



Australian Industrial Minerals Limited

(Receivers and Managers Appointed) (In Liquidation)

ACN 623 197 142

Statutory Report by Liquidator

29 April 2020

KordaMentha

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Glossary

Abbreviation	Definition
AAM	Australian Abrasive Minerals Pty Ltd (Subject to Deed of Company Arrangement)
Act	Corporations Act 2001 (Commonwealth)
AIM	Australian Industrial Minerals Limited (Receivers and Managers Appointed) (In Liquidation)
ASIC	Australian Securities and Investments Commission
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLC	Central Land Council
Companies	Australian Abrasive Minerals Pty Ltd (Subject to Deed of Company Arrangement) & Australian Industrial Minerals Limited (Receivers and Managers Appointed) (In Liquidation)
COO	Chief Operating Officer
Directors	Graeme 'Joe' Clayton (commenced 1 April 2019) Robert Benussi (commenced 20 March 2019 / ceased 16 December 2019) Julian Babarczy (commenced 7 February 2018 / ceased 21 November 2019) Robert Brand (commenced 20 February 2006 / ceased 1 April 2019) Fletcher Curtis Brand (commenced 10 December 2007 / ceased 1 April 2019) Bruce Hancox (commenced 26 September 2018 / ceased 14 March 2019)
Management	Graeme 'Joe' Clayton (commenced 1 April 2019) Marcus Locke (commenced 12 October 2019) Fletcher Curtis Brand (commenced 1 July 2014 / ceased 13 September 2019) Robert Brand (commenced 20 February 2006 / ceased 1 April 2019) Mark Pearson (commenced 19 September 2019 / ceased 31 October 2019) Paul Mason (commenced 30 April 2018 / ceased 15 November 2019)
DOCA	Deed of Company Arrangement
DPIR	Department of Primary Industry and Resources
FEG	Fair Entitlements Guarantee Recovery Program
FSP	Fine Screen Plant
HMC	Heavy Mineral Concentrate
HRM	Hart's Range Mine
IPO	Initial Public Offering
Liquidators	Rahul Goyal, John Bumbak and Richard Tucker
MSP	Mineral Separation Plant
MSP Co	Mineral Separation Plant Pty Ltd
PPE	Property, plant and equipment
PPSR	Personal Property Securities Register
Project	Harts Range Mine including plant and equipment, tenements, MSP and all other assets of AAM and AIM
Regal	Regal Funds Management
ROCAP	Report of Company Activities and Property
Rules	Insolvency Practice Rules (Corporations) 2016
Secured Creditor & Remagen Capital	RCM ST Pty Limited / Remagen Capital Management Pty Limited
Tinsel	Tinsel Assets Pty Ltd
Trailstone	Trailstone UK II Ltd
WCP	Wet Concentrator Plant

1 Introduction

As you are aware, Rahul Goyal, John Bumbak and Richard Tucker were appointed Voluntary Administrators of Australian Industrial Minerals Limited (Receivers and Managers Appointed) (In Liquidation) on 24 October 2019 pursuant to Section 436A of the Corporations Act 2001 ('the Act'). At the Second Meeting of Creditors of the Company held on 4 March 2020, the creditors of the Company resolved that the Company be wound up under Section 439C(c) of the Act and Rahul Goyal, John Bumbak and Richard Tucker were appointed as Liquidators of the Company under Section 499 of the Act.

On 3 March 2020 Todd Gammel and Barry Taylor of HLB Mann Judd ('Receivers') were appointed as Receivers and Managers to certain assets of the Company by the Secured Creditor. We are continuing to liaise with the Receivers in order to understand the extent to which they intend to take control of the assets they have been appointed to going forward.

We refer to our initial report providing information for creditors dated 17 March 2020, in which we advised you of our appointment as Liquidators and your rights as a creditor in the liquidation.

This report is provided in accordance with Section 70-40 of the Insolvency Practice Rules (Corporations) 2016 ('Rules') and the Code of Professional Practice issued by the Australian Restructuring Insolvency and Turnaround Association ('ARITA'). The purpose of this report is to:

- provide you with an update on the progress of the liquidation; and
- advise you of the likelihood of a dividend being paid in the liquidation.

We have relied on information provided from numerous sources to prepare this report, including:

- The Company's books and records.
- The ROCAP as submitted by the directors, Graeme 'Joe' Clayton, Rob Benussi and Julian Babarczy, for the Company as at 24 October 2019.
- Information from public sources, such as the ASIC and the PPSR.
- Discussions with the Company directors, employees and other key stakeholders.

Whilst we have no reason to doubt the accuracy of any information, we have not performed an audit and reserve the right to alter our conclusions, should the underlying data prove to be inaccurate or change materially from the date of this report.

If further information becomes available on the progress of the liquidation, we may distribute a further report to creditors.

This report should be read in conjunction with the Report by Administrators dated 26 February 2020 ('Report by Administrators'). This report is available from the KordaMentha website at:
www.kordamentha.com/creditors/australian-abrasive-minerals-pty-ltd.

2 Company background

2.1 Company Information

Please refer to the Report by Administrators for details about the Company's background, officers and historical financial information.

2.2 What happened to the business of the Company

AIM is a public, unlisted company that held 100% of the shares in the subsidiary company, Australian Abrasive Minerals Pty Ltd (Subject to Deed of Company Arrangement), which is the operating entity and which holds the HRM and MSP assets.

On 24 October 2019, Rahul Goyal, John Bumbak and Richard Tucker were appointed Voluntary Administrators of AAM pursuant to Section 436A of the Act. At the Second Meeting of Creditors of AAM held on 4 March 2020, the creditors of AAM resolved that AAM execute a DOCA proposed by Remagen Capital. Subsequently, on 24 March 2020 the DOCA was signed and Rahul Goyal, John Bumbak and Richard Tucker were appointed Deed Administrators pursuant to Section 444A(2) of the Act.

The terms of the DOCA provide that upon satisfaction of the conditions precedent, AIM's shareholding in AAM will be transferred to a nominee company of Remagen. This will mean that AIM will no longer hold any shares in AAM. AIM remains an

unsecured creditor of AAM, in respect of an intercompany loan receivable balance. The Receivers of AIM have submitted a proof of debt in the deed administration of AAM for \$35.0 million, as that intercompany loan is one of the assets over which they have been appointed. The Deed Administrators of AAM do not however anticipate a dividend being payable to unsecured creditors and therefore AIM, or its Receivers on behalf of the Secured Creditor, is not expected to receive any distribution.

We note that the appointment of Receivers and Managers to AIM on 3 March 2020 extends to select assets of AIM, including the intercompany loan receivable balance owing from AAM. We are currently awaiting confirmation from the Receivers and Managers as to their chosen way forward for the assets over which they have been appointed. This may include, for example, the potential recovery actions set out in the Report by Administrators.

As detailed in the Report by Administrators, the below summarises the key events from the incorporation of AIM and AAM, given their inter-relationship, through to the appointment of administrators on 24 October 2019.

2.2.1 Key events prior to 24 August 2017

- AAM was incorporated on 20 February 2006. In 2010, AAM acquired the HRM from Matilda Zircon Ltd (formerly Olympia Resources Ltd; an ASX listed company).
- An extensive work program identified that the HRM contained one of the world's largest garnet deposits. During late 2013 and early 2014, AAM sought third-party investment to fund the development of the HRM mining and processing facilities, including the Mineral Separation Plant ('MSP') and Wet Concentrator Plant ('WCP').
- On 16 May 2014, AAM secured a large initial equity investment from Trailstone, received via several instalments over 12 months.
- From May 2014 to November 2016, AAM developed and commenced the first commissioning of the Project's primary processing facilities being the WCP, MSP and packing and storage infrastructure. During this period, Trailstone continued to provide significant additional equity funding to AAM following an agreement to expand on the initial size and capacity of the Project's processing plant and equipment.
- AAM established a 100% owned subsidiary, MSP Co, on 23 December 2015 which was to be responsible for royalties payable by AAM to the Central Land Council ('CLC'). MSP Co remained mostly dormant up until the appointment of administrators on 24 August 2017.
- In November 2016, it became evident that due to the Project's limited water supply, the name plate Heavy Mineral Concentrate ('HMC') production for the WCP, being 32 tonnes per hour, would not be attainable without the implementation of improved water use and recovery methodologies.
- From December 2016 to July 2017, AAM planned and implemented the installation of the Fine Screen Plant ('FSP') (to reduce water use) and centrifuge filters (to increase water recovery) into the WCP. The additional capital expenditure was funded by Trailstone via secured debt.
- During the commissioning of the FSP and centrifuge filters, AAM produced approximately 2,000 tonnes of garnet and continued to experience operational issues that inhibited name plate capacity.
- A further significant funding request was made to Trailstone in early August 2017. Given the material cost overruns and ongoing operational issues, the funding request was declined, and Richard Tucker, John Bumbak and Rahul Goyal were subsequently appointed as Administrators of AAM and MSP Co on 24 August 2017.
- At 24 August 2017 the scope of additional capital expenditure and cost required to rectify the Project infrastructure issues to achieve name plate capacity (and profitability) was not formally known or defined.

2.2.2 Key events from 25 August 2017 to 13 April 2018

- During the administration, the Administrators conducted a sale process from November 2017 to January 2018 which was funded by the secured creditor at that time, Trailstone.
- Prior to the completion of the sale process, Regal Funds Management ('Regal'), through a corporate entity Tinsel Assets Pty Ltd ('Tinsel') purchased Trailstone's equity holdings and secured debt in AAM, becoming the new secured creditor of AAM and the 92% majority shareholder in AAM. Michaelmas Holdings Pty Ltd held the remaining 8% shareholding.
- Tinsel was incorporated on 1 December 2017 as a vehicle for Regal to acquire the secured debt and equity stake in AAM.
- On 13 April 2018, a DOCA proposed by Regal was passed at the second meeting of creditors of AAM and MSP Co. The DOCA was effectuated on the same day, meaning Regal, through its corporate entity, Tinsel, became the 100% owner of AAM.

- Pursuant to the terms of Tinsel DOCA:
 - Tinsel acquired the remaining 8% of shares in AAM held by Michaelmas Holdings Pty Ltd.
 - A creditors' trust was established whereby all creditors of AAM would be transferred to share in the distribution.
 - Entitlements for current employees were preserved, while entitlement claims for terminated employees were paid in full, with most paid in June 2018 and the remaining in September 2018.
 - Unsecured creditors received a distribution of 5c/\$, which was paid on 30 January 2020.
- At the second meeting of creditors of AAM and MSP Co, on 13 April 2018, creditors resolved to wind up MSP Co. Accordingly, MSP Co. was placed into liquidation on 13 April 2018 and the company was later deregistered on 19 March 2019.
- At the time of the AAM DOCA effectuation, the scope of additional capital expenditure and cost required to rectify the Project infrastructure issues to achieve name plate capacity (and profitability) was not formally known or defined.
- On 30 November 2018, Tinsel changed its company name to AIM.

2.2.3 Key events from 14 April 2018 to 24 October 2019

The Directors of the Companies have provided the following summary of events for the period commencing after effectuation of the previous AAM DOCA on 13 April 2018 through to the appointment of the Administrators, on 24 October 2019.

- Upon the effectuation of the DOCA on 13 April 2018, \$11.0 million of equity was provided by shareholders to recapitalise AAM and its parent company, AIM (then Tinsel).
- Upon recapitalising the Companies, the Directors of AIM set about raising further funds to implement what they considered to be the necessary capital upgrades and fund the required working capital to increase operational output. Capital upgrades identified were mainly related to the addition of two new centrifuges which would enable de-sliming of the process water used in the WCP.
- Between 13 April 2018 and the appointment of Administrators on 24 October 2019, over \$26.0 million in funds were raised by AIM comprising:
 - ~\$9.4 million in the form of convertible notes, from 44 noteholders
 - ~\$5.0 million in secured debt from the Secured Creditor
 - ~\$13.0 million in ordinary equity which includes the initial \$11.0 million in funding provided upon effectuation of the AAM DOCA, from 33 shareholders.
- The majority of AAM's funding was provided via an intercompany loan from AIM to meet operational expenditure and the costs of capital upgrades. More information about the use of funds is included in section 3.9.2 of this report.
- After completion of the centrifuge works, operations re-commenced in December 2018. In the following months, operations experienced commissioning issues which related to lower expected production rates, as well as reliability issues with equipment leading to unscheduled down time.
- At the same time as the operational ramp-up, Management and the Directors of AIM were advancing an IPO of the company on the ASX. However, following the operational and reliability issues encountered the prospectus was withdrawn on 11 March 2019.
- In early April 2019, Robert Brand resigned as Chief Executive Officer ('CEO') and was replaced by Graeme Clayton ('Joe').
- In April 2019, AIM commissioned an independent experts report. The report identified various plant issues, and largely attributed these to the poor design of the plant.
- The Directors of AIM, relying on the independent expert report, raised a further \$3.9 million in May 2019 and continued the commissioning process.
- Since April 2019, Management sought to improve the operations of the mine by identifying and navigating operational efficiency improvements, developing global customer relationships through entering non-binding memorandum of understandings and building production and operations towards a 24/7 operation.
- In late August 2019, the Secured Creditor provided a \$4.9 million secured loan to AIM, taking security over all the assets and undertakings of the Companies.
- In September 2019, Curtis Brand resigned as Chief Operating Officer ('COO') and was replaced by Marcus Locke ('Marcus'), who joined the Companies on 12 October 2019.
- In October 2019, Marcus undertook a review of the Project and identified that the current design capacities of the FSP, WCP and MSP were, in his opinion, insufficient to deal with the physical characteristics of the Harts Range ore (oversize,

clay, heavy mineral content and assemblage). These design issues, along with other production issues, primarily encompassed:

- Dust contamination – very fine dust associated with clay fines that occur naturally in the orebody, if not removed sufficiently during processing, will naturally adhere to the final garnet product. This ultimately affects the useability of the final product as the garnet is ‘dirty’.
- Mass recovery of product – the Project was not recovering 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 as residual sand from the MSP to the HRM.
- Processing throughput – the process flow sheet had only been able to deliver less than 50% of forecast capacity.
- As a result, Management informed the Directors at a board meeting on 18 October 2019 that in their opinion, the current plant and flow sheet configuration issues prevent the HRM and MSP from delivering saleable quantities of product outlined in the marketing plan and expected in the financial model. To rectify these flowsheet deficiencies, further capital would be required, however the scope, cost and timing to deliver the necessary works was not definitively known.
- The Directors subsequently sought to engage with the existing larger shareholders of AIM throughout October 2019 to gather their support to fund the Companies through a feasibility study, to allow the unknown rectification capital works to be defined and quantified. The Directors were ultimately unsuccessful in attracting any significant interest from the larger shareholders.
- Throughout October 2020, the Directors were also concerned about unresolved electrical safety issues at the HRM and commissioned an engineering consultant to conduct a review of the electrical compliance and related safety aspects of the HRM. This report was delivered to Management on 17 October 2019.
- The report concluded that the HRM 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 the HRM on 18 October 2019.
- Employees at the HRM were subsequently stood down on 18 October 2019 while most employees at the MSP were stood down on 23 October 2019.
- Management retained a small team to transition the operations onto a care and maintenance program and on 24 October 2019, once it became clear that raising further capital was not possible, the Directors placed the Companies into voluntary administration.

3 Update on the progress of the Liquidation

3.1 Asset realisations

No further asset realisations have occurred since the issuing of our Report by Administrators. As at the date of this report, total realisations are \$125,054.88. This comprises the balance of cash at bank on appointment.

We do not currently anticipate any further asset realisations to occur in the Liquidation of the Company. We note that the Report by Administrators set out a number of potential recoveries available to creditors of the Company. At the date of this report we are unaware of the quantum of these recoveries and therefore, until those investigation are further advanced, we are unable to comment further.

3.2 Assets and liabilities

A summary of the ROCAP as prepared by the directors and the Liquidators’ estimated realisable value of the assets and estimated liabilities are detailed below:

	Directors		Liquidators		Total (Excl GST) \$'000	Notes
	ROCAP \$'000	Number of creditors	Value recovered to date \$'000	Estimated future recoveries \$'000		
Current assets	27,483		125	-	125	1
Other potential recoveries	-		-	Unknown	Unknown	2
Total assets	27,483		125	-	125	
Employee entitlements:		2				3
Wages and superannuation	-		(7)	-	(7)	
Leave of absence	-		(6)	-	(6)	
Retrenchment	-		(157)	-	(157)	
Secured creditors	(4,991)	1	(5,690)	-	(5,690)	4
Unsecured creditors	(129)	59	(13,453)	-	(13,453)	5
Total liabilities	(5,120)		(19,313)	-	(19,313)	
Estimated surplus/(deficiency) subject to the costs of the Liquidation	22,363		(19,188)	-	(19,188)	

Notes

Note 1: The book value of current assets relates to the inter-company loan receivable from AAM, along with the investment in AAM accounted for on the balance sheet. We note, due to AAM executing a deed of company arrangement ('DOCA'), and the likelihood of unsecured creditors in the AAM DOCA not receiving a dividend, we expect the realisable value of current assets to consist of the cash at bank only.

Note 2: We are currently exploring potential recoveries available to creditors of the Company. At the date of this report we are unaware of the quantum of these recoveries and therefore, until those investigation are further advanced, we are unable to comment further.

Note 3: Both employees of AIM have been made redundant as at the date of this report. Please refer to section 3.3 of this report for a more detailed explanation of employee entitlements.

Note 4: The book value of the secured creditor balance listed in the directors' ROCAP does not take into consideration the capitalisation of interest since the facility was first drawn in August 2019. The secured creditor balance in the liquidation scenario is based upon the balance as at 24 October 2019 and we note that interest has continued to accrue since this date.

Note 5: The unsecured creditor balance book value does not account for the convertible noteholders. As at 24 October 2019, the convertible noteholder balance was \$12.0 million and is represented in the liquidation scenario. We note that the convertible notes have continued to accrue interest since this date.

3.3 Employees

In total, two staff were employed by the Company at the time of our appointment, with one employee terminated on 31 October 2019 and another terminated on 31 March 2020. We have undertaken a review of Company records to determine employment types and outstanding entitlements as at our appointment, being 24 October 2019. Our calculations of estimated pre-appointment priority employee entitlements by category is provided below:

Entitlement category	(\$)
Wages	-
Superannuation	6,852.80
Annual leave	5,548.06
Long service leave	-
Redundancy	-
Pay In-Lieu of Notice ('PILN')	157,406.25
Total	169,807.11

We note, any entitlements accrued over the administration period have been paid separately to the employees as a cost of the administration.

Fair Entitlements Guarantee Recovery Program ('FEG')

As we have determined that there will be insufficient asset realisations available to satisfy outstanding priority employee entitlements in full, eligible employees may now lodge a claim for their outstanding entitlements through the FEG scheme.

Employees that we have identified as being eligible for FEG assistance will be issued a letter detailing the process for claiming their entitlements with FEG.

We will continue to liaise with FEG in the coming months to assist in progressing the verification and assessment of employee claims.

3.4 Secured creditor

On 3 March 2020 Todd Gammel and Barry Taylor of HLB Mann Judd were appointed as Receivers and Managers to certain assets of the Company by the secured creditor. We are continuing to liaise with the Receivers in order to understand the extent to which they intend to take control of the assets they have been appointed to.

Remagen have submitted a proof of debt in the amount of \$5.7 million. As at the date of our appointment, on 24 October 2019, Remagen was the only secured creditor of AIM, registered on the PPSR.

3.5 Unsecured creditors

We have received proof of debt forms in the amount of \$4.8 million in unsecured creditor claims consisting of trade creditors and convertible noteholders. As stated in section 7.3 of this report, we do not anticipate there being sufficient asset realisations for a distribution to unsecured creditors of AIM.

3.6 Other matters

Further actions undertaken by us and our staff during the Liquidation since the Report by Administrators include:

- Further investigating the Company's affairs.
- Closing pre-appointment bank accounts.
- Attending to statutory lodgements including BAS returns and ASIC reporting.
- Reviewing and authorising payments in relation to the Administration/Liquidation periods.
- Convening and holding of the Second Meeting of Creditors.
- Assessing creditors' claims, where necessary.
- Conducting the dividend process for priority (employee) creditors.
- Liaising with the Receivers.
- Liaising with the secured creditor, Remagen.
- Preparing this report.

3.7 Receipts and payments for the period 24 February 2020 to 31 March 2020

Please refer to Appendix 1 of this report for a full listing of receipts and payments for the period 24 February 2020 to 31 March 2020, being the period since the last receipts and payments listing was provided to creditors.

4 Investigations and recovery actions

We are required to investigate the affairs of the Company. To date, we have conducted preliminary investigations, building on those completed during the Administration of the Company. The purpose of these investigations is to identify matters which require a more detailed review, as well as determining any cause of action and other potential sources of recovery that may be available for the benefit of creditors of the Company.

The investigations have focused on a number of areas pertaining to the following potential conduct:

- Unfair preference payments.
- Uncommercial transactions.
- Unfair loans.
- The liability of the Directors for insolvent trading.
- Other breaches of the Act by the Directors of the Company.

A liquidator may be able to recover on behalf of a company, compensation for any loss suffered by a company as a result of any breaches of duties owed to it by a director.

Any offences that may have been committed by the directors of the Company, as discussed in this report, will be reported to ASIC under Section 533 of the Act.

4.1 Approach to investigations

Throughout our investigations, we have built on the tasks completed during the Administration. Our approach during the Liquidation has included:

- Reviewing transactions entered into by the Company.
- Identification, review, reconstruction and analysis of financial information in electronic form.

4.2 Limitation of investigations

The opinions outlined below are based on investigations undertaken by our office into the Company's affairs, business and financial position. Our investigations have been based on the following information:

- Representations of the directors of the Company.
- The details of the Company's assets and liabilities as established by our office.
- The books and records of the Company which have been written up to record transactions of the Company to 24 October 2019. Our investigations are limited to the books and records available to us.

If creditors are aware of any additional information that may assist our investigations, they should contact this office in writing as soon as possible.

4.3 Offences under the Act by the director

Books and records

Failure to maintain books and records may be relied upon by a liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to Division 2 of Part 5.7B of the Act.

In our opinion, the Company has maintained books and records in accordance with Section 286 of the Act.

General directors' duties

We have further investigated whether there have been any pre-appointment contraventions of the following directors' fiduciary duties under the Act:

- Section 180 Care and diligence – civil obligation only.
- Section 181 Good faith – civil obligations.
- Section 182 Use of position – civil obligations.
- Section 183 Use of information – civil obligations.
- Section 184 Good faith, use of position and use of information – criminal offences.

We have not identified any contraventions at this point in time.

4.4 Other open items from Report by Administrators

4.4.1 External consultant project review

We are currently in discussion with the Receivers to understand their role in relation to the investigation and pursuit of the potential claim in this matter. We will provide an update to creditors in due course.

Please refer to section 4.7.1 of the Report by Administrators for a detailed overview of the external consultant project review.

4.4.2 Consultant transaction

We are currently in discussion with the Receivers to understand their role in relation to the investigation and pursuit of the potential claim in this matter. We will provide an update to creditors in due course.

Please refer to section 4.7.3 of the Report by Administrators for a detailed overview of the consultant transaction.

4.4.3 Advisor transaction

We are currently in discussion with the Receivers to understand their role in relation to the investigation and pursuit of the potential claim in this matter. We will provide an update to creditors in due course.

Please refer to section 4.7.4 of the Report by Administrators for a detailed overview of the advisor transaction.

4.5 Possible recovery actions available to the Liquidators

4.5.1 Insolvent trading

Insolvent trading date

The Report by Administrators detailed the likely date of insolvency of the Company and reasons why. We have made further inquiries and have not identified any additional information to change this view. As such, we are still of the view that the date of insolvency of the Company was around the time of the appointment of Administrators on 24 October 2019.

As discussed in the Report by Administrators, this is evidenced by:

- The Company's cash position, whilst fluctuating over the period 13 April 2018 to 24 October 2019, was always sufficient to meet its current debts as and when they were payable.
- Whilst the Company's ability to continue as a going concern was reliant on continued capital raisings (both debt and / or equity), there was a demonstrated ability to raise capital from a broad group of investors.
- As a result of the operating entity's project review by the group COO, which highlighted numerous infrastructure issues and following receipt of the Primero electrical compliance and safety report (section 4.6.1 of the Report by Administrators) in October 2019, operations of AAM ceased on 18 October 2019. The board of AIM subsequently sought financial support from AIM's significant shareholders which was not forthcoming, and an appointment was subsequently made on 24 October 2019.

Our investigations have given consideration to the extent to which current and former management and directors of the Company may have been aware of the infrastructure and electrical compliance issues. In circumstances where management and the directors had investigated these issues earlier, then the withdrawal of support by shareholders may have resulted in an inability for the Company to continue to operate at an earlier date.

Please refer to section 4.8.1 of the Report by Administrators for commentary on the key operational issues of AAM.

Should any claim for insolvent trading against the directors of the Company be brought, such claim(s) would need to be assessed on commercial grounds, including:

- Likelihood that pursuing a claim of insolvent trading would be successful, taking into account the defences available to directors.
- Cost of the litigation.
- Likelihood of recovery against the directors of the Company.

The Act provides directors with a number of defences to a claim for insolvent trading. We are unable to comment, at this date, as to whether they would have any defences.

Based on the above and the costs to creditors for pursuing a claim for insolvent trading, we do not currently propose to initiate any action for insolvent trading.

4.5.2 Voidable transactions

Following on from the Report by Administrators, we have finalised our review of the Company records. The records do not indicate, and we are not aware of, any voidable transactions under sections 588FA (unfair preferences), 588FB (uncommercial transactions) and 588FD (unfair loans) of the Act.

Unfair preferences

An unfair preference is a transaction that involves the repayment of an outstanding debt in preference to other debts owed by the Company. A further review of the Company's records indicates that no preferential payments have been made to creditors.

Uncommercial transactions

An uncommercial transaction is a transaction that a reasonable person would not have entered into. We are unaware of any uncommercial transactions entered into by the Company.

Unfair loans

Essentially an unfair loan is a loan agreement where the consideration is considered to be excessive. We are unaware of any unfair loans entered into by the Company.

4.6 Further inquiries

As stated in section 4 of this report, we are currently in discussions with the Receivers to understand their intentions in relation to investigating the potential recoveries highlighted in this section, including the other open items in Section 4.4 of this report. We will write to all creditors of the Company upon new developments in the investigations.

5 Meeting of creditors

The Second Meeting of Creditors of the Company was held on 4 March 2020. Twelve creditors were present by proxy and by phone at the meeting. The outcomes from that meeting were as follows:

- The Company be wound up pursuant to Section 439C of the Act
- The remuneration for the Administrators for the period 24 October 2019 to 16 February 2020 in the amount of \$61,577.50 (excluding GST) was approved by creditors.
- The remuneration for the Administrators for the period 17 February 2020 to 4 March 2020 in the amount of \$12,000.00 (excluding GST) was approved by creditors.
- The remuneration for the Liquidators for the period 5 March 2020 to the finalisation of the Liquidation up to the amount of \$40,000.00 (excluding GST) was approved by creditors.
- No Committee of Inspection was appointed.

Minutes of the meeting of creditors have been lodged with ASIC.

At this time, there have been no meetings of creditors held in the Liquidation. If we receive a request for a meeting that complies with the guidelines set out in the initial information provided to you, we will hold a meeting of creditors. Otherwise we do not intend to call a meeting of creditors at this time.

6 Cost of the liquidation

As previously advised in our initial information to creditors, we have estimated that our total remuneration for the Liquidation will be \$40,000.00 (GST exclusive).

As stated in section 5 of this report, we received approval from creditors for remuneration sought for the Liquidation period in the amount of \$40,000.00 (GST exclusive).

It is unlikely we will be paid the amount approved by creditors for the Liquidation.

6.1 Disbursements

Attached as Appendix 2 is a summary of disbursements incurred to date. Disbursements have been categorised as follows:

- Externally provided professional services – these are recovered at cost. An example of an externally provided professional service disbursement is legal fees.
- Externally provided non-professional disbursements – these are recovered at cost. Examples of externally provided professional service disbursements are travel, accommodation, search fees and lodgement fees.
- Internal disbursements – these are recovered on a reasonable commercial basis. These disbursements are generally charged at cost, though some may be charged at a rate which recoups both variable and fixed costs. Examples of internal disbursements include printing and postage costs, travel allowance and data room hosting. Internal disbursements will only be paid once approved.

Details of our disbursement policy are included in the schedule titled KordaMentha Rates – National – FY20, previously provided to creditors.

6.1.1 External disbursements

We are not required to seek creditor approval for externally provided disbursements but must account to creditors for disbursements that have been paid or incurred. Where amounts have been paid to KordaMentha from funds in the Liquidation of the Company for externally provided goods or services, these are reimbursements to KordaMentha for amounts paid by KordaMentha either because KordaMentha was invoiced directly or because funds were not available at the time in the Liquidation.

7 Likelihood of a dividend

In the Report by Administrators we estimated a dividend to priority (employee) creditors in the Liquidation of 30c/\$.

The estimated return will comprise a dividend from available circulating assets and for the shortfall, eligible employees may be able to access FEG in respect of certain outstanding entitlements owing (excluding unpaid superannuation).

The estimated dividend to all other creditors, including unsecured creditors from the winding up of AIM is expected to be nil.

7.1 Secured creditor

As at the date of this report, the secured creditor, Remagen, has not received a distribution. Pending further developments in our investigations, we do not anticipate there to be a dividend payable to Remagen.

As previously noted, Remagen have lodged a proof of debt in the amount of \$5.7 million.

7.2 Priority creditors

Employees of the Company, other than directors or their related persons, have a statutory priority of payment in respect of outstanding entitlements such as wages, superannuation, annual leave, long service leave and retrenchment. Per section 3.3, we have determined the estimated total priority employee entitlements owing as at 24 October 2019 is \$169,807.11.

It is anticipated that a dividend in respect of priority (employee) creditors will be paid prior to the finalisation of the Liquidation of the Company. As we have determined there will be insufficient asset realisations available to satisfy outstanding priority (employee) entitlements in their entirety, eligible employees may now lodge a claim for their outstanding employee entitlements through the FEG scheme. We estimate a dividend to priority (employee) creditors of 30c/\$.

7.3 Unsecured creditors

Due to the shortfall of realisable assets in the Liquidation of the Company and pending further developments in our investigations, we do not expect there to be a dividend to unsecured creditors.

If a dividend is going to be paid, you will be contacted before that happens and, if you have not already done so, you will be asked to lodge a proof of debt or be given the opportunity to alter any proof of debt that you have previously lodged. This formalises your claim in the liquidation and is used to determine all claims against the Company.

7.4 Proofs of debt

A Proof of Debt Form is enclosed at Appendix 3. If you have previously lodged a Proof of Debt Form, you do not need to provide an additional Proof of Debt Form unless you wish to alter the Proof of Debt Form previously lodged.

Proof of Debt Forms may be mailed to c/- KordaMentha, GPO Box 2523, Sydney NSW 2001, faxed to (02) 8257 3099 or scanned and emailed to mbarringtonsmith@kordamentha.com.

8 What happens next?

The following matters still need to be completed and further inquiries made prior to the finalisation of the liquidation:

- Payment of the dividend to priority (employee) creditors.
- Liaise with FEG for any claims made by eligible priority (employee) creditors.
- Payment of the expenses incurred during the liquidation
- Finalise investigations and report to ASIC
- Pursue any recovery actions that have reasonable prospects of success
- Other administrative requirements.

It is expected that the liquidation will be completed within twelve months. However, completion may be delayed if the potential recovery actions identified in this report are pursued.

9 Further information available to creditors

ARITA provides information to assist creditors with understanding liquidations and insolvency. This information is available from ARITA's website at www.arita.com.au.

ASIC provides information sheets on a range of insolvency topics. These information sheets can be accessed on ASIC's website at www.asic.gov.au/insolvencyinfosheets.

Creditors requiring further information regarding the Liquidation can contact Michael Barrington-Smith on (02) 8257 3078 or by email at mbarringtonsmith@kordamentha.com.

Dated: 29 April 2020



Rahul Goyal
Liquidator



John Bumbak
Liquidator



Richard Tucker
Liquidator

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Appendix 1 – Summary of receipts and payments for the period 24 February 2020 to 31 March 2020

Receipts	(\$ incl. GST)
Transfer from Administrators' account	125,054.88
Total receipts	125,054.88
Payments	
ASIC fees	(1,653.00)
Administrators' disbursements	(583.67)
Administrators' fees	(80,935.25)
Total payments	(83,171.92)
Net receipts/(payments)	41,882.96

Appendix 2 – Summary of disbursements

Externally provided disbursements paid or incurred during the period 17 February 2020 to 31 March 2020	(\$ incl. GST)
ASIC fees	666.00
Total external disbursements	666.00

Appendix 3 – Proof of Debt



Form 535**Formal proof of debt or claim (General form)****Australian Industrial Minerals Limited (Receivers and Managers Appointed)
(In Liquidation)****ACN 623 197 142 ('the Company')**

To: The Liquidators of Australian Industrial Minerals Limited (Receivers and Managers Appointed) (In Liquidation) ('the Company')

1. This is to state that the Company was on 24 October 2019, and still is, justly and truly indebted:

To _____
(name of creditor)

Of _____
(address of creditor)

For \$ _____ GST Amount: \$ _____
(amount owed to creditor, include cents, GST inclusive)

Particulars of the debt are:

Date	Consideration	Amount (\$)	Remarks
(insert date when debt arose)	(state how the debt arose and attach supporting invoices and statements of account)	(GST inclusive amount)	(include details of voucher substantiating payment)

(If debt is held due to an assignment of debt, provide evidence of the transfer and the consideration paid for assignment of the debt.)

2. To my knowledge or belief, the creditor has not, nor has any person by the creditor's order, had or received any satisfaction or security for the sum or any part of it except for the following:
(Insert particulars of all securities held. If the securities are on the property of the Company, assess the value of those securities. If any bills or other negotiable securities are held, show them in a schedule in the following form.)

Date	Drawer	Acceptor	Amount (\$)	Due date

3. This proof of debt may be used for the purposes of voting at any meeting, a proposal without a meeting or for distribution to creditors unless a further proof of debt is submitted by me.

Execution:

- ☐ I am employed by the creditor and authorised in writing by the creditor to make this statement. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied. (select if applicable)
- ☐ I am the creditor's agent authorised in writing to make this statement in writing. I know that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, remains unpaid and unsatisfied. (select if applicable)
- ☐ I nominate to receive electronic notification of notices or documents in accordance with Section 600G of the Corporations Act at the email address or fax number listed below.

Signature _____

Name _____ Date _____

Address _____

Email _____

Phone _____ Fax _____