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| COURT FILE NUMBER | 2001-07984 | Clerk's Stamp |
| COURT | COURT OF QUEEN''S BENCH OF ALBERTA | |
| JUDICIAL CENTRE | CALGARY | |

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|---|---|
| APPLICANTS | QMETCO LIMITED and TAURUS RESOURCES NO. 2 B.V. |
| | IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RSC 1985, c C-36, as amended |
| | AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGMENT OF NORTHERN SILICA CORPORATION, HEEMSKIRK MINING PTY. LTD., CUSTOM BULK SERVICES INC., HEEMSKIRK CANADA LIMITED, HEEMSKIRK CANADA HOLDINGS LIMITED and HCA MOUNTAIN MINERALS (MOBERLY) LIMITED |
| DOCUMENT | **SECOND REPORT OF THE MONITOR ALVAREZ & MARSAL CANADA INC.**<br>**JULY 22, 2020** |
| ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT | **MONITOR**<br>ALVAREZ & MARSAL CANADA INC.<br>Bow Valley Square IV<br>Suite 1110, 250 – 6th Avenue SW<br>Calgary, Alberta T2P 3H7<br>Orest Konowalchuk<br>Telephone: (403) 538-4736<br>Email: okonowalchuk@alvarezandmarsal.com<br><br>**MONITOR'S COUNSEL**<br>TORYS LLP<br>Barrister and Solicitors<br>Kyle Kashuba<br>525 – 8th Avenue SW (46th Floor, East Tower)<br>Calgary, Alberta T2P 1G1<br>Telephone: (403) 776-3744<br>Fax: (403) 776-3800<br>Email: kkashuba@torys.com |

ALVAREZ & MARSAL

## TABLE OF CONTENTS



## APPENDIX

## INTRODUCTION

1. On June 30, 2020, an initial order ("**Initial Order**") was granted in relation to Northern Silica Corporation ("**NSC**"), Heemskirk Mining Pty. Ltd. ("**Heemskirk Australia**"), Heemskirk Canada Holdings Limited ("**Heemskirk Holdings**"), Heemskirk Canada Limited ("**Heemskirk Canada**"), Custom Bulk Services Inc. and HCA Mountain Minerals (Moberly) Limited ("**HCA Moberly**") (collectively, the "**NSC Companies**" or the "**Debtors**") pursuant to proceedings (the "**CCAA Proceedings**") under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the "**CCAA**"). Among other things, the Initial Order provided for a stay of proceedings until July 10, 2020 (the "**Stay Period**").

2. The initial application in the CCAA Proceedings was brought by QMetco Limited ("**QMetco**") and Taurus Resources No. 2 B.V. ("**Taurus**", and together with QMetco, the "**Secured Creditors**"), who are the senior secured creditors of the Debtors, with the exception of Custom Bulk Services Inc. ("**Custom Bulk**").

3. Pursuant to the Initial Order, Alvarez & Marsal Canada Inc., ("**A&M**") was appointed as monitor (the "**Monitor**") in the CCAA Proceedings.

4. On July 10, 2020, the Debtors were granted an Order amending and restating the Initial Order (the "**ARIO**"), which provided for an Interim Facility and increases to the Charges (as defined in the Monitor's First Report filed with the Court of Queen's Bench of Alberta on July 3, 2020 (the "**Monitor's First Report**")), and included an extension to the stay of proceedings to August 7, 2020.

5. On July 21, 2020, the Debtors filed a notice of application, to be heard by this Honourable Court on July 27, 2020, which if granted, would *inter alia*:

   a) authorize a Sale and Investment Solicitation Process (the "**SISP**");

   b) approve the Stalking Horse APA (as defined below);

   c) approve the engagement of Whitehorn Merchant Capital Inc. ("**Whitehorn**" or "**Sales Agent**") as the sales agent under the SISP;

   d) grant the Sales Agent Charge (as defined below); and

e) extend the Stay Period until October 9, 2020.

6. Further information regarding these CCAA Proceedings, including the Initial Order, affidavits, reports of the Monitor and all other Court-filed documents and notices are available on the Monitor's website at www.alvarezandmarsal.com/northernsilica (the "**Monitor's Website**").

## PURPOSE

7. The purpose of this second report of the Monitor (the "**Second Report**" or "this **Report**") is to provide information to this Honourable Court in respect of the following:

   a) the activities of the Monitor since the First Report;

   b) the components and timing of the proposed SISP, including the selection of the Sales Agent and the Debtors' request from this Honourable Court for the approval of a Sales Agent Charge;

   c) the key commercial terms of the proposed Stalking Horse APA;

   d) an analysis of the break fee considered in the Stalking Horse APA;

   e) the security opinion conducted by the Monitor's independent counsel, Torys LLP ("**Torys**"), with respect to the security granted by the secured lenders;

   f) a comparison of the Debtor's actual cash receipts and disbursements to the cash flow forecast appended to the First Report of the Monitor for the period June 30, 2020 to July 10, 2020;

   g) the Debtor's updated cash flow forecast through to October 9, 2020 (the "**Second Cash Flow Forecast**");

   h) the request for a further an extension of the Stay Period to October 9, 2020; and

   i) the Monitor's recommendations.

8. Capitalized words or terms not defined in this Report are as defined in the ARIO and/or in the previous reports of the Monitor.

9. All references to dollars are in Canadian currency.

**TERMS OF REFERENCE AND DISCLAIMER**

10. In preparing this Second Report, A&M, in its capacity as the Monitor, has been provided with, and has necessarily relied upon, unaudited financial information and other information (the "**Information**"), and representations made to it, by certain senior management of the NSC Companies ("**Management**"). Except as otherwise described in this Second Report in respect of the Debtors' cash flow forecast:

    a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CASs**") pursuant to the Chartered Professional Accountants Canada Handbook (the "**CPA Handbook**") and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

    b) some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

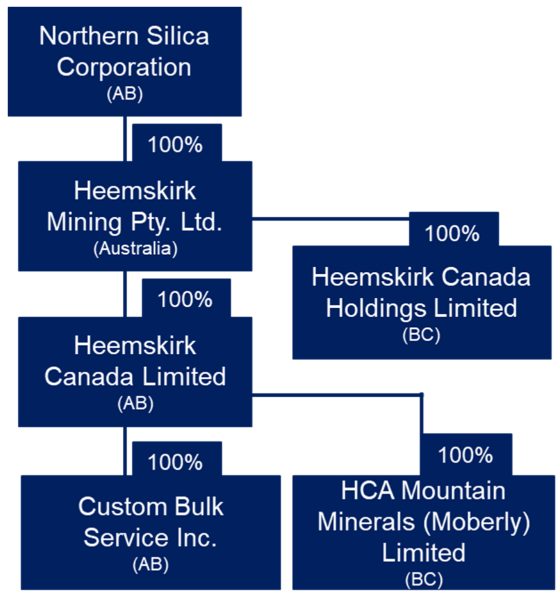
11. Although this information has been subject to review, A&M has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Debtors. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this Report, or otherwise used to prepare this Report.

12. Future oriented financial information referred to in this Report was prepared based on the Debtors' estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are

not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

## BACKGROUND

13. The Debtors' corporate structure consists of the following 6 entities, which are owned by various shareholders, as displayed below:




14. On a consolidated basis, as at March 31, 2020, the total net book value of the assets and liabilities are approximately $66.0 million and $89.8 million, respectively (with current assets and current liabilities being approximately $5.7 million and $84.9 million, respectively).

15. Further details with respect to the NSC Companies' business operations, corporate organization, restructuring plan, and other financial information, including the Debtor's assets, liabilities and key secured creditors are included in the Pre-Filing Report of the Monitor dated June 29, 2020 (the "**Monitor's Pre-Filing Report**"), other reports filed by the Monitor and various affidavits filed by the Debtor and/or the Applicants in these CCAA Proceedings, which are available on the Monitor's Website.

## ACTIVITIES OF THE MONITOR SINCE THE FIRST REPORT

16. To the date of this Second Report, the Monitor's activities have included (amongst other things):

    a) conducting ongoing discussions with Management, employees, advisors and the Debtor's legal counsel regarding the Debtors' business and financial affairs;

    b) engaging in discussions with the Debtors, the Debtors' legal counsel as well as the Sales Agent with respect to the development of the proposed SISP;

    c) continuing communication and utilization of the Monitor's independent legal counsel, Torys;

    d) communicating with and attending to various inquiries from trade creditors, secured creditors and other stakeholders, and assisting with arrangements with various suppliers regarding the ongoing supply of goods and services;

    e) preparing and issuing notices (where required) under the CCAA and the Initial Order, including:

        i. the establishment of the Monitor's Website;

        ii. the preparation and delivery of the Notice to Creditors as referenced in paragraph 35 of the Initial Order on July 7, 2020;

        iii. the preparation and publishing of the notice to creditors in The Globe and Mail (national edition) on July 7, 2020 and July 14, 2020 in accordance with paragraph 35 of the Initial Order;

        iv. the filing of statutory notices to the Office of the Superintendent of Bankruptcy in the prescribed forms as required under section 23(1)(f) of the CCAA; and

        v. establishing various reporting protocols with the Debtors, including but not limited to disbursement review, cash flow reporting and sales receipts collections;

f) assisting Management with the roll-out of the Debtors' post-filing communication plans;

g) reviewing the Debtors' cashflow results on a weekly basis and communicating with the Interim Lender, accordingly; and

h) reviewing and approving the Debtors' Notice of Disclaimer for a railroad car lease agreement between Custom Bulk and TrinityRail Canada Inc. for the lease of 115 railroad cars and a photocopier lease maintained at the Debtors' head office.

**THE PROPOSED SALES AGENT**

17. In consultation with the Monitor, the NSC Companies undertook a sales advisor selection process which included requesting and reviewing presentations and proposals from three qualified and reputable investment banking firms and corporate advisory firms. Management initiated this selection process in June 2020, prior to the CCAA Proceedings, which involved Management conducting interviews with each of the prospective sales agents.

18. Based on its assessment of the qualifications, experience in the sector and associated costs for completing a sales process, the NSC Companies engaged Whitehorn Merchant Capital Inc. ("**Whitehorn**" or "**Sales Agent**") to act as sales agent in the SISP in accordance with the terms of the engagement letter dated June 29, 2020 (the "**Sales Agent Engagement Letter**").

19. The Sales Agent will provide investment banking and financial advisory services with respect to a potential sale transaction, financial restructuring, or refinancing or investment into the NSC Companies, in accordance with the Sales Agent Engagement Letter.

20. Given that the Debtors own and operate a specialized business, the Sales Agent Engagement Letter provides that the Sales Agent will develop an enhanced understanding of the Debtors' business and conduct its own internal and external research to develop a marketing strategy.

21. The Sales Agent Engagement Letter is attached as Exhibit C to the affidavit of Jerrad Blanchard sworn July 21, 2020 (the "**Blanchard Affidavit**"). A summary of the associated fees, including the work fee and success fee, and recovery of expenses are outlined in the Sales Agent Engagement Letter. The term of this engagement commenced on June 29, 2020 and shall expire upon the earlier of the completion of the SISP or December 31, 2020.

22. Consultation of the proposed scope of the Sales Agents' engagement was undertaken by the Debtors and the Monitor. As a result of these discussions, various amendments were made to the Sales Agent Engagement Letter.

23. For the following reasons, the Monitor considers the selection of the Sales Agent, the scope of the Sales Agent Engagement Letter and proposed compensation to be commercially reasonable:

    a) the Sales Agent is an experienced professional services firm that has had considerable experience in selling and marketing assets of this nature and/or assets that are used in the oil and gas and energy services sector;

    b) the scope of the Sales Agent Engagement Letter is generally consistent with the Monitor's expectations, with other comparable processes observed by the Monitor and the proposed approach submitted by the other investment banking firms who participated in the candidate selection process;

    c) the Sales Agents' proposed work fees will be credited against transaction fees and/or credited against an overall fee structure; and

    d) the quantum of fees proposed by the Sales Agent is competitive with fee levels charged by financial advisors in other CCAA proceedings.

**PROPOSED SALES AGENT CHARGE**

24. The Debtors' are seeking a charge to secure the Sales Agent's fees and expenses, on a priority basis, of up to $150,000 (the "**Sales Agent Charge**") over the Debtors' assets, subject only to the Administration Charge, the Directors' Charge (as defined

in the Monitor's Pre-Filing Report) and the existing security granted by Custom Bulk in favour of ATB Financial. The purpose of the Sales Agent Charge is primarily to protect the portion of the Sales Agent's fees in the event that the SISP is not completed and the Sales Agent is not compensated as anticipated under the Sales Agent Engagement Letter. In the Monitor's experience, such charges are often granted in CCAA proceedings and the Monitor is of the view that the granting of the Sales Agent Charge in an amount up to $150,000 is reasonable and appropriate in the circumstances.

## SALES AND INVESTMENT SOLICITATION PROCESS

### Overview

25. To address the Debtors' liquidity and certain operational concerns, the Debtors believe that it would be important to immediately initiate a SISP, subject to Court approval. The Debtors, with the support of the Monitor, believe that a SISP which provides for the greatest flexibility in soliciting and selecting bids from interested parties for the sale of or investment in the business or assets of the NSC Companies, a refinancing, reorganization, recapitalization, restructuring, joint-venture, merger or other business transaction involving the Debtors, or some combination thereof, will provide the greatest chance for the Debtors to complete a restructuring of their operational and financial affairs.

26. The approval of a SISP by no later than August 7, 2020 is required pursuant to the terms of the Debtors' interim financing facility. The Monitor is of the view that any SISP should allow for the greatest flexibility by effectively and efficiently exposing the Debtors to the market, while retaining the ability to act pragmatically should an appropriate offer be presented to the Debtors. The SISP is intended to be carried out by the Sales Agent on behalf of the Debtors, under the supervision and oversight of the Monitor.

27. The Debtors, with the support of the Monitor, believe that it is appropriate for the Debtors to initiate a broad-based SISP process that will allow for the Debtors to

restructure their business and financial affairs in the most efficient manner possible while also soliciting the greatest number of potential offers from prospective investors, purchasers and other interested parties.

**Summary of proposed SISP**

28. A copy of the SISP is attached as Exhibit D to the Blanchard Affidavit. The Monitor has summarized below certain key points of the proposed SISP. All potential bidders are advised to review the SISP document in detail.

29. Under the SISP, all qualified interested parties will be provided with an opportunity to participate in the SISP. The SISP is intended to find the highest and/or best offer for a restructuring and/or refinancing of the Debtors, a sale of the Property on a going concern basis, or a combination thereof, which may include a merger, reorganization, recapitalization, primary equity issuance or other similar transaction (the "**Transaction**").

30. Any transaction involving the NSC Companies, the shares of the NSC Companies or the assets of the NSC Companies will be on an "*as is, where is*" basis and without surviving representations, warranties, covenants or indemnities of any kind, nature, or description by the NSC Companies, the Monitor or any of their respective agents, estates, advisors, professionals or otherwise, except to the extent set forth in a written agreement with the person who is a counterparty to such a transaction.

31. The key components of the SISP are as follows (capitalized terms used but not defined below are intended to bear their meanings as defined in the SISP):

   a) the Sales Agent shall prepare a confidential information memorandum ("**CIM**") providing additional information about the opportunity and set up a virtual data room ("**VDR**") containing due diligence materials;

   b) the Sales Agent shall send a summary outline of the opportunity to potential bidders and invite them to execute a confidentiality agreement ("**CA**") with the Debtors. A potential bidder that has executed a CA and provided the required documentation outlined in the SISP may be deemed a "Qualified Bidder" and will be provided with a copy of the CIM and access to the VDR;

c) the Stalking Horse APA constitutes a Qualified Bid;

d) if a Qualified Bidder wishes to submit a bid, it must deliver a non-binding letter of intent to the Sales Agent, with a copy to the Monitor, by 5:00 p.m. MST on August 26, 2020 (the "**Phase 1 Bid Deadline**");

e) in the event that no qualified letters of intent are received by the Phase 1 Bid Deadline other than the Stalking Horse Bid, the Debtors shall proceed to close the Stalking Horse APA;

f) in the event there are prospects of a Superior Offer, the process shall proceed to Phase 2. Pursuant to Phase 2, binding offers, including a deposit of 10% of the purchase price or investment amount, must be provided to the Sales Agent, with a copy to the Monitor, by 5:00 p.m. MST on September 24, 2020 (the "**Phase 2 Bid Deadline**") or such other time as may be agreed by the Debtors, the Monitor, and the Interim Lender;

g) in the event that there is at least one Superior Offer, in addition to the Stalking Horse APA, the Debtors shall identify the successful bid by holding an auction (the "**Auction**") on September 29, 2020. The Auction contemplates a Minimum Incremental Bid of $250,000;

h) following the results of the Auction, the Debtors shall negotiate a definitive agreement with the Successful Bidder and file an application for an Order approving the Successful Bid and vesting title to the purchased assets; and

i) the target closing date of the Transaction shall be on or before October 30, 2020.

32. A summary of the timelines included in the proposed SISP are outlined in the chart as follows:

| Event | Date |
|---|---|
| The Monitor to publish a notice of the SISP in a major publication, Globe and Mail (national edition). | As soon as reasonably practicable, but no later than 5 business days after issuance of SISP Order. |
| Sales Agent to have CIM and VDR available. | As soon as reasonably practicable. |
| Phase 1 Bid Deadline | August 26, 2020 |
| Sales Agent to notify Phase 1 Qualified Bidders as to whether their respective bids constitute a Phase 1 Successful Bid | 3 days following the Phase 1 Bid Deadline |
| Phase 2 Bid Deadline (submitting definitive offer) | September 24, 2020 |
| Auction Commencement Date (if applicable) | September 29, 2020 |
| Accommodation date for Phase 2 Deadline for Foreign Qualified Bidders (if extension requested) | No later than October 1, 2020 |
| Auction Commencement Date (if Phase 2 deadline extended for Foreign Qualified Bidders) | No later than October 6, 2020 |
| Deadline for closing of a successful bid | 14 days after Court hearing |

**The Monitor's view of the SISP**

33. The Monitor is of the view that the implementation of the proposed SISP by the NSC Companies, under the supervision of the Monitor, is appropriate under the circumstances. The Monitor is of the respectful view that the SISP Order should be granted by this Honourable Court for the following reasons:

a) the SISP provides a fair and transparent process which will be conducted in such a manner to give potential bidders equal access to express their interest in making an offer on the Debtor's and/or their assets;

b) no stakeholder, including secured creditors, appears to be prejudiced by the process; and

c) the Monitor itself and the Sales Agent, have significant experience in marketing distressed assets in these types of circumstances and in respect of seeking financing opportunities for Companies.

34. The Monitor is also of the view that time is of the essence and ensuring that a efficient restructuring of the business occurs in order to allow the Debtors to continue to repurpose their assets and resume their operations.

**STALKING HORSE APA**

**Overview**

35. In advance of the SISP, Management entered into discussions with the Secured Creditors to explore the possibility of participating as a stalking horse bidder for the NSC Companies, which would be, in the Monitor's opinion, an effective method to maximize the value of the NSC Companies.

36. Vitreo Minerals Ltd. ("**Vitreo**" or the "**Stalking Horse Bidder**"), an entity affiliated with the Secured Creditors and the Interim Lender, has agreed to participate as the stalking horse for the SISP. The NSC Companies have negotiated and executed a stalking horse asset purchase agreement with Vitreo dated July 21, 2020 (the "**Stalking Horse APA**"), subject to Court approval.

37. The Monitor is a party to the Stalking Horse APA, in a limited capacity, for the limited purpose of facilitating the administration of closing the transaction. The intention of this structure is to ensure all obligations within the CCAA Proceedings are addressed following closing of the Stalking Horse APA.

38. A copy of the Stalking Horse APA is attached as Exhibit E to the Blanchard Affidavit. The Monitor has summarized certain key points of the proposed Stalking Horse APA below. All interested parties are advised to review the Stalking Horse

APA document in detail as capitalized words or terms not defined in this section of this Report are as defined in the Stalking Horse APA.

**Summary of APA**

39. A summary of the Stalking Horse APA is as follows:

a) Vitreo will agree to acquire substantially all of the assets, property and rights of the Debtors, with the exception of certain Excluded Assets as disclosed in the Stalking Horse APA;

b) Vitreo will assume all of the Debtors' Assumed Obligations, including:

(i) the aggregate amount owing to ATB Financial by Custom Bulk;

(ii) the obligations of the Debtors in relation to their mineral claims, mining leases, recorded claims, leased claims, and other mining rights and tenures of which any of the Debtors is a recorded holder, and which are assigned pursuant to an approval and vesting order;

(iii) obligations of the Debtors under assignable contracts to which the Debtors are party and which the Debtors are permitted under applicable law to sell and assign, and that the Stalking Horse Bidder agrees to assume;

(iv) all non-contingent trade liabilities incurred by any of the Debtors after the CCAA filing date (June 30, 2020) in the ordinary course of business for the supply of goods and services in relation to their business; and

(v) all obligations accruing or arising with respect to employees that accept an offer of employment or engagement as contractors after the Closing Date, except for any change of control or any other transfer bonuses for any such employees;

c) Virtreo will not assume any liabilities with respect to the Excluded Obligations including:

(i) any obligations under or in connection with any contracts that are disclaimed by the Debtors as part of the CCAA Proceedings;

(ii) any secured obligations owing by the Debtors to Taurus and QMetco under their respective loan agreements with the NSC Companies;

(iii) any obligations in respect of employees of the Debtors other than those that accept employment with the Stalking Horse Bidder (except for any change of control or any other transfer bonuses for any employees who do accept employment with the Stalking Horse Bidder);

(iv) all obligations under or in connection with any of the Excluded Assets;

(v) any unpaid professional fees incurred in this CCAA Proceeding; and

(vi) any obligations in respect of taxes;

d) The Stalking Horse APA contains a purchase price (the "**Purchase Price**") that is comprised of (i) a portion of the Senior Secured Claims Amount, being US$25,000,000 of the principal owing under the Taurus Facility (which will be converted to Canadian dollars using the Exchange Rate as at the Business Day prior to the Closing Date) and CAN$4,350,000 of the principal owing under the QMetco Facility; and (ii) the amount of the DIP Obligations as at the Closing Date.

e) For illustrative purposes, using the Exchange Rate as at July 20, 2020 and assuming that the DIP Financing has been fully utilized, the Purchase Price is made up of the following in Canadian dollars:

i. $38,757,500 in respect of the Moberly Purchased Assets;

ii. $1,650,000 in respect of the Custom Bulk Purchased Assets;

iii. $400,000 in respect of the Holdings Purchased Assets; and

iv. $400,000 in respect of the Heemskirk Canada Purchased Assets.

f) No deposit has been provided by the Stalking Horse Bidder, as it is also the Interim Lender and an affiliate of the Secured Creditors. In the circumstances, the risks typically mitigated by requiring a deposit are not present.

g) The Stalking Horse APA is subject to the following conditions:

(i) the CCAA Proceeding will not have been terminated;

(ii) the SISP Order will have been granted by the Court;

(iii) the Stalking Horse APA will have been determined by the Monitor to be the Successful Bid under the SISP;

(iv) an approval and vesting order in respect of the Transaction will have been issued by the Court in a form agreed to by the Monitor, the Stalking Horse Bidder, and the Debtors;

(v) in respect of each Assigned Contract that is a Material Contract and that requires a Counterparty Approval, either the counterparty to such Assigned Contract will have provided the Counterparty Approval, in form and substance satisfactory to the Stalking Horse Bidder, or an order will have been made by the Court under section 11.3 of the CCAA assigning to the Stalking Horse Bidder the rights and obligations under such Assigned Contract;

(vi) the Transferred Employees will have entered into employment agreements on substantially similar terms and conditions as those applicable as of the Execution Date (as defined in the Stalking Horse APA) with the Stalking Horse Bidder which are in form and substance acceptable to the Stalking Horse Bidder; and

(vii) the Material Permits (as defined in the Stalking Horse APA) will have been transferred to the Stalking Horse Bidder or substituted, amended or new Permits (as defined in the Stalking Horse APA) will have been issued to the Stalking Horse Bidder in form and substance reasonably acceptable to the Stalking Horse Bidder.

**Break Fee Analysis**

40. The Stalking Horse APA contemplates a break fee of $1,250,000 (the "**Break Fee**") and a reimbursement of Vitreo's actual fees, expenses and disbursements relating to the preparation and execution of the Stalking Horse APA up to a maximum amount of $150,000 (collectively, with the Break Fee, the "**Bid Protection Fees**"). The Bid Protection Fees, totaling an amount of up to $1,400,000, represent a total of approximately 3.4% of the Purchase Price, as referenced in paragraph 39(d), which would be payable in the event that a Qualified Bid becomes the Successful Auction Bid approved by this Honourable Court, or in the event that the transaction is not completed for any other reason than as a result of a breach by the buyer or the non-satisfaction of the mutual conditions.

41. As outlined below, the Monitor has analyzed the Bid Protection Fees as compared to the overall estimated transaction value, and recent break fees in other insolvency filings previously approved by this Honourable Court and by Courts in other provincial jurisdictions. The Monitor believes that the quantum of the Bid Protection Fees is reasonable in the circumstances to compensate Vitreo for the time, costs and expenses in relation to entering into the Stalking Horse APA.

**NSC Companies CCAA**
**Sales Investment and Solicitation Process**
**Break Fee Analysis**

| Insolvency Matter | Break Fee ("BF") | Estimated Trasaction Value ("TV") | BF as % of TV | Notes |
|---|---|---|---|---|
| Dominion Diamond Mines | $ 6,680,800 | $ 176,540,000 | 3.78% | a |
| James E. Wagner Cultivation Corporation | $ 100,000 | $ 11,700,000 | 0.85% | b |
| Traverse Energy Ltd. | $ 97,500 | $ 3,250,000 | 3.00% | c |
| Viafoura Inc. | $ 70,000 | $ 1,491,000 | 4.69% | d |
| Walton International Group Inc. et al - Alliston | $ 186,000 | $ 6,200,000 | 3.00% | e |
| Walton International Group Inc. et al - Riverbend | $ 720,000 | $ 24,000,000 | 3.00% | f |
| Ladacor AMS Ltd., Nomads Pipeline Consulting Ltd., and 2367147 Ontario Inc. | $ 125,000 | $ 5,000,000 | 3% | g |

42. We have set forth below our analysis of break fee of the transactions noted above:

a) a recent break fee approved by this Honourable Court in June 2020 was in regards to the Dominion Diamond Mines CCAA sales process with an estimated transaction value of $177 million and a respective break fee of $6.7 million. This equates to a break fee of approximately 3.78%;

b) the purchase and sale agreement between James E. Wagner Cultivation Corporation and Trichome Financial Corp. through a CCAA proceeding with a purchase price of $11.7 million and a break fee of $100,000 which equates to a break fee of less than 1%. The agreement was executed in March 2020 and was in the form of a credit bid;

c) the purchase and sale agreement in February 2020 between Ernst & Young as Receiver of Traverse Energy Ltd., and Barrel Oil Corp, with a transaction value of $3.3 million and a break fee of 3%, or $97,500;

d) the purchase and sale agreement in January 2020 between the debtor, Viafoura Inc., and the purchaser, Intercap Equity, for a transaction value of $1.49 million and a break fee of 4.7%, or $70,000. Vaifoura Inc. had filed a Notice of Intent to File a Proposal;

e) the asset purchase agreement between Walton International Group Inc. et al – Alliston and the Roll-Up Corporation in a CCAA proceeding, which was dated in August of 2018. The transaction value was for $6.2 million and included a break fee of 3% or $186,000;

f) the asset purchase agreement between Walton International Group Inc. et al – Riverbend and the Roll-Up Corporation in a CCAA proceeding, which was dated in August of 2018. The transaction value was for $24 million and included a break fee of 3% or $720,000; and

g) the asset purchase agreement between A&M, as Court appointed Receiver over 2367147 Ontario Inc., and Sioux Lookout First Nations Health Authority in October 2018 for a transaction value of $5 million and a break fee of 2.5% or $125,000.

**Monitor's Comments on the Stalking Horse APA**

43. The Monitor supports the Stalking Horse APA based upon the following criteria:

a) the Stalking Horse APA sets a floor price for the NSC Companies;

b) the SISP, including the Auction if required, is based upon an established form of sales process in previous insolvency filings of a similar nature, provides for a fair and transparent process for participants and is designed to maximize value for stakeholders;

c) the Minimum Incremental Overbid of $250,000 appears consistent within other incremental minimum bid levels in similar court approved sale processes;

d) based on the break fee analysis presented above in this Report, representing 3.4% of the Purchase Price, the Bid Protection Fees appears reasonable; and

e) the Monitor believes the consideration in the Stalking Horse APA is commercially reasonable, in the best interests of the NSC Companies' creditors and other stakeholders and will seek to maximize available recovery to creditors.

**SECURITY OPINION**

44. The Monitor's independent counsel, Torys, performed a review of the Secured Creditors' security and has determined that, subject to the qualifications and assumptions set forth in the subject security review memorandum, the security documents reviewed create a valid security interest in favour of the applicable lenders enforceable against the Debtor's Property.

45. The Monitor is not aware of any other claimant that may have priority over the Secured Creditors' security, other than the "super priority" claims with respect to the Administration Charge, D&O Charge and Interim Lender's Charge as set out in the Monitor's First Report.

46. The Monitor and its legal counsel have specifically reviewed and considered the Purchase Price contained in the Stalking Horse APA, which is set out and described in paragraph 39(d) of this Report, and have concluded that the funds that comprise the Purchase Price constitute validly secured amounts owing to Taurus and QMetco, respectively.

## ACTUAL CASH FLOW RESULTS COMPARED TO THE CASH FLOW FORECAST

47. The Debtors' actual cash receipts and disbursements as compared to the Cash Flow Forecast presented in the Pre-Filing Report of the Proposed Monitor during the period of June 30, 2020 to July 10, 2020 (the "**Reporting Period**") is summarized below:

**Northern Silica Corporation**
**Cash Flow Variance Analysis - Prepared by Management**
**For the Period June 30, 2020 to July 10, 2020**
(in $000s)

| | Forecast | Actual | Variance |
|---|---|---|---|
| **Cash Receipts** | | | |
| Rental Income | $ 12 | $ 1 | $ (11) |
| Miscellaneous | 307 | 122 | (185) |
| | **$ 319** | **$ 123** | **$ (196)** |
| **Cash Disbursements** | | | |
| Salaries & Wages | $ (67) | $ (65) | $ 2 |
| General & Administrative | (57) | (46) | 12 |
| Capital Expenditures | - | - | - |
| Contingency | - | - | - |
| Restructuring Professional Fees and Costs | - | - | - |
| | **$ (124)** | **$ (111)** | **$ 13** |
| **Net Cash Flow** | **$ 195** | **$ 12** | **$ (183)** |

48. Over the Reporting Period, the Debtors experienced a negative cash flow variance of approximately $183,000 as a result of temporary timing differences, which are described below:

a) rental income varied due to timing of receipt from one customer who rents storage at the Debtors' Penhold facility, management expects to see this receipt in week 3;

b) an insurance settlement of $285,000 was expected to be received in week 1 has yet to be received in full, approximately $100,000 was received in week 2 and Management expects to see receipt for the remaining amount in week 3 and week 4; and

c) forecast disbursements vary by approximately $13,000 due to the delayed payment of certain G&A expenses. Such expenses are expected to be paid in week 3 once both the remaining insurance settlement and interim financing are received.

## UPDATED CASH FLOW FORECAST

49. For purposes of section 10(2)(a) of the CCAA, the NSC Companies have prepared an updated weekly cash flow forecast (the "**Second Cash Flow Forecast**") for the 13-week period from July 11, 2020 to October 9, 2020 (the "**Forecast Period**"), using the probable and hypothetical assumptions set out in the notes to the Second Cash Flow Forecast. A copy of the Second Cash Flow Forecast, together with a summary of assumptions, are attached hereto as Appendix "A".

50. The Second Cash Flow Forecast is summarized below:

| Northern Silica Corporation<br>13 Week Cash Flow Forecast - Prepared by Management<br>For the Period July 11, 2020 to October 9, 2020<br>(in CAD $000s) | | |
|---|---|---|
| **Cash Receipts** | | |
| Rental Income | $ | 36 |
| Miscellaneous | | 344 |
| **Total Receipts** | **$** | **380** |
| **Cash Disbursements** | | |
| Salaries & Wages | $ | (427) |
| General & Administrative | | (617) |
| Capital Expenditures | | (120) |
| Contingency | | (150) |
| Professional Fees | | (820) |
| **Total Disbursements** | **$** | **(2,133)** |
| **Net Cash Flow** | **$** | **(1,753)** |
| **Opening Cash** | $ | 170 |
| Net cash flow | | (1,753) |
| Interim Facility Advances | | 1,600 |
| **Ending Cash** | **$** | **17** |

51. The Second Cash Flow Forecast projects that the Debtors will experience net cash outflows of approximately $1.75 million over the Forecast Period, and is based on the following key assumptions:

a) forecast receipts of $380,000 consisting primarily of $185,000 relating to receiving the remaining funds from an insurance settlement, $36,000 of rental income, GST refunds of $33,000 and approximately $127,000 from the Canada Emergency Wage Subsidy program that was enacted due to the COVID-19 pandemic;

b) forecast disbursements of approximately $2.1 million relating primarily to ordinary course payments including payroll and related costs, repairs and maintenance, fuel, general and administrative costs, insurance, contingency and other minimal operating costs; and

c) professional fees are forecasted to be approximately $820,000 during the Forecast Period and include the Debtors' counsel, the Monitor and its independent legal counsel.

52. Accordingly, it appears the Debtors will experience a cash shortfall over the Forecast Period and will require borrowings under the Interim Facility of $1.6 million. The Interim Financing provided by Vitreo Minerals Ltd. will provide sufficient liquidity during this Forecast Period.

53. The Second Cash Flow Forecast is based on assumptions regarding future events by Management. Management advises that actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Second Cash Flow Forecast will be accurate. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Monitor in the course of the preparation of this Report.

54. The Second Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

## EXTENSION OF THE STAY OF PROCEEDINGS

55. Pursuant to the ARIO, the Stay Period will expire on August 7, 2020. The Debtors are seeking an extension of the Stay Period to October 9, 2020 (the "S**econd Stay Extension**").

56. The Monitor supports the Second Stay Extension for the following reasons:

a) during the proposed extension of the Stay Period, the Debtors will have an opportunity to engage in the SISP with a view to advancing a transaction(s) with a potential purchaser or alternatively, an investor in the Debtors' respective businesses, that can be presented to this Honourable Court in due course;

b) with the Interim Facility, the Debtors are forecasted to have sufficient liquidity to continue operating in the ordinary course of business during the requested extension of the Stay Period;

c) no creditor of the Debtors would be materially prejudiced by the extension of the Stay Period; and

d) in the Monitor's opinion, the Debtors have acted in good faith and with due diligence in these CCAA Proceedings since the date of the Initial Order.

**RECOMMENDATIONS**

57. The Monitor respectfully recommends that this Honourable Court grant the following:

a) the proposed Order approving the SISP and Stalking Horse APA;

b) the Sales Agent Engagement Letter;

c) the Sales Agent Charge of $150,000; and

d) the Second Stay Extension.

All of which is respectfully submitted to this Honourable Court this 22nd day of July, 2020.

**ALVAREZ & MARSAL CANADA INC.,**
**in its capacity as Monitor of**
**the NSC Companies and not in its personal or**
**corporate capacity**

Orest Konowalchuk, CPA, CA, CIRP, LIT
Senior Vice President

Cassie Riglin, CPA, CA, CIRP, LIT
Senior Vice President

## APPENDIX A

## SECOND CASH FLOW FORECAST

## Northern Silica Corporation

**13 Week Cash Flow Forecast - Prepared by Management**

**For the Period July 11, 2020 to October 9, 2020**

$CAD

| | Week 1 17-Jul-20 | Week 2 24-Jul-20 | Week 3 31-Jul-20 | Week 4 7-Aug-20 | Week 5 14-Aug-20 | Week 6 21-Aug-20 | Week 7 28-Aug-20 | Week 8 4-Sep-20 | Week 9 11-Sep-20 | Week 10 18-Sep-20 | Week 11 25-Sep-20 | Week 12 2-Oct-20 | Week 13 9-Oct-20 | Week 1 to 13 Total | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash Receipts** | | | | | | | | | | | | | | | |
| Rental Income | $ - | $ - | $ 12,000 | $ - | $ - | $ - | $ 12,000 | $ - | $ - | $ - | $ - | $ 12,000 | $ - | $ 36,000 | 1 |
| Miscellaneous | 121,000 | 106,200 | 25,000 | - | - | 42,200 | - | 7,500 | - | 42,200 | - | - | - | $ 344,100 | 2 |
| | **$ 121,000** | **$ 106,200** | **$ 37,000** | **$ -** | **$ -** | **$ 42,200** | **$ 12,000** | **$ 7,500** | **$ -** | **$ 42,200** | **$ -** | **$ 12,000** | **$ -** | **$ 380,100** | |
| **Cash Disbursements** | | | | | | | | | | | | | | | |
| Salaries & Wages | $ (67,000) | $ - | $ (67,000) | $ - | $ (66,900) | $ - | $ (66,900) | $ - | $ (25,100) | $ (41,800) | $ (25,100) | $ (41,800) | $ (25,100) | $ (426,700) | 3 |
| General & Administrative | (74,700) | (26,600) | (152,400) | (6,500) | (7,100) | (35,700) | (108,500) | (21,400) | (6,000) | (36,800) | (6,700) | (133,700) | (500) | $ (616,600) | 4 |
| Capital Expenditures | - | - | (60,000) | - | - | - | (30,000) | - | - | - | - | (30,000) | - | $ (120,000) | 5 |
| Contingency | - | - | (50,000) | - | - | - | (50,000) | - | - | - | (50,000) | - | - | $ (150,000) | 6 |
| Restructuring Professional Fees and Costs | - | - | (305,000) | - | - | - | - | (155,000) | - | - | (160,000) | (200,000) | - | $ (820,000) | 7 |
| | (141,700) | (26,600) | (634,400) | (6,500) | (74,000) | (35,700) | (255,400) | (176,400) | (31,100) | (78,600) | (241,800) | (405,500) | (25,600) | (2,133,300) | |
| **Net Cash Flow** | **$ (20,600)** | **$ 79,500** | **$ (597,300)** | **$ (6,500)** | **$ (74,000)** | **$ 6,500** | **$ (243,300)** | **$ (168,900)** | **$ (31,100)** | **$ (36,400)** | **$ (241,800)** | **$ (393,500)** | **$ (25,500)** | **$ (1,752,900)** | |
| **Opening Cash** | $ 169,593 | $ 949,000 | $ 1,028,500 | $ 431,200 | $ 424,700 | $ 350,600 | $ 357,200 | $ 113,900 | $ 344,900 | $ 313,900 | $ 277,500 | $ 435,700 | $ 42,200 | $ 169,593 | |
| Net cash flow | (20,600) | 79,500 | (597,300) | (6,500) | (74,000) | 6,500 | (243,300) | (168,900) | (31,100) | (36,400) | (241,800) | (393,500) | (25,500) | $ (1,752,900) | |
| Interim Financing Advance/Payment | 800,000 | - | - | - | - | - | - | 400,000 | - | - | 400,000 | - | - | $ 1,600,000 | |
| **Ending Cash** | **$ 949,000** | **$ 1,028,500** | **$ 431,200** | **$ 424,700** | **$ 350,600** | **$ 357,200** | **$ 113,900** | **$ 344,900** | **$ 313,900** | **$ 277,500** | **$ 435,700** | **$ 42,200** | **$ 16,600** | **$ 16,693** | |
| **Interim Facility** | | | | | | | | | | | | | | | |
| Interim Facility - opening availability | **$ 3,000,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 1,800,000** | **$ 1,800,000** | **$ 1,800,000** | **$ 1,400,000** | **$ 1,400,000** | **$ 3,000,000** | |
| (Advance) / Payment | **(800,000)** | - | - | - | - | - | - | **(400,000)** | - | - | **(400,000)** | - | - | **$ (1,600,000)** | |
| **Interim Facility - ending availability** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 2,200,000** | **$ 1,800,000** | **$ 1,800,000** | **$ 1,800,000** | **$ 1,400,000** | **$ 1,400,000** | **$ 1,400,000** | **$ 1,400,000** | |

**UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT, MUST BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS**

**Northern Silica Corporation**

22 July 2020

Jerrad Blanchard | Date

CFO

**Northern Silica Corporation**
**13-Week Cash Flow Forecast - Prepared by Management**
**For the Period July 11, 2020 to October 9, 2020**

***Notice to Reader***

The 13-week cash flow projection for Northern Silica Corporation, Heemskirk Mining Pty. Ltd., Custom Bulk Services Inc., Heemskirk Canada Limited, Heemskirk Canada Holdings Limited and HCA Mountain Minerals (Moberly) Limited (collectively, the "**NSC Companie**s") has been prepared by Management based on unaudited financial information and Management's estimates of projected receipts and disbursements for the period July 11, 2020 to October 9, 2020, inclusive. Users are cautioned that, since estimates are based on future events and conditions that are not ascertainable, the actual results achieved will vary, even if the assumptions materialize, and such variations may be material. There are no representations, warranties or other assurances that any of the estimates, forecasts, or projections will be realized.

The projection assumes that the NSC Companies continue to operate within the protections afforded as a result of the Companies' Creditors Arrangement Act ("CCAA") Order granted on June 30, 2020 and as may be amended from time to time during the CCAA proceedings. Upon such amendments, Management will update its cash flow forecast accordingly as inluded herein.

| | |
|---|---|
| **Overall** | The cash flow forecast includes all the Canadian operating entities. Specifically, the operating entities are Custom Bulk Services Inc. and HCA Mountain Minerals (Moberly) Limited. The corporate entities are Heemskirk Canada Limited, which consolidates up into Northern Silica Corporation.<br><br>Key overall assumptions are as follows: (a) the CCAA filing date is June 30, 2020 (b) the cash flow forecast is for a 13-week period; however, the duration of the CCAA proceedings are estimated to be four months with an estimated end date of October 30, 2020; (c) the NSC Companies are non-operational and all outgoing cashflow is relating to the conservation of the NSC Companies' assets while in care and maintenance mode, while seeking to restructure under the CCAA. |
| **1** | The rental income relates to the NSC Companies providing storage to third parties using the NSC Companies' storage facilities located in Penhold, Alberta. |
| **2** | Miscellaneous receipts are made up of; (a) payment on an insurance claim made by management regarding an incident that occurred at their facility in Moberly, BC. Payment is expected to be received in full by the week ending July 24, 2020; (b) government subsidies in relation to the Canada Emergency Wage Subsidy (CEWS) that has be enacted due to the Covid-19 pandemic and is based on a headcount of 13 employees (c) net GST returns from the Canada Revenue Agency as the Company is non-operational and is in a credit position from disbursements outweighing any receipts |
| **3** | Salaries and wages includes both salary and hourly employees. There are 6 salaried employees that are paid twice monthly and 7 hourly employees, which are paid bi-weekly. |
| **4** | General & administrative expenses relate to: (a) payments on the ATB mortgage relating to the storage facility in Penhold, Alberta; (b) utilities for the storage facility in Penhold, AB; (c) insurance payments on both the corporate insurance and D&O (d) legal fees for corporate counsel; (e) amounts payable to Telus and Shaw for internet and phone; (f) travel to and from the Moberly mine in Golden, BC and/or travel to the storage facility in Penhold, AB with management being located primarily in Calgary, AB; (g) hosting services provided by Lanetco for the Company accounting software; (h) benefits and RRSP contributions payable to Manulife |
| **5** | Capital expenditures relates to the following: (a) completing electrical work required to finish storage sheds; (b) testing silica for purposes of finding alternate end products; (c) industrial market research for silica product to be used elsewhere |
| **6** | A contingency of $50,000 per month has been included in the forecast to cover any unforeseen expenditures. |
| **7** | Restructuring professional fees and costs relate to the costs incurred in relation to the CCAA proceedings. These costs include the Company's legal fees and costs, the Monitor's and its independent legal counsel's professional fees and costs. |