

Australian Abrasive Minerals Pty Ltd (Administrators Appointed)

ACN 118 292 756

Australian Industrial Minerals Limited (Administrators Appointed)

ACN 623 197 142 (together 'the Companies')

Third stakeholder update | 17 January 2020 – 3 February 2020

The purpose of this update is to ensure all stakeholders of the Companies are kept informed on the progress of the administration of the Companies. This third update to stakeholders should be read in conjunction with the first and second updates provided to all known stakeholders of the Companies on 4 December 2019 and 16 January 2020.

This update provides further details on the status of the Administrators' discussions with parties regarding a funding structure for the Engineering and Cost Study ('feasibility'), the funding proposal received, the position of Remagen ('Secured Creditor') and proposed next steps.

1 Feasibility study – paused

As outlined in the second update to stakeholders issued on 16 January 2020, the feasibility study has been paused.

As previously advised to stakeholders, the Administrators intended to engage various consultants and engineers to undertake a feasibility study to understand the capital requirements to fix the issues at the Harts Range Mine ('HRM') and Mineral Separation Plant ('MSP'). The cost of this study was ~\$400,000 and would take approximately three months to complete. The rationale was to provide certainty to any new investors on the quantum of investment required to address the issues at the HRM and MSP and to assist with any restructure proposal for the Companies.

Prior to accepting the appointment as voluntary administrators to the Companies, discussions were held with the directors of the Companies and the Secured Creditor regarding the strategy options and it was agreed that the feasibility strategy was the best way forward. Shortly after the appointment of the Administrators, we worked with various consultants and employees of the Companies to prepare a scope of works and request for tender for the feasibility study. The Secured Creditor had an active role in the preparation of the scope and request for tender. The Secured Creditor also arranged for a mining services expert (on their behalf) to attend the HRM and MSP for a tour, meet with the employees onsite and provide feedback and comments on the scope.

Shortly after the appointment, a cash flow was prepared for the initial three months of the Administration and forwarded to the Secured Creditor. A number of discussions took place regarding that cash flow which included the feasibility study. The Secured Creditor understood that the funds held by the Administrators would be insufficient to provide for the ongoing care and maintenance costs of the HRM and MSP, the feasibility study and the outstanding employee entitlements. Our second update to stakeholders sets out the basis on which the Administrators require the indemnity to proceed with the feasibility study and the estimated costs.

The Secured Creditor advised that it would provide an indemnity (in the absence of providing a loan to the Administrators) for the employee entitlements and that the Administrators should continue with obtaining various quotes for the feasibility study. Those discussions between the Administrators and the Secured Creditor continued throughout November and December 2019, in parallel with the Administrators' team defining the scope of works for the feasibility study, completing site tours (including the Secured Creditor's mining services expert), meeting with key project stakeholders (landholders, traditional landholders and the NT Government) and seeking proposals from consultants to deliver each limb of the proposed feasibility study.

On issuing the first update to stakeholders on 4 December 2019, whilst no indemnity had been provided by the Secured Creditor at that point, the Administrators had not been notified that no indemnity would be forthcoming. The Administrators therefore remained of the view that the feasibility study would still proceed as proposed and that the indemnity from the Secured Creditor would be forthcoming.

Once all quotes had been received from potential consultants for the limbs of the feasibility study, they were provided to the Secured Creditor seeking approval to commence the works immediately. Whilst the Secured Creditor agreed with our recommendation that the feasibility study should occur, no approval was forthcoming.



Throughout December 2019 and January 2020, discussions with the Secured Creditor continued with the Administrators seeking to obtain approval to commence works and obtain the indemnity. However, as outlined in our second update to stakeholders, the Secured Creditor subsequently advised the Administrators that:

1. The Secured Creditor requires its first ranking secured debt of ~\$6 million to be repaid by 31 January 2020; and
2. Should no refinance of the Secured Creditor's debt occur, then they may put forward a restructure proposal through a Deed of Company Arrangement (DOCA).

The Administrators remain of the view that proceeding with the feasibility study is the best way forward for creditors of AIM and AAM. However, in order for the feasibility study to proceed, the Administrators require the Secured Creditor's approval to commence those works and the indemnity (or suitable alternate funding structure) to provide for the employee entitlements.

2 Funding proposal received

Since the issuing of our second update to stakeholders on 16 January 2020, the Administrators have had discussions with several stakeholders regarding potential funding structures to allow the feasibility study to proceed.

One funding proposal was received on 29 January 2020, which at a headline contemplated:

1. The party advancing a loan of \$400,000 to fund the costs of the feasibility study, which was conditional upon that party being granted a super priority in respect of that loan.
2. The continued care and maintenance costs (before any professional fees) of ~\$200,000 would need to be funded from cash held in the Administrators' bank account. It is estimated that the feasibility study will take 3 months to complete, so ~\$600,000 in care and maintenance costs would be incurred.
3. The party did not propose any form of indemnity for outstanding employee entitlements. Therefore, based on the current cash flow forecast there would be insufficient cash on hand in three months' time (assuming a 1 February 2020 commencement), at completion of the feasibility study, to pay employee entitlements in full and cover the care and maintenance costs during that three month period.
4. Should the feasibility study return a favourable report, the party then required a further six months to complete a capital raising to recapitalise the Companies. The party proposed that the care and maintenance costs for this six-month period, being ~\$1.2 million (six months of ~\$200,000), may also need to be funded from cash held in the Administrators' bank account. As noted at point 3 above, there is insufficient cash on hand to meet this obligation without a further source of funding.

The Administrators tabled this proposal with the Secured Creditor on 30 January 2020 and were advised the proposal was not acceptable. The proposal proponent has been advised on the Secured Creditor's response.

3 Secured Creditor's position

The Administrators met with the Secured Creditor on 30 January 2020 to discuss the status of the project and the Secured Creditor's intentions. The Secured Creditor confirmed their position remains unchanged, being they require their first ranking secured debt of ~\$6 million to be repaid immediately. In parallel, the Secured Creditor is currently preparing a Deed of Company Arrangement ('DOCA') which they expect to put forward to the Administrators in the coming days. The Administrators suspect the Secured Creditor's DOCA proposal will propose that they retain control of the Companies and provide a small return to unsecured creditors.

4 Proposed next steps

Now that the Secured Creditor has advised that it is considering putting forward a DOCA proposal, the Administrators are inviting stakeholders to put forward a proposal. There are several considerations that proponents need to consider, which include:

1. Secured Creditor – who is currently owed ~\$6 million.
2. Employee entitlements – which total ~\$960k, being ~\$790k for AAM and ~\$170k for AIM
3. Unsecured creditors – which total ~\$14 million across AIM and AAM, excluding the intercompany loan owing by AAM to AIM of ~\$26 million.
4. Cost of the feasibility study – estimated at ~\$400k to \$500k (depending on the chosen limbs of the feasibility).
5. Care and maintenance costs – currently ~\$200k per month.



Any proposals will be put forward to the creditors with a recommendation from the Administrators. It is up to the creditors to resolve which proposal should be accepted. In the absence of a proposal or creditors decide not to accept any proposal, it is likely that the Companies will go into liquidation.

Due to the Secured Creditor not providing their authority to commence the feasibility study and provide the indemnity, and there currently being no acceptable funding structure available to the Administrators to fund the feasibility study / meet the care and maintenance costs, the Administrators have no other options other than to request DOCA proposals by no later than 5.00pm AEDST on 14 February 2020.

Should no DOCA proposals be received by that date, the Administrators will likely convene the second meeting of creditors in accordance with s.439A of the Corporations Act and in the absence of any DOCA proposals, will be recommending liquidation of the Companies.

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.

