Australian VANADIUM LIMITED

ACN 116 221 740

Half Year Report

31 December 2019

Contents

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 and Principal Office

Level 1, 85 Havelock Street

West Perth WA 6005

Telephone

08 9321 5594

Facsimile

08 6268 2699

Share Registry

Automic Pty Ltd

Level 2

267 St George's Terrace

Perth WA 6000

Telephone 1300 288 664

Auditors

Armada Audit & Assurance Pty Ltd

18 Sangiorgio Court

Osborne Park WA 6017

Telephone: 08 6165 4090

Australian Securities Exchange

Australian Vanadium Limited shares (AVL) are listed on the Australian Securities Exchange.

Directors' Report

Your directors submit the financial report of Australian Vanadium Limited (the "Company") and its subsidiaries (the "Consolidated Entity" or "Group") for the half-year ended 31 December 2019. This report should be read in conjunction with the 2019 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 $1,304,243 (31 December 2018 - loss of $1,456,913).

HIGHLIGHTS

The Company's operations during the half-year were focused on advancing its high-grade Australian Vanadium Project located in central Western Australia. The vertical integration strategy which is focused on energy storage via the marketing and sales of Vanadium Redox Flow Batteries through subsidiary VSUN Energy Pty Ltd also continued. A summary of the main activities included:

The Australian Vanadium Project

The Company's main focus in the period was undertaking a series of benchscale test work and pilot studies to progress the Australian Vanadium Project ("the Project"), through the steps required to bring it into production.
The Project consists of a high-grade V-Ti-Fe deposit located in the Murchison Province approximately 43kms south of the mining town of Meekatharra in Western Australia and 740km north-east of Perth.

In September 2019 the Project was awarded Major Project Status by the Federal Government, in recognition of its importance to Australia. The award enables AVL to access streamlined assistance with Australian Government approvals. With vanadium appearing on both the Australian and US critical minerals list, the Company is also able to access introductions to potential project investors, with a particular focus on the US relationship. AVL's Technical Director, Daniel Harris, who is located in the US, is attending meetings on behalf of the Company in New York and Washington later in 2020.

AVL continues to develop relationships with parties in the US, Europe and China as it works to secure funding for the Project. In January this year, the Company announced that it had signed a Letter of Intent with Hebei Yanshan

Vanadium and Titanium Industry Technology Research Co Ltd, a subsidiary of HBIS Group Chengsteel. The Letter of Intent is a non-binding technical services and purchase agreement for AVL's vanadium products.

Due diligence of the Project and the Company is being undertaken through AVL's online Data Room. Discussions remain productive and ongoing in spite of the coronavirus situation which developed in February 2020.

Figure 1 **- Vincent Algar and Todd Richardson visiting HBIS Chengsteel in Hebei, China**

Subsequent to the end of the period, the Company released an updated Mineral Resource. The revised Mineral Resource estimate includes a geologically distinct massive vanadium bearing magnetite high-grade zone. The Measured, Indicated and Inferred Mineral Resource estimate for the massive magnetite high-grade zone (HG10 in Table 1) is 87.**9Mt at 1.06% V_2O_5** which includes 10.1Mt at 1.14% V_2O_5 in the Measured category, 25.1Mt at 1.10% V_2O_5 in the Indicated category and 52.7Mt at 1.04% V_2O_5 in the Inferred category (see Table 1).

The Mineral Resource update included data from drilling undertaken in 2018 and 2019. The update demonstrated the successful conversion of 13Mt of existing high-grade Mineral Resources from Inferred to Indicated category, which strongly supports ongoing optimisation studies to extend the life of the mine. The updated Mineral Resource has had a significant impact on the overall tonnage and amount of material in Indicated category due to the focus on converting Inferred Resources to Indicated Resources through infill drilling.

The Measured, Indicated and Inferred Mineral Resource is contained within a massive magnetite high-grade horizon and overlying lower grade disseminated magnetite horizons for a total of **208.2 million tonnes (Mt) at 0.74% V_2O_5**. This figure includes a 115% increase to the Indicated Mineral Resource of the distinct high-grade magnetite zone from the previous resource update in November 2018.

Detailed magnetic susceptibility analysis outlines opportunity for improved vanadium recovery. Mine optimisation studies have commenced to incorporate the new Indicated Resources into a mine plan.

Table 1 **- Mineral Resource Estimate by Domain and Resource Classification***

Zone	Classification	Mt	V_2O_5 %	Fe %	TiO_2 %	SiO_2 %	Al_2O_3 %	LOI %
HG 10	Measured	10.1	1.14	43.9	13.0	9.2	7.5	3.7
	Indicated	25.1	1.10	45.4	12.5	8.5	6.5	2.9
	Inferred	52.7	1.04	44.6	11.9	9.4	6.9	3.3
	Subtotal	**87.9**	**1.06**	**44.7**	**12.2**	**9.2**	**6.8**	**3.2**
LG 2-5	Measured	-	-	-	-	-	-	-
	Indicated	44.5	0.51	25.0	6.8	27.4	17.0	7.9
	Inferred	60.3	0.48	25.2	6.5	28.5	15.3	6.7
	Subtotal	**104.8**	**0.49**	**25.1**	**6.6**	**28.0**	**16.1**	**7.2**
Transported 6-8	Measured	-	-	-	-	-	-	-
	Indicated	-	-	-	-	-	-	-
	Inferred	15.6	0.65	28.4	7.7	24.9	15.4	7.9
	Subtotal	**15.6**	**0.65**	**28.4**	**7.7**	**24.9**	**15.4**	**7.9**
Total	Measured	10.1	1.14	43.9	13.0	9.2	7.5	3.7
	Indicated	69.6	0.72	32.4	8.9	20.6	13.2	6.1
	Inferred	128.5	0.73	33.5	8.8	20.2	11.9	5.4
	Subtotal	**208.2**	**0.74**	**33.6**	**9.0**	**19.8**	**12.1**	**5.6**

*Using a nominal 0.4% V_2O_5 wireframed cut-off for low grade and nominal 0.7% V_2O_5 wireframed cut-off for high grade (total numbers may not add up due to rounding).

As part of the PFS, which was released at the end of 2018, a series of trade-off studies were undertaken. One of these considered the potential to locate the processing plant for the Project closer to the existing gas infrastructure, to take advantage of reduced energy costs. In October 2019 AVL announced that an option agreement had been signed over land where the plant could be located. Strong support has been received from Federal, State and Local Government and the community of Geraldton and Mullewa, where increased economic benefits could be seen. The move allows AVL to significantly improve its potential to have production costs in the global lowest cost-quartile.

The relocation of the processing plant would reduce AVL's capital and operating expenditure for gas supply for the Project as it would be unnecessary to build a new gas pipeline from the nearest existing pipeline infrastructure, either the Mid-West Gas Pipeline in Mount Magnet or from the Dampier-Bunbury Natural Gas Pipeline to the mine site location.

With the need for large volumes of natural gas for the roast component of processing set to be located closer to the gas pipeline, the electrical energy requirement at the mine site can be provided by reliable hybrid power systems, which will include a significant component of renewable energy, combined with trucked natural gas or diesel. Energy storage as part of the hybrid power system is highly suited to the use of a megawatt-scale vanadium redox flow battery.

Relocating the processing plant would also significantly reduce the mine site water requirement by approximately one third of total water used. Other benefits to relocating the processing plant include a camp not being required at the Geraldton location due to workers living at home; reduced construction costs and cheaper transportation costs for reagents.

A detailed study of the location is underway, as there will be increased costs for transportation of the material from Meekatharra to the processing plant. The potential sale of an iron rich calcine by-product could offset these transportation costs, making the move particularly attractive.

Figure 2 **- Proposed Location of Processing Plant**

The Project is based on a proposed open pit mine; crushing, milling and beneficiation plant (CMB) and processing plant for final conversion and sale of high quality vanadium pentoxide (V_2O_5) for use in steel, specialty alloys and energy storage markets.

During 2019 pilot study work was undertaken to significantly reduce future risk, by ensuring that all the processes will work as intended when built at full scale, increasing attractiveness to potential Project investors.

The first phase of the pilot study focused on crushing, milling and beneficiation. This section of the Project will be located at the mine site south of Meekatharra. Rigorous pilot-scale test work has now been completed and has validated an optimised final beneficiation flowsheet.

Between August and December 2019, a metallurgical test programme involving pelletising and oxidative salt roasting was carried out in Brisbane. The purpose of the programme was to investigate the performance of the oxidative salt roast in a pot rig, which simulates a commercial straight Grate Kiln. Approximately 587kg of preliminary beneficiation concentrate was tested to characterise pellet performance, vanadium extraction, reagent usage and operating conditions for the Grate Kiln pilot testing scheduled at Metso in quarter 1 and 2 of 2020 at their pyrometallurgical testing facilities in Danville, Pennsylvania, USA.

Figure 3 **- Grate Kiln Pilot Testing in the US**

AVL is aiming to develop a processing flowsheet with the world's highest primary vanadium recovery from vanadiferous titanomagnetite (VTM). The Company is adapting proven industrial technology to modify and improve the traditional vanadium salt roast processing techniques.

One of AVL's benchscale test work programmes during the period was to upgrade the iron and titanium calcine by-product. The results of this work confirmed an upgrade in the iron grades from 54% up to an average of 66%. As a result of these successful tests, work is now underway to physically separate a portion of the titanium, which will further upgrade the calcine material and improve its value. Unlocking the value of these byproducts could provide the Company with sales that could have a positive impact on the overall operating costs, all adding to AVL's goal to become one of the lowest cost producers of vanadium in the world.

In February 2020 AVL was awarded a grant of over one million dollars from the Federal Government as a Cooperative Research Centres Project (CRC-P) Grant for Critical Minerals. The overall project will have a value of just under five million dollars and will be undertaken by AVL in conjunction with world renowned industry and academic partners including Wood, ALS, Curtin University and the Australian Nuclear Science and Technology Organisation (ANSTO). The aim of the project is to develop innovative solutions that improve all aspects of vanadium production from Vanadium-Titanium-Magnetite (VTM) deposits, including development of an ultra-high purity vanadium pentoxide production path; extraction of valuable by-products including critical minerals such as titanium; increasing recoveries from mine to mill; and reduction of waste products from mining and processing. These improvements are expected to have a positive impact on operating costs.

In September 2019 AVL completed a successful Share Purchase Plan and top-up placement of new shares to sophisticated and professional investors, raising $6.6 million. The successful outcome demonstrated confidence in AVL from its shareholders and in The Australian Vanadium Project.

At the end of 2019 the AVL-sponsored Stephen Michael Foundation received the AMEC (Association of Mining and Exploration Companies) inaugural Community Contribution Award in conjunction with AVL, Sandfire Resources and Westgold. The award celebrates the achievement of the foundation and the work it has undertaken in the Meekatharra community to engage children in school through sport. The foundation has also played a key role in bringing together community and business organisations to play a more cohesive role in the town's development. Working with the Stephen Michael Foundation has had a strong positive impact on AVL's social license to operate in the region.

Mining Agreement negotiations are progressing well, with frequent and structured meetings being held with Yugunga-Nya group representatives and their lawyers. Once the Mining Agreement is signed the grant of the Mining Lease over the Project can proceed.

Energy Storage

The Company's subsidiary, VSUN Energy Pty Ltd (VSUN) continues to market vanadium redox flow batteries (VRFB) with a particular focus on projects within Australia. VSUN offers VRFB from a variety of manufacturers with a wide range of sizes. Target markets include utility, agricultural, remote, mining and industrial. VSUN is involved in the Future Battery Industry Cooperative Research Centre alongside AVL.

During the period VSUN announced the sale (subject to conditions precedent) of two VRFBs for the agricultural sector, with one destined for the Meredith goat dairy in Victoria and the other to Priest Bros in Victoria. The former is currently finalising funding and the latter is expecting news on a government grant application to be followed by final ordering, delivery and commissioning. VSUN continues to work with Nomads Charitable & Educational Foundation to bring the installation of a renewable energy solution at Strelley Community School in the Pilbara region of Western Australia to fruition. The grant application was unsuccessful, but other avenues of project development are being progressed.

VSUN's current pipeline has a value of 20.8GWh.

Coates Vanadium Deposit

In January 2020 AVL announced that its application for a Programme of Works (PoW) on E70/4924-I over the Coates vanadium deposit, had been approved by the Western Australian Department of Mines, Industry Regulation and Safety.

The application was for drilling up to 15 diamond core holes at the Coates deposit, concentrating on the Vacant Crown Land (VCL) portion of the tenement. The intention is to prepare the diamond drill cores at a laboratory in Perth and then ship them to Montreal for metallurgical testing.

The Coates deposit is situated in the Shire of Northam approximately 35km east of Perth. AVL has signed a joint venture agreement with private company Ultra Power Systems (UPS), to develop the deposit. Under the terms of the joint venture agreement UPS will spend $50,000 on exploration on the tenement within the first 12 months of the agreement and $150,000 during the first 24 months.

The drill programme intends to determine the deposit's suitability as a low-cost feed for a full commercial scale vanadium processing plant which UPS proposes to build in Kwinana, Western Australia. UPS intends to produce vanadium electrolyte using Pacific Northwest National Laboratory's (PNNL) generation 3 vanadium electrolyte licence.

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.

DIVIDENDS

No dividends have been declared or paid during the half-year ended 31 December 2019 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 2019.

EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the half-year, a Mineral Resource update has been released which has taken the total vanadium Resource at the Australian Vanadium Project to 208 million tonnes. The Company was awarded a Federal Government CRC-P grant of $1.25 million on 10 February 2020. The Company has signed a Letter of Intent with Chinese company Hebei Yanshan Vanadium and Titanium Industry Technology Research Co Ltd, a subsidiary of HBIS Group Chengsteel.

These three events are outlined in the Review of Operations.

There are no further matters or circumstances that 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.

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 2019 is included within this financial report.

Signed on behalf of the Directors

Brenton Lewis
CHAIRMAN
Perth, 13 March 2020

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 Barnes and Mr Davis are members of the Australasian Institute of Mining and Metallurgy and Mr Davis is a member of the Australian Institute of Geoscientists and both 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.

Competent Person Statement – Metallurgical Results

The information in this report that relates to Metallurgical Results is based on information compiled by independent consulting metallurgist Brian McNab (CP. B.Sc Extractive Metallurgy), Mr McNab is a Member of The Australasian Institute of Mining and Metallurgy. Brian McNab is employed by Wood Mining and Metals. Mr McNab has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which is undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McNab consents to the inclusion in the report of the matters based on the information made available to him, in the form and context in which it appears.

Auditor's Independence Declaration

ARMADA
AUDITING

T (08) 6165 4090 F (08) 6165 4067
A 18 Sangiorgio Court Osborne Park WA 6017
P Locked Bag 4 Osborne Park DC WA 6916
E info@armada.com.au

strength in numbers

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 half-year ended 31 December 2019 there have been:

i) No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii) No contraventions of any applicable code of professional conduct in relation to the review.

ARMADA AUDIT & ASSURANCE PTY LTD

NIGEL DIAS

DIRECTOR

Perth, Dated 13 March 2020

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

ARMADA.COM.AU

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2019

	Consolidated	
	31 December 2019	31 December 2018
	$	$
Revenue		
R&D Income	**249,643**	-
Other Income	**73,231**	46,853
	322,874	46,853
Expenses		
Exploration and evaluation expenditure	**(54,089)**	(171,884)
Depreciation	**(60,955)**	(25,279)
Finance costs	**(20,094)**	-
Share Based Payments	**(33,439)**	(135,975)
Directors fees and benefits expenses	**(37,500)**	(35,000)
Wages and salaries (incl superannuation)	**(652,609)**	(679,828)
Travel costs	**(82,894)**	(57,929)
Consulting fees	**(232,194)**	(13,484)
Other corporate and administrative expenses	**(453,343)**	(384,387)
Loss before income tax expense from continuing operation	**(1,304,243)**	(1,456,913)
Income Tax Expense	-	-
Loss after income tax expense for the half year	**(1,304,243)**	(1,456,913)
Other Comprehensive Income		
Other Comprehensive Income that is not allowed to be reclassified to the statement of profit and loss	**(157,500)**	(97,500)
Total Comprehensive Loss for the half year	**(1,461,743)**	(1,554,413)
	Cents	Cents
Basic/ diluted earnings per share	**(0.06)**	(0.09)

The accompanying notes form part of these consolidated financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	Consolidated 31 December 2019 $	30 June 2019 $
Assets			
Current Assets			
Cash and cash equivalent		**6,216,058**	4,417,373
Trade and other receivables		**221,807**	374,678
Total Current Assets		**6,437,865**	4,792,051
Non-Current Assets			
Plant and equipment		**259,819**	278,477
Right of Use Asset	1	**190,015**	-
Deferred exploration expenditure	2	**24,553,935**	21,750,919
Investments		**450,000**	457,500
Total Non-Current Assets		**25,453,769**	22,486,896
Total Assets		**31,891,634**	27,278,947
Liabilities			
Current Liabilities			
Trade and Other Payables		**973,234**	1,286,637
Lease Liability - current	1	**104,580**	-
Provisions		**184,123**	53,885
Total Current Liabilities		**1,261,937**	1,340,522
Non-Current Liabilities			
Lease Liability – non-current	1	**124,673**	-
Total Non-Current Liabilities		**124,673**	-
Total Liabilities		**1,386,610**	1,340,522
Net Assets		**30,505,024**	25,938,425
Equity			
Issued capital	3	**89,333,950**	83,411,527
Reserves		**(725,221)**	(732,009)
Accumulated Losses		**(58,103,705)**	(56,741,093)
Total Equity		**30,505,024**	25,938,425

The accompanying notes form part of these consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

	Consolidated				
	Issued Capital	**Accumulated Losses**	**Asset Reval Reserve**	**Option Reserve**	**Total**
	$	**$**	**$**	**$**	**$**
Balance as at 1 July 2018	**76,177,333**	**(51,524,405)**	**(562,500)**	-	**24,090,428**
Loss for the period	-	(1,456,913)	-	-	(1,456,913)
Movement in fair value of investments recognised in equity	-	-	(97,500)	-	(97,500)
Total comprehensive loss for the period	**-**	**(1,456,913)**	**(97,500)**	**-**	**(1,554,413)**
Shares issued as consideration	105,000	-	-	-	105,000
Shares issued on conversion of options	3,412,875	-	-	-	3,412,875
Shares issued on conversion of Performance Rights	30,975	-	-	-	30,975
Capital Raising Cost	(9,352)	-	-	-	(9,352)
Balance as at 31 December 2018	**79,716,831**	**(52,981,318)**	**(660,000)**	-	**26,075,513**
Balance as at 1 July 2019	**83,411,527**	**(56,741,093)**	**(802,500)**	**70,491**	**25,938,425**
Opening balance adjustment on adoption of new accounting standard AASB16 *Leases*(1)	-	(58,369)	-		(58,369)
Balance as at 1 July 2019 Restated	**83,411,527**	**(56,799,462)**	**(802,500)**	**70,491**	**25,880,056**
Loss for the period	-	(1,304,243)	-		(1,304,243)
Movement in fair value of investments recognised in equity	-	-	(157,500)	-	(157,500)
Total comprehensive loss for the period	**-**	**(1,304,243)**	**(157,500)**	-	**(1,461,743)**
Shares issued as consideration	31,516	-	-	-	31,516
Shares issued on conversion of options	6,594,975	-	-	-	6,594,975
Shares issued on conversion of Performance Rights	27,099	-	-	-	27,099
Share based payments	-	-	-	164,288	164,288
Capital Raising Cost	(731,167)	-	-	-	(731,167)
Balance as at 31 December 2019	**89,333,950**	**(58,103,705)**	**(960,000)**	**234,779**	**30,505,024**

(1) See Note 1 for details of the adjustment as a result of a change in accounting policy.

The accompanying notes form part of these consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2019

		Consolidated	
		31 December 2019	31 December 2018
	Notes	$	$
Cash flows from operating activities			
Payments to suppliers and employees		**(1,834,018)**	(1,131,680)
Interest paid		**(20,094)**	-
Interest received		**18,753**	50,702
R&D Income		**267,900**	-
Net cash used in operating activities		**(1,567,459)**	(1,080,978)
Cash flows from investing activities			
Payments for exploration and mining interests		**(2,660,796)**	(1,448,532)
Payments for investments		**-**	-
Payments for property plant and equipment		**(3,625)**	(47,526)
Net cash used in investing activities		**(2,664,421)**	(1,496,058)
Cash flows from financing activities			
Proceeds from issue of shares		**6,594,975**	3,412,875
Share application funds held in trust		**-**	3,564,996
Payment of capital raising costs		**(506,605)**	(9,352)
Repayment of lease liabilities		**(57,805)**	-
Net cash provided by financing activities		**6,030,565**	6,968,519
Net increase in cash held		**1,798,685**	4,391,483
Cash at beginning of the period		**4,417,373**	5,152,782
Cash at end of the period		**6,216,058**	9,544,265

The accompanying notes form part of these consolidated 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 2019 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 be read in conjunction with the annual financial report for the year ended 30 June 2019 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.

Financial Position

The financial report has been prepared on the going concern basis, which contemplates the continuation of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The Group's primary source of funding is from capital raisings and equity funding. On 23 September 2019 the Group raised $6,594,975 in funds before costs via capital raising. For the half year ended 31 December 2019 the Group incurred a net loss of $1,304,243 (2018: $1,456,913). Further the Group incurred a cash out flows from operating and investing activities of $4,231,880 for the half year ended 31 December 2019.

The Group had a working capital surplus of $5,175,928 at 31 December 2019. The Group has a listed investment of $450,000 at 31 December 2019 that can be sold to generate further funds. The Group also has the ability to cut back and reduce discretionary costs as necessary. Furthermore, on 10 February 2020, the Group was awarded a $1.25 million research and development grant from the Australian Federal Government CRC-P.

Based on the working capital surplus at 31 December 2019, the value of the listed investment, the ability to raise further capital, the Group's ability to reduce discretionary costs and the research and development grant, directors consider the going concern basis of preparation to be appropriate.

New and Revised Accounting Standards

<u>Application of AASB 16 Leases</u>

AASB 16 replaces AASB 117 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. Consequently, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability and classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for June 2019 has not been restated. The new accounting policies that have been applied from 1 July 2019 are disclosed below.

The Company has applied the modified retrospective approach as follows:

- **Measurement of Lease Liability**
  - The Company recognised and measured the lease liability at the date of initial application being 1 July 2019 for leases previously classified as an operating lease applying AASB 117. The Company measured that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
  - Applying a single discount rate at the date to a portfolio of leases with similar characteristics.
- **Measurement of Right of Use Asset** – The Company measured the Right of Use Asset (ROU) at its carrying amount as if the standard had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application being 1 July 2019.
- **Lease Term** - The Company, under the modified retrospective method, used hindsight, such as in determining the lease term and if the contract contains options to extend or terminate the lease.

The difference between the Lease Liability and the Right of Use Asset on date of initial application being 1 July 2019 was adjusted to retained earnings as follows:

Total of lease commitments at 30 June 2019 for leases previously classified as an operating lease applying AASB 117.	57,685
Lease Extensions	298,858
Total Lease Commitments	**356,543**
Value of Lease Liabilities on 1 July 2019 - Measured based on the present value of the remaining lease payments using the lessee's incremental borrowing rate at the date of initial application 1 July 2019.	287,058
Right of Use Asset on 1 July 2019 - Measured as if the Standard had been applied since the commencement date of the lease using incremental borrowing rate at the date of initial application.	228,689
Adjustment to Retained Earnings on 1 July 2019	58,369

Movement in Right of Use Assets and Lease Liabilities for the half year ended 31 December 2019:

Right of Use Asset on 1 July 2019 (Property Leases)	228,689
Less Amortisation	(38,674)
Right of Use Asset on 31 December 2019	**190,015**
Lease Liability on 1 July 2019	287,058
Less Lease Payments*	(77,899)
Plus Interest*	20,094
Lease Liability at 31 December 2019	**229,253**
Current Liabilities	**104,580**
Non-Current Liabilities	**124,673**

*Lease payments in the statement of cash flows = $57,805

2. DEFERRED EXPLORATION EXPENDITURE

	31 December 2019 $	30 June 2019 $
Deferred exploration expenditure		
Expenditure brought forward	21,750,919	17,940,501
Expenditure incurred during the period	2,857,102	7,107,264
Impairment during the period	-	(3,296,846)
Expenditure written off during period	(54,086)	-
Expenditure carried forward	**24,553,935**	**21,750,919**

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.

3. ISSUED CAPITAL

	Notes	31 December 2019 $	30 June 2019 $
Issued Capital			
Issues and paid up capital			
Ordinary shares - fully paid	3(i)	91,295,486	84,641,896
Ordinary shares - partly paid	3(ii)	8,000	8,000
Share issue costs written off against issued capital		(1,969,536)	(1,238,369)
		89,333,950	**83,411,527**

Movement in ordinary share in issue		
(i) Ordinary share - fully paid	**No.**	**$**
Balance at beginning of period	1,973,843,787	84,641,896
Movement		
- Issue of ordinary shares via placements	573,476,491	6,594,975
- Issue of ordinary shares on conversion of performance rights	2,709,858	27,099
- Issue of ordinary shares in lieu of services rendered	2,771,834	31,516
Balance at end of Period	**2,552,801,970**	**91,295,486**
(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 2019 being:

1. **Exploration** – consisting of the Australian 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.

The following tables present revenue, expenditure and asset information regarding operating segments for the half-year ended 31 December 2019 and 31 December 2018.

Dec 2019	**Exploration** **$**	**Energy Storage** **$**	**Unallocated** **$**	**Total** **$**
Sales to External Customers	-	732	-	732
Other Revenue	249,643	-	72,499	322,142
Total Segment Revenue	**249,643**	**732**	**72,499**	**322,874**
Total Segment Results	**(195,578)**	**(132,058)**	**(976,607)**	**(1,304,243)**
Total Segment Assets	**24,553,935**	**139,663**	**7,198,036**	**31,891,634**
Total Segment Liabilities	**1,349,685**	**8,354**	**28,571**	**1,386,610**
Write off on Exploration Assets	(54,089)	-	-	(54,089)
Depreciation and Amortisation	-	(7,037)	(53,918)	(60,955)
Finance Costs	-	-	(20,094)	(20,094)
Interest Income	-	-	27,054	27,054

Dec 2018	**Exploration** **$**	**Energy Storage** **$**	**Unallocated** **$**	**Total** **$**
Sales to External Customers	-	592	-	592
Other Revenue	-	-	46,261	46,261
Total Segment Revenue	**-**	**592**	**46,261**	**46,853**
Total Segment Results	**(171,884)**	**(44,817)**	**(1,240,212)**	**(1,456,913)**
Total Segment Assets	**17,907,446**	**169,335**	**12,154,241**	**30,231,022**
Total Segment Liabilities	**399,842**	**64**	**3,755,603**	**4,155,509**
Write off on Exploration Assets	-	-	-	-
Depreciation and Amortisation	-	(8,232)	(17,047)	(25,279)
Finance Costs	-	-	-	-
Interest Income	-	-	46,261	46,261

5. CONTINGENT LIABILITIES

In October 2019 the Company signed an option agreement with Wyalong Pastoral Co Pty Ltd to purchase a site of 1,334 acres (subject to survey) inland from Geraldton, which has been identified as a possible location for its vanadium processing plant. The option expires on 31 October 2020 with two further one-year term extensions permitted. The purchase price for the land will be $2,100 per acre, to be calculated on the surveyed area. At 31 December 2019 the Company has not exercised the option.

6. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the half-year a Mineral Resource update has been released which has taken the total vanadium Resource at the Australian Vanadium Project to 208 million tonnes. The Company has been awarded a Federal Government CRC-P grant of $1.25 million on 10 February 2020. The Company has signed a Letter of Intent with Chinese company Hebei Yanshan Vanadium and Titanium Industry Technology Research Co Ltd, a subsidiary of HBIS Group Chengsteel.

These three events are outlined in the Review of Operations.

There are no further matters or circumstances that 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'):

3. 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 2019 and of its performance for the half-year then ended.
2. In the directors' opinion, 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, 13 March 2020

Independent Auditor's Review Report

ARMADA
AUDITING

T (08) 6165 4090 F (08) 6165 4067
A 18 Sangiorgio Court Osborne Park WA 6017
P Locked Bag 4 Osborne Park DC WA 6916
E info@armada.com.au

strength in numbers

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

Conclusion

We have reviewed the accompanying interim financial report of Australian Vanadium Limited ('the Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies, other explanatory notes and the directors' declaration of the Group comprising the Company and the entities it controlled at half-year end from time to time during the half-year.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of Australian Vanadium Limited is not is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Australian Vanadium Limited's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*;

Directors' Responsibility for the Interim 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 2019 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.

ARMADA
AUDITING

T (08) 6165 4090 F (08) 6165 4067
A 18 Sangiorgio Court Osborne Park WA 6017
P Locked Bag 4 Osborne Park DC WA 6916
E info@armada.com.au

strength in numbers

Auditor's Responsibility (Continued)

A review of an interim 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 identified in an audit. Accordingly, we do not express an audit opinion.

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.

AAA

ARMADA AUDIT & ASSURANCE PTY LTD

N. Dias

NIGEL DIAS

DIRECTOR

Perth, Dated 13 March 2020

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

ARMADA.COM.AU