

**Australian Industrial Minerals Limited (Administrators Appointed)
ACN 623 197 142 ('AIM')
Australian Abrasive Minerals Pty Ltd (Administrators Appointed)
ACN 118 292 756 ('AAM') (collectively 'the Companies')**

First meetings of creditors

**Held on 5 November 2019 at 11.30am at the offices of KordaMentha,
Level 5 Chifley Tower, 2 Chifley Square, Sydney NSW 2000**

Introduction

Rahul Goyal, Administrator of the Companies introduced himself as Chairperson for the meeting and welcomed the creditors to the first meeting of creditors of the Companies. He also introduced David Osborne, Paul Hewson and Michael Barrington-Smith of KordaMentha.

The Chairperson stated that the three directors of AIM and the sole director of AAM had resolved to appoint administrators on 24 October 2019.

The Chairperson advised the meetings had been called pursuant to Section 436E of the Corporations Act ('the Act'). The creditors were advised the purpose of the meetings was to determine whether to appoint a Committee of Inspection and, if so, who that Committee ought to be comprised of. Creditors could also by resolution remove the Administrators from office and appoint someone else as Administrator.

The Chairperson advised that the meetings would deal with procedural issues and provide an update on the Administrators' actions since appointment. The Chairperson also advised that creditors present would have the opportunity to ask questions of the Administrators.

The Chairperson introduced Graeme Clayton, a director of the Companies and Marcus Locke (attending by phone), Chief Operating Officer of AAM.

Chairperson

The Chairperson declared the meetings of the Companies open at 11.35 am and that, in accordance with Section 75-50(2) of the Insolvency Practice Rules (Corporations) 2016 ('the Rules'), he would be chairing the meetings.

Concurrent meetings

The Chairperson confirmed concurrent meetings would be held as no objections to that proposal had been received.

Time and place convenient

The Chairperson tabled the following documents:

- The Notice of Meetings and Notice of Appointment. On 25 October 2019, all known creditors were notified by post that the report was available to download.
- A copy of the Notice of Meetings and Notice of Appointment that appeared on ASIC's Published Notices website on 29 October 2019.

The Chairperson declared pursuant to Section 75-30 of the Rules, the meetings had been convened at a time and place convenient to the majority the Companies' creditors.

Attendance/Admission of proxies

The Chairperson considered the creditors present, both in person and by proxy or attorney, and enquired whether all those in attendance had signed either the creditors or observers register. The attendance registers are attached to these minutes.

The Chairperson advised that all proxies had been reviewed and admitted or rejected for voting purposes prior to the meetings.

Entitlement to vote and voting requirements

The Chairperson advised creditors that, in accordance with Section 75-85(4) of the Rules, a creditor could not vote in respect of a debt which was unliquidated, contingent or whose value had not been ascertained unless a just estimate of its value had been made.

He advised creditors that in accordance with Section 75-87(4) of the Rules, creditors holding security over the Companies' assets could vote without surrendering their security.

The Chairperson advised that motions were to be resolved on the voices unless a poll was demanded.

If a poll was demanded, a resolution would be passed if a majority of creditors present voted in favour of a resolution and a majority in value of creditors present voted in favour of a resolution.

The Chairperson explained he may exercise a casting vote if no result was reached for or against a resolution if the resolution did not relate to the remuneration or the removal of the external administrator.

Quorum

It was noted that, in accordance with Section 75-105(2) of the Rules, that a quorum was present for both meetings.

Administration Process

The Chairperson outlined the administration process including the first and second meetings of creditors, the preparation of a report to be prepared for creditors by the Administrators and the decisions creditors could make at the second meeting of creditors.

Administrators' address

The Chairperson provided the following update on events leading up to the Administration and an update on the Administration to date:

Actions occurring prior to appointment

1. AAM was previously placed into Voluntary Administration on 24 August 2017. The Chairperson, Richard Tucker and John Bumbak were appointed by the then board of AAM. At the time Trailstone Group were the secured creditor and a significant equity holder of AAM.
2. During the Voluntary Administration, Regal Funds Management ('Regal') purchased the secured debt from Trailstone, becoming the new secured creditor.
3. On 13 April 2018, a Deed of Company Arrangement proposed by Regal was passed at the second meeting of creditors. The DOCA was effectuated on the same day, meaning Regal, through its corporate entity, Tinsel Assets Pty Ltd, became the owner of AAM.
4. A Creditor's Trust was set up to distribute proceeds of the sale to AAM's creditors.
5. Tinsel Assets Pty Ltd then changed its name to AIM.
6. From the effectuation of the DOCA in April 2018 to the appointment of Administrators of the Companies on 24 October 2019, over \$26 million was raised by AIM and lent to AAM, the operating entity, via intercompany loans.
7. Of the \$26 million in funds raised, approximately \$11.2 million are convertible notes, with the remaining raised as ordinary equity.

8. At the time of the sale of the Trailstone Group debt to Regal, the mine was in care and maintenance program, with several technical issues requiring attention before operations could commence. The board of AIM used the funds raised to implement required capital upgrades and fund the working capital.
9. Issues with the operations mostly related to the requirement to add two new centrifuges which would enable de-sliming of the process water used in the Wet Concentrator Plant.
10. After these capital upgrades were completed, commissioning commenced in December 2018. In the following months, AAM experienced some commissioning issues which related to lower than expected production, as well as reliability issues at the mineral separation plant.
11. These issues arose at a time when AIM was pursuing an IPO on the ASX, and effectively led to the prospectus being withdrawn.
12. In April 2019, AIM commissioned an independent review from a consultant who had knowledge of the project including the withdrawn prospectus. The report identified various plant issues, mostly due to poor original design of the plant.
13. The board subsequently decided to raise further capital and continue the commissioning process, taking account of recommendations provided in the report.
14. In early April 2019, AIM changed its Chief Executive Officer, with Graeme Clayton taking over the position.
15. Since April 2019, the Companies' management have sought to improve the operations of the mine by identifying and navigating operational efficiency improvements, developing global customer relationships and building production and operations towards a 24/7 operation. However, management and the board's focus on increasing production has resulted in several infrastructure inefficiencies and issues on site which meant that the project in its current form is not economically sustainable. These issues primarily encompassed:
 - a. Dust contamination – very fine dust associated with clay fines that occur naturally in the orebody, if not removed sufficiently during the processing, will naturally adhere to the final garnet product. This ultimately effects the useability of the final product.
 - b. Mass recovery of product – the project was not achieving the targeted mass recovery of 90%, having only achieved approximately 50% mass recovery meaning four to five times as much waste was required to be backhauled to the mine.
 - c. Processing throughput – the process flow sheet has only been able to deliver less than 50% of forecast capacity.
16. In late August 2019, Remagen Capital provided a \$5 million secured loan to AIM, taking security over all the assets of AIM and AAM.
17. In September 2019, the previous Chief Operating Officer resigned and was replaced. The new Chief Operating Officer, a process and metallurgical engineer with over 20 years mineral sand design and operating experience, joined the Companies on 12 October 2019.
18. He undertook a thorough review and identified that the current design capacities of the facilities are insufficient to deal with the physical characteristics of the Harts Range ore.
19. As a result, management informed the board that the current plant configurations are incorrectly designed for the orebody and will therefore not deliver the quantities of saleable product in the marketing plan and the expected financial model. To rectify these deficiencies, management suggested that further capital would be required.
20. The board then sought to engage with the existing larger shareholders to gather their support to fund the Companies through the above process but were ultimately unsuccessful in attracting any significant interest.
21. The board was also concerned with unresolved electrical safety issues at Harts Range and commissioned an engineer to conduct a review of the electrical compliance and related safety aspects of the project. The audit report showed the Harts Range site was not safe to operate, needing urgent electrical attention and would require the site to be shut down for approximately one to two weeks. This resulted in the cessation of all operations at Harts Range on Friday 18 October 2019.
22. Employees at the Harts Range mine were subsequently sent home on 18 October 2019 whilst most employees at the mineral separation plant were sent home on 23 October 2019.

23. Management retained a small team to transition the mine on to a care and maintenance program prior to our appointment.

Actions occurring post appointment

1. As advised earlier, the Chairperson, John Bumbak and Richard Tucker were appointed Administrators of the Companies on 24 October 2019 by the three directors of AAM and the sole director of AAM pursuant to Section 436A of the Act.
2. The Administrators' team conducted a two-day site tour on 28 and 29 October 2019.
3. During the site inspection the Administrators' team:
 - a. inspected the Harts Range mine
 - b. inspected the mineral separation plant
 - c. reviewed the level of raw materials, work in progress and finished goods held on site
 - d. were shown areas of the mineral separation plant that required repairs and maintenance
 - e. met with AAM's liaison at the Department of Primary Industry and Resources.
4. Following the site inspection, the Administrators decided to continue the care and maintenance program and have prepared a roster for the next few months to ensure that two employees are always based on site.
5. The Administrators' strategy in the short term is to:
 - a. Continue to transition the mine and processing facility onto care and maintenance, with a focus on reducing the holding costs of the Companies during the Administration period.
 - b. Scope and undertake a new feasibility study for the mine and processing facility, to quantify and define the works required to upgrade the mine and mineral separation plant to a profitable production level. This process will take a minimum of three months, noting delays due to the upcoming Christmas period.
 - c. Once the costs and process to return the Companies to profitable operations is known, then a decision will be made regarding the best course of action for the Companies. This may include:
 - i. Running a recapitalisation process
 - ii. Obtaining additional secured funds
 - iii. Conducting an asset or share sale of the Companies
 - iv. Winding down operations
 - v. Or a hybrid of these options.
6. It is unknown how long this process may take, however it is expected to be approximately three months.
7. The Administrators believe their strategy will improve the potential returns to creditors in a scenario where interest to recapitalise, purchase or provide further debt to the Companies is sought with a sound feasibility study available to support the investment opportunity.
8. To allow the strategy to be implemented, the Administrators will require the Voluntary Administration to be extended by a period. At this stage the Administrators will be requesting the Court extend the convening period for up to six months with the ability to call a meeting earlier if required. This will allow the Administrators to get the feasibility studies completed and then look at how to maximise the return to creditors. The current Voluntary Administration period will not allow this.
9. The Chairperson confirmed no creditors present objected to this course of action and noted that if the Administrators extend the convening period by six months the next meeting of creditors will be delayed to May 2020.
10. The Administrators will provide update on their strategy to creditors, investors and shareholders every six weeks.

Update on key actions since appointment

1. In addition to the site inspection, the Chairperson provided an update on the key actions that have been taken since appointment.

2. The Administrators have attended to the issuing of our statutory notices and commenced dialogue with the key stakeholders including creditors/employees/suppliers/customers/lessors/government/investors and shareholders.
3. Open cover insurance was implemented which provides automatic insurance coverage for the first 30 days of appointment. The Administrators are in a process to determine the most appropriate form of insurance cover for the Companies under a care and maintenance program.
4. The Administrators have frozen the Companies' bank accounts and have swept funds into new Administrator controlled bank accounts.
5. The Administrators made 35 employees across the business redundant on 25 October 2019, the majority of which had already been sent home prior to our appointment.
6. The Administrators have retained 12 employees to assist during the Administration. This includes:
 - a. Five employees to manage the care and maintenance team at the Harts Range mine on rotation, noting two employees will always be at the mine.
 - b. Two employees at the mineral separation plant to assist with future sales and management of raw materials.
 - c. Two finance employees based in Perth who will help the Administrators with their statutory reporting obligations.
 - d. Three employees to assist with technical consultants including the former Chief Executive Officer who has been made redundant and hired on a casual contractor basis.
7. The Administrators continue to transition the operations to care and maintenance. The remaining onsite team have been instructed to maintain all onsite equipment in anticipation that the equipment will not be restarted in the short-term.
8. The Administrators have engaged Pickles Advisory and Valuations to conduct a review of the Companies' plant and equipment.
9. The Administrators issued notices to all registered PPSA parties on 31 October 2019, as they work towards minimising the care and maintenance costs as quickly as possible.
10. The Administrators' forensic team have commenced a process to capture and back up the Companies' electronic data.
11. The Administrators have engaged with the Companies' freight forwarding provider regarding five shipments that were underway when the Administrators were appointed.
12. The Administrators have prepared a detailed cashflow forecast which will be used to manage the Administration process.

Financial position of the company

1. The Chairperson provided a brief overview of the financial position on a consolidated basis noting that AIM is the parent entity of AAM.

Assets

2. On appointment, the Companies held cash of approximately \$1.8 million.
3. According to the Companies' management accounts as at 30 September 2019, the Companies held:
 - a. trade debtors of \$229,000
 - b. inventory of \$263,000
 - c. PPE of with a book value of \$33 million
 - d. other assets, including:
 - i. prepayments of \$271,000, largely relating to insurance pre-payments
 - ii. security deposits of \$810,000 – the majority of this is cash held with Northern Territory ('NT') Government for mine rehabilitation

- iii. exploration and development assets of \$837,000 – the majority of this is a recently purchased mining lease.
- 4. The Chairperson noted these amounts are unaudited and may have moved substantially in the period from 30 September 2019 to the date of our appointment.
- 5. The Administrators have not undertaken an assessment of the recoverability at this stage.

Liabilities

- 6. The Companies' accounts at 30 September 2019 include liabilities of:
 - a. Secured debt from Remagen Capital of \$5.7 million.
 - b. Convertible notes of approximately \$11.2 million (unsecured).
 - c. Trade payables of \$3.6 million which includes:
 - i. an accrual of \$540,000 for stamp duty which is pending review by the Northern Territory government. The actual liability is unknown.
 - ii. accrued interest on converting notes of approximately \$240,000.
 - d. Employee entitlements of \$548,437. Including payment in lieu of notice and redundancy, employee entitlements increases this to \$789,465.

Cash flow

- 7. With regards to cash flow, the Companies have incurred operating cash outflows totalling approximately \$8.9 million over the last six months.

Questions and answers

The Chairperson opened the meetings up to questions from those in attendance in person and by phone.

The first question received from creditors was why the Administrators were seeking an extension to the convening period of six months, rather than three months or four months.

The Chairperson advised that conducting a new feasibility study for the mine and processing facility would take approximately three months, determining who would purchase or recapitalise the Companies would take one to two months and a month would be required to call the second meetings of creditors to have the creditors approve any proposal.

The second question received from creditors was what the Administrators fees would be during the Administration.

The Chairperson advised that the first month would be approximately \$350,000, reducing to a monthly cost of approximately \$100,000 to \$150,000. The monthly rate will increase once the feasibility report is produced and in preparation for the second meeting of creditors. The Chairperson noted that the care and maintenance program would cost approximately \$250,000 per month and the feasibility study would cost approximately \$300,000.

The third question received from creditors asked who would be conducting the feasibility report.

The Chairperson advised that a party had not yet been selected. The scope was currently being finalised and then three parties would be approached to provide quotes.

The fourth question received from creditors asked to confirm the amount held as a security deposit.

The Chairperson advised that \$810,000 was held as a security deposit with the Northern Territory government in relation to rehabilitation costs.

Declaration of Independence, Relevant Relationships and Indemnities

The Chairperson tabled the Declaration of Independence, Relevant Relationships and Indemnities ('DIRRI').

The Chairperson discussed the circumstances of his appointment as Administrator, referred by Julian Barbarczy, a current director of AIM and a former director of AAM.

Committee of Inspection

The Chairperson noted that the first meeting of creditors of a company required the creditors to consider the election of a Committee of Inspection. He then added that pursuant to Section 80-35 of Schedule 2 of the Act, the functions of a Committee of Inspection of a company under administration are:

- to advise and assist the external administrator of the company
- to give directions to the external administrator of the company
- to monitor the conduct of the external administrator of the company
- such other functions as conferred on the Committee by the Act
- to do anything incidental or conducive to the performance of any of the above functions.

The Chairperson advised that he believed there should not be a Committee of Inspection formed for either of the Companies due to the relatively small quantum of creditors. He also noted he would send an update to creditors every six weeks and be available to discuss the administration on an informal basis with creditors.

The Chairperson then proposed the following resolution in respect of AIM:

'That a Committee of Inspection is not appointed in the Administration of Australian Industrial Minerals Limited.'

The Chairperson declared the resolution was passed on the voices.

The Chairperson then proposed the following resolution in respect of AAM:

'That a Committee of Inspection is not appointed in the Administration of Australian Abrasive Minerals Pty Ltd.'

The Chairperson declared the resolution was passed on the voices.

Removal of Administrators

The Chairperson advised that pursuant to Section 436E of the Act, the creditors may replace the Administrators. As no nominations for an alternative administrator were received, the appointment of Rahul Goyal, John Bumbak and Richard Tucker continues.

Closure of meeting

As there was no further business, the Chairperson declared the meeting closed at 12.05pm.

Signed as a true and correct record.



Rahul Goyal
Chairperson

12 November 2019