Estate Nos.: 11-2427899
Court File No.: B-180585
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF
THE PROPOSAL OF
BASIN MINE LIMITED PARTNERSHIP

REPORT OF THE PROPOSAL TRUSTEE

INTRODUCTION

1. This report ("**Report**") has been prepared by Ernst & Young Inc. ("**EYI**"), in its capacity as proposal trustee (the "**Proposal Trustee**") in the insolvency proceedings commenced by Basin Mine Limited Partnership ("**BMLP**") under Part III, Division I of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 as amended (the "**BIA**").

2. On October 3, 2018 (the "**NOI Filing Date**"), BMLP filed a Notice of Intention to make a Proposal ("**NOI**") pursuant to section 50.4(1) of the BIA.

3. On October 5, 2018, BMLP sought and obtained an order of the Supreme Court of British Columbia which approved an asset purchase agreement (the "**Pioneer APA**") with Pioneer Sand and Gravel Ltd. ("**Pioneer**") for the sale of all or substantially all of BMLP's assets, including its equipment, together with its inventory and a mining permit (the "**Mining Permit**") to develop and operate an open pit coal mine located 11 kilometres southwest of Coalmont, B.C. (the "**Basin Mine**") (collectively, the "**Purchased Assets**") for the purchase price of up to $200,000 (the "**Purchase Price**"). A copy of the Pioneer APA has been posted to the a website (the "**Website**") established by the Proposal

Trustee www.ey.com/ca/basinemine to ensure that stakeholders have access to current information relating to these proceedings, including reports of the Proposal Trustee.

4. On November 2, 2018, BMLP filed a proposal to its secured and unsecured creditors (the "**Proposal**") pursuant to the BIA. The capitalized terms used but not otherwise defined in this Report are defined in the Proposal and this Report should only be read in conjunction with the Proposal. Details of the Proposal are outlined in this Report.

5. The purpose of this Proposal is to use the entirety of the proceeds of sale obtained under the Asset Purchase Agreement in the amount of up to $200,000 (the "**Proposal Fund**") to effect a compromise of the Claims of the Creditors of BMLP, including statutory claims against Directors, in accordance with subsections 50(13) to 50(15) of the BIA,, in the expectation that Creditors will derive a greater benefit from a Proposal to Creditors than would result from a bankruptcy of BMLP.

PURPOSE OF THIS REPORT

6. The purpose of this Report is to:

   a. provide background information concerning BMLP, its financial situation, the cause of its financial difficulties and its current financial situation;

   b. outline the terms of the Proposal;

   c. compare the amounts distributable under the Proposal to the estimated distribution to Creditors in the event the Proposal is not accepted; and

   d. recommend that creditors vote to accept the Proposal.

TERMS OF REFERENCE

7. In developing this Report, the Proposal Trustee has relied upon unaudited financial information prepared by BMLP's management, BMLP's books and records, and discussions with management.

8. 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.

9. Future oriented financial information relied upon in this Report is based on management's assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. The Proposal Trustee expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in this Report, or relied upon by the Proposal Trustee in preparing this Report.

BACKGROUND

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

11. Arthon Industries Limited ("**AIL**") owns all of the common shares of both SMI and 1025.

12. In 2015, BMLP acquired the Purchased Assets,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.

13. The Basin Mine was placed under care and maintenance in 2014, and the assets were ultimately sold to BMLP through a court approved transaction on January 29, 2015 (the "**CCAA Transaction**") arising within proceedings commenced pursuant to the *Companies Creditors' Arrangement Act*, R.S.C. 1985, c. C-36 (the "**CCAA**").

14. 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. In particular, 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.

15. Following extensive efforts, BMLP formalized the terms of the Pioneer APA with Pioneer, which is dated October 3, 2018. As is noted above, BMLP filed a NOI that same date and the Pioneer APA was subsequently approved by the Court on October 5, 2018. Details of the Pioneer APA, and the marketing process undertaken by BMLP in relation to the Purchased Assets are detailed in the First Report of the Proposal Trustee (the "**First Report**") available on the Proposal Trustee's website set out above.

16. The Proposal Trustee has received payment of the Purchase Price of $200,000 in trust, and when released to BMLP, it will represents the only asset in the estate of BMLP.

17. The final Purchase Price is determined depending on whether the Province of British Columbia consents to the assignment of the Mining Permit, as well as other licenses and permits, from BMLP to Pioneer (the "**Consents**"). If such Consents are ultimately denied by the Province of British Columbia, and all appeals of such denial have been exhausted, the Purchase Price will be reduced to $1 and the balance of the funds held by the Proposal Trustee will be returned to Pioneer. The rationale for the Purchase Price being contingent on the Consents is set out in the First Report, and was approved by the Court as part of the Pioneer APA.

THE PROPOSAL

18. This section of this report provides an overview of the terms of the Proposal. This report is not a substitute for reading the Proposal and creditors are strongly encouraged to review the Proposal in its entirety prior to voting on the Proposal. Creditors are also encouraged to discuss the terms of the Proposal with their legal counsel.

Overview of the Proposal

19. The purpose of this Proposal is to use the proceeds of sale obtained under the Pioneer APA to effect a compromise of the Claims of the Creditors of BMLP, including statutory claims against Directors, in accordance with subsections 50(13) to 50(15) of the BIA, in the expectation that the Creditors will derive a greater benefit from a Proposal to Creditors than would result from a bankruptcy.

Classification of Creditors

20. For the purposes of voting on, and distributions or dividends pursuant to the Proposal, there are two classes of creditors:

a. Secured Creditors; and

b. Unsecured Creditors.

Proposed Distribution

21. Callidus Capital Corp. ("**Callidus**") is the only known Secured Creditor of BMLP pursuant to the Proposal. This is because it claims a first charge on the assets of BMLP and secured indebtedness of approximately $63 million. Accordingly, the Proposal values the security held by any other Creditors at nil, as they would not receive any recovery in a liquidation. In addition, all Inter-Corporate Creditors have agreed to surrender their security and not make a claim as an unsecured creditor.

22. In order to allow BMLP to make a viable proposal, Callidus has agreed to value its Secured Claim at $120,000, to be paid from the Proposal Fund, and the shortfall (the "**Callidus Shortfall**") to be treated as an Unsecured Claim on the terms set out below.

23. The balance of $80,000 (less professional fees incurred in carrying out this Proposal) (the "**Residual Claim Pool**") will be made available for distribution to BMLP's Preferred Creditors and Unsecured Creditors, to be distributed as follows:

a. first, to Preferred Creditors with Proven Unsecured Claims (if any) under subsection 224(1.2) of the Income Tax Act or similar act and legislation will be paid within six (6) months; and

b. second, to the remaining Unsecured Creditors having Proven Unsecured Claims on a pro-rata basis .

24. For the purpose of b) above, Callidus has agreed to limit the Callidus Shortfall claim to 2/3 of the Residual Claim Pool.

25. The Trustee is not aware of any claims of Preferred Creditors with Proven Unsecured Claims and it is anticipated that the entirety of the Residual Claim Pool will be available for Unsecured Creditors with Proven Unsecured Claims. **Assuming professional fees of $20,000, Callidus would be entitled to $40,000 of the Residual Claim Pool, and all other Proven Unsecured Creditors would be entitled to a pro-rata share of $20,000.**

26. In the event that the Pioneer is unable to obtain the Consents, the Purchase Price (and accordingly the Proposal Fund) will be reduced to $1, and consequently no amounts will be distributed pursuant to the Proposal. There would likewise be no recovery for Creditors in a bankruptcy of BMLP.

Validation of Claims

27. In order to vote on, or to receive a distribution under, the Proposal, each Creditor shall file a Proof of Claim in accordance with the BIA and as instructed in the Proposal Trustee's mailing to the Creditors with respect to the Proposal.

28. To be eligible to receive a distribution in accordance with Article 9.2 of the Proposal, Creditors must have filed a Proof of Claim such that it is actually received by the Proposal Trustee in accordance with the BIA and by no later than 30 days from the date on which the Proposal Trustee delivers the Notice of Final Dividends (the "**Claims Bar Date**").

29. Creditors that fail to file their Proof of Claim with the Proposal Trustee before 5:00 p.m. PT on the Claims Bar Date will not be eligible for participation in the proposed distribution from the Proposal Fund and their Claims will be forever barred against BMLP.

Distributions

30. Upon receipt of a completed Proof of Claim, the Proposal Trustee shall examine the Proof of Claim and shall deal with each claim in accordance with the provisions of the BIA.

31. The Proposal Trustee will remit payments (less the Superintendent's Levy required by the BIA to be paid in respect of such payments) to the Creditors from the Proposal Fund in the following manner and order of priority:

    a. first, to the Proven Secured Claims of the Proven Secured Creditors;

    b. second, to the Proven Unsecured Claims of the Preferred Creditors;

    c. third, to the remaining Unsecured Creditors having Proven Unsecured Claims, their *pro rata* share of the Proposal Funds after the payment of all other amounts.

32. The Creditors shall accept the amounts set out herein in full satisfaction of their Claim and the Creditors shall have no other recourse to any other property of BMLP or against BMLP otherwise including statutory claims against the Directors in accordance with subsections 50(13) to 50(15) of the BIA.

33. Distributions will be made at such time the Consents are obtained by Pioneer pursuant to the terms of the Pioneer APA, and BMLP is entitled to the Purchase Price.

Acceptance of the Proposal

34. The Proposal must be approved at the Creditors' Meeting by the Proven Secured Creditors and the Proven Unsecured Creditors, representing not less than 66 2/3% in

value of the voting claims and 50% in number of the Proven Secured Creditors and Proven Unsecured Creditors with voting Claims present and voting in person or by proxy at the Creditors' Meeting (the "**Required Majority**").

Amendments to the Proposal

35. The Proposal permits BMLP to amend, restate, modify and/or supplement this Proposal at any time and from time to time, provided that any such amendment, restatement, modification or supplement must be contained in a written document that is (A) filed with the Court and, if made following the Creditors' Meeting, approved by the Court, and (B) approved by the Proposal Trustee and Callidus, and communicated to the Creditors in the manner required by the Court (if so required):

a. if made prior to or at the Creditors' Meeting: (A) the Official Receiver or the nominee thereof shall communicate the details of any such amendment, restatement, modification and/or supplement to Creditors and other Persons present at the Creditors' Meeting prior to any vote being taken at the Creditors' Meeting; (B) BMLP shall provide notice to the service list of any such amendment, restatement, modification and/or supplement and shall file a copy thereof with the Court forthwith and in any event prior to the Court hearing in respect of the Proposal Approval Order; and (C) the Proposal Trustee shall post an electronic copy of such amendment, restatement, modification and/or supplement on the Proposal Trustee's Website forthwith and in any event prior to the Court hearing in respect of the Proposal Approval Order;

b. if made following the Creditors' Meeting: (A) BMLP shall provide notice to the service list of any such amendment, restatement, modification and/or supplement and shall file a copy thereof with the Court; (B) the Proposal Trustee shall post an electronic copy of such amendment, restatement, modification and/or supplement on the Proposal Trustee's Website; and (C) such amendment, restatement, modification and/or supplement shall require the approval of the Court following notice to the service list.

36. Any amendment, modification or supplement to this Proposal may be made following the Creditors' Meeting by BMLP, with the consent of the Proposal Trustee, without requiring filing with, or approval of, the Court, provided that it concerns a matter which is of an administrative nature and is required to better give effect to the implementation of this Proposal and is not adverse to the financial interests of Callidus or any Creditors.

PROPOSAL TRUSTEE'S COMMENTARY ON THE PROPOSAL

37. Callidus has agreed to make the Residual Fund Pool available in order to compromise of the Claims of the Creditors of BMLP, including statutory claims against Directors, in accordance with subsections 50(13) to 50(15) of the Act. The alternative to the Proposal is a bankruptcy. In such a scenario, the Secured Creditor would be entitled to the entirety of the Proposal Funds and no other creditor would receive any distribution.

THE PROPOSAL TRUSTEE'S RECOMMENDATION

38. Based on the forgoing, the Proposal Trustee recommends that the Creditors vote in favour of the Proposal.

All of which is respectfully submitted this 15TH day of November, 2018.

ERNST & YOUNG INC.,
In its capacity as the Proposal Trustee in respect of the
Proposal of the Basin Mine Limited Partnership
and not in its personal capacity

Per:

Mike Bell, CA, CIRP
Vice President