | 882,842 | 0.57% |
| HSBC CUSTODY NOM AUST LIM | 868,158 | 0.56% |
| BNP PARIBAS NOMS PL | 635,376 | 0.41% |
| UOB KAY HIAN PRIVATE LTD | 493,100 | 0.32% |
| ARDATH INV PL | 480,000 | 0.31% |
| | 136,840,967 | 88.42% |