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Australian VANADIUM LIMITED

ACN 116 221 740

Half Year Report

31 December 2017

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Corporate Directory

Directors

Brenton Lewis (Non-Executive Chairman)
Vincent Algar (Managing Director and CEO)
Leslie Ingraham (Executive Director)
Daniel Harris (Non-Executive Director)

Secretary

Neville Bassett

Registered Office

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Principal Office

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West Perth WA 6005

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Share Registry

Computershare Investor Services Pty Ltd
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172 St George's Terrace
Perth WA 6000
Telephone 08 9323 2000

Auditors

Armada Audit & Assurance Pty Ltd
3 Alvan Street
Mt Lawley WA 6050

Australian Securities Exchange

Australian Vanadium Limited shares (AVL) and options (2 cents/expiring 31 December 2018) (AVLO) are listed on the Australian Securities Exchange.

Directors' Report

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2017. This report should be read in conjunction with the 2017 Annual Report and announcements to the Australian Securities Exchange. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

DIRECTORS

The names of the Directors who held office during or since the end of the half-year and until the date of this report are noted below. Directors were in office for this entire period unless otherwise stated:

- Brenton Lewis (Non-executive Chairman)
- Vincent Algar (Managing Director and CEO)
- Leslie Ingraham (Executive Director)
- Daniel Harris (Non-executive Director)

REVIEW OF OPERATIONS

The net loss for the half-year attributed to members of Australian Vanadium Limited was \$613,762 (31 December 2016 - loss of \$1,264,710).

HIGHLIGHTS

The Company's operations during the half-year were focused on advancing its high-grade Gabanintha Vanadium Project in Western Australia. The vertical integration strategy which is focused on energy storage via the marketing and sales of Vanadium Flow Batteries through subsidiary VSUN Energy also continued.

A summary of the main activities included:

Gabanintha Vanadium Project

The Company announced an upgraded resource at the Gabanintha Vanadium Project in September 2017, strengthening its position as a globally significant high-grade vanadium deposit.

The updated Measured, Indicated and Inferred Mineral Resource is 179.6 million tonnes (Mt) at 0.75% V₂O₅ which includes a Measured and Indicated Mineral Resource of 35.5Mt grading 0.75% V₂O₅.

The Mineral Resource includes a distinct and globally significant, massive magnetite high-grade zone of 92.8 Mt at 0.96% V₂O₅ consisting of a Measured Mineral Resource of 10.2Mt at 1.06% V₂O₅, an Indicated Mineral Resource of 4.8Mt at 1.04% V₂O₅ and an Inferred Mineral Resource of 77.8Mt at 0.94% V₂O₅.

The updated estimation represents a 96% increase in the overall Resource, a 46% increase in the Measured Resource, a 43% increase in the Indicated Resource and a 116% increase in the Inferred Resource categories for the Project compared to the 2015 estimation. There is extensive potential to convert Inferred Resources to the Measured and Indicated categories at Gabanintha with additional targeted drilling.

A range of studies and testwork have been, or are being undertaken, ahead of the Company completing a Preliminary Feasibility Study later in 2018. These include:

- Metallurgical test work to refine the processing methodology;
- Baseline environmental studies, and
- Financial modelling.

China Focused Marketing

The Company appointed China focused Materials' Marketing consultancy Mastermines to provide it with an active approach towards Chinese investment in the future, as the Company seeks to develop interest in Gabanintha and markets for its potential products.

Vanadium supply has been developing a structural deficit over a number of years, stemming from a combination of low prices, loss of production in South Africa and erosion of existing stockpiles. This has resulted in the price rises since 2015 and as new, low-cost capacity is not easy or fast to bring to market, it is the Company's view that the vanadium market will be strong for several years to come.

This long-term view on bullish pricing and demand in the dominant steel sector, coupled with the growing markets for vanadium in energy storage, are strong positive indicators for the ongoing evaluation of Gabanintha, with its unique characteristics and location.

Energy Storage

The Company's subsidiary, VSUN Energy Pty Ltd (VSUN) continues to market vanadium redox flow batteries (VRB) with a particular focus on projects within Australia. The Company varied its agreement with GILDEMEISTER Energy Storage to enable VSUN to be able to offer VRB from a variety of manufacturers. A residential system was added to the portfolio. Potential projects now range from 5kW of power with 15kWh of energy, through to 40MW of power with 160MWh of energy.

Blesberg Project

Results from drilling at the historic Blesberg Mine located approximately 80km north of Springbok in the remote Northern Cape Province of South Africa, were reported during the period. Drilling successfully intersected the pegmatite zone in all holes. High quality (clean white) feldspar was visible in all holes in addition to accessory spodumene, tantalite and beryl in some sections.

The Company is currently examining the opportunity presented by the high quality and high-volume feldspar mineralisation and potential by-product extraction of lithium, beryl and tantalum minerals.

The Company has renegotiated the terms of the agreement and an off-take for feldspar is being sought.

Bryah Resources Limited (ASX: BYH)

AVL previously executed an agreement to sell the precious and base metal rights in the Gabanintha Project, as well as its 100% equity in its Peak Hill Project to Bryah Resources Limited. Under the deal, the Company retains all mineral rights to vanadium, titanium, cobalt, chromium, uranium, lithium, tantalum, iron ore and manganese within the Gabanintha Project area and retains primary title over the licenses.

The Mineral Rights Sale Agreement at Gabanintha was finalised when Bryah Resources Limited completed an Initial Public Offering and listed on the ASX in October 2017. The Company contributed \$500,000 to the Initial Public Offering and holds a 13.31% stake in Bryah Resources Limited.

Nowthanna Hill Uranium Project

The Company was granted a mining lease (M51/771) over this uranium deposit during the half-year by the Department of Mines, Industry Regulation and Safety. Due to recent government restrictions on uranium mining in the State of Western Australia, the Company is unable to progress this project at this time.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the half-year are detailed under the heading 'Review of Operations' of this report.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the consolidated entity that occurred during the half-year under review not otherwise disclosed in this report or in the financial report.

AUDITOR'S DECLARATION OF INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year ended 31 December 2017 is included within this financial report.

Signed on behalf of the Directors



Brenton Lewis

CHAIRMAN

Perth, 14 March 2018

Competent Person Statement — Mineral Resource Estimation

The information in this report that relates to Mineral Resources is based on and fairly represents information compiled by Mr Lauritz Barnes, (Consultant with Trepanier Pty Ltd) and Mr Brian Davis (Consultant with Geologica Pty Ltd). Mr Davis is a shareholder of Australian Vanadium Limited. Mr Barnes and Mr Davis are members of the Australasian Institute of Mining and Metallurgy and have sufficient experience of relevance to the styles of mineralisation and types of deposits under consideration, and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Specifically, Mr Barnes is the Competent Person for the estimation and Mr Davis is the Competent Person for the database, geological model and site visits. Mr Barnes and Mr Davis consent to the inclusion in this report of the matters based on their information in the form and context in which they appear.

The information is extracted from the report entitled "Significant vanadium resource upgrade at Gabanintha" released to ASX on 5 September 2017 and is available on the company website at www.australianvanadium.com.au.

The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resource or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the competent person's findings are presented has not been materially modified from the original market announcement.



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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF**

AUSTRALIAN VANADIUM LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2017 there have been:

- i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii) No contraventions of any applicable code of professional conduct in relation to the audit.

This Declaration is in respect of Australian Vanadium Limited and the entities it controlled during the financial Period.

GRAEME WOVODICH, C.P.A.

Registered Company Auditor No. 13421

Dated this 14 day of March 2018

TAX & ACCOUNTING | AUDITING | BOOKKEEPING | BUSINESS CONSULTING | FINANCIAL PLANNING | LENDING

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Statement of Comprehensive Income

For the half year ended 31 December 2017

| | Notes | Consolidated | |
|--|-------|---------------------|---------------------|
| | | 31 December 2017 | 31 December 2016 |
| | | \$ | \$ |
| Revenue | | | |
| Revenue | | 176,616 | 34,906 |
| | | 176,616 | 34,906 |
| Expenses | | | |
| Exploration and evaluation expenditure | | (3,246) | (57,850) |
| Depreciation | | (22,531) | (3,333) |
| Directors fees and benefits expenses | | (371,021) | (528,725) |
| Other expenses | | (393,581) | (709,708) |
| Loss before income tax expenses | | (613,762) | (1,264,710) |
| Income tax expense | | - | - |
| Net Loss for the Period | | (613,762) | (1,264,710) |
| Other Comprehensive Income | | | |
| Other Comprehensive Income for the period, net of tax | | - | - |
| Total Comprehensive loss attributable to members of Australian Vanadium Limited | | (613,762) | (1,264,710) |
| | | Cents | Cents |
| Basic/ diluted earnings per share | | (0.05) | (0.12) |

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2017

| | Notes | Consolidated | |
|----------------------------------|-------|---------------------------|-----------------------|
| | | 31 December 2017 \$ | 30 June 2017 \$ |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalent | | 3,397,414 | 1,524,171 |
| Trade and other receivables | | 87,544 | 80,612 |
| Total Current Assets | | 3,484,958 | 1,604,783 |
| Non-Current Assets | | | |
| Plant and equipment | | 286,546 | 304,271 |
| Deferred exploration expenditure | 2 | 15,223,469 | 15,422,575 |
| Investments | | 2,899,171 | 1,809,171 |
| Total Non-Current Assets | | 18,409,186 | 17,536,017 |
| Total Assets | | 21,894,144 | 19,140,800 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and Other Payables | | 837,938 | 187,139 |
| Provisions | | 20,282 | 31,181 |
| Total Current Liabilities | | 858,220 | 218,320 |
| Total Liabilities | | 858,220 | 218,320 |
| Net Assets | | 21,035,924 | 18,922,480 |
| Equity | | | |
| Issued capital | 3 | 70,723,021 | 67,960,815 |
| Reserves | | (35,000) | - |
| Accumulated Losses | | (49,652,097) | (49,038,335) |
| Total Equity | | 21,035,924 | 18,922,480 |

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the half year ended 31 December 2017

| | Issued Capital | Accumulated Losses | Other Reserves | Total |
|--|-------------------|-----------------------|-------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| Balance as at 1 July | 64,621,753 | (46,960,701) | - | 17,661,052 |
| Loss for the period | | (1,264,710) | - | (1,264,710) |
| Total Comprehensive loss for the period | | (1,264,710) | - | (1,264,710) |
| Balance as at 31 December 2016 | 67,410,495 | (48,225,411) | - | 19,185,084 |
| Balance as at 1 July 2017 | 67,960,815 | (49,038,335) | | 18,922,480 |
| Loss for the period | - | (613,762) | - | (613,762) |
| Total comprehensive loss for the period | - | (613,762) | - | (613,762) |
| Shares issued as consideration | 2,595,000 | - | - | 2,595,000 |
| Shares issued on conversion of options | 372,837 | - | - | 372,837 |
| Asset Revaluation Reserve | - | - | (35,000) | (35,000) |
| Capital Raising Cost | (205,631) | - | - | (205,631) |
| Balance as at 31 December 2017 | 70,723,021 | (49,652,097) | (35,000) | 21,035,924 |

The accompanying notes form part of these financial statements.

Statement of Cash Flow

For the half year ended 31 December 2017

| Notes | 31 December 2017 \$ | 31 December 2016 \$ |
|--|---------------------------|---------------------------|
| Cash flows from operating activities | | |
| Payments to suppliers and employees | (765,189) | (1,041,767) |
| Interest received | 176,616 | 34,707 |
| Expenditure on mining interests | (3,246) | (74,775) |
| Net cash proved by / (used) in operating activities | (591,819) | (1,081,835) |
| Cash flows from investing activities | | |
| Payments for exploration and mining interests | (415,181) | (78,958) |
| Payments for investments | (527,090) | (181,921) |
| Payments for property plant and equipment | (4,806) | (368,104) |
| Net cash used in investing activities | (947,077) | (628,983) |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 2,967,837 | 1,238,390 |
| Share application funds held in trust | 649,933 | - |
| Payment of capital raising costs | (205,631) | (15,318) |
| Net cash provided by financing activities | 3,412,139 | 1,223,072 |
| Net Increase/(decrease) in cash held | 1,873,243 | (487,746) |
| Cash at beginning of the period | 1,524,171 | 3,196,659 |
| Cash at end of the period | 3,397,414 | 2,708,913 |

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001.

This consolidated interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by Australian Vanadium Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies have been consistently applied with those of the previous financial periods and corresponding interim reporting period, except in relation to the matters disclosed below.

New and Revised Accounting Standards

In the current half-year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

2. DEFERRED EXPLORATION EXPENDITURE

| Notes | 31 December 2017 \$ | 30 June 2017 \$ |
|---|---------------------------|-----------------------|
| Deferred exploration expenditure | | |
| Expenditure brought forward | 15,422,575 | 14,498,230 |
| Less: Expenditure recouped on sale of asset | (597,910) | (32,878) |
| Expenditure incurred during the period | 398,804 | 957,223 |
| Expenditure written off during period | - | - |
| Expenditure carried forward | 15,223,469 | 15,422,575 |

The expenditure above relates principally to the exploration and evaluation phase. The ultimate recoupment of this expenditure is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest, at amounts at least equal to book value.

Notes to the Financial Statements

3. ISSUED CAPITAL

| | Notes | 31 December 2017 \$ | 30 June 2017 \$ |
|--|-------|---------------------------|-----------------------|
| Issued Capital | | | |
| Issues and paid up capital | | | |
| Ordinary shares - fully paid | 3(i) | 71,646,812 | 68,678,931 |
| Ordinary shares - partly paid | 3(ii) | 8,000 | 8,000 |
| Share issue costs written off against issued capital | | (931,791) | (726,116) |
| | | 70,723,021 | 67,960,815 |
| Movement in ordinary share in issue | | | |
| (i) Ordinary share - fully paid | | No. | \$ |
| Balance at beginning of period | | 1,215,734,216 | 68,678,931 |
| Movement | | | |
| - Issue of ordinary shares for cash | | 167,000,000 | 2,505,044 |
| - Issue of ordinary shares on conversion of options | | 25,342,343 | 372,837 |
| - Issue of ordinary shares in lieu of cash consideration | | 5,000,000 | 90,000 |
| Balance at end of Period | | 1,413,076,559 | 71,646,812 |
| (ii) Ordinary share - partly paid (\$0.0389 unpaid) | | | |
| Balance at beginning of period | | 80,000,000 | 8,000 |
| Movement | | - | - |
| Balance at end of Period | | 80,000,000 | 8,000 |

4. SEGMENT INFORMATION

AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Board as a whole will regularly review the identified segments in order to allocate resources to the segment and to assess its performance.

The Group has identified two operating segments for 2017 being:

1. Exploration – consisting of the Gabanintha Vanadium Project and other exploration projects, and
2. Energy storage - VSUN Energy Pty Limited's vanadium redox flow battery sales activities.

Segment revenues, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and primarily consist of plant and equipment and project tenements. Segment Liabilities consist primarily of trade and other creditors and employee benefits.

Notes to the Financial Statements

The following tables present revenue, expenditure and asset information regarding operating segments for the half-year ended 31 December 2017.

| | Exploration \$ | Energy Storage \$ | Unallocated \$ | Total \$ |
|----------------------------------|-------------------|----------------------|-------------------|-------------------|
| Sales to External Customers | - | 900 | - | 900 |
| Other Revenue | 158,659 | - | 17,057 | 175,716 |
| Total Segment Revenue | 158,659 | 900 | 17,057 | 176,616 |
| Total Segment Results | (79,808) | (176,766) | (357,188) | (613,762) |
| Total Segment Assets | 15,223,469 | 181,192 | 6,489,483 | 21,894,144 |
| Total Segment Liabilities | 95,744 | 64 | 762,412 | 858,220 |
| Impairment of Assets | - | - | - | - |
| Depreciation and Amortisation | - | (9,033) | (13,498) | (22,531) |
| Interest Income | - | - | 17,057 | 17,057 |

5. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

6. DIVIDENDS

No dividends have been declared or paid during the half-year ended 31 December 2017 or in the prior period, and the Directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2017.

7. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods.

Directors' Declaration

In the opinion of the directors of Australian Vanadium Limited ('the company'):

1. The financial statements and notes thereto of the consolidated entity, as set out within this financial report, 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 2017 and of its performance for the half-year then ended.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors



Brenton Lewis
CHAIRMAN

Perth, 14 March 2018



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**Independent Auditor's Review Report
to the Members of Australian Vanadium Limited**

We have reviewed the accompanying half-year financial report of Australian Vanadium Limited, which comprises the balance sheet as at 31st December 2017, the income statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the half-year Financial Report

The directors of the Australian Vanadium Limited 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 control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Australian Vanadium Limited's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Australian Vanadium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

TAX & ACCOUNTING | AUDITING | BOOKKEEPING | BUSINESS CONSULTING | FINANCIAL PLANNING | LENDING

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Independence

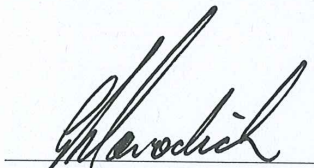
In conducting our review, we have met the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Australian Vanadium Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Vanadium Limited is not in accordance with the *Corporations Act 2001* including:

giving a true and fair view of the Australian Vanadium Limited's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001* accordance with the *Corporations Act 2001*

GRAEME WOVODICH, C.P.A.



Registered Company Auditor No. 13421

Dated this *14* day of *March* 2018