NO. B-180585
ESTATE NO. 11-2427899
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF
BASIN MINE LIMITED PARTNERSHIP

FIRST REPORT OF THE PROPOSAL TRUSTEE

ERNST & YOUNG INC.

October 3, 2018

TABLE OF CONTENTS
TO THE
FIRST REPORT OF THE PROPOSAL TRUSTEE

INTRODUCTION....2
BACKGROUND INFORMATION....4
ASSETS AND LIABILITIES OF BMLP....6
MARKETING PROCESS UNDERTAKEN RESPECTING THE SALE OF THE BASIN MINE....8
THE APA WITH PIONEER SAND AND GRAVEL LTD....9
PROPOSAL TRUSTEE'S COMMENTARY ON THE PIONEER APA....12
PROPOSAL TRUSTEE'S RECOMMENDATIONS....15

LISTING OF APPENDICES

Organization Chart	APPENDIX "A"
Coalmont CCAA Initial Order	APPENDIX "B"
Alvarez & Marsal Eleventh Report of the Monitor	APPENDIX "C"
Pioneer LOI	APPENDIX "D"
Pioneer APA	APPENDIX "E"

INTRODUCTION

1. On October 3, 2018 (the "**NOI Filing Date**"), Basin Mine Limited Partnership ("**BMLP**"), filed a Notice of Intention to make a Proposal ("**NOI**") pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B.-3, as amended (the "**BIA**").

2. Ernst & Young Inc. ("**EYI**") consented to act as the trustee under the NOI and as proposal trustee in this matter (the "**Proposal Trustee**").

3. Pursuant to Section 69(1) of the BIA, a stay of proceedings (the "**Stay**") has been in effect with respect to BMLP since the filing of the NOI.

4. The purpose of this first report (the "**First Report**") is to advise this Honourable Court with respect to, *inter alia*, the following:

    a. the background of BMLP;

    b. the assets and liabilities of BMLP;

    c. the Marketing Process (defined below) undertaken prior to the NOI;

    d. the asset purchase agreement between Pioneer Sand and Gravel Ltd. ("**Pioneer**") (the "**Buyer**") and BMLP to acquire substantially all of the assets of BMLP (the "**APA**");

    e. the Proposal Trustee's commentary on the APA; and

    f. the Proposal Trustee's recommendations.

TERMS OF REFERENCE

5. In preparing this First Report, the Proposal Trustee has been provided with, and in making the comments herein relied upon, unaudited financial information, BMLP's books and records, financial information prepared by BMLP, and discussions with management of BMLP. The Proposal Trustee has not audited, reviewed or otherwise attempted to

verify the accuracy or completeness of such information and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of such information contained in this First Report.

6. Certain information referred to in this First Report consists of forecasts and projections. The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of the information.

7. Future oriented financial information referred to in this report was prepared based on management's estimates and probable and hypothetical assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not readily and currently ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

8. This First Report has been prepared for the use of this Honourable Court and BMLP's stakeholders as general information relating to BMLP and their operations. Accordingly, the reader is cautioned that this First Report may not be appropriate for any other purpose. The Proposal Trustee assumes no responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this First Report contrary to the provisions of this paragraph.

9. All references to dollars are in Canadian currency unless otherwise noted.

10. Other capitalized terms not defined in this First Report are as defined in the APA.

BACKGROUND INFORMATION

11. BMLP is a limited partnership. Its general partner is 1025194 BC Ltd. ("**1025**"), who holds a 1% interest in BMLP. Sandhill Materials Inc. ("**SMI**") holds a 99% interest in BMLP.

12. Arthon Industries Limited ("**AIL**") owns all of the common shares of both SMI and 1025. A copy of an organization chart prepared by management is attached hereto as **Appendix "A"** to this report**.**

13. In 2015, BMLP acquired the mining permit (the "**Mining Permit**") to develop and operate the basin mine, (the "**Basin Mine**") from Coalmont Energy Corp. ("**CEC**"). The Basin Mine is an open pit coal mine located 11 kilometres southwest of Coalmont, B.C., with an anticipated yearly production of 500,000 tonnes of thermal coal. The original capital cost for the development of the Basin Mine was estimated to be approximately $30 million.

14. BMLP acquired the Mining Permit as part of a court approved transaction arising within proceedings commenced pursuant to the *Companies Creditors' Arrangement Act*, R.S.C. 1985, c. C-36 (the "**CCAA**").

15. In 2011, CEC (which was then a wholly owned subsidiary of AIL) commenced the development of the Basin Mine. It performed extensive mine site preparation, acquired a coal wash plant and ancillary assets, commissioned the mine, and started production and sales on a fixed price off take contract (the "**Fixed Price Supply Agreement**") with a third party (the "**Off Take Customer**").

16. Serious financial and technical issues emerged almost immediately thereafter resulting from, *inter alia*:

    a. cost overruns and delays from the original budget; and

b. in 2013, a temporary containment pond failed, resulting in a spill of coal slurry into the Tulameen River. A stop work order was issued from the Ministry of Mines and the Ministry of Environment for the Province of British Columbia.

17. On November 29, 2013 (the "**CCAA Filing Date**"), CEC, its parent (AIL), and a number of related entities sought protection pursuant to the CCAA, which also included a stay of proceedings. A copy of the Initial Order made in those proceedings is attached hereto as **Appendix "B"**. Alvarez & Marsal was appointed Monitor in the CCAA proceedings (the "**Monitor**").

18. There had been a steep decline in the price of thermal coal leaving it well below the price stipulated in the Fixed Price Supply Agreement. As a consequence, the Off Take Customer was not supportive of the CCAA proceeding and it petitioned this Honourable Court to terminate the stay of proceedings and place CEC, and others, into receivership. CEC agreed to terminate the Fixed Price Supply Agreement and the Off Take Customer ceased its involvement in the CCAA. However, absent the Fixed Price Supply Agreement, the price of thermal coal was well below the break-even point for the Basin Mine.

19. CEC engaged MNP Corporate Finance ("**MNP**") to market and sell its assets (the "**CEC Assets**") by way of a court approved marketing process (the "**CCAA Sales Process**"). The efforts undertaken by MNP are described in detail in paragraphs 4.4 – 4.19 of the Eleventh Report of the Monitor (Alvarez & Marsal), dated January 27, 2015, a copy of which is attached hereto as **Appendix "C"**.

20. The CCAA Sales Process produced only one offer to purchase the CEC Assets, which did not garner the support CEC's secured creditors. Due to the limited interest in the CEC Assets, the formal sales process was discontinued. The Basin Mine was placed under care and maintenance, and the assets were ultimately sold to BMLP, a related

party, through a court approved transaction on January 29, 2015 (the "**CCAA Transaction**").

21. As part of the CCAA Transaction:

    a. SMI purchased the CEC Assets, which assets were ultimately vested in BMLP;

    b. BMLP assumed the secured debt owing by CEC to CEC's secured creditors (the "**Assumed Liabilities**"), which are described in detail below; and

    c. BMLP claimed an exemption under the *Provincial Sales Tax Act*, S.B.C. 2012, c. 35 (the "**PST Exemption**") related to the purchase of the mining assets.

22. As is described below, since the CCAA Transaction, BMLP has explored all of its strategic options, but has been unable to re-start the Basin Mine and it remains under care and maintenance as of today.

23. While thermal coal prices have rebounded since 2014, key issues remain, including lack of confidence in long term price stability, the capital investment that is required to re-start the Basin Mine and the logistical challenges associated with transporting the coal to ocean ports and load vessels. The care and maintenance costs for the Basin Mine, which include the fees to keep the Mining Agreement from being terminated, are being funded by AIL (using funding from its lender Callidus Capital Corp.) at a cost of approximately $60,000 per month (the "**Maintenance Costs**") as BMLP has no source of income. The Assumed Liabilities, plus fees and costs, remain payable as of today.

ASSETS AND LIABILITIES OF BMLP

<u>Assets</u>

24. BMLP's primary assets include: the Mining Permit; the coal wash plant; on site mining equipment; containers, and other ancillary equipment located on the mine site. Other assets include

Liabilities & Creditors

25. BMLP is indebted to its secured creditors (the "**Secured Creditors**") in the aggregate amount of approximately $65,553,462 (the **"Secured Creditor Indebtedness**"), as set out in more detail below:

a. Callidus Capital Corp. ("**Callidus**") in the amount of approximately $63,289,858 as at September 10, 2018;

b. the Province of British Columbia (the "**Province**") with respect to contingent claims for, a) unpaid Provincial Sales Tax ("**PST**") in the amount of $972,416 as at August 23, 2018, resulting from the Province disallowing the PST Exemption (which remains under appeal), and b) environmental reclamation costs estimated to be $316,500 in 2017; and

c. AIL, Arthon Constructors Corp. and Sandhill Equipment Corp. in the amount of approximately $1,291,188 as at September 13, 2018.

26. As of the NOI Filing Date, BMLP's other key liabilities include:

a. reclamation responsibilities relating to the Mining Permit; and

b. a mining agreement (as amended, the "**Mining Agreement**") between Pacific West Coal (Holdings) Ltd. ("**PWC**") and BMLP with respect to an underlying coal claim with, inter alia, minimum quarterly royalty payments in the amount of $30,000.

MARKETING PROCESS UNDERTAKEN RESPECTING THE SALE OF THE BASIN MINE

Overview

27. The marketing process during the CCAA was described above, and it yielded limited third party interest.

28. Since the CCAA Transaction, BMLP has undertaken considerable efforts to identify a financial partner to fund a re-start of the Basin Mine, and has re-attempted to sell the mine and mine assets (collectively, the "**Marketing Process**").

29. Following the CCAA Transaction, BMLP persisted in ongoing efforts to find a financial partner to fund a restart of the mine, including comprehensive discussions with PWC, who is the underlying permit holder.

30. From September to December 2016, BMLP engaged Ritchie Bros Auctioneers (Canada) Ltd. ("**Ritchie Bros**") to market and sell the coal wash plant and related equipment. Richie Bros did not receive any offers for the equipment.

31. In December 2016, BMLP re-engaged MNP Corporate Finance to re-canvas certain parties that they approached as part of the CCAA Marketing Process. BMLP received one (1) letter of intent in July 2017, which did not garner the support of the Secured Creditors given that, a) that there was no guarantee that the prospective buyer had the necessary resources and personnel to re-commission the mine, and b) buyer asserted that it would not be taking any responsibility for the reclamation liabilities that they may incur in operating the Basin Mine.

32. The Basin Mine is in a remote location and the plant is complex, as a result the costs to dismantle and move the coal wash plant and related equipment exceed its value. The highest and best use for these assets is for mining and development activity at the Basin Mine.

33. To restart the Basin Mine, a capital investment of approximately $25 million to $30 million is required for upgrades to the coal wash plant, on site mining equipment, and containers / tipplers required to transport the coal to port and load vessels. Given the volatility in pricing and the uncertainty of the go-forward projections for thermal coal, BMLP was unable to identify a financial partner on its own who was willing to make the necessary capital investment required to restart the Basin Mine.

34. The Proposal Trustee is of the view that BMLP, with the assistance of Ritchie Bros and MNP Corporate Finance has undertaken an extensive Marketing Process to sell or find an investor to re-start the Basin Mine. These efforts have repeatedly been unsuccessful and AIL (and its lender Callidus) are not interested in continuing to fund the Maintenance Costs.

THE APA WITH PIONEER SAND AND GRAVEL LTD.

Background and Process

35. As noted above, BMLP, and its related party predecessor (now bankrupt), have tried unsuccessfully for many years to find a way to restart the Basin Mine.

36. In the fall of 2017, BMLP received an offer from the Buyer to acquire its assets. Following a series of negotiations that followed between BMLP and the Buyer, and consultation with the Secured Creditors, BMLP and the Buyer settled and agreed upon a form of a letter of intent (the "**Pioneer LOI**").

37. The Pioneer LOI outlined the general framework for an agreement pursuant to which Pioneer would acquire all of the assets of BMLP. The Pioneer LOI was signed on November 23, 2017, a copy of which is attached hereto as **Appendix "D".**

38. Key terms of the Pioneer LOI included the following:

   a. a "Purchase Price" of $200,000;

b. the acquisition of all of the assets currently located at the mine site including the Mining Agreement, all governmental permits and licenses, the coal wash plant, generators, miscellaneous buildings and other assets, the coal inventory and the letter of credit posted with the Ministry of Mines; and

c. the assumption of all reclamation liabilities related to the Basin Mine, as well as the ongoing Maintenance Costs.

Execution of the APA

39. BMLP and the Buyer formalized the terms of the LOI by executing an asset purchase agreement (the "**Pioneer APA**") reflecting terms that are consistent with those that were agreed upon in the LOI. A copy of the Pioneer APA, which is dated October 3, 2018, is attached hereto as **Appendix "E"**.

40. The delay between the date of the Pioneer LOI and the date the Pioneer APA was signed is attributable to considerations regarding the solvency of BMLP; and in particular, how to convey the assets of BMLP to Pioneer free and clear of encumbrances and charges. BMLP ultimately determined, following consultation with affected creditors, that completing the transaction contemplated under the Pioneer APA was best accomplished under a formal insolvency process where the assets could be conveyed by way of a vesting order.

41. The key terms of the Pioneer APA include:

a. purchase and sale of the Equipment, together with the Inventory, BMLP's rights under the Licenses and Permits, the Letter of Credit and the Mining Agreement (each as defined in the Purchase Agreement and collectively referred to as the "**Purchased Assets**");

b. purchase price for the Purchased Assets of $200,000 (the "**Purchase Price**");

c. if the consent to the assignment of the Licences and Permits and the Letter of Credit is ultimately denied by the Province of British Columbia (the "**Consents**") and all appeals of such denial have been exhausted, the Trustee will return the Purchase Price less the sum of $1.00 to the Purchaser and will pay the sum of $1.00 to BMLP and thereafter the sale and purchase of the Assets will be deemed to have been completed pursuant to the terms of the Purchase Agreement;

d. with effect from the Closing Date (as defined in the Pioneer APA), the Purchaser shall assume all obligations and liabilities which are to be observed, performed or paid from and after the Closing Date under:

    i. the Mining Agreement;

    ii. the Licenses and Permits;

    iii. the Letter of Credit; and

    iv. any other contract, agreement or obligation specifically agreed to be assumed by the Buyer in the Purchase Agreement; and

    (collectively, the "**Liabilities**"); and

e. closing is conditional upon this Honourable Court granting the Proposed Vesting Order (discussed below).

42. The full amount of the Purchase Price has been paid in trust to BMLP and it currently resides in trust with legal counsel for BMLP.

Proposed Vesting Order

43. The APA is conditional upon this Honourable Court granting and issuing the approval and vesting order (the "**Proposed Vesting Order**") in substantially the same form

attached to the Notice of Application filed by BMLP in connection with its application to approve the APA. The Proposed Vesting Order, *inter alia*, seeks to vest the beneficial and legal right, title and interest of BMLP to and under or relating to their property free and clear of all encumbrances of every nature or kind whatsoever and howsoever arising.

PROPOSAL TRUSTEE'S COMMENTARY ON THE PIONEER APA

Criteria for the Approval of the Pioneer APA

44. Section 65.13 of the BIA stipulates that an insolvent person in respect of whom an NOI is filed is required to obtain court approval for the sale or disposal of assets outside of the ordinary course of the business. In deciding whether to grant the authorization, the court is to consider *inter alia*:

    a. whether the process leading to the proposed sale or disposition was reasonable in the circumstances;

    b. whether the trustee approved the process leading to the proposed sale or disposition;

    c. whether the trustee filed with the court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy;

    d. the extent to which the creditors were consulted;

    e. the effects of the proposed sale or disposition on the creditors and other interested parties; and

    f. whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.

General Observations

45. As noted above, there has been an ongoing process for many years to find financing to restart the Basin mine, or to sell the associated assets with the Basin Mine, both formally through the CCAA Sales Process, and later informally by way of direct efforts of BMLP, as well as the retention of advisors (Richie Bros and MNP). The Proposal Trustee is of the view that the process leading to the proposed sale or disposition is reasonable in the circumstances.

46. The Proposal Trustee is of the view that it is reasonable for BMLP to rely on the marketing efforts described above, as it appears that the market for these assets has been fully canvassed and the Proposal Trustee does not believe a further marketing process would result in a materially different result.

47. The Proposal Trustee also notes that AIL and Callidus are no longer prepared to fund the Maintenance Costs associated with the Basin Mine and therefore a further marketing process for the assets is not feasible without outside funding.

48. BMLP appropriately consulted the Secured Creditors and sought feedback from the Proposal Trustee prior to executing the APA.

49. The Proposal Trustee has confirmed that Callidus, who is BMLP's largest secured creditor, was consulted on the Pioneer APA and is supportive of the Pioneer APA. The primary benefit of the Pioneer APA is that BMLP (through AIL and Callidus) will no longer have to fund the Maintenance Costs of $60,000 per month ($720,000 per year), as well as any reclamation obligations related to the mine (quantum unknown).

50. BMLP has advised the Proposal Trustee that it is unlikely that Pioneer will be unable to obtain the Consents. However, in the event the Consents are not obtained, Pioneer would be required to apply, at its own cost, for its own permits in order to operate the

Basin Mine. On that basis, the Trustee is of the view that delays, costs, and risk associated with such, and the negligible value of the remaining assets, would warrant an adjustment of the Purchase Price to $1.

51. Other creditors of BMLP include the Province and a number of related parties within the Arthon Group of Companies. Prior to consenting to act as Proposal Trustee in this matter, the Proposal Trustee confirmed that the Province does not oppose:

a. the NOI filing; or

b. the sale of BMLP's assets to a third party for $200,000.

52. The Proposal Trustee is of the view that the Purchase Price is fair and reasonable in the circumstances due to the following, a) the Purchase Price is sufficient to satisfy the necessary costs to fund these proceedings and to close the APA, b) the APA is supported by Callidus and is not opposed by the Province of BC, and c) given the extensive marketing efforts undertaken to date, the Proposal Trustee does not envision any scenario where another buyer will be found to restart the Basin Mine, or purchase the assets of BMLP.

53. If, the Pioneer APA does not close, the Proposal Trustee is advised that it is unlikely that BMLP will make a Proposal pursuant to section 50.4 of the BIA; in such instance, BMLP will automatically be deemed to have made an assignment into bankruptcy.

54. Accordingly, the alternative to the Pioneer APA is a bankruptcy. Such a scenario would very likely result in the abandonment of the BMLP mining assets in accordance with BIA subsections 14.06(2) and 14.06(4). Based on the process undertaken by Ritchie Bros. the other equipment is not expected to yield any value and as a result the recovery to creditors in a bankruptcy scenario is likely $ nil.

Recommendations

55. Based on the observations noted above, the Proposal Trustee is of the view that the APA offers, a) the best prospect for recovery to the creditors in the circumstances, and b) no longer requires BMLP (through Callidus) to fund the Maintenance Costs of $60,000 per month ($720,000 per year), as well as any reclamation obligations related to the mine.

56. The Proposal Trustee recommends that this Honourable Court approve the Pioneer APA and grant the Proposed Vesting Order.

PROPOSAL TRUSTEE'S RECOMMENDATIONS

57. Based on the foregoing, the Proposal Trustee recommends that this Honourable Court grant the Proposed Vesting Order.

All of which is respectfully submitted this 3rd day of October, 2018.

ERNST & YOUNG INC.,
Licensed Insolvency Trustee,
in its capacity as proposal trustee of
Basin Mine Limited Partnership
and not in its personal capacity

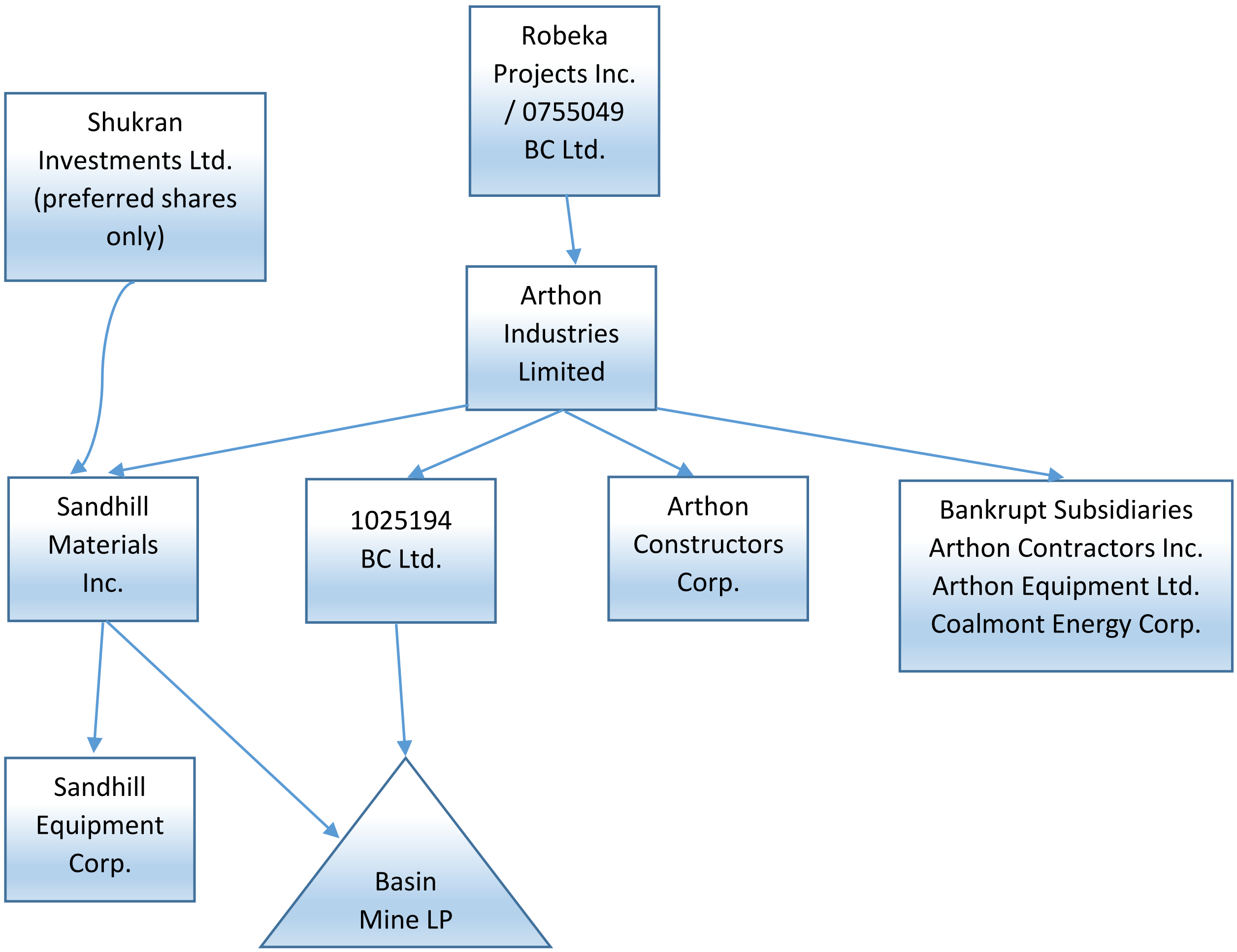
Per:

Mike Bell, CPA, CA, CIRP, LIT

Vice President

Appendix A

Schedule A



Notes:

1. All abbreviations are first letter of each word in company name.
2. All companies are 100% owned except for preferred shares in SMI owned by Shukran (former common shareholder).
3. Basin Mine LP – General partner is 102 and limited partner is SMI.
4. Bankrupt companies have no assets. Included as there may be a future opportunity to utilize tax losses of CEC.

Appendix B

NO. S-138873
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, AS AMENDED
R.S.C. 1985, c. C-36

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57, AS AMENDED

AND

IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT OF ARTHON INDUSTRIES LIMITED, ARTHON CONTRACTORS INC., ARTHON EQUIPMENT LTD., COALMONT ENERGY CORP., ROBEKA PROJECTS INC. AND 0755049 B.C. LTD.

PETITIONERS

ORDER MADE AFTER APPLICATION

BEFORE THE HONOURABLE MR. JUSTICE SEWELL	)))	FRIDAY, THE 29TH DAY OF NOVEMBER, 2013

THE APPLICATION of the Petitioners coming on for hearing at Vancouver, British Columbia, on the 28th day of November, 2013 and the 29th day of November, 2013 (the "**Order Date**"), without notice; AND ON HEARING Mary I.A. Buttery and H. Lance Williams, counsel for the Petitioners and those other counsel listed on Schedule "A" hereto; AND UPON READING the material filed, including the First Affidavit of Kerry Ning Leong sworn November 28, 2013 and the consent of Alvarez & Marsal Canada Inc. to act as Monitor; AND pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended (the "**CCAA**"), the British Columbia Supreme Court Civil Rules and the inherent jurisdiction of this Honourable Court;

THIS COURT ORDERS AND DECLARES THAT:

JURISDICTION

1. The Petitioners are companies to which the CCAA applies.

SUBSEQUENT HEARING DATE

2. The hearing of the Petitioners' application for an extension of the Stay Period (as defined in paragraph 15 of this Order) and for any ancillary relief shall be held at the Courthouse at 800 Smithe Street, Vancouver, British Columbia at 9:45 a.m. on Friday, the 20th day of December, 2013 or such other date as this Court may order.

PLAN OF ARRANGEMENT

3. The Petitioners shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

4. Subject to this Order and any further Order of this Court, the Petitioners shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"), and continue to carry on their business (the "**Business**") in the ordinary course and in a manner consistent with the preservation of the Business and the Property. The Petitioners shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, "**Assistants**") currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for carrying out the terms of this Order.

5. The Petitioners shall be entitled, but not required, to pay the following expenses which may have been incurred prior to the Order Date:

(a) all outstanding wages, salaries, employee and pension benefits (including long and short term disability payments), vacation pay and expenses (but excluding severance pay) payable before or after the Order Date, in each case incurred in the ordinary course of business and consistent with the relevant compensation policies and arrangements existing at the time incurred (collectively "**Wages**"); and

(b) the fees and disbursements of any Assistants retained or employed by the Petitioners which are related to the Petitioners' restructuring, at their standard rates and charges, including payment of the fees and disbursements of legal counsel retained by the Petitioners, whenever and wherever incurred, in respect of:

(i) these proceedings or any other similar proceedings in other jurisdictions in which the Petitioners or any subsidiaries or affiliated companies of the Petitioners are domiciled;

(ii) any litigation in which the Petitioners are named as a party or are otherwise involved, whether commenced before or after the Order Date; and

(iii) any related corporate matters.

6. Except as otherwise provided herein, the Petitioners shall be entitled to pay all expenses reasonably incurred by the Petitioners in carrying on the Business in the ordinary course following the Order Date, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

(a) all expenses and capital expenditures reasonably incurred and which are necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors' and officers' insurance), maintenance and security services, provided that any capital expenditure exceeding $10,000 shall be approved by the Monitor and the DIP Lender;

(b) all obligations incurred by the Petitioners after the Order Date, including without limitation, with respect to goods and services actually supplied to the Petitioners following the Order Date (including those under purchase orders outstanding at the Order Date but excluding any interest on the Petitioners' obligations incurred prior to the Order Date); and

(c) fees and disbursements of the kind referred to in paragraph 5(b) which may be incurred after the Order Date.

7. The Petitioners are authorized to remit, in accordance with legal requirements, or pay:

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from Wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes or any such claims which are to be paid pursuant to Section 6(3) of the CCAA;

(b) all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Petitioners in connection with the sale of goods and services by the Petitioners, but only where such Sales Taxes accrue or are collected after the Order Date, or where such Sales Taxes accrued or were collected prior to the Order Date but not required to be remitted until on or after the Order Date; and

(c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal property taxes, municipal business taxes or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors.

8. Until such time as a real property lease is disclaimed in accordance with the CCAA, the Petitioners shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable as rent to the landlord under the lease) based on the terms of existing lease arrangements or as otherwise may be negotiated between the Petitioners and the landlord from time to time ("**Rent**"), for the period commencing from and including the Order Date, twice-monthly in equal payments on the first and fifteenth day of the month in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including Order Date shall also be paid.

9. Except as specifically permitted herein, the Petitioners are hereby directed, until further Order of this Court:

(a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Petitioners to any of their creditors as of the Order Date except as authorized by this Order;

(b) to make no payments in respect of any financing leases which create security interests;

(c) to grant no security interests, trust, mortgages, liens, charges or encumbrances upon or in respect of any of their Property, nor become a guarantor or surety, nor otherwise become liable in any manner with respect to any other person or entity except as authorized by this Order;

(d) to not grant credit except in the ordinary course of the Business only to their customers for goods and services actually supplied to those customers, provided such customers agree that there is no right of set-off in respect of amounts owing for such goods and services against any debt owing by the Petitioners to such customers as of the Order Date; and

(e) to not incur liabilities except in the ordinary course of Business.

FINANCIAL ARRANGEMENTS

10. Notwithstanding any other provision in this Order:

(a) the Petitioners are hereby authorized and empowered to borrow, repay and reborrow from HSBC Bank Canada (the "**Lender**") such amounts from time to time as the Petitioners consider necessary, and the Lender shall be entitled to revolve its operating loan facility (the "**Lender Loan Facility**") and collect interest, fees and costs on the Lender Loan Facility, subject to such amendments as are agreed between the Lender and the Petitioners;

(b) the Lender Loan Facility shall be secured by the same charge (the "**Lender Charge**") as secured the Lender Loan Facility as at the Order Date; and

(c) the Petitioners are authorized to deal with the Lender in respect of the Lender Loan Facility on such terms as may be negotiated and agreed upon between the Petitioners and the Lender.

RESTRUCTURING

11. Subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the Definitive Documents (as hereinafter defined), the Petitioners shall have the right to:

(a) permanently or temporarily cease, downsize or shut down all or any part of their Business or operations and commence marketing efforts in respect of any of their redundant or non-material assets;

(b) terminate the employment of such of their employees or temporarily lay off such of their employees as they deem appropriate; and

(c) pursue all avenues of refinancing for their Business or Property, in whole or part;

all of the foregoing to permit the Petitioners to proceed with an orderly restructuring of the Business (the "**Restructuring**").

12. The Petitioners shall provide each of the relevant landlords with notice of the Petitioners' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Petitioners' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors who claim a security interest in the fixtures, such landlord and the Petitioners, or by further Order of this Court upon application by the Petitioners, the landlord or the applicable secured creditors on at least two (2) clear days' notice to the other parties. If the Petitioners disclaim the lease governing such leased premises in accordance with Section 32 of the CCAA, they shall not be required to pay Rent under such lease pending resolution of any dispute concerning such fixtures (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Petitioners' claim to the fixtures in dispute.

13. If a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then: (a) during the period prior to the effective time of the disclaimer, the landlord may show the affected leased

premises to prospective tenants during normal business hours on giving the Petitioners and the Monitor 24 hours' prior written notice; and (b) at the effective time of the disclaimer, the landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims the landlord may have against the Petitioners, or any other rights the landlord might have, in respect of such lease or leased premises and the landlord shall be entitled to notify the Petitioners of the basis on which it is taking possession and gain possession of and re-lease such leased premises to any third party or parties on such terms as the landlord considers advisable, provided that nothing herein shall relieve the landlord of its obligation to mitigate any damages claimed in connection therewith.

14. Pursuant to Section 7(3)(c) of the *Personal Information Protection and Electronics Documents Act*, S.C. 2000, c. 5 and Section 18(1)(o) of the *Personal Information Protection Act*, S.B.C. 2003, c. 63, and any regulations promulgated under authority of either Act, as applicable (the "**Relevant Enactment**"), the Petitioners, in the course of these proceedings, are permitted to, and hereby shall, disclose personal information of identifiable individuals in their possession or control to stakeholders, their advisors, prospective investors, financiers, buyers or strategic partners (collectively, "**Third Parties**"), but only to the extent desirable or required to negotiate and complete the Restructuring or to prepare and implement the Plan or transactions for that purpose; provided that the Third Parties to whom such personal information is disclosed enter into confidentiality agreements with the Petitioners binding them in the same manner and to the same extent with respect to the collection, use and disclosure of that information as if they were an organization as defined under the Relevant Enactment, and limiting the use of such information to the extent desirable or required to negotiate or complete the Restructuring or to prepare and implement the Plan or transactions for that purpose, and attorning to the jurisdiction of this Court for the purposes of that agreement. Upon the completion of the use of personal information for the limited purposes set out herein, the Third Parties shall return the personal information to the Petitioners or destroy it. If the Third Parties acquire personal information as part of the Restructuring or the preparation and implementation of the Plan or transactions in furtherance thereof, such Third Parties may, subject to this paragraph and any Relevant Enactment, continue to use the personal information in a manner which is in all respects identical to the prior use thereof by the Petitioners.

STAY OF PROCEEDINGS, RIGHTS AND REMEDIES

15. Until and including December 20, 2013, or such later date as this Court may order (the "**Stay Period**"), no action, suit or proceeding in any court or tribunal (each, a "**Proceeding**") against or in respect of the Petitioners or the Monitor, or affecting the Business or the Property, shall be commenced or continued except with the written consent of the Petitioners and the Monitor or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Petitioners or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

16. During the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Petitioners or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Petitioners and the Monitor or leave of this Court.

17. Nothing in this Order, including paragraphs 15 and 16, shall: (i) empower the Petitioners to carry on any business which the Petitioners are not lawfully entitled to carry on; (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA; (iii) prevent the filing of any registration to preserve or perfect a mortgage, charge or security interest (subject to the provisions of Section 39 of the CCAA relating to the priority of statutory Crown securities); or (iv) prevent the registration or filing of a lien or claim for lien or the commencement of a Proceeding to protect lien or other rights that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such lien, claim for lien or Proceeding except for service of the initiating documentation on the Petitioners. Notwithstanding the foregoing, the Lender shall not be affected by the provisions of this Order and in particular, and without limiting the generality of the foregoing, shall not be stayed from enforcing its security in the event of a default under the terms of the Forbearance Agreement dated November 28, 2013, as may be amended, extended, restated or replaced from time to time.

NO INTERFERENCE WITH RIGHTS

18. During the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or

permit in favour of or held by the Petitioners, except with the written consent of the Petitioners and the Monitor or leave of this Court.

CONTINUATION OF SERVICES

19. During the Stay Period, all Persons having oral or written agreements with the Petitioners or mandates under an enactment for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or the Petitioners, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with, or terminating the supply of such goods or services as may be required by the Petitioners, and that the Petitioners shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the Order Date are paid by the Petitioners in accordance with normal payment practices of the Petitioners or such other practices as may be agreed upon by the supplier or service provider and the Petitioners and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

20. Notwithstanding any provision in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the Order Date, nor shall any Person be under any obligation to advance or re-advance any monies or otherwise extend any credit to the Petitioners on or after the Order Date. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

21. During the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against the directors or officers of the Petitioners with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Petitioners whereby the directors or officers are alleged

under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Petitioners, if one is filed, is sanctioned by this Court or is refused by the creditors of the Petitioners or this Court. Nothing in this Order, including in this paragraph, shall prevent the commencement of a Proceeding to preserve any claim against a director or officer of the Petitioners that might otherwise be barred or extinguished by the effluxion of time, provided that no further step shall be taken in respect of such Proceeding except for service of the initiating documentation on the applicable director or officer.

APPOINTMENT OF MONITOR

22. Alvarez & Marsal Canada Inc. is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Petitioners with the powers and obligations set out in the CCAA or set forth herein, and that the Petitioners and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Petitioners pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

23. The Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Petitioners' receipts and disbursements;

(b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

(c) assist the Petitioners, to the extent required by the Petitioners, in their dissemination, to the DIP Lender (as hereinafter defined) and its counsel on a timely basis of financial and other information as agreed to between the Petitioners and the DIP Lender which may be used in these proceedings including reporting on a basis to be agreed with the DIP Lender;

(d) monitor and assist the Petitioners in its efforts to negotiate alternative financing options with Callidus Capital Corporation;

(e) advise the Petitioners in their preparation of the Petitioners' cash flow statements and reporting required by the DIP Lender, which information shall be reviewed with the Monitor and delivered to the DIP Lender and its counsel on a timely basis, or as otherwise agreed to by the DIP Lender;

(f) advise the Petitioners in their development of the Plan and any amendments to the Plan;

(g) assist the Petitioners, to the extent required by the Petitioners, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(h) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Petitioners, to the extent that is necessary to adequately assess the Petitioners' business and financial affairs or to perform its duties arising under this Order;

(i) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order; and

(j) perform such other duties as are required by this Order or by this Court from time to time.

24. The Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, or by inadvertence in relation to the due exercise of powers or performance of duties under this Order, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof, and nothing in this Order shall be construed as resulting in the Monitor being an employer or a successor employer, within the meaning of any statute, regulation or rule of law or equity, for any purpose whatsoever.

25. Nothing herein contained shall require or allow the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Fisheries Act*, the British Columbia *Environmental Management Act*, the British Columbia *Fish Protection Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. For greater certainty, the Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

26. The Monitor shall provide any creditor of the Petitioners and the DIP Lender with information provided by the Petitioners in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Petitioners is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Petitioners may agree.

27. In addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the rights and protections afforded the Monitor by the CCAA or any applicable legislation.

ADMINISTRATION CHARGE

28. The Monitor, counsel to the Monitor, if any, and counsel to the Petitioners shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by

the Petitioners as part of the cost of these proceedings. The Petitioners are hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor and counsel to the Petitioners on a periodic basis and, in addition, the Petitioners are hereby authorized to pay to the Monitor, counsel to the Monitor, and counsel to the Petitioners, retainers in the amounts of $50,000 respectively to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

29. The Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the British Columbia Supreme Court and may be heard on a summary basis.

30. The Monitor, counsel to the Monitor, if any, and counsel to the Petitioners shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of $500,000 as security for their respective fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order which are related to the Petitioners' restructuring. The Administration Charge shall have the priority set out in paragraphs 36 and 38 hereof.

DIP FINANCING

31. The Petitioners are hereby authorized and empowered to obtain and borrow under a credit facility from HSBC (the "**DIP Lender**") in order to finance the continuation of the Business and preservation of the Property, provided that borrowings under such credit facility shall not exceed $2,500,000 unless permitted by further Order of this Court.

32. Such credit facility shall be on the terms and subject to the conditions set forth in the term sheet between the Petitioners and the DIP Lender dated as of November 27, 2013 (the "**Term Sheet**"), filed.

33. The Petitioners are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "**Definitive Documents**"), as are contemplated by the Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms

thereof, and the Petitioners are hereby authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the Term Sheet and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

34. The DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "**DIP Lender's Charge**") on the Property. The DIP Lender's Charge shall not secure an obligation that exists before this Order is made. The DIP Lender's Charge shall be subordinate to the perfected security interests of any other secured creditors of the Petitioners whose security interests rank in priority to the existing security of the Lender, and shall, at a minimum, have the same priority as that enjoyed by the DIP Lender in its capacity as Lender.

35. The DIP Lender, in such capacity, shall be treated as unaffected in any plan of arrangement or compromise filed by the Petitioners under the CCAA, or any proposal filed by the Petitioners under the *Bankruptcy and Insolvency Act* of Canada (the "**BIA**"), with respect to any advances made under the Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

36. The priorities of the Administration Charge and the DIP Lender's Charge, as among them, shall be as follows:

First – Administration Charge (to the maximum amount of $500,000);

Second – DIP Lender's Charge (to the maximum amount of $2,500,000);

37. Any security documentation evidencing, or the filing, registration or perfection of, the Administration Charge and the DIP Lender's Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be effective as against the Property and shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered or perfected subsequent to the Charges coming into existence, notwithstanding any failure to file, register or perfect any such Charges.

38. The Administration Charge and the DIP Lender's Charge (all as constituted and defined herein) shall constitute a mortgage, security interest, assignment by way of security and charge

on the Property and such Charges shall be subordinate to all validly perfected and/or constituted security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**"), in favour of any Person, other than those ~~in favour of HSBC~~ having priority to those of the Lender. PS.J

39. The DIP Lender's charge shall have the priority set out in paragraph 34 hereof, subject only to the Administration Charge.

40. Except as otherwise expressly provided herein, or as may be approved by this Court, the Petitioners shall not grant or suffer to exist any Encumbrances over any Property that rank in priority to, or *pari passu* with the Charges, unless the Petitioners obtain the prior written consent of the Monitor, the DIP Lender and the beneficiaries of the Administration Charge.

41. The Administration Charge, the Term Sheet, the Definitive Documents and the DIP Lender's Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") and/or the DIP Lender shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; or (d) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, mortgage, security agreement, debenture, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Petitioners; and notwithstanding any provision to the contrary in any Agreement:

(a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Term Sheet or the Definitive Documents shall create or be deemed to constitute a breach by the Petitioners of any Agreement to which they are party;

(b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Petitioners entering into the Term Sheet, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents; and

(c) the payments made by the Petitioners pursuant to this Order, the Term Sheet or the Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

42. Any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Petitioners' interest in such real property leases.

ALLOCATION OF CHARGES

43. All amounts secured by the Charges (the "**Costs**") shall be allocated to each of the assets of the Petitioners (each an "**Asset**" and collectively the "**Assets**") as follows:

(a) Costs that may be specifically attributed to a certain Asset, including but without limitation, time charges, expenses, costs, disbursements of the Petitioner's counsel, the Monitor, and the Monitor's counsel and all amounts otherwise expended from the fund advanced by the DIP Lender and secured by the DIP Lender's Charge (collectively, the "**Specific Costs**"), shall be allocated to that Asset, provided that if any Asset generates profits to fund Costs that are not Specific Costs related to that Asset, then such profits shall reduce the Specific Costs allocated to such Asset;

(b) Costs that are not attributable to any Asset as a Specific Cost shall be allocated:

(i) firstly, to any Asset that is either unencumbered or not fully encumbered by security (the "**Unencumbered and Equity Assets**") to the fullest extent of such Unencumbered and Equity Asset's value; and

(ii) secondly, to any Assets other than Unencumbered and Equity Assets on a *pro rata* basis using the actual value of such Asset, as determined by:

(A) the sale price for each Asset set out in the purchase and sale agreement for such Asset if the Asset has been sold, or (B) the appraised value of such Asset based upon an appraisal obtained by and acceptable to the Monitor. Notwithstanding anything contained in this subsection (ii), any creditor may apply to this Court for a determination as to the value of an Asset in the event that the creditor does not agree with the value attributed to such Asset pursuant to the mechanism set out in this subsection (ii).

44. Notwithstanding the allocation Order made herein, none of the Charges shall be discharged from any of the Assets until the total amount owing under the Charges has been paid in full or as otherwise agreed to by the beneficiaries of the Charges.

SERVICE AND NOTICE

45. The Monitor shall (i) without delay, publish in The Vancouver Sun and the Kelowna Daily Courier a notice containing the information prescribed under the CCAA, (ii) within five days after Order Date, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Petitioners of more than $1,000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

46. The Petitioners and the Monitor are at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Petitioners' creditors or other interested parties at their respective addresses as last shown on the records of the Petitioners and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

47. Any Person that wishes to be served with any application and other materials in these proceedings must deliver to the Monitor by way of ordinary mail, courier, personal delivery or

electronic transmission a request to be added to a service list (the "**Service List**") to be maintained by the Monitor. The Monitor shall post and maintain an up to date form of the Service List on its website at: www.amcanadadocs.com/arthon.

48. Any party to these proceedings may serve any court materials in these proceedings by emailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor shall post a copy of all prescribed materials on its website at: www.amcanadadocs.com/arthon.

49. Notwithstanding paragraphs 47 and 48 of this Order, service of the Petition, the Notice of Hearing of Petition, the Affidavit #1 of Kerry Leong sworn November 28, 2013, this Order and any other pleadings in this proceeding (collectively, the "**Materials**"), shall be made on the federal and British Columbia Crowns in accordance with the *Crown Liability and Proceedings Act*, R.S.C. 1985, c. C-50, and regulations thereto, in respect of the federal Crown, and the *Crown Proceeding Act*, R.S.B.C. 1996, c. 89, in respect of the British Columbia Crown.

GENERAL

50. The Petitioners or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

51. Nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Petitioners, the Business or the Property.

52. THIS COURT REQUESTS the aid and recognition of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any Federal or State Court or administrative body in the United States of America, to act in aid of and to be complementary to this Court in carrying out the terms of this Order where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Petitioners and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Petitioners and the Monitor and their respective agents in carrying out the terms of this Order.

53. Each of the Petitioners and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order and the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada, including acting as a foreign representative of the Petitioners to apply to the United States Bankruptcy Court for relief pursuant to Chapter 15 of the *United States Bankruptcy Code*, 11 U.S.C. §§ 101-1330, as amended.

54. The Petitioners may (subject to the provisions of the CCAA and the BIA) at any time file a voluntary assignment in bankruptcy or a proposal pursuant to the commercial reorganization provisions of the BIA if and when the Petitioners determine that such a filing is appropriate.

55. The Petitioners are hereby at liberty to apply for such further interim or interlocutory relief as it deems advisable within the time limited for Persons to file and serve Responses to the Petition.

56. Leave is hereby granted to hear any application in these proceedings on two (2) clear days' notice after delivery to all parties on the Service List of such Notice of Application and all affidavits in support, subject to the Court in its discretion further abridging or extending the time for service.

57. Any interested party (including the Petitioners and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to all parties on the Service List and to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

58. Endorsement of this Order by counsel appearing, other than counsel for the Petitioners, is hereby dispensed with.

59. This Order and all of its provisions are effective as of 12:01 a.m. local Vancouver time on the Order Date.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Davis LLP (Mary I.A. Buttery, H. Lance Williams and Tijana Gavric)
Lawyers for the Petitioners

BY THE COURT

Sewell J.
REGISTRAR

CHECKED

Schedule "A"

Counsel List	
Name	**Party Represented**
John Grieve, Danielle Toigo	HSBC Bank Canada.
Gregory Gehlen	Canvest Communication
Peter Rubin	Proposed Monitor
Colin Brousson	LaForge
Jordan Schultz	Vitol

Appendix C

No. S138873
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C36, AS AMENDED

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT,* S.B.C. 2002, C.57, AS AMENDED

AND

IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT OF ARTHON INDUSTRIES LIMITED, ARTHON CONTRACTORS INC., ARTHON EQUIPMENT LTD., COALMONT ENERGY CORP., ROBEKA PROJECTS INC. AND 0755049 B.C. LTD.

ELEVENTH REPORT OF THE MONITOR

ALVAREZ & MARSAL CANADA INC.

JANUARY 27, 2015

A&M
ALVAREZ & MARSAL

TABLE OF CONTENTS

1.0 INTRODUCTION 3
2.0 PURPOSE OF REPORT 4
3.0 TERMS OF REFERENCE 4
4.0 RESTRUCTURING PROCESS 5
5.0 COALMONT APA 8
6.0 EQUIPMENT APA 10
7.0 CASH FLOW VARIANCE ANALYSIS 11
8.0 EXTENSION OF THE STAY PERIOD 12
9.0 MONITOR'S RECOMMENDATIONS 13

APPENDICES

Appendix A: Corporate Organization Chart

1.0 INTRODUCTION

1.1 Alvarez & Marsal Canada Inc. ("**A&M**" or the "**Monitor**") was appointed as Monitor pursuant to the order (the "**Initial Order**") pronounced by the Supreme Court of British Columbia (this "**Honourable Court**") on November 29, 2013 on the application of Arthon Industries Limited ("**Industries**") and certain of its subsidiaries and affiliated companies identified in Appendix "**A**" (collectively, the "**Petitioners**" or the "**Company**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). The proceedings brought by the Petitioners under the CCAA will be referred to as the "**CCAA Proceedings**".

1.2 The Petitioners, along with other subsidiaries and affiliated entities that are not directly included in the CCAA Proceedings will be collectively referred to as the "**Arthon Group**".

1.3 The Initial Order granted a stay of proceedings (the "**Stay of Proceedings**") against or in respect of the Company and its assets until December 20, 2013 or such other date as this Honourable Court may subsequently order (the "**Stay Period**"). Further orders have been granted extending the Stay Period. On October 30, 2014, an order was granted extending the Stay Period to January 30, 2015.

1.4 The Stay of Proceedings in respect of Arthon Contractors Inc. expired on June 3, 2014 and that entity filed a voluntary assignment in bankruptcy on June 27, 2014. A&M was named as trustee and that appointment was affirmed at the first meeting of creditors held on July 14, 2014 in Kelowna, British Columbia.

1.5 The Petitioners filed amended plans of arrangement (the "**Plans**") for each of Industries and Robeka Projects Inc. ("**Robeka**") which were approved by requisite majorities of affected creditors at creditors meetings held on December 15, 2014. This Honourable Court granted an order sanctioning and approving the Plans on December 19, 2014.

1.6 On January 7, 2015, an order was granted releasing 0755049 B.C. Ltd. ("**075**") from the CCAA Proceedings as well as discharging and releasing the Monitor from its duties in relation to 075.

1.7 The Company filed a notice of application dated January 23, 2015 to be heard on January 29, 2015 seeking an order:

a) approving and vesting the sale of the assets of Coalmont Energy Corp. ("**Coalmont**") to Sandhill Materials Inc. ("**Sandhill**") and vesting those assets in Sandhill and a newly formed subsidiary of Industries incorporated as 1025194 B.C. Ltd. ("**102**");

b) approving the sale and vesting of the assets of Arthon Equipment Ltd. ("**Equipment**") to Industries;

c) providing that, following completion of the sales of the assets of each of Coalmont and Equipment, the director of both shall be entitled to assign each into bankruptcy (the "**Bankruptcy Orders**"); and

d) extending the Stay of Proceedings in relation to each of Equipment and Coalmont (the "**Extension Order**") until the earlier of:

   i. February 18, 2015; or

   ii. the date on which the respective company is assigned into bankruptcy.

1.8 The Initial Order together with select motion material and other documentation filed in the CCAA, including the Monitor's reports, are posted on the Monitor's Website.

2.0 PURPOSE OF REPORT

2.1 This Eleventh Report of the Monitor (the "**Eleventh Report**") is a special purpose report intended to provide this Honourable Court with select information in respect of the CCAA Proceedings, including:

a) an update on the status of the restructuring;
b) the Petitioners' application for an order approving the sale of the assets of Equipment (the "**Equipment Assets**") to Industries pursuant to an asset purchase agreement dated January 23, 2015 (the "**Equipment APA**") and vesting the Equipment Assets in Industries;
c) the Petitioners' application for an order approving the sale of the assets of Coalmont (the "**Coalmont Assets**") to Sandhill pursuant to an asset purchase agreement dated January 23, 2015 (the "**Coalmont APA**") and vesting the Coalmont Assets in Sandhill and 102;
d) the Petitioners' application for an extension of the Stay Period; and
e) a comparison of actual cash receipts and disbursements for the 59 week period ended January 16, 2015 to those reflected in the 61 week cash flow statement (the "**Sixth Cash Flow Statement**") which was filed with the tenth affidavit of Kerry Leong dated October 23, 2014.

3.0 TERMS OF REFERENCE

3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to it, by certain senior management of the Company and its advisors ("**Management**"). Although this information has been subject to review, A&M has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Company. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy of any information contained in this report, or otherwise used to prepare this report.

3.2 Certain of the information referred to in the reports of the Monitor may consist of financial forecasts and/or projections prepared by Management. An examination or review of financial forecasts and projections and procedures as outlined in the Chartered Professional Accountants Canada Handbook has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from these forecasts and/or projections, even if the assumptions materialize, and the variations could be significant.

3.3 Unless otherwise stated, all monetary amounts contained in the Eleventh Report are expressed in Canadian dollars.

4.0 RESTRUCTURING PROCESS

Industries, Robeka, 075 and Sandhill

4.1 The Petitioners filed Plans for Industries and Robeka which were approved by the requisite majorities of affected creditors at creditors' meetings held on December 15, 2014. The Plans were approved and sanctioned by this Honourable Court on December 19, 2014 and plan implementation certificates in respect of the Plans were filed by the Monitor on December 22, 2014. Creditor distributions provided for in the Plans were made by the Company on December 23, 2014.

4.2 On January 7, 2015, an order was granted releasing 075 from the CCAA Proceedings as well as discharging and releasing the Monitor from its duties in relation to 075.

4.3 While these entities have exited the CCAA Proceedings, they remain obligors under the senior secured credit facilities of the Arthon Group owed to Callidus Capital Corp. ("**Callidus**") along with Sandhill and other entities that are not directly subject to the CCAA Proceedings.

Coalmont

4.4 On December 20, 2013 this Honourable Court granted an order approving a sales process (the "**Coalmont Sales Process**") to divest of substantially all the assets of Coalmont. The details of the Coalmont Sales Process are included in the Second Report of the Monitor dated December 17, 2013 and, accordingly, are not repeated here.

4.5 Pursuant to an agreement dated January 15, 2014 between MNP Corporate Finance Inc. ("**MNP**") and Industries, MNP was retained to act as financial advisor to the Company and to manage the Coalmont Sales Process.

4.6 Select highlights of MNP's efforts to market the Coalmont mine are described in the Third Report of the Monitor dated February 25, 2014 and, for ease of reference, are summarized as follows:

a) contacting 77 potential purchasers/investors (approximately 85% of which could be characterized as strategic buyers with the balance being financial buyers);

b) receiving 11 executed confidentiality agreements from interested parties;

c) preparing and distributing a confidential information memorandum and providing data room access to qualified interested parties;

d) providing updates to Management, the Monitor and certain secured lenders as to the status of the sales process and related matters; and

e) addressing due diligence requests from qualified interested parties resulting in the receipt of non-binding letters of intent ("**LOIs**"), copies of which were provided to the Monitor.

4.7 The LOIs received by MNP were nonbinding and subject to further due diligence and ultimately none of the parties submitted an offer for the Coalmont Assets that was concluded.

4.8 Given the limited interest generated from the Coalmont Sales Process and a general decline in thermal coal markets, the Petitioners placed the mine under care and maintenance which is being funded by Industries at a cost of approximately $150,000 per month.

4.9 In order to transfer the Coalmont Assets from Coalmont, Sandhill has entered into the Coalmont APA which is subject to approval of this Honourable Court. In consideration, Sandhill is to assume certain secured liabilities of Coalmont and reduce its claim amount against Coalmont. Key commercial terms of the Coalmont APA and the Monitor's comments are provided in Section 5 below.

4.10 The vesting order being sought by the Company in respect of the Coalmont Assets provides that accounts receivable, plant and equipment vest in Sandhill and certain assets including permits, inventory and roads are to vest in 102.

4.11 The secured liabilities of Coalmont as at January 16, 2015 are summarized as follows:

a) $10.0 million owed to Sandhill;

b) $18.9 million owed to Callidus, which is subordinate to the debt owed to Sandhill; and

c) $34.9 million of other obligations of the Arthon Group owed to Callidus for which Coalmont is jointly and severally liable ($53.8 million including the $18.9 million owed directly by Coalmont) and which is subordinate to the debt owed to Sandhill.

4.12 Although nothing has come to the attention of the Monitor that would suggest there are any concerns, an independent legal opinion on the validity and enforceability of the security claimed by various related and third parties asserting such an interest in the Coalmont Assets has not been obtained.

4.13 It is the Petitioners' intention, subject to this Honourable Court granting the Bankruptcy Order, to assign Coalmont into bankruptcy once the Coalmont APA has been completed and it may seek to appoint A&M as trustee in bankruptcy of the estate, subject to the affirmation of creditors. Given its current role, the Monitor wishes to advise this Honourable Court and the Company's stakeholders of this possibility.

Equipment

4.14 On April 15, 2014 this Honourable Court granted an order authorizing the Company to undertake a process to market and sell its machinery and equipment (the "**Equipment Sales Process**").

4.15 The proceeds realized from the Equipment Sales Process total approximately $769,000 and the majority of the machinery and equipment assets remain unsold. In October 2014, the Company determined that it may require the machinery and equipment owned by Equipment for use by Sandhill to fulfil large extraction agreements that it was planning to enter into and, accordingly, it refocused its efforts on other restructuring matters.

4.16 In order to transfer the Equipment Assets from Equipment, Industries has entered into the Equipment APA which is subject to approval of this Honourable Court. As consideration, Industries is to assume certain secured liabilities of Equipment and reduce its claim against Equipment. Key commercial terms of the Equipment APA and the Monitor's comments are provided in Section 6 below.

4.17 The secured liabilities of Equipment as at January 16, 2015 are summarized as follows:

a) $8.6 million owed to Callidus;

b) $45.2 million of other obligations of the Arthon Group owed to Callidus for which Equipment is jointly and severally liable ($53.8 million including the $8.6 million owed directly by Equipment); and

c) $6.4 million owed to Industries which is subordinate to the debt owed to Callidus.

4.18 Although nothing has come to the attention of the Monitor that would suggest there are any concerns, an independent legal opinion on the validity and enforceability of the security claimed by various related and third parties asserting such an interest in the Equipment Assets has not been obtained.

4.19 It is the Petitioners' intention, subject to this Honourable Court granting the Bankruptcy Order, to assign Equipment into bankruptcy once the Equipment APA has been completed and it may seek to appoint A&M as trustee in bankruptcy of the estate, subject to the affirmation of creditors. Given its current role, the Monitor wanted to advise this Honourable Court and the Company's stakeholders of this possibility.

5.0 COALMONT APA

Summary of Select Commercial Terms of the Coalmont APA

5.1 Select commercial terms of the Coalmont APA are summarized below:

a) Coalmont will sell all right and title to the Coalmont Assets to Sandhill;

b) the purchase price for the Coalmont Assets is approximately $12.4 million;

c) the purchase price will be satisfied as follows:

   i. Sandhill to assume obligations of Coalmont pursuant to an interim financing charge granted in the CCAA Proceedings and having a value of $7.5 million;

   ii. Sandhill to assume obligations of Coalmont pursuant to repairers liens which are estimated to have no value. For each lien, if any, the obligation assumed will be the lesser of the amount of the lien and the purchase price allocated to the machinery subject to the lien;

   iii. Sandhill to pay amounts due to Pacific West Coal (Holdings) Ltd. ("**PWC**") pursuant to its claim in the CCAA proceedings; and

   iv. Sandhill to credit the balance against the debts owing by Coalmont to Sandhill.

d) Sandhill shall assume and be responsible for all obligations and liabilities which are observed, performed or paid under:

   i. the mining agreement with PWC;

   ii. all licences, permits, registrations, consents and other rights entered into or obtained by Coalmont from any governmental authority in relation to the Coalmont Assets; and

   iii. any other obligation specifically agreed to in writing.

e) The Coalmont APA is subject to various conditions precedent, including a requirement that Coalmont obtain approval of this Honourable Court and a vesting order; and

f) The closing date of the transaction is two days following the satisfaction or waiver of the conditions precedent.

Monitor's review of the Coalmont APA

5.2 The Monitor's review of the Coalmont APA involved consideration of the following:

a) the total purchase price being offered;

b) the extent to which the Coalmont Assets have been exposed to the market through the Coalmont Sales Process;

c) the lack of any transaction resulting from the Coalmont Sales Process;

d) the period of time that the Coalmont Assets were exposed to the market;

e) the ongoing monthly care and maintenance costs of approximately $150,000 associated with the Coalmont Assets which is currently being funded by Industries;

f) the extent to which the transaction is supported by key stakeholders including Callidus;

g) the lack of opposition from unsecured creditors;

h) break-up values estimated by suppliers for the wash plant which makes up the largest tangible asset of Coalmont;

i) the amount and nature of debts owing by Coalmont to Sandhill and Callidus as well as joint and several liabilities of the Arthon Group for which Coalmont is an obligor; and

j) the possibility that Industries and Callidus will incur a shortfall on their loans in the event that the Coalmont APA is not completed and, accordingly, the resulting unlikelihood that there would be any recovery to unsecured creditors.

5.3 Although unsecured creditors will not receive any distribution as a result of the Coalmont APA being approved, after consideration of the matters set out above, the Monitor supports the Company's application for an order approving the sale of the Coalmont Assets to Sandhill.

6.0 EQUIPMENT APA

Summary of Select Commercial Terms of the Equipment APA

6.1 Select commercial terms of the Equipment APA are summarized below:

a) Equipment will sell all rights and title to the Equipment Assets to Industries;

b) the purchase price for the Equipment Assets is approximately $11.3 million;

c) the purchase price will be satisfied as follows:

   i. Industries to assume obligations of Equipment pursuant loans advanced by Callidus secured by the interim financing charge granted in the CCAA Proceedings having a value of $1.3 million;

   ii. Industries to assume obligations of Equipment pursuant to repairers' liens with an estimated value of $90,000. For each lien, the obligation assumed will be the lesser of the amount of the lien and the purchase price allocated to the machinery subject to the lien;

   iii. Industries to assume the obligations for the primary debts owing by Equipment to Callidus up to a total of $7.2 million;

   iv. Industries to pay to Equipment the sum of $90,000 in cash; and

   v. Industries to credit the remaining balance estimated at $2.6 million against the debts owing by Equipment to Industries.

d) The Equipment APA is subject to various conditions precedent, including approval of this Honourable Court and a requirement that Equipment obtain an vesting order in a form acceptable to the both Equipment and Industries; and

e) The closing date of the transaction is two days following the satisfaction or waiver of the conditions precedent.

Monitor's Review of the Equipment APA

6.2 The Monitor's review of the Equipment APA involved consideration of the following:

a) the total purchase price being offered;

b) the results of the Equipment Sales Process;

c) the extent to which the purchase price in the Equipment APA is consistent with the values attributed to the Equipment Assets in appraisals commissioned by the Company and Callidus and available to the Monitor;

d) the period of time the Equipment Assets have been exposed to the market;

e) the potential costs associated with continued holding and marketing of the Equipment Assets if the Equipment APA is not completed;

f) the amount and nature of debts owing by Equipment to Industries and Callidus as well as joint and several liabilities of the Arthon Group for which Equipment is an obligor; and

g) the extent to which the transaction is supported by key stakeholders, including Callidus.

6.3 Although unsecured creditors will not receive any distribution as a result of the Equipment APA being approved, after consideration of the matters set out above, the Monitor supports the Company's application for an order approving the sale of the Equipment Assets to Industries.

7.0 CASH FLOW VARIANCE ANALYSIS

7.1 A&M provided comments on the Sixth Cash Flow Statement in its seventh report dated October 22, 2014 which is available on the Monitor's Website and, accordingly, these are not repeated here.

7.2 As part of A&M's ongoing responsibilities and monitoring of the Petitioners' business and financial affairs, we have undertaken periodic reviews of the Company's actual receipts and disbursements to compare them with those forecast in the Sixth Cash Flow Statement. The Company's actual receipts and disbursements as compared to the Sixth Cash Flow Statement for the 59 week period November 29, 2013 through January 16, 2015 are summarized below:

Arthon Industries Limited et al
Unaudited Summary of Actual Versus Forecast Cash Flows
For the period November 29, 2013 to January 16, 2015
($000's)

	November 29, 2013 to January 16, 2015		
	Actual	**Forecast**	**Variance**
Operating Receipts			
Aggregate sales	$ 239	$ 192	$ 47
Proceeds from disposition of capital assets	632	632	-
Sandhill Materials Inc. receipts	772	563	209
Other	8,783	8,603	180
Total Operating Receipts	10,426	9,990	436
Operating Disbursements			
Production costs	220	203	17
Payroll, benefits and payroll taxes	2,075	2,021	54
Management fees	729	725	4
Mine care and maintenance	716	745	(29)
Fuel	254	294	(40)
Insurance, permits and royalties	549	538	11
Repairs and maintenance	372	346	26
General and administrative	288	247	41
Professional fees	2,739	2,796	(57)
Taxes	375	269	106
Financing costs	6,326	6,206	120
Total Operating Disbursements	14,643	14,390	253
Net Cash Flow From Operations	(4,217)	(4,400)	183
Cash Flow From Financing			
Repayment of HSBC Operating Facilities	12,763	12,763	-
Repayment of Callidus Facilities	(769)	(729)	(40)
	11,994	12,034	(40)
Net Cash Flow	7,777	7,634	143
Opening Cash Balance	(12,583)	(12,583)	-
Net Cash Flow	7,777	7,634	143
Closing Cash Balance	**$ (4,806)**	**$ (4,949)**	**$ 143**

7.3 As reflected in the table above, the Company's actual results are consistent with those forecast.

7.4 The Monitor has not received an updated forecast to cover the period of the requested extension to the Stay Period. However, Management has advised the Monitor that they do not expect any receipts or disbursements outside the normal course of business during this short period and the Monitor will continue to review the Company's cash flow during this time.

8.0 EXTENSION OF THE STAY PERIOD

8.1 The Stay of Proceedings is currently set to expire on January 30, 2015 and the Company is seeking an extension of the Stay Period as it relates to Equipment and Coalmont to the earlier of:

a) February 18, 2015; or

b) the date on which the respective company is assigned into bankruptcy.

8.2 In reviewing this matter, the Monitor has considered a number of factors, including:

a) the time required for the Petitioners to conclude the transactions contemplated in the Equipment APA and Coalmont APA, if approved by this Honourable Court;

b) the prospects of the CCAA Proceedings being substantially concluded prior to the expiry of the requested extension;

c) the support of certain key creditors, including Callidus and the limited opposition voiced by other stakeholders;

d) Management's expectation that no cash receipts or disbursements outside the normal course are anticipated during the period from January 30, 2015 to February 18, 2015;

e) the possibility of material financial prejudice to any of the Petitioners' stakeholders; and

f) whether the Petitioners are acting in good faith and with due diligence and if the Company's prospects of effecting a viable restructuring would be enhanced by an extension of the Stay Period.

8.3 The Monitor is of the view that the Petitioners are acting in good faith and with due diligence and, accordingly, after consideration of the circumstances, including the matters set out above, supports the requested extension of the Stay of Proceedings.

9.0 MONITOR'S RECOMMENDATIONS

9.1 Based on the foregoing, the Monitor respectfully recommends that this Honourable Court grant the Petitioners' request for the following orders:

a) an order approving the sale of the Coalmont Assets to Sandhill and vesting the Coalmont Assets in Sandhill and 102;

b) an order approving the sale of the Equipment Assets to Industries and vesting the Equipment Assets in Industries;

c) the Bankruptcy Orders; and

d) the Extension Order.

*****

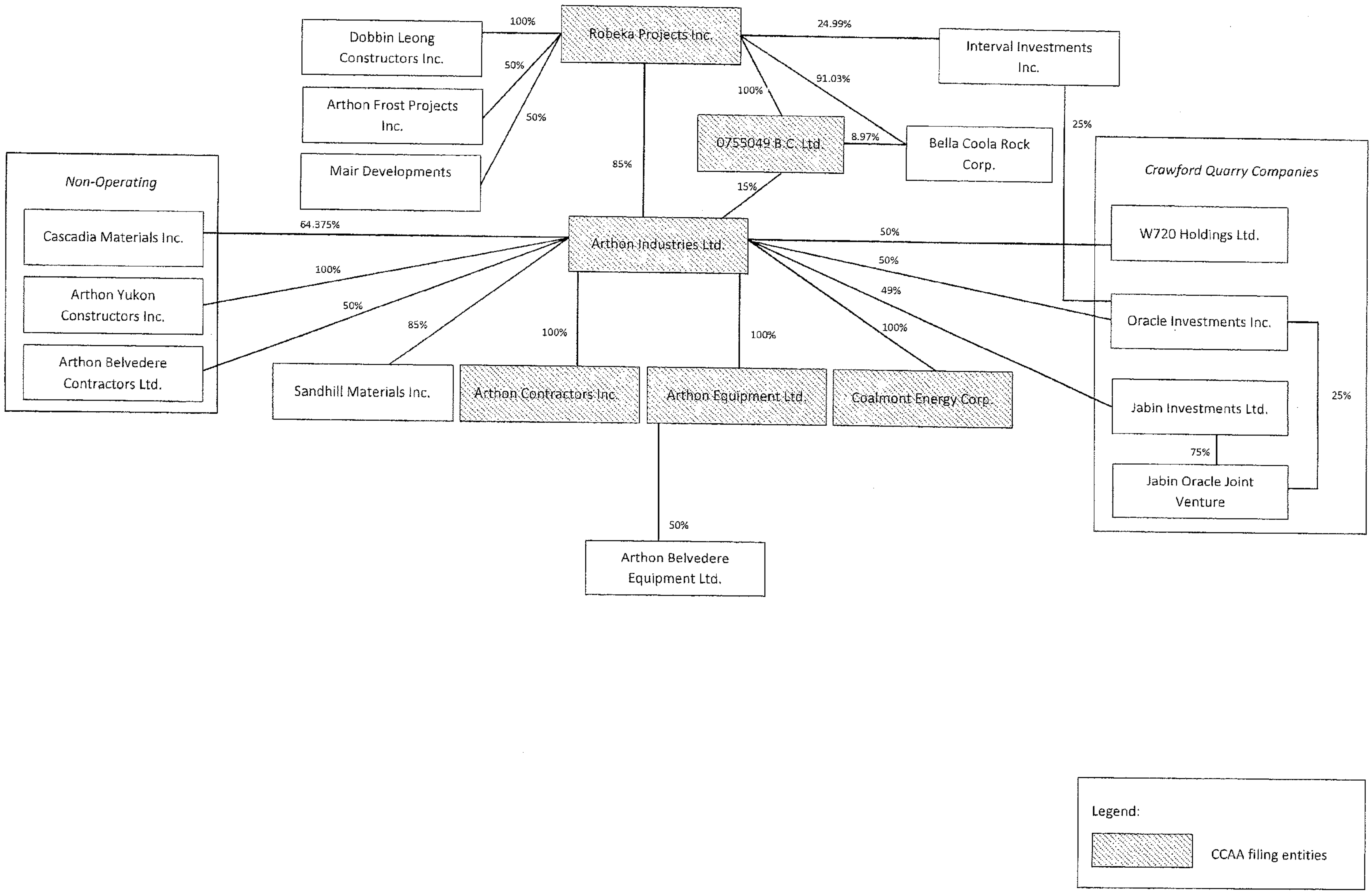
All of which is respectfully submitted to this Honourable Court this 27th day of January, 2015.

Alvarez & Marsal Canada Inc.
in its capacity as Monitor of
Arthon Industries Ltd. and those
affiliated and subsidiary companies listed

Per: Peter Gibson Senior Vice President	Per: Tom Powell Director

APPENDIX A

Corporate Organization Chart
As At January 31, 2014



Appendix D

PSG
Pioneer Sand and Gravel Ltd.

200-1021 Ellis St.
Kelowna, V1Y 1Z3
British Columbia
Canada

Tel (250) 769-3811

Fax (250) 769-5477

November 15, 2017

Arthon Industries Ltd.
7 – 1790 KLO Road
Kelowna, BC, V1W 3P6

Attention: Kerry Leong

Dear Sir:

Further to our discussions regarding the Basin Mine assets owned by your companies, we are providing this letter to set out the proposed terms of an agreement to buy those assets. This letter is presented for discussion purposes only and is not an offer or commitment to purchase the assets. We will need to complete a purchase and sale agreement with the common conditions following completion of due diligence.

<u>Closing Date</u>

We will need 30 days to complete due diligence.

The closing date can be seven days after all conditions are complete.

<u>Assets and Assumed Liabilities</u>

We would acquire all of the assets currently at the Basin Mine site including the mining agreement between you and Pacific West Coal, all governmental permits and licenses, the coal wash plant, generators, miscellaneous buildings and other assets, the coal inventory, and the letter of credit posted with the Ministry of Mines.

We would assume the reclamation liabilities related to the mining permit. We would not assume any other liabilities that are incurred prior to the closing date.

<u>Purchase Price</u>

$200,000 to be paid on the closing date

<u>Due Diligence and Conditions Precedent</u>

We will need 30 days to complete due diligence. Due diligence will include the following conditions precedent to closing:

1. Clear title to the assets. You have indicated that your bank has security and there is a possible PST assessment that you have appealed. We will need to be certain that no one has a claim on the assets.
2. Pacific West Coal's agreement to transfer the Mining Agreement to us.
3. The various government agencies' transfer if the permits, licenses, etc. to us.

4. Our review of the estimated reclamation liabilities which are not to exceed the letter of credit
5. Satisfactory meeting with Westmoreland
6. Satisfactory meeting with Fraser Surrey Docks.
7. Satisfactory review of the mining and mineral claims.

Transition Period

We need to ensure an orderly transition. For 60 days after the closing date, we will require Arthon's assistance on a part time basis (at no costs to us) to transition the employees, suppliers and relationships to us. We will reimburse Arthon for amounts it pays on our behalf after the closing date but will not pay any administration or other fees to you for that service.

For greater certainty, we want an orderly transition of the employees and the relationships with Fraser Surrey Docks and Westmoreland.

Purchase Agreement

Your lawyers will prepare the first draft of the purchase agreement for review by our lawyers. Each of us will bear our own legal costs.

Timing

This letter is open or acceptance until November 24, 2017.

We can commence our due diligence as soon as this letter is accepted by you.

Yours truly,

Bruce Kitsch, General Manager
Pioneer Sand & Gravel Ltd

Accepted:

By: Kerry Leong

November 23, 2017
Date

Appendix E

ASSET PURCHASE AGREEMENT

THIS AGREEMENT dated as of the 3rd day of October, 2018 is between:

BASIN MINE LIMITED PARTNERSHIP, a limited partnership pursuant to the laws of British Columbia,

(the "**Seller**")

AND

PIONEER SAND AND GRAVEL LTD., a body corporate pursuant to the laws of British Columbia,

(the "**Buyer**")

BACKGROUND

A. The Seller owns and operates the Business and owns or holds under valid license or lease the Assets.

B. On October 3, 2018 the Seller filed a notice of intention to make a proposal under the BIA.

C. The Seller has agreed to sell, and the Buyer has agreed to buy, the Assets on the terms set out in this Agreement.

AGREEMENTS

For good and valuable consideration, the receipt and sufficiency of which each Party acknowledges, the Parties agree as follows:

PART 1
INTERPRETATION

1.1 **Defined Terms**. In this Agreement:

(a) "**Assets**" means collectively the Seller's right, title and interest in and to the equipment, machinery, parts, tools, accessories and other tangible personal property listed in **Schedule "A"** hereto (the "**Equipment**"), together with the Inventory, and the Seller's rights under the Licenses, the Letter of Credit and the Mining Agreement;

(b) "**Basin Mine Lands**" means those lands more particularly described in **Schedule "D"** hereto, the rights to which are held by the Seller under License of Occupation No. 347182, as may be amended or modified from time to time;

(c) "**BIA**" means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended;

(d) "**Business**" means the coal extraction and processing activities carried on by the Seller or its predecessors at the Basin Mine Lands;

(e) "**Business Day**" means any day from Monday to Friday, inclusive, except for any day that is a statutory holiday in British Columbia;

(f) "**Closing Date**" has the meaning given in paragraph 9.1;

(g) "**Consents**" has the meaning given in paragraph 8.1 (d);

(h) "**Court**" means the Supreme Court of British Columbia;

(i) "**Environmental Laws**" means any applicable federal, provincial, municipal or local laws, regulations, orders, governmental decrees or ordinances concerning environmental, health or safety matters;

(j) "**Governmental Authority**" means any Canadian (whether federal, territorial, provincial, municipal or local), international or foreign government, governmental authority, quasi-governmental authority, court, self-regulatory organization, commission, tribunal or organization, or any agent, subdivision, department or branch of any of the foregoing;

(k) "**Hazardous Substances**" means any pollutant, contaminant, waste, special or hazardous waste, toxic or hazardous substance or material which, when released into the natural environment is likely to cause harm or risk to the natural environment or to human or animal health, including without limitation, any substance considered hazardous under Environmental Laws;

(l) "**Inventory**" means the stockpiled coal, raw materials, work in progress, and replacement parts of or relating to the Business;

(m) "**Letter of Credit**" means the letter of credit reference no. MBT03392750S dated July 27, 2011 in the sum of $276,547 issued by Bank of Montreal;

(n) "**Licenses and Permits**" means the licences, permits, registrations, consents and other rights entered into or obtained by the Seller from any Governmental Authority with respect to the Business or any of the Assets listed in **Schedule "C"** hereto;

(o) "**Mining Agreement**" means the Mining Agreement between the Seller and Pacific West Coal Ltd. dated April 28, 2011, as amended and supplemented from time to time;

(p) "**Mining Agreement Consent**" has the meaning given in paragraph 8.1 (c);

(q) "**Parties**" means the Seller and the Buyer, and their respective successors and assigns, and "**Party**" means any one of the Parties;

(r) "**Permitted Encumbrances**" means the encumbrances, if any, listed in **Schedule "B"**;

(s) "**Person**" means an individual, a corporation, a society, a partnership, a government or any government department or agency, a trustee, any unincorporated organization, and includes the heirs and legal representatives of an individual;

(t) "**Proceeding**" means the proceedings commenced by the Seller in the Court pursuant to the BIA;

(u) "**Purchase Price**" has the meaning given in paragraph 2.2;

(v) :**Reclamation Trust Account**" means the trust account to be established pursuant to the terms of the Mining Agreement;

(w) "**Trustee**" means the proposal trustee appointed by the Court in the Proceeding; and

(x) "**Vesting Order**" has the meaning given in paragraph 8.1(a).

1.2 **Schedules**. The following attached Schedules form part of this Agreement:

Schedule "A"	Assets
Schedule "B"	Permitted Encumbrances
Schedule "C"	Licenses and Permits
Schedule "D"	Basin Mine Lands

PART 2
AGREEMENT TO SELL AND CONSIDERATION

2.1 **Agreement to Sell**. The Seller will sell, and the Buyer will buy, all of the Seller's rights, title and interest in and to the Assets on the terms set out in this Agreement.

2.2 **Calculation of Purchase Price**. The Purchase Price for the Assets will be calculated as follows:

	Asset	Value
(a)	the Mining Agreement, Licences and Permits:	$226,444
(b)	Equipment:	$95,000
(c)	Inventory:	$4,999
(d)	the Letter of Credit (net of reclamation costs):	$1.00
LESS:		
	Cost of Reclamation Trust Account:	$126,444
TOTAL ("**Purchase Price**")		**$200,000**

2.3 **Payment of Purchase Price**. The Purchase Price will be paid in full by solicitors trust cheque or wire transfer on the Closing Date.

PART 3
TAXES

3.1 **Taxes**. The Buyer will pay all taxes payable upon the purchase of the Assets. Each of the Buyer and Seller will make the election provided for by section 167 of the *Excise Tax Act* (Canada) in the prescribed form, and the Buyer will file such election within the prescribed time. If the Buyer is not a registrant under the *Excise Tax Act* (Canada) it will pay all goods and services tax payable in respect of the purchase of the Assets to the Seller on the Closing Date.

PART 4
REPRESENTATIONS

4.1 **Representations of the Seller**. The Seller represents and warrants to the Buyer as follows:

(a) **Status of Seller**. The Seller is an existing corporation under the laws of British Columbia, is in good standing with respect to the filing of annual returns with the

Registrar of Companies, has the power and capacity to dispose of the Assets and to enter into this Agreement and carry out its terms.

(b) **Canadian Residency**. The Seller is a resident in Canada within the meaning of the *Income Tax Act* (Canada) and on the Closing Date shall not be a non-resident of Canada within the meaning of the *Income Tax Act* (Canada).

4.2 **Representations of the Buyer**. The Buyer represents and warrants to the Seller as follows:

(a) **Status of the Buyer**. The Buyer is an existing corporation under the laws of British Columbia and is in good standing with the Registrar of Companies.

(b) **Capacity**. The Buyer has the right and authority to enter into this Agreement on the terms and conditions set out herein and has duly passed all corporate resolutions necessary to authorize the transactions contemplated by this Agreement. This Agreement constitutes a valid and binding obligation of the Buyer.

(c) **Governmental Authorization**. Except as expressly referred to in this Agreement, the execution, delivery and performance of this Agreement by the Buyer requires no action by, consent or approval of, or filing with, any Governmental Authority.

(d) **GST Registrant**. The Buyer is a registrant for purposes of the *Excise Tax Act* (Canada) and the Buyer's registration number is 84631-3203-RT0001.

PART 5
RESPONSIBILITY FOR LIABILITIES AND OBLIGATIONS

5.1 **Assumed Liabilities and Obligations**. With effect from the Closing Date, the Buyer shall assume and be solely responsible for all obligations and liabilities which are to be observed, performed or paid from and after the Closing Date under:

(a) the Mining Agreement,

(b) the obligation to establish the Reclamation Trust Account;

(c) the Licences and Permits;

(d) the Letter of Credit; and

(e) any other contract, agreement or obligation specifically agreed to be assumed by the Buyer in this Agreement or subsequently between the Buyer and the Seller in writing;

and the Buyer shall indemnify and hold harmless the Seller from and against any losses, costs, damages, liabilities and fees (including, without limitation, reasonable legal fees) suffered or incurred by the Seller as a result of, or arising out of, the failure of the Buyer to perform or pay and of the obligations and liabilities referred to in this paragraph 5.1.

PART 6
TITLE TO THE ASSETS

6.1 **Title to the Assets.** As more particularly described in this Agreement, title to the Assets will be transferred to the Buyer by way of the Vesting Order in the Proceeding free and clear of any financial encumbrances but subject to the Permitted Encumbrances.

6.2 **Acknowledgement.** The Buyer acknowledges that:

(a) the Seller is selling the Assets strictly on an "as is, where is" basis as they exist on the Closing Date, and that the Buyer's completion of the transaction contemplated herein constitutes the Buyer's acknowledgment that it has satisfied itself as to all matters relating to the physical condition of the Assets. No representation, warranty or condition by the Seller is expressed or implied as to title, encumbrances, environmental liabilities, description, fitness for purpose, merchantability, assignability, condition, quantity or quality or in any respect of any other matter or thing whatsoever concerning the Assets or the right of the Seller to sell the Assets. Without limiting the generality of the foregoing, any and all conditions, warranties or representations expressed or implied pursuant to any applicable statute, including without limitation, the *Sale of Goods Act* (British Columbia) or other similar legislation, do not apply hereto and are hereby waived by the Buyer. The description of the Assets set out herein is for the purpose of identification only and no representation, warranty or condition has or will be given by the Seller concerning the completeness or accuracy of such descriptions;

(b) the Assets have been used for the Business, and that such use can be expected to have resulted in environmental liabilities including, without limitation, the presence of contamination and/or Hazardous Substances at, on or under the Basin Mine Lands or such contamination and/or Hazardous Substances potentially affecting neighbouring properties, water bodies or other areas; and

(c) it assumes all of the Seller's reclamation obligations relating to the Basin Mine Lands and agrees that, although the Letter of Credit was obtained to secure the cost of such reclamation, there is no assurance that the proceeds of the Letter of Credit will be sufficient to pay all of the costs incurred in such reclamation.

6.3 **Insurance.** The Seller and the Buyer will use commercially reasonable efforts to transfer any insurance policies held by the Seller in relation to the Business and the Assets, to the Buyer.

PART 7
COURT APPROVAL

7.1 **Court Approval.** The Buyer acknowledges and agrees that until this Agreement is approved by the Court in the Proceeding, the Seller's obligation in connection with this Agreement is limited to considering it and, if accepted by the Seller, putting the Agreement before the Court for approval.

PART 8
CONDITIONS PRECEDENT

8.1 **Conditions Precedent to the Parties' Obligations.** The obligations of each of the parties under this Agreement are subject to the fulfilment, prior to or on the Closing Date, of the following conditions:

(a) the Seller obtaining and receiving from the Court a vesting order in a form acceptable to the Parties (the "**Vesting Order**") which:

(i) approves this Agreement and the sale of the Assets to the Buyer in accordance with this Agreement;

(ii) vests title in the Assets in the Buyer free and clear of all liens, security interests and other encumbrances save and except for the Permitted Encumbrances; and

(iii) contains such other terms and conditions as may ordinarily be contained in a vesting order;

(b) the Seller not being restrained or enjoined from completing the sale of the Assets by a court of competent jurisdiction or the filing or registration of any document preventing the Seller from transferring title to the Assets to the Buyer;

(c) the representations and warranties of the parties set out in this Agreement shall be true , accurate and not misleading as at the Closing Date with reference to the facts and circumstances then existing;

(d) the consent to the assignment of the Mining Agreement has been obtained from Pacific West Coal Ltd. (the "**Mining Agreement Consent**");

(e) subject to paragraph 8.2, all consents to the assignment of the Licences and Permits and to the Letter of Credit (collectively, the "**Consents**") have been obtained from the appropriate Governmental Authorities or other Persons on terms reasonably satisfactory to the Parties; and

(f) all documents listed in paragraphs 9.3 and 9.4 shall have been received by the Buyer and the Seller, respectively.

8.2 Consents. If, by the Closing Date, despite the commercially reasonable best efforts of the Parties, all Consents have not been obtained, the closing will occur as set out in paragraph 9.1 on the following terms:

(a) the payment of the Purchase Price and the delivery of the documents set out in paragraphs 9.3 and 9.4 will be exchanged pursuant to those paragraphs;

(b) subject to subparagraph (c) below, the Buyer will have title, possession and control of the Assets pursuant to the Vesting Order and the terms of this Agreement;

(c) the Seller will hold any of the Licences and Permits or the Letter of Credit for which a Consent has not been obtained in trust for the benefit of the Buyer;

(d) the Parties will continue to use their commercially reasonable best efforts to obtain any outstanding Consents as quickly as possible;

(e) the Buyer will pay the Purchase Price to the Trustee on the condition that:

(i) the Purchase Price be held in trust until all Consents have been obtained;

(ii) once the outstanding Consents have been obtained the Trustee will release the Purchase Price to or to the order of the Seller; and

(iii) if any Consent is ultimately denied and all appeals of such denial have been exhausted, the Trustee will return the Purchase Price less the sum of $1.00 to the Buyer and will pay the sum of $1.00 to the Seller and thereafter the sale and purchase of the Assets will be deemed to have been completed pursuant to the terms of this Agreement.

8.3 **Waiver of Conditions**. Each of the conditions set out in paragraph 8.1 may be waived, in whole or in part, by the parties at or prior to the Closing Date, by a written waiver to that effect signed by the Parties.

8.4 **Binding Agreement**. The Seller and the Buyer acknowledge and agree that although their respective obligations to complete the sale and purchase contemplated by this Agreement is subject to the satisfaction or waiver of the conditions precedent set forth in paragraph 8.1:

(a) those conditions precedent are not conditions to there being a binding agreement between the Seller and the Buyer with respect to the Assets; and

(b) this Agreement is not void, voidable, revocable or, except for default, otherwise capable of being terminated by any of the Parties until the time limited for the satisfaction or waiver of such conditions precedent has expired.

PART 9
CLOSING

9.1 **Completion.** The sale will be completed two (2) days following the satisfactory completion or waiver of the conditions precedent set out in paragraphs 8.1 and 8.2, subject to the Parties agreeing to an earlier or later date (the "**Closing Date**").

9.2 **Closing.** The closing will take place at the offices of DLA Piper (Canada) LLP, at 2800 - 666 Burrard Street, Vancouver, BC on the Closing Date, or on such other date or at such other place as may be mutually agreed upon in writing by the Parties.

9.3 **Documents and Assets to be Delivered by the Seller**. At the closing the Seller will deliver, or cause to be delivered, to the Buyer:

(a) the Vesting Order;

(b) the Seller's election under section 167 of the *Excise Tax Act* in the prescribed form;

(c) the Mining Agreement Consent;

(d) such Consents as are then available;

(e) letters to the appropriate Government Authorities and other Persons, jointly executed by the Seller and the Buyer, authorizing the transfer of the Licenses and Permits and the Letter of Credit hereunder; and

(f) all other deeds of conveyance, bills of sale, transfers, and assignments reasonably required by the Buyer, and in form and content satisfactory to each of the Parties' solicitors, appropriate to effect the assignment, transfer and sale of the Assets as contemplated in this Agreement.

9.4 **Deliveries by the Buyer**. On the Closing Date the Buyer will deliver, or cause to be delivered, to the Seller and Trustee:

(a) To the Trustee, payment of the Purchase Price;

(b) To the Seller:

(i) letters to the appropriate Government Authorities and other persons, jointly executed by the Seller, authorizing the transfer of the Licenses hereunder;

(ii) the Buyer's election under section 167 of the *Excise Tax Act* in the prescribed form; and

(iii) such other documents reasonably required by the Seller, and in a form and content satisfactory to each of the Parties' solicitors, to evidence the payment of the Purchase Price and the transfer and sale of the Assets as contemplated in this Agreement.

9.5 **Terms of Closing**. Closing shall not be completed, nor shall the documents tabled for delivery on the Closing Date be delivered, until all conditions of closing (including the deliveries contemplated by this Part 9) have been fulfilled or waived.

9.6 **Transfer Fees and Taxes**. In addition to the Purchase Price, all taxes, fees or costs payable with respect to transfer of title to the Assets to the Buyer and to registration of such transfer shall be for the account of the Buyer. All costs of clearing any charges or encumbrances affecting the Assets, other than the Permitted Encumbrances, shall be for the account of the Seller.

9.7 **Business Transition**. The Seller agree that it will provide reasonable assistance to the Buyer to transition the suppliers and business relationships in the operation of the Business from the Seller to the Buyer and the Seller will make available on a part time basis for a period of 60 days from the Closing Date, such of its personnel to provide this assistance. The Buyer will reimburse the Seller for any out of pocket expenses and costs (including wages of employees) incurred in connection with providing such assistance, but the Seller will not be paid any administration or other fees for providing this assistance.

PART 10
RISK AND DAMAGE

10.1 **Risk**. Up to the Closing Date, any risk of loss or damage by fire or other cause to the Assets will remain with the Seller. The Seller is not required to maintain any insurance relating to the Assets, but if there is such insurance the Seller will hold any insurance policies or compensation policies, if any, and any proceeds of any insurance policies or compensation, in trust for the Seller and the Buyer.

10.2 **Damage**. In the event of damage to the Assets, the Buyer will complete the purchase and sale of the Assets, in which event any insurance proceeds or other compensation proceeds paid or payable with respect to the Assets will be assigned or paid by the Seller to the Buyer, and the Purchase Price will be reduced to the extent that any such proceeds do not compensate for the repair or replacement cost of the Assets damaged or destroyed, provided that the Seller must agree to the amount of any reduction to the Purchase Price.

PART 11
GENERAL

11.1 **Further Assurances**. The Parties will execute and deliver all other appropriate supplemental agreements and other instruments, and take any other action necessary, to give full effect to this Agreement, and to make this Agreement legally effective, binding, and enforceable as between them, and as against third parties.

11.2 **Binding Agreement**. This Agreement will bind and benefit each of the Parties including their respective successors and permitted assigns.

11.3 **Expenses**. Each Party will pay any expense it incurs in authorizing, executing, and performing this Agreement and any transaction contemplated by it, whether or not that transaction is completed, including any fee and expense of its legal counsel, banker, investment banker, broker, accountant, or other consultant.

11.4 **Assignment**. The Seller may not assign this Agreement without the prior consent of the Buyer. The Buyer may assign this Agreement, in whole or in part, to an affiliate (as defined in the *Business Corporations Act* (British Columbia)) on written notice to the Seller. The Buyer may not otherwise assign this Agreement without the prior consent of the Seller.

11.5 **Counterparts**. This Agreement may be signed by original or by facsimile and executed in any number of counterparts, and each executed counterpart will be considered to be an original. All executed counterparts taken together will constitute one agreement.

11.6 **Entire Agreement**. This Agreement constitutes the entire agreement between the Parties and there are no representations or warranties, express or implied, statutory or otherwise and no agreements collateral to this Agreement other than as expressly set out or referred to in this Agreement.

11.7 **Gender and Number**. Words in one gender include all genders, and words in the singular include the plural and vice versa.

11.8 **Governing Law and Jurisdiction**. This Agreement will be governed by and construed in accordance with British Columbia law and applicable Canadian law and will be treated in all respects as a British Columbia contract. The Parties agree to the non-exclusive jurisdiction of the courts of the Province of British Columbia.

11.9 **Time**. Time will be of the essence.

11.10 **Expiry of Time Period**. In this Agreement, if any period ends on a day other than a Business Day, that period will be extended to the next following Business Day.

11.11 **Notices**. In this Agreement:

(a) any notice or communication required or permitted to be given under the Agreement will be in writing and will be considered to have been given if delivered by hand or transmitted by facsimile transmission to the address or facsimile transmission number of each Party set out below:

(i) if to the Seller:

Basin Mine Limited Partnership
Unit 9 - 1790 KLO Road
Kelowna, BC V1W 3P6

Attention: Kerry Leong

Facsimile No. 250-868-6559

(ii) if to the Buyer:

Pioneer Sand and Gravel Ltd.
200-1021 Ellis Street
Kelowna, BC V1WY 1Z3

Attention: Bruce Kitsch, General Manager

Facsimile No. 250-769-5477

or to such other address or facsimile transmission number as any Party may designate in the manner set out above;

(b) any notice or communication will be considered to have been received:

(i) if delivered by hand during business hours on a Business Day, upon receipt by a responsible representative of the Seller, and if not delivered during business hours, upon the commencement of business on the next Business Day; and

(ii) if sent by facsimile transmission during business hours on a Business Day, upon the sender receiving confirmation of the transmission, and if not transmitted during business hours, upon the commencement of business on the next Business Day.

11.12 **Confidentiality**. Neither the Seller nor the Buyer will, without the prior written consent of the other, disclose the Purchase Price or any of the other terms and conditions of this Agreement to any other Person other than to its respective bankers, solicitors and financial advisors, or otherwise as required to carry out its obligations under this Agreement or by law.

[*Signature Page Follows*]

TO EVIDENCE THEIR AGREEMENT each of the Parties has executed this Agreement as of the date set out above.

BASIN MINE LIMITED PARTNERSHIP, by its

General Partner, 1025194 B.C. Ltd.
By:

____
Authorized Signatory

PIONEER SAND AND GRAVEL LTD.
By:

____
Authorized Signatory

SCHEDULE "A"
ASSETS

Code	Description	Year	Serial No.
BU1235-20	Site Shop		Unknown
ED1201-20	DCS 25000 gal Tidy Tank/Skid	2012	57853
ED1202-20	10' Container - Electrical		TROU 7155652-7432
ED1262-20	10' x 22' Washroom Trailer		Unknown
ED1263-20	CTB500 Clean Burn Multi Oil Furnace w/Chimney	2012	AS-676089
ED1264-20	500 Gallon WB Tank (for ED1263 Furnace)	2012	Unknown
ED1265-20	Franklin 90JS5S4-PE 575V Pump & Parts		Unknown
ED1266-20	DCS 25000 L Tidy Tank / Generator Skid	2012	52038
ED1267-20	Boiler for Wash Plant		00380600302PV
ED1268-20	DCS 2250 L Tidy Tank	2012	62565
ED1269-20	DCS 45000 L Tidy Tank/Skid	2012	64661
ED1270-20	VEGA SHLD1 / MINITRAC 31 Nuclear Density Detector		Unknown
ED1272-20	Franklin 25JS30 3HP 575V Submersible Pump	2013	93772534 / 2343362604
ED1273-20	Arctic Raptor Electrofusion Pro 220V	2013	A30671
ES1222-20	DVSystems G25TD 25HP 575V WP Gen Cmprssr	2013	37976
GE1226-20	Mitsubishi S16R 1650KW Diesel Generator	2005	10025
GE1227-20	Mitsubishi S16R 1650KW Diesel Generator	2005	10026
JC179-18	office structure with JC and Northern 10 ft. x40 ft. portable office trailers and structure		104007164608
PU510-18	2008 CHEVROLET Silverado 2500 HD LTZ 4WD gas crew cab pickup truck with 2 2009 633L Enviroslip fuel tanks	2008	1GCHK23K28F124401
ME1202-20	1998 JD 4.5L Powertech Generator	1998	T04045D750400
ME1230-20	SIEMENS Tiastar 600V Motor Control Centre	2012	Unknown
WASH20	Parnaby 250 TPH Capacity Cyclone Coal Rewash Plant	2012	Multiple

SCHEDULE "B"
PERMITTED ENCUMBRANCES

NIL

SCHEDULE "C"
LICENSES AND PERMITS

1. Licence of Occupation No. 347182 dated February 11, 2014, as may be replaced, modified otherwise amended.

2. Mining Permit No. C-217 dated August 25, 2000, as may be replaced, modified otherwise amended.

LETTER OF CREDIT

Letter of Credit reference no. MBT03392750S dated July 27, 2011 in the sum of $276,547 issued by Bank of Montreal.

SCHEDULE "D"

BASIN MINE LANDS

That part of the East 1/2 of District Lot 295, Yale Division of Yale District containing 29.3 hectares, more or less