# HALF-YEAR REPORT

## For the six months ended 31 December 2012

ATLANTIC LTD

# HALF-YEAR REPORT

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# CORPORATE INFORMATION

## DIRECTORS

Michael Minosora (Chairman and Managing Director)
Tony Veitch (Executive Director)
Phiong Phillipus Darma (Non-Executive Director)

## REGISTERED & PRINCIPAL OFFICE

Level 29
Bankwest Tower
108 St Georges Terrace
PERTH WA 6000
Telephone: +61 8 6141 7100
Facsimile: +61 8 6141 7101

## COMPANY SECRETARY

Tony Veitch

## POSTAL ADDRESS

PO Box Z5431
St Georges Terrace
PERTH WA 6831

## INDEPENDENT AUDITORS

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

## HOME EXCHANGE

Australian Securities Exchange
Exchange Plaza
2 The Esplanade
PERTH WA 6000

## LEGAL ADVISERS

DLA Piper
Level 31
Central Park
152-158 St Georges Terrace
PERTH WA 6000

## SHARE REGISTRY

Security Transfer Registrars Pty Ltd
PO Box 535
APPLECROSS WA 6953
Telephone: +61 8 9315 2333

# DIRECTORS' REPORT

Your Directors have pleasure in submitting the half-year report of Atlantic Ltd ("Atlantic" or the "Company") and its controlled entities (the "Consolidated Entity" or the "Group") for the half-year ended 31 December 2012.

## DIRECTORS

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

Mr Michael Minosora – Chairman and Managing Director

Mr Tony Veitch – Executive Director and Company Secretary

Mr Phiong Phillipus Darma – Non-Executive Director

## REVIEW AND RESULTS OF OPERATIONS

### Highlights

- Continued progress on resolution of operational issues associated with the Windimurra CMB circuit;
- A$50 million convertible bond facility secured;
- Consent obtained from majority of MVPL's senior secured note holders to access US$9.9 million from reserve accounts;
- A$22 million research and development tax claim received; and
- Chief Operating Officer appointed.

The Group recorded a net loss after tax for the period of A$7.044m (2011: net loss of A$14.308m).

### Windimurra Operations Update

During the period, the Group continued work to facilitate the ramp-up of its wholly-owned Windimurra vanadium project ("Windimurra") with a focus on the front end of the plant.

A decision was made in October to revise the previous incremental ramp-up strategy to a nameplate capacity ramp-up approach whereby each circuit of the plant is successfully run at, or close to, nameplate capacity prior to work then focusing on the next circuit.

The revised ramp-up strategy had the effect of limiting vanadium production in the December quarter but is expected to result in a step change in production when completed and best deliver the Group's goal of achieving production capacity as quickly and efficiently as possible.

The key reasons for revising the ramp-up strategy were:

- The previous strategy involved operating key components below their design limits which did not enable efficient and optimal operation of the plant; and
- The new strategy allows for the focus of key resources on achieving targeted production levels in each progressive circuit rather than resources being spread across the entire plant.

# DIRECTORS' REPORT

Given a recent rebound in iron ore prices, the Group is again actively engaged in discussions to begin iron ore fines sales in the near term but notes that iron ore prices will need to maintain their current levels for the Group to balance the risks of long term logistics contracts with fluctuating iron ore price contracts.

## Production

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

| | YTD (tonnes vanadium units) |
|---|---|
| Vanadium billet production | 57.9 |
| Vanadium product financed*/** | 55.1 |

* *May include production from the previous period held in inventory.*
** *In accordance with the Group's sales and marketing agreement, initial payment is received based on 80% of the LMB price following product delivery and testing at the off-taker's warehouse in Perth.*

## Safety

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

## Mining

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

Following a retender of the Windimurra mining contract, a smooth transition to new mining contractor B&J Catalano took place in November. This new mining contract will lead to material reductions in mining costs on an annual basis.

## Front End of Plant

<u>CMB Circuit</u>

Early in the period, the crushing, milling and beneficiation ("CMB") modifications were completed. This involved installation of a new screening plant that, following tie into the overall CMB process flow sheet, directs fine ore directly to the beneficiation circuit.

During the period, the secondary and tertiary crushers were rebuilt resulting in approximately one week of lost operating time in the CMB circuit.

Extensive debottlenecking to the front end of the plant was also undertaken including:

- Adjustments to the apertures of the screens within the primary, secondary and tertiary crushing circuit which provided for more efficient utilisation of the tertiary crusher. This change led to a reduction in the ore feed size and an improvement in feed quality to the high pressure grinding roll ("HPGR"); and
- Debottlenecking of the HPGR unit by reviewing and redesigning a screen and collection bin ahead of the unit.

  This change has now enabled continuously higher feed rates to the HPGR and, as a result, an improvement in grind performance.

# DIRECTORS' REPORT

In December, a planned shutdown of the CMB circuit was undertaken which resulted in a number of further modifications being made to the repulper fines chute mixing box, repulper tank and pumping system. Re-engineering work was also carried out to the magnetic separators in the beneficiation plant.

As a result of implementing the new ramp-up strategy, campaign running of the CMB circuit has enabled close to nameplate run rates of material through the crushing units, new fines screens and HPGR unit.

In late December and in early January, the focus moved from the HPGR unit to the beneficiation circuit. The focus in this area includes:

- Optimising control systems to improve the control of the flow of materials from the repulper to the beneficiation circuit and replacement of a related flow meter;
- Balancing and improving the water flows through the beneficiation plant; and
- Final commissioning of the rare earth magnetic separators leading to increased magnetite concentrate recovery.

The result of this work to date has been positive.

## Back End of Plant

Preparatory work continued in the vanadium refinery ahead of the substantial ramp-up in production expected from the CMB plant in the current period.

Roasting and Leaching

The kiln operated for only short periods and at low rates of throughput during the period as a result of limited magnetite concentrate production levels.

Modifications continued in the discharge (chute and drag chain) area of the kiln to increase its operating rate to design capacity.

Refinery

Desilication and precipitation areas of the refinery operated at low levels of throughput due to depleted inventory levels. New agitators were installed and brought into operation in the precipitation area.

A new feeder was successfully installed in the electric arc furnace in late November and work was also undertaken on the main seals of the two reduction kilns and discharge area.

Packaging and Dispatch

The ferrovanadium crusher underwent guarding upgrades during the period. The ferrovanadium rock breaker grizzly was also upgraded.

## Marketing – Vanadium

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

Under the terms of the Group's sales and marketing agreement, initial payment for ferrovanadium is received at 80% of the London Metal Bulletin price following delivery to the off-taker's warehouse in Perth and independent specification certification by SGS Australia Pty Ltd.

# DIRECTORS' REPORT

## Exploration and Resource Development

The Group undertook no exploration activities during the period.

## Key Appointments

During the period, the Company's wholly owned subsidiary Midwest Vanadium Pty Ltd ("MVPL"), welcomed Daniel Harris to the role of Chief Operating Officer.

Daniel's career spans more than 30 years in technical and executive management roles in the mineral processing and manufacturing industries. For most of this time, Daniel worked in subsidiary operations of Strategic Minerals Corporation (formerly Union Carbide), including roles as CEO and COO of their vanadium business. He most recently worked in Moscow as Vice President, Vanadium Assets for Evraz.

## Business Development

Internal Growth

During the period, the Company continued to carry out work in conjunction with Changsha Research Institute of Mining and Metallurgy on the potential to separate Windimurra's iron ore fines into iron and titanium dioxide concentrate.

Atlantic is currently completing further test work in Perth before deciding the optimal way forward for this exciting opportunity.

External Growth

During the period, the Company continued to work in close collaboration with Vietnam's National Institute of Mining-Metallurgy Science and Technology ("Vimluki") on the development study for an integrated 'mine-rail-port' bauxite operation in the Central Highlands of Vietnam.

Atlantic completed the study in draft form and provided the study to Vimluki in late 2012. Following feedback from Vimluki and other parties, the study was submitted to the Vietnamese Government in early January 2013.

Once considered and approved by the Vietnamese Government, the development study is expected to lead to a full feasibility study for the development of an integrated 'mine-rail-port' bauxite supply chain project in the Central Highlands of Vietnam, which hosts one of the world's most significant and undeveloped bauxite resources.

Atlantic continues to investigate other potential investment opportunities in accordance with its growth strategy to build a diversified portfolio of resources assets.

## Corporate Activity

In July 2012, the Company announced that it had completed the share placement to raise A$10.000m on the same terms and conditions approved by shareholders on 27 April 2012. This share placement was the final component of the funding package announced on 6 March 2012 to raise A$41.700m.

In August 2012, the Company announced that it had executed a A$50.000m Class B convertible bond facility with the Company's largest shareholder Droxford International Limited.

The key terms of these Class B convertible bonds are as follows:

| | |
|---|---|
| Amount: | A$50.000m; |
| Maturity: | 6 March 2015; |

# DIRECTORS' REPORT

| | |
|---|---|
| Coupon: | 22.5% pa, payable semi-annually in arrears. Payment is in kind for the first three interest payments and thereafter payment can be in kind or cash at the holder's election. Payment in kind is defined as 100% payable as new convertible bonds at the issue price, which will be entitled to future coupons; |
| Conversion Price: | A$0.50, a 5% premium to the Company's 10 day VWAP immediately prior to the date of announcement of the facility; and |
| Conversion: | Convertible into fully paid ordinary shares at the holder's election at any time. |

As a result of execution of this Class B convertible bond facility, the existing Class A convertible bond facility conversion price was reset to A$0.50.

Conversion of both Class A and Class B convertible bonds was approved by Atlantic shareholders and the Foreign Investment Review Board in November 2012.

In September 2012, the interest payment due on the A$30.000m Class A convertible bond facility of A$2.522m was capitalised as permitted by the Class A convertible bond deed.

In November 2012, Atlantic announced that it had submitted a A$22.148m Research and Development tax claim under the Federal Governments Research and Development Incentive Scheme. This claim was finalised by the Australian Taxation Office in December 2012 and resulted in the full A$22.148m claim being received.

In November 2012, Atlantic also announced that it had successfully secured the consents of the majority of the holders of MVPL's US$335.000m senior secured notes ("Notes") to provide for the release of US$9.963m from MVPL's existing cash reserves. In particular, the consents removed the requirement to hold a minimum operating balance of US$5.000m for the entire term of the Notes and reduced the minimum cash requirement for the interest reserve account from US$19.263m to US$14.300m. MVPL is required to replenish the interest reserve to 50% of its original required balance by 15 November 2013 and to 100% of its original required balance by 15 February 2014.

## EVENTS SUBSEQUENT TO BALANCE DATE

On 14 February 2013, the interest payment due on the A$50.000m Class B convertible bonds of A$4.667m was capitalised under the terms of the Class B convertible bond deed.

On 18 February 2013, the Group announced that MVPL had paid the 15 February 2013 interest payment due on the Notes, but that the interest reserve account balance was below the US$14.300m required under the Notes indenture. This is a technical breach of the indenture covenant and MVPL has 45 business days to replenish the interest reserve account.

On 14 March 2013, the Group announced that it had reached in-principle agreement with the majority of the holders of the Notes with a view to securing a reduction of the minimum holding requirement in MVPL's interest reserve account. The Group is now preparing the necessary documentation for final agreement with the holders of the majority of the Notes to rectify the breach of the indenture covenant and will make an announcement of the final terms of the indenture amendments and conditions for the reduction of the minimum holding requirement in the interest reserve account once the final documentation is executed.

On 14 March 2013, the interest payment due on the A$32.522m Class A convertible bonds of A$2.822m was capitalised under the terms of the Class A convertible bond deed.

# DIRECTORS' REPORT

## ROUNDING

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

## AUDITOR'S INDEPENDENCE DECLARATION

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

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

**MICHAEL MINOSORA**
Chairman and Managing Director
Perth, Western Australia
Dated this 17th day of March 2013

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

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

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

In relation to our review of the financial report of Atlantic Limited for the half-year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

G A Buckingham
Partner
Perth
17 March 2013

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### For the half-year ended 31 December 2012

| | Note | 31 December 2012 A$'000 | 31 December 2011 A$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from sales | | - | - |
| Costs of production | | - | - |
| **Gross profit/(loss) before depreciation, amortisation and other operating costs** | | - | - |
| Depreciation and amortisation | | - | - |
| Other operating costs | 3 | (2,756) | (1,275) |
| **Gross loss** | | (2,756) | (1,275) |
| Other revenue | 3 | 347 | 185 |
| Administration expenses | 3 | (378) | (442) |
| Corporate expenses | 3 | (2,056) | (2,891) |
| Other expenses | 3 | (1,518) | (9,475) |
| **Loss before interest and tax** | | (6,361) | (13,898) |
| Finance expenses | 3 | (683) | (410) |
| **Loss before tax** | | (7,044) | (14,308) |
| Tax expense | | - | - |
| **Loss after tax** | | (7,044) | (14,308) |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the period** | | (7,044) | (14,308) |
| | | Cents | Cents |
| Basic loss per share | | (4.6) | (12.4) |
| Diluted loss per share | | (4.6) | (12.4) |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### As at 31 December 2012

| | Note | 31 December 2012 A$'000 | 30 June 2012 A$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | 31,323 | 24,084 |
| Trade and other receivables | | 1,238 | 2,388 |
| Inventory | | 11,826 | 9,935 |
| Other current assets | | 3,270 | 3,165 |
| **Total current assets** | | 47,657 | 39,572 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 493,692 | 459,499 |
| Trade and other receivables | | 9,227 | 9,227 |
| Financial derivative asset | | - | 1,490 |
| **Total non-current assets** | | 502,919 | 470,216 |
| **Total assets** | | 550,576 | 509,788 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 29,787 | 38,325 |
| Loans and borrowings | 7 | 1,151 | 1,128 |
| Financial derivative liability | 8 | 30,413 | 13,157 |
| Provisions | | 4,008 | 3,429 |
| **Total current liabilities** | | 65,359 | 56,039 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 7 | 366,299 | 335,198 |
| Financial derivative liability | | 1,281 | - |
| Provisions | | 27,434 | 31,582 |
| **Total non-current liabilities** | | 395,014 | 366,780 |
| **Total liabilities** | | 460,373 | 422,819 |
| **Net assets** | | 90,203 | 86,969 |
| **Equity** | | | |
| Contributed equity | 9 | 129,814 | 119,738 |
| Reserves | | (3,887) | (4,089) |
| Accumulated Losses | | (35,724) | (28,680) |
| **Total equity** | | 90,203 | 86,969 |

*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 half-year ended 31 December 2012

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the half-year ended 31 December 2011

| | Ordinary shares A$'000 | Option reserve A$'000 | Shares reserved for Share Incentive Plans A$'000 | Accumulated losses A$'000 | Total A$'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2011** | 90,878 | 204 | (2,543) | (9,877) | 78,662 |
| Loss for the period | - | - | - | (14,308) | (14,308) |
| Other comprehensive income | - | - | - | - | - |
| **Total comprehensive loss for the period** | - | - | - | (14,308) | (14,308) |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Shares issued | 18,816 | - | - | - | 18,816 |
| Transaction costs on share issues | (500) | - | - | - | (500) |
| Share based payments to employees | - | - | 110 | - | 110 |
| **Balance at 31 December 2011** | 109,194 | 204 | (2,433) | (24,185) | 82,780 |

*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 half-year ended 31 December 2012

| | Note | 31 December 2012 A$'000 | 31 December 2011 A$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (6,404) | (9,925) |
| GST received | | - | 11,235 |
| Interest received | | 513 | 767 |
| **Net cash flows (used in)/from operating activities** | | (5,891) | 2,077 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (50,235) | (66,634) |
| Research and development incentive refund | | 22,632 | - |
| Interest paid | | (18,290) | (18,517) |
| **Net cash flows used in investing activities** | | (45,893) | (85,151) |
| **Cash flows From financing activities** | | | |
| Proceeds from issue of shares | | 10,000 | 19,170 |
| Proceeds from issue of convertible bonds | | 50,000 | - |
| Advances for product financing | | 1,003 | - |
| Repayment of borrowings | | (1,128) | (16) |
| Transaction costs incurred | | (206) | - |
| **Net cash flows from financing activities** | | 59,669 | 19,154 |
| Net increase/(decrease) in cash and cash equivalents | | 7,885 | (63,920) |
| Cash and cash equivalents at beginning of the period | | 24,084 | 118,185 |
| Net foreign exchange differences | | (646) | 3,269 |
| **Cash and cash equivalents at end of the period** | 5 | 31,323 | 57,534 |

*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 half-year ended 31 December 2012

## 1 CORPORATE INFORMATION

The consolidated financial report of Atlantic Ltd for the half-year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors on 17 March 2013.

Atlantic Ltd ("**Atlantic**" or the "**Company**") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office and principal place of business of the Company is Level 29, Bankwest Tower, 108 St Georges Terrace, Perth WA 6000. The financial report of the Company for the half-year ended 31 December 2012 comprises the Company and its subsidiaries (together referred to as the "**Consolidated Entity**" or "**Group**").

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A Basis of Preparation

This interim financial report for the half-year ended 31 December 2012 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half-year financial report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Consolidated Entity as the full financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2012 and any public announcements made by Atlantic during the half-year in accordance with continuous disclosure requirements of the ASX Listing Rules.

The half-year financial report has been prepared on an accrual basis and is based on historical costs, except derivative financial instruments which are measured at fair value.

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

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**For the half-year ended 31 December 2012**

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

## B Going Concern

The Group has cash on hand at 31 December 2012 of A$31.323m. Included within this cash on hand is A$13.772m (US$14.300m) which is reserved for the next interest payment made on 15 February 2013 under Midwest Vanadium Pty Ltd's ("MVPL") senior secured notes ("Notes"). This leaves cash on hand for working capital purposes of A$17.551m.

The Group has trade and other payables at 31 December 2012 of A$29.787m. Included within this trade and other payables amount is A$13.889m in interest accruals associated with the February 2013 interest payment partly payable out of the A$13.772m interest reserve account. The balance of trade and other payables is A$16.015m.

The Group's net cash outflows for operating and investing activities for the six months ended 31 December 2012 was A$51.784m as the Group continued to work towards achieving production targets at the Windimurra vanadium project.

On 15 February 2013, the Group breached an indenture covenant on MVPL's Notes by failing to maintain the required minimum holding balance in the interest reserve account of US$14.300m. The Group has 45 business days to remedy this technical breach to avoid an event of default on its Notes. An event of default will result in the Notes being due and payable immediately.

During the period, the Group has met its working capital requirements by the following:

- Finalisation of the fund raising announced in March 2012 in July 2012 raising A$10.000m;
- Issue of A$50.000m Class B convertible bonds to the Company's largest shareholder, Droxford International Limited ("Droxford"), announced on 3 August 2012 and completed in October 2012;
- Approvals from the majority of the holders of the Notes to access US$9.963m of MVPL's existing restricted cash in November 2012; and
- Receipt of A$22.148m in December 2012 of a Research and Development claim under the Australian Government's Research and Development Incentive Scheme.

The Directors are satisfied that the Group will continue to operate as a going concern and base this view on the following factors:

- The in-principle agreement of the majority of the holders of the Notes regarding a reduction in the minimum holding requirement of MVPL's interest reserve account that if concluded will rectify the technical breach of the indenture covenant outlined above;
- Production at the Group's Windimurra vanadium project is forecast to ramp up over the coming months;
- The Group's entitlement to make a claim pursuant to the Australian Government's Research and Development Incentive in respect of the 2013 financial year;
- The Group's ability to raise further capital if required; and
- The Group's ability to continue to manage its working capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**For the half-year ended 31 December 2012**

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### B Going Concern (continued)

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

- Managing the Group's working capital requirements during the production ramp up;
- Achieving production targets at the Windimurra vanadium project in accordance with the Group's forecast. As at the date of this report, the Windimurra project has not yet met production targets;
- Successful conclusion of the in-principle agreement with the majority of the holders of the Notes regarding a reduction in the minimum holding requirement of MVPL's interest reserve account by 15 April 2013 to avoid an event of default on the Notes;
- Raising additional funds via debt or equity as and when required;
- Fluctuations in commodity prices; and
- Instability in debt and equity markets.

Should the Group not be able to manage the inherent uncertainties referred to above and source additional working capital as and when required, there would be significant uncertainty as to whether the Group would be able to meet its debts as and when they fall due and thus continue as a going concern. The Directors are confident that they will be able to achieve the factors as set out above and secure any future fund raisings required.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classifications of liabilities that might be necessary should the Group 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 have been adopted from 1 July 2012:

- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 12], effective 1 January 2012; and
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 and 1049], effective 1 July 2012.

The adoption of these standards did not have any impact on the current period or any prior period and are not likely to affect future periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## For the half-year ended 31 December 2012

## 3 REVENUE AND EXPENSES

| | 31 December 2012 A$'000 | 31 December 2011 A$'000 |
|---|---|---|
| **Other operating costs** | | |
| Royalty expenses | 29 | - |
| Operational support costs | 2,251 | 1,275 |
| Selling and distribution costs | 100 | - |
| Carbon tax expense | 376 | - |
| | 2,756 | 1,275 |
| **Other revenue** | | |
| Interest | 347 | 185 |
| | 347 | 185 |
| **Administrative expenses** | | |
| Vietnam bauxite project administration costs | 378 | 442 |
| | 378 | 442 |
| **Corporate expenses** | | |
| Non mine site depreciation | 71 | 69 |
| Business development expenses | 17 | 266 |
| Employee benefits expense | 945 | 1,230 |
| Other corporate expenses | 1,023 | 1,326 |
| | 2,056 | 2,891 |
| **Other expenses** | | |
| Net foreign exchange loss | 613 | 9,475 |
| Fair value of derivatives through profit and loss | 905 | - |
| | 1,518 | 9,475 |
| **Finance expenses** | | |
| Interest expense - finance leases and other borrowings | 32 | - |
| Unwinding of the discount of the rehabilitation provision | 651 | 410 |
| | 683 | 410 |

## 4 DIVIDENDS

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## For the half-year ended 31 December 2012

### 5 CASH AND CASH EQUIVALENTS

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

| | 31 December 2012 A$'000 | 30 June 2012 A$'000 |
|---|---|---|
| **Current cash and cash equivalents** | | |
| Cash at bank and on hand (i) | 31,323 | 24,084 |

Restrictions on cash and cash equivalents:

(i) As at 31 December 2012, included within cash and cash equivalents disclosed above is A$13.772m (US$14.300m) which is restricted to the next interest payment on MVPL's Notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the half-year ended 31 December 2012

### 6 PROPERTY, PLANT AND EQUIPMENT

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the half-year ended 31 December 2012

### 6 PROPERTY, PLANT AND EQUIPMENT

| | Site plant & equipment A$'000 | Leased assets A$'000 | Office equipment A$'000 | Assets under construction A$'000 | Mine properties & development A$'000 | Total A$'000 |
|---|---|---|---|---|---|---|
| **At 1 July 2011 net of accumulated depreciation** | 125,309 | 129 | 531 | 137,452 | 17,686 | 281,107 |
| Borrowing costs capitalised | - | - | - | 43,997 | - | 43,997 |
| Additions | 80 | - | 110 | 121,315 | 917 | 122,422 |
| Transfers | 160 | (160) | - | - | - | - |
| Disposals | - | - | - | (3,154) | - | (3,154) |
| Change in rehabilitation provision | - | - | - | - | 15,265 | 15,265 |
| Depreciation charge for the period | (355) | 31 | (190) | 376 | | (138) |
| At 30 June 2012 net of accumulated depreciation | 125,194 | - | 451 | 299,986 | 33,868 | 459,499 |
| **At 30 June 2012** | | | | | | |
| Cost | 125,766 | - | 785 | 299,986 | 33,868 | 460,405 |
| Accumulated depreciation | (572) | - | (334) | - | - | (906) |
| Net carrying amount | 125,194 | - | 451 | 299,986 | 33,868 | 459,499 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## For the half-year ended 31 December 2012

### 7 INTEREST BEARING LIABILITIES

| | 31 December 2012 A$'000 | 30 June 2012 A$'000 |
|---|---|---|
| **Current loans and borrowings** | | |
| Obligations under finance leases | - | 1,128 |
| Ferrovanadium advances | 1,151 | - |
| | 1,151 | 1,128 |
| **Non-current loans and borrowings** | | |
| Senior secured notes | 310,916 | 315,990 |
| Convertible bond liability | 55,383 | 19,208 |
| | 366,299 | 335,198 |

In August 2012, Atlantic entered into a A$50.000m Class B convertible bond deed with the Company's largest shareholder Droxford International Limited ("Droxford").

The Class B convertible bonds are convertible at A$0.50 per share, which was a 5% premium to the Company's 10 day VWAP immediately prior to 6 August 2012. Conversion into Atlantic fully paid ordinary shares is at Droxford's election at any time within the term. The maturity date of the Class B convertible bonds is 6 March 2015, the same maturity date as the Class A convertible bonds issued in March 2012.

Interest 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 the holder's election. Payment in kind is defined as 100% payable as new convertible bonds at the issue price, which will be entitled to future coupons.

As a result of execution of the Class B convertible bond deed, the existing Class A convertible bonds conversion price was reset to A$0.50 per share.

The Class B convertible bond liability carrying value is calculated by using the amortised cost method and netting off transaction costs of A$0.206m. The Class B convertible bond proceeds of A$50.000m were received in four tranches, A$10.000m on 8 August 2012, A$20.000m on 15 August 2012, A$10.000m on 2 October 2012 and A$10.000m on 22 October 2012.

Reconciliation of Class B convertible bond proceeds at inception is set out below:

| | 31 December 2012 A$'000 |
|---|---|
| Class B convertible bond liability | 31,597 |
| Embedded derivative associated with the Class B convertible bond | 18,403 |
| Proceeds from Class B convertible bond | 50,000 |

In September 2012, the interest payment due on the A$30.000m Class A convertible bond facility was capitalised under the terms of the Class A convertible bond deed. This brings the total face value of the Class A convertible bonds to A$32.522m.

As at 31 December 2012, the face value of the Class A and Class B convertible bonds is A$82.522m.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**For the half-year ended 31 December 2012**

## 8 FINANCIAL DERIVATIVE LIABILITY

| | 31 December 2012 A$'000 | 30 June 2012 A$'000 |
|---|---|---|
| Embedded derivative associated with convertible bonds | 30,413 | 13,157 |
| | 30,413 | 13,157 |

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

The fair value of the embedded derivatives associated with the Class A and Class B convertible bonds is valued using a Black-Scholes option pricing model that takes into account the exercise price, term of the convertible bonds, non-tradeable nature of the convertible bonds, the share price at issue date and expected share price volatility of the underlying share, the expected dividend yield, the risk-free rate for the term of the convertible bonds and the probability of a price reset. This is then multiplied against the amount of securities that the Company would be required to issue. The table below summarises the model inputs for the embedded derivative associated with the Class A and Class B convertible bonds at 31 December 2012:

| | |
|---|---|
| Conversion price per share (A$) | 0.50 |
| Conversion price per share for price reset mechanism (A$) | 0.24 |
| Valuation date | 31 December 2012 |
| Term | 2.18 years |
| Underlying security spot price at valuation date (A$) | 0.24 |
| Expected price volatility of the Company's shares | 100% |
| Expected dividend yield | 0% |
| Risk-free interest rate | 2.780% |
| Black-Scholes valuation per share (A$) | 0.12 |

## 9 EQUITY

| | No. Shares | 2012 A$'000 |
|---|---|---|
| **Ordinary Shares** | | |
| *Movements in ordinary shares on issue* | | |
| Opening balance at 1 July 2012 | 143,393,703 | 119,738 |
| Issue of shares @ A$0.88 on 2 July 2012 | 11,363,636 | 10,000 |
| Reversal of transaction costs on share issues | - | 76 |
| At 31 December 2012 | 154,757,339 | 129,814 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the half-year ended 31 December 2012

### 10 OPERATING SEGMENTS

| | Windimurra Project A$'000 | Vietnam A$'000 | Unallocated Corp/Other A$'000 | Unallocated Elimination A$'000 | Consolidated A$'000 |
|---|---|---|---|---|---|
| **31 December 2012** | | | | | |
| Segment revenue - external | 321 | - | 26 | - | 347 |
| Segment revenue - internal | - | - | 5,082 | (5,082) | - |
| Other operating costs | (2,756) | - | - | - | (2,756) |
| Administration expenses | - | (378) | - | - | (378) |
| Corporate expenses | - | - | (2,056) | - | (2,056) |
| Other expenses | (3,387) | - | 1,869 | - | (1,518) |
| Finance expenses | (827) | - | (17) | 161 | (683) |
| **Segment results before tax** | (6,649) | (378) | 4,904 | (4,921) | (7,044) |
| Income tax (expense)/benefit | | | | | - |
| Results after income tax | | | | | (7,044) |
| **Included in the above:** | | | | | |
| Share-based payment expense | 162 | - | 116 | - | 278 |
| **Segment assets** | 537,351 | - | 187,618 | (174,393) | 550,576 |
| **Segment liabilities** | 378,942 | 3,627 | 92,796 | (14,992) | 460,373 |
| **Capital expenditure** | 39,011 | - | - | - | 39,011 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## For the half-year ended 31 December 2012

### 10 OPERATING SEGMENTS (continued)

| | Windimurra Project A$'000 | Vietnam A$'000 | Unallocated Corp/Other A$'000 | Unallocated Elimination A$'000 | Consolidated A$'000 |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| Segment revenue - external | 98 | - | 87 | - | 185 |
| Segment revenue - internal | - | - | 2,094 | (2,094) | - |
| Other operating costs | (1,275) | - | - | - | (1,275) |
| Administration expenses | - | (442) | - | - | (442) |
| Corporate expenses | - | - | (2,891) | - | (2,891) |
| Other expenses | (9,470) | - | (5) | - | (9,475) |
| Finance expenses | (410) | - | - | - | (410) |
| **Segment results before tax** | (11,057) | (442) | (715) | (2,094) | (14,308) |
| | | | | | |
| Income tax (expense)/benefit | | | | | - |
| Results after income tax | | | | | (14,308) |
| | | | | | |
| **Included in the above:** | | | | | |
| Share-based payment expense | 70 | - | 40 | - | 110 |
| | | | | | |
| **Segment assets** | 448,022 | - | 77,090 | (64,446) | 460,666 |
| **Segment liabilities** | 377,732 | 2,983 | 2,103 | (4,932) | 377,886 |
| **Capital expenditure** | 70,491 | - | 2 | - | 70,493 |

The unallocated Corporate/Other segment does not represent an operating segment as defined by AASB 8, however this information is analysed in this format by the Chief Operating Decision Makers, and forms part of the reconciliation of the results and positions of the operating segments to the financial statements.

### 11 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities or contingent assets as at 31 December 2012.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## For the half-year ended 31 December 2012

### 12 EVENTS AFTER THE REPORTING PERIOD

On 14 February 2013, the interest payment due on the A$50.000m Class B convertible bonds of A$4.667m was capitalised under the terms of the Class B convertible bond deed.

On 18 February 2013, the Group announced that MVPL had paid the 15 February 2013 interest payment due on the Notes, but that the interest reserve account balance was below the US$14.300m required under the Notes indenture. This is a technical breach of the indenture covenant and MVPL has 45 business days to replenish the interest reserve account.

On 14 March 2013, the Group announced that it had reached in-principle agreement with the majority of the holders of the Notes with a view to securing a reduction of the minimum holding requirement in MVPL's interest reserve account. The Group is now preparing the necessary documentation for final agreement with the holders of the majority of the Notes to rectify the breach of the indenture covenant and will make an announcement of the final terms of the indenture amendments and conditions for the reduction of the minimum holding requirement in the interest reserve account once the final documentation is executed.

On 14 March 2013, the interest payment due on the A$32.522m Class A convertible bonds of A$2.822m was capitalised under the terms of the Class A convertible bond deed.

## DIRECTORS' DECLRATION

In the opinion of the Directors:

1. The financial statements and notes of the Consolidated Entity for the half-year ended 31 December 2012 are in accordance with the *Corporations Act 2001*, including:
   a) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
   b) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
2. Subject to the matters discussed in Note 2B, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

**MICHAEL MINOSORA**
Chairman and Managing Director
Perth, Western Australia
Dated this 17th day of March 2013

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

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

# Independent review report to members of Atlantic Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Atlantic Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half-year.

## Directors' Responsibility for the Half-Year Financial Report

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

## Auditor's Responsibility

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

## Independence

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

## Basis for Disclaimer of Review Conclusion

As more fully set out in Note 2B to the financial report, the consolidated entity's ability to continue to meet its debts as and when they fall due is reliant on ongoing funding, management of the consolidated entity's working capital and achieving the scheduled ramp up of production at the consolidated entity's Windimurra Vanadium Project over the coming months. As at the date of this report, the consolidated entity has limited working capital, is still in the process of ramping up production at its Windimurra Vanadium Project and is in breach of an indenture covenant for the senior secured notes.

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

## Disclaimer of Review Conclusion

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

Ernst & Young

Ernst & Young

Gavin Buckingham

G A Buckingham
Partner
Perth
17 March 2013