

21 February 2014

STANDARD AND POOR'S RATING REVIEW

Atlantic Ltd (ASX: ATI) (**Atlantic** or the **Company**) advises that the attached rating review was announced by Standard and Poor's Ratings Services earlier today for Atlantic's wholly-owned subsidiary Midwest Vanadium Pty Ltd (**MVPL**).

The Company requests that the voluntary suspension in the trading of its securities remain in place.

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Midwest Vanadium Pty Ltd. Ratings Lowered To 'D' After Missed Interest Payment; Recovery Rating Lowered To '5'

MELBOURNE (Standard & Poor's) Feb. 21, 2014—Standard & Poor's Ratings Services lowered its corporate credit rating on Australian mining company Midwest Vanadium Pty Ltd. (MVPL) and the issue rating on MVPL's US\$335 senior secured notes due 2018 to 'D' from 'CCC-'. We also lowered the recovery rating on the notes to '5' from '4'. At the same time, the ratings were removed from CreditWatch with negative implications, where they were placed on Feb. 11, 2014.

"The downgrades follow MVPL parent Atlantic Ltd.'s announcement that MVPL did not pay its interest obligation of about US\$19 million due on Feb. 15, 2014, and that a subsequent standstill arrangement had been agreed with its senior secured noteholders," Standard & Poor's credit analyst May Zhong said. "Once executed, the standstill arrangement will suspend the enforcement rights of the senior secured noteholders in relation to MVPL's defaults under the note indenture until at least August 2014. Under our criteria, we consider a missed interest payment as a default when nonpayment has occurred and is not expected to be paid within a 30-day period from the scheduled payment date."

MVPL has experienced weak cash flow generation and liquidity since commencement of its operations, which was exacerbated by the recent fire at the company's Windimurra plant on Feb. 4, 2014. The company has indicated its intention to repair the beneficiation plant and to continue its strategy of ramping up production to full capacity. Prior to the fire, MVPL's production ramp-up had yet to generate a track record that shows the plant will perform as MVPL expected.

The company is working through its insurance claim which, according to the company's estimate, could result in progressive payments of about A\$100 million. As is typical of insurance claims, we believe the timing of receipt and quantum of the claim payment is uncertain. We note that MVPL has obtained approval from its largest shareholder Droxford International Ltd. for an additional A\$32.6 million of funding in the form of senior secured debt, which should help to fund its near-term working capital requirement.

We have lowered our recovery rating on the senior secured notes to '5' from '4', indicating our expectations for modest (10% to 30%) recovery for noteholders. This reassessment is primarily driven by the increased debt ranking pari passu with the senior secured notes, and the uncertainty that the insurance claim related to the fire event would fully compensate the company for the property damage and loss of earnings on a timely basis.

Our assessment of the Windimurra project's recovery prospects incorporates:

- An increase in pari passu debt obligations of A\$32.6 million,
- An expected insurance claim,
- An estimate of the salvageable value of the Windimurra project's operations, and
- Future rights to the mining and exploration tenements held by MVPL in a distressed scenario.

Any potential upward movement on the rating above 'D' is uncertain at this stage and would be dependent upon any subsequent restructuring, together with our view on the company's long-term funding strategy.

RELATED CRITERIA AND RESEARCH

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Key Credit Factors For The Metals And Mining Upstream Industry, Dec. 20, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

- Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt, Aug. 10, 2009
 - Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009
 - 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
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McGRAW-HILL

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