

Australian Abrasive Minerals Pty Ltd (Administrators Appointed)

ACN 118 292 756

Australian Industrial Minerals Limited (Administrators Appointed)

ACN 623 197 142 (together 'the Companies')

Second stakeholder update | 5 December 2019 – 16 January 2020

The purpose of this update is to ensure all stakeholders of the Companies are kept informed on the progress of the administrations. This second update to stakeholders should be read in conjunction with the first update provided to all known stakeholders on 4 December 2019.

1 Operations update

The Administrators have now completed the transition of the Hart's Range Mine ('HRM') and Mineral Separation Plant ('MSP') operations to care and maintenance, as follows:

- 1.1 Employees – the core employee/contractor group now comprises 10 people, of which six are overseeing the HRM and MSP on rolling rosters.
- 1.2 Leased equipment – the Administrators have now facilitated the return of most of the leased equipment and continue to work with lessors for the return of the residual leased equipment in time.
- 1.3 Purchase of generator – in order to reduce the standing cost at the MSP, the Administrators' have replaced the leased 800kVA generator with a company owned 200kVA generator in order to power the site machinery. This has significantly reduced the monthly standing cost and will allow the care and maintenance team to continue turning the machinery over and bag remaining garnet stock for sale.
- 1.4 Sale of MSP inventory – the Administrators' have completed sales of finished garnet product totalling \$40,920 since the first update to stakeholders. This brings total sales of finished product over the Administration period to \$95,722.
- 1.5 Department of Primary Industries and Resources ('DPIR') – on 9 December 2019, the Administrators received written confirmation from the DPIR to defer tenement rent requirements for a period of six months. Furthermore, we continue to be in discussions with DPIR to seek additional deferral of the Companies' Mining Security Levy obligations.
- 1.6 Insurance – the Administrators have finalised the go-forward insurance package with Willis for an initial three-month period and will continue this on a monthly basis as required.

2 Statutory investigations and reporting

Following the first update to creditors, the Administrators have continued to attend to all necessary statutory requirements and reporting as required. This remains an ongoing commitment to the relevant statutory bodies.

We have begun our investigations into the affairs of the Companies and the directors as required under the *Corporations Act* ('the Act'). These investigations will form a cornerstone of our report to creditors in accordance with s.439A of the Act.

A date for the release of the report is currently tentative, however will occur prior to a second meeting of creditors being scheduled.

3 Pre-appointment employee entitlements

We will be providing all employees with details of their estimated entitlements owing within the next fortnight. Our correspondence to all current and former employees will outline the process with regards to their respective claims.

4 Feasibility study update

The Administrators' proposed plan to conduct a feasibility study of the HRM and MSP, as outlined in the first update to stakeholders, has been paused.



We have obtained a number of quotes to conduct the feasibility study which is expected to cost in the order of ~\$400,000. We are unable to utilise existing funds to complete the study without having additional funding in place or an indemnity being provided for the employee entitlements. The secured creditor was asked to provide an indemnity, however, has not done so. No other investors have offered to provide the funding or indemnity.

The indemnity is required due to a need for the Administrators to preserve 'circulating' assets of the Companies to which priority (employee) creditors are first ranking, namely cash at bank. In circumstances where the Administrators are unable to secure an indemnity for amounts owing to priority (employee) creditors, then the Administrators are unable to utilise those 'circulating' assets for the benefit of 'non-circulating' assets, being the HRM and MSP.

On appointment, the Companies had a cash balance of ~\$1.719m. The Companies have employee entitlements owing of ~\$800,000 and a monthly care and maintenance cost of ~\$200,000 (before any Administrator costs). Therefore, should the Administrators proceed with the feasibility at a cost of ~\$400,000, there may be insufficient circulating assets available for priority (employee) creditors in a liquidation of the Companies. Therefore, without the consent of the secured creditor and indemnity for employee entitlements, the Administrators are unable to proceed with the previously outlined plan to conduct a feasibility study at this current time.

5 Secured creditor position

The Administrators have been advised that the secured creditor requires their facility to be repaid by no later than 31 January 2020. Should that not occur, the secured creditor has advised us that they will revisit their position and consider the options available to them. This could include taking possession, instructing the Administrators to realise the assets or propose a Deed of Company Arrangement ('DOCA') where they take control of the assets and/or the Company(ies). The secured creditor has advised the key financial stakeholders of this timeline.

The Administrators are therefore awaiting the 31 January 2020 refinance date to pass, as this will likely determine the pathway forward and future of the Companies. Details of the DOCA are not currently known and should a DOCA be received, then the Administrators will consider whether to call a meeting of creditors in accordance with s.439A of the Act for creditors to consider the DOCA proposed.

Should any parties wish to propose a DOCA, then we ask they contact our office immediately and prior to 31 January 2020.

6 Six-week outlook

Until further information is known on the way forward, the key work streams for the Administrators over the next six-weeks are as follows:

- 6.1 Statutory requirements, investigations and report to creditors – we will continue meeting our statutory obligations with ASIC, the ATO, and local and state government bodies. We will look to finalise our investigations into the affairs of the Companies and the directors to be included in the report to creditors.
- 6.2 HRM/MSP operations – we will continue maintaining the Companies' operations whilst on care and maintenance to ensure cash outflows are minimised while the outcome of the administrations is determined. The 'skeleton' crew of ten employees and contractors will continue to work with the Administrators to maintain the HRM and MSP.
- 6.3 Feasibility study – the Administrators will continue to hold discussions with the secured creditor regarding the postponed feasibility study, the 31 January 2020 deadline for refinance proposed by the secured creditor and consider any DOCA proposals that may be forthcoming.

7 Next update

Our next update to creditors will be provided by no later than 28 February 2020. Should a DOCA be received which the Administrators consider is in the best interests of creditors to consider, then a meeting will be called and creditors of the Companies will receive a report in accordance with s.439A of the Act.

All relevant correspondence and documents are made available to creditors of the Companies on our website at: www.kordamentha.com/creditors/australian-abrasive-minerals-pty-ltd

Should you have any questions in relation to this update or the Administrations, please contact Michael Barrington-Smith of this office on (02) 8257 3078 or by email at mbarringtonsmith@kordamentha.com.

