

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.

SEVENTH REPORT OF THE MONITOR [REDACTED]

ALVAREZ & MARSAL CANADA INC.

OCTOBER 29, 2014

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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 date as this Honourable Court may subsequently order (the "**Stay Period**").
- 1.4 On December 9, 2013, this Honourable Court granted orders providing for:
- a) an Administration Charge in the amount of \$500,000, as defined in the Initial Order, to rank in priority to all other encumbrances; and
 - b) an extension of the time during which seizure can be made by the holders of all unexpired liens registered in the Personal Property Registry of British Columbia pursuant to the Repairers Lien Act, R.S.B.C. 1996, C. 404 against assets owned or leased by the Petitioners to June 9, 2014, which subsequently expired without further extension.
- 1.5 On December 20, 2013 (the "**December 20 Hearing**"), this Honourable Court granted two orders providing for, among other things:
- a) an extension of the Stay Period to February 28, 2014;
 - b) approval of the loan assignment by HSBC Bank Canada ("**HSBC**") to Callidus Capital Corporation ("**Callidus**") and authorization for the Petitioners to enter into a forbearance agreement in respect of same (the "**Forbearance Agreement**");
 - c) an amendment reducing the Administration Charge to \$250,000;
 - d) authorization for the Petitioners to borrow up to \$2.5 million under a debtor-in-possession credit facility to be provided by Callidus (the "**Callidus DIP**"); and
 - e) approval of the sales process (the "**Coalmont Sales Process**") to divest the mine in Coalmont, BC (the "**Coalmont Mine**").

- 1.6 On February 27, 2014 this Honourable Court granted an order providing for, among other things:
- a) an extension of the Stay Period to April 30, 2014;
 - b) an increase in the Callidus DIP to \$5.0 million; and
 - c) a two week extension to applicable dates under the sales process approved at the December 20 Hearing.
- 1.7 On April 15, 2014, this Honourable Court granted an order providing for:
- a) an extension of the Stay Period to May 8, 2014; and
 - b) approval of a sales process to facilitate the sale of redundant equipment of the Arthon Group (the “**Equipment Sales Process**”).
- 1.8 On May 8, 2014, this Honourable Court granted two orders providing for:
- a) an extension of the Stay Period to June 13, 2014 for Arthon Contractors Inc. (“**Contractors**”) and to July 31, 2014 for the other Petitioners;
 - b) an increase in the Callidus DIP to \$7.5 million;
 - c) approval of a Settlement Agreement and Mutual Release (the “**Vitol Settlement Agreement**”) dated May 7, 2014 between Vitol Inc. (“**Vitol**”) and Coalmont Energy Corp. (“**Coalmont**”) and Industries which provided for, among other things, termination of an offtake agreement between the two parties relating to the Coalmont Mine (the “**Offtake Agreement**”), release of all claims arising from the Offtake Agreement and a payment from Coalmont to Vitol of \$50,000 as a partial reimbursement of legal fees incurred by Vitol in the CCAA Proceedings; and
 - d) a lift in the Stay of Proceedings to permit Coalmont and Industries to complete their obligations pursuant to the Vitol Settlement Agreement.
- 1.9 In light of current market conditions, the Company did not complete a sales transaction for the Coalmont Mine and is now focussing its immediate restructuring efforts on monetizing the assets of its subsidiary, Sandhill Materials Inc. (“**Sandhill**”) and preserving the Coalmont Mine for potential operation or sale at a later date.
- 1.10 The Stay of Proceedings in respect of Contractors expired on June 13, 2014 and that entity filed a voluntary assignment in bankruptcy on June 27, 2014. A&M was named as the trustee and that appointment was affirmed at the first meeting of creditors held on July 14, 2014 in Kelowna, British Columbia.

- 1.11 On July 24, 2014, this Honourable Court granted an order providing for an extension of the Stay Period to October 31, 2014.
- 1.12 The orders of this Honourable Court, together with select motion material and other documentation filed in the CCAA Proceedings and Contractors' bankruptcy proceedings are posted on the Monitor's website at www.alvarezandmarsal.com/arthon (the "**Monitor's Website**").

2.0 PURPOSE OF REPORT

- 2.1 This seventh report (the "**Seventh Report**") is intended to generally provide this Honourable Court with information in respect of the CCAA Proceedings but is largely focused on the following matters:
- a) a comparison of actual cash receipts and disbursements for the 45 week period ended October 10, 2014 to those reflected in the 48 week cash flow statement (the "**Fifth Cash Flow Statement**") which was filed with the ninth affidavit of Kerry Leong dated July 21, 2014;
 - b) a review of the updated cash flow statement for the 61 week period ending January 30, 2015, including actual results for the 45 week period ended October 10, 2014 and those forecast for the 16 week period ending January 30, 2015 (the "**Sixth Cash Flow Statement**");
 - c) an update on the status of the restructuring;
 - d) the Monitor's comments with respect to the Petitioners' application for a sealing order (the "**Petitioners' Sealing Order**") with respect to commercially sensitive information included in the tenth affidavit of Kerry Leong dated October 23, 2014 ("**Leong Affidavit #10**");
 - e) the Monitor's comments with respect to its application for a sealing order (the "**Monitor's Sealing Order**") with respect to commercially sensitive information included in the Seventh Report;
 - f) the Monitor's comments with respect to the Petitioner's application for a claims process order (the "**Claims Process Order**");
 - g) an update on the status of the Callidus DIP;
 - h) the Monitor's comments with respect to its application for an order authorizing the distribution of coal sales proceeds (the "**Distribution Order**") held in trust by the Monitor; and
 - i) the Monitor's comments with respect to the Petitioners' application for an extension of the Stay Period to January 30, 2015 (the "**Extension Order**").

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 this report consists 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 Seventh Report are expressed in Canadian dollars.

4.0 CASH FLOW VARIANCE ANALYSIS

- 4.1 A&M provided comments on the Fifth Cash Flow Statement in its sixth report dated July 22, 2014 (the “**Sixth Report**”) which is available on the Monitor's Website and, accordingly, those are not repeated here.
- 4.2 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 Fifth Cash Flow Statement. The Company’s actual receipts and disbursements as compared to the Fifth Cash Flow Statement for the 45 week period November 29, 2013 through October 10, 2014 are summarized below:

Arthon Industries Limited et al
Unaudited Summary of Actual Versus Forecast Cash Flows
For the period November 29, 2013 to October 10, 2014
(\$000's)

	November 29, 2013 to October 10, 2014		
	Actual	Forecast	Variance
Operating Receipts			
Aggregate sales	\$ 192	\$ 205	\$ (13)
Proceeds from disposition of capital assets	632	5,584	(4,952)
Sandhill Materials Inc. receipts	7,067	7,257	(190)
Other	420	130	290
Total Operating Receipts	8,311	13,176	(4,865)
Operating Disbursements			
Production costs	165	172	(7)
Payroll, benefits and payroll taxes	1,684	1,801	(117)
Management fees	552	542	10
Mine care and maintenance	684	819	(135)
Fuel	215	238	(23)
Insurance, permits and royalties	481	505	(24)
Repairs and maintenance	276	330	(54)
General and administrative	192	199	(7)
Professional fees	2,202	2,610	(408)
Subcontractor fees	-	15	(15)
Taxes	265	171	94
Financing costs	4,901	5,532	(631)
Total Operating Disbursements	11,617	12,934	(1,317)
Net Cash Flow From Operations	(3,306)	242	(3,548)
Cash Flow From Financing			
Repayment of HSBC Operating Facilities	12,763	12,763	-
Repayment of Callidus Facilities	(729)	(5,635)	4,906
	12,034	7,128	4,906
Net Cash Flow	8,728	7,370	1,358
Opening Cash Balance	(12,583)	(12,583)	-
Net Cash Flow	8,728	7,370	1,358
Closing Cash Balance	\$ (3,855)	\$ (5,213)	\$ 1,358

4.3 In summary, the Company experienced a net positive cash flow variance of \$1.4 million which resulted from a number of factors, including:

- a) cash receipts from disposal of capital assets that were \$4.9 million lower than forecast. The Fifth Cash Flow Statement contemplated the sale of \$5.0 million of equipment, proceeds from which were to be used to pay down facilities advanced by Callidus (the “**Callidus Facilities**”) in order meet certain terms of the Forbearance Agreement. The Company’s efforts to divest of redundant equipment are discussed further in sections 6.10 to 6.12.

Callidus has confirmed to the Petitioners that not making the \$5.0 million principal payment will not be viewed as a default under the Callidus Facilities;

- b) Sandhill receipts were lower than forecast as interest incurred on the Callidus Facilities, which is paid by Sandhill on behalf of the Petitioners, was lower than expected due to a reduction in the total Callidus Facilities described in sections 8.5 to 8.6. Sandhill is a subsidiary of Industries, one of the Petitioners, but is not directly included in the CCAA Proceedings;
- c) other receipts were higher than forecast primarily due to equipment rental revenue from Arthon Equipment Ltd. (“**Equipment**”) that had not been forecast;
- d) financing costs were lower than forecast as Callidus Facilities were reduced by \$10.0 million in July 2014 upon drawdown of a standby letter of credit held by HSBC which is described in section 8.5;
- e) mine care and maintenance costs were lower than forecast primarily due to lower fuel costs as all equipment on site was winterized; and
- f) professional fees were lower than forecast largely due to timing differences. The professional fees paid by the Company for the period November 19, 2013 to October 10, 2014 are summarized in the table below:

Summary of Professional Fees						
For the period November 29, 2013 to October 10, 2014						
(\$000's)						
Firm	Retainer	Fees	Disbursements	Taxes	Total	
Alvarez & Marsal Canada Inc.	\$ 50	\$ 412	\$ 6	\$ 21	\$ 489	
Bidulka Financial Management Inc.	15	246	33	13	307	
Blake, Cassels & Graydon LLP	50	84	-	10	145	
Davis LLP	52	532	8	64	657	
MNP LLP	-	328	14	20	362	
Other Professionals	31	193	2	16	241	
Total	\$ 198	\$ 1,794	\$ 64	\$ 145	\$ 2,202	

4.4 Management has advised the Monitor that post filing accounts payable remain current and that most suppliers are being paid upon delivery.

5.0 SIXTH CASH FLOW STATEMENT

5.1 In preparing the Sixth Cash Flow Statement, Management has adopted the probable and hypothetical assumptions set out in the accompanying notes to the Sixth Cash Flow Statement, a copy of which is attached as Appendix “**B**”. A summary of the Sixth Cash Flow Statement is provided in the table below:

Arthon Industries Limited et al
Fourth Cash Flow Statement Summary
For the period November 29, 2013 to January 30, 2015
(\$000's)

	Nov 29, 2013 to Oct 10, 2014 Actual	Oct 11, 2014 to Jan 30, 2015 Forecast	Total
Operating Receipts			
Aggregate sales	\$ 192	\$ -	\$ 192
Proceeds from disposition of capital assets	632	-	632
Sandhill Materials Inc. receipts	7,067	1,536	8,603
Other	420	165	585
Total Operating Receipts	8,311	1,701	10,012
Operating Disbursements			
Production costs	165	43	208
Payroll, benefits and payroll taxes	1,684	389	2,073
Management fees	552	200	752
Mine care and maintenance	684	70	754
Fuel	215	84	299
Insurance, permits and royalties	481	57	538
Repairs and maintenance	276	81	357
General and administrative	192	64	256
Professional fees	2,202	638	2,840
Taxes	265	4	269
Financing costs	4,901	1,305	6,206
Pre-filing liabilities to critical suppliers	-	-	-
Total Operating Disbursements	11,617	2,935	14,552
Net Cash Flow From Operations	(3,306)	(1,234)	(4,540)
Cash Flow From Financing			
Repayment of HSBC Operating Facilities	12,763	-	12,763
Repayment of Callidus Facilities	(729)	-	(729)
	12,034	-	12,034
Net Cash Flow	8,728	(1,234)	7,494
Opening Operating Facility	(12,583)	(3,855)	(12,583)
Net Cash Flow	8,728	(1,234)	7,494
Closing Operating Facility	\$ (3,855)	\$ (5,089)	\$ (5,089)

5.2 In summary, and as indicated in the Sixth Cash Flow Statement, during the 16 Week Forecast:

- a) cash receipts total approximately \$1.7 million of which \$1.5 million comes from Sandhill as consideration for use of Arthon's equipment at its aggregate and quarry operations in Kitimat, British Columbia and interest payments made by Sandhill on behalf of the Petitioners. \$165,000 of other receipts relates largely to the proceeds generated from equipment rentals. No receipts from aggregate sales have been forecast as the inventory held by Industries may be subject to a claim by the bankrupt estate of Contractors and aggregates sales receipts of

- approximately \$51,000 are being held in trust by the Trustee pending resolution as to entitlement;
- b) payroll, payroll withholdings remittances and benefits of \$389,000 are forecast to be lower than previously experienced due to a reduction in staffing levels at head office and Coalmont;
 - c) management fees of \$200,000 are forecast to remain current and include payments to senior members of the executive team who have oversight of the business generally as well as the care and maintenance of the Coalmont Mine;
 - d) mine care and maintenance disbursements of \$70,000 include costs necessary to safeguard the mine and related equipment. Environmental monitoring costs pursuant to the Pollution Abatement Order issued by the Ministry of Environment (“MOE”) are forecast to be zero as the fees for environmental consultants required were prepaid in prior periods;
 - e) fuel and general and administrative costs are forecast to be approximately \$84,000 and \$64,000, respectively, and are consistent with those incurred historically;
 - f) insurance, permits and royalties disbursements of approximately \$57,000 relate to fleet insurance as well as a quarterly mining royalty payment due to Pacific West Coal Ltd. in December 2014;
 - g) repairs and maintenance disbursements of \$81,000 are forecast to remain consistent with current run rates for maintaining the Petitioners’ equipment fleet;
 - h) professional fees of \$638,000 are anticipated for the costs of the Company’s legal and financial advisors, the interim Chief Financial Officer and those of the Monitor and its legal counsel; and
 - i) financing costs are forecast to be approximately \$1.3 million, including interest payments, and prepayment fees largely related to the Callidus Facilities.

6.0 RESTRUCTURING PROCESS

6.1 As described in the Sixth Report, the Company has been pursuing a restructuring approach that contemplates:

- a) completing a pre-sale of aggregates to a third party;
- b) using the proceeds of the pre-sale to pay down or fully repay the debts owing to Callidus and HSBC by certain related entities;
- c) refinancing Sandhill at normal commercial rates; and

- d) presenting a plan of arrangement to the Company's stakeholders, including the creditors of Industries, Robeka Projects Inc. ("**Robeka**") and 0755049 B.C. Ltd. ("**075**") largely funded from the proceeds of Sandhill's business activities and refinancing.

Sandhill

- 6.2 The Company and its financial advisor, MNP Corporate Finance Inc. ("**MNP**") have been working to develop and monetize the assets of Sandhill through pursuit of possible transactions with customers and/or third parties that may include one or more of the following:
 - a) advances against future deliveries of aggregates secured by a profit à prendre;
 - b) advances for the exclusive right to operate a ready mix concrete joint venture;
 - c) advances for the exclusive right to import cement powder through a joint venture; and/or
 - d) debt and/or subordinated debt secured by a first charge against Sandhill's property.
- 6.3 The Petitioners are seeking the Petitioners' Sealing Order to restrict certain information contained within the Leong Affidavit #10. The full unredacted version of the Leong Affidavit #10, which has been provided to the Monitor, contains information of a commercial nature which, if disclosed to third parties, could materially jeopardize a potential transaction to monetize the assets of Sandhill.
- 6.4 The Seventh Report provided to this Honourable Court also contains commercially sensitive information. Accordingly, the Monitor is seeking the Monitor's Sealing Order sealing portions of the Seventh Report and has prepared a version of the Seventh Report in which sections 6.5 to 6.8 are redacted. The latter has been made available to the service list in the CCAA Proceedings and on the Monitor's website.

[REDACTED]

[REDACTED]

Coalmont

- 6.9 As noted in the Sixth Report, given the limited interest generated from the Coalmont Sales Process and unfavorable global thermal coal prices, the Company's ongoing plans to deal with Coalmont still include the following:

- a) continue to preserve and protect the Coalmont Mine in the hopes of identifying a joint venture partner with a view to recommencing operations at some later date;
- b) fund the care and maintenance costs from Industries; and
- c) present a plan of arrangement to creditors that provides for payment upon:
 - i. funds becoming available through the monetization of some or all of Sandhill's business/assets after the satisfaction of the claims of certain other creditors, including those of Callidus and HSBC;
 - ii. sufficient revenue being generated if, and when, the Coalmont Mine returns to production; or
 - iii. a sale of the Coalmont Mine.

Equipment

- 6.10 To date, the efforts of the Petitioners to divest of machinery and equipment in the manner provided for in the Equipment Sales Process have resulted in total net proceeds of \$6.0 million including \$5.4 million for 18 pieces sold by the Company's Arthon Belvedere Joint Venture ("**Belvedere**") and \$632,000 for 10 pieces sold by Equipment.
- 6.11 The Company has advised the Monitor that it is focussing its restructuring efforts on the monetization of Sandhill through the transactions contemplated in the LOI rather than through the sale of surplus machinery and equipment. In contemplation of the equipment that may be required to fulfill the requirements of the Extraction Agreement and the condition precedent described in section 6.6(h)i, immediate efforts to divest of machinery and equipment will be limited to a small number of pieces that would not be suitable for use at Sandhill.
- 6.12 As noted in section 4.3(a), Callidus has confirmed to the Petitioners that not making the \$5.0 million principal payment will not be viewed as a default under the Callidus Facilities.

Plan of Compromise or Arrangement

- 6.13 The Petitioners have advised the Monitor that they expect to be in a position to put a plan of compromise or arrangement ("**Plan**") before the creditors of Coalmont, Industries, Robeka and 075 prior to January 30, 2015 and that the Company is in advanced discussions with Callidus with respect to advancing a further loan against the assets of Sandhill to assist in funding any payments that may be required under a Plan.

7.0 CLAIMS PROCESS

7.1 The Claims Process Order establishes a methodology to determine the nature and quantum of creditor claims against each of Industries, Coalmont, Robeka and 075 (the “**CPO Entities**”) for voting and/or distribution purposes within the context of the CCAA Proceedings. A claims process with respect to Equipment will not be undertaken as the Petitioners have no immediate intention to put forward a Plan to the creditors of Equipment. Rather they intend to liquidate its assets over time.

7.2 A “Claim”, as defined by the Claims Process Order, generally refers to:

- a) any right or claim of any person against the CPO Entities in connection with any indebtedness, liability or obligation of any kind whatsoever in existence on the Order Date (a “**Pre-Filing Claim**”);
- b) any right or claim of any person against the CPO Entities in connection with any indebtedness, liability or obligation of any kind whatsoever owed by the CPO Entities to such person arising out of the restructuring, disclaimer, resiliation, termination or breach on or after the Order Date of any contract, employment agreement, lease or other agreement which took place or takes place before or after the date of the proposed Claims Process Order (a “**Restructuring Claim**”); and
- c) any right or claim of any person against one or more of the directors and/or officers of the CPO Entities that relates to a Pre-Filing Claim or a Restructuring Claim howsoever arising for which the directors and/or officers are by statute or otherwise by law liable to pay in their capacity as directors and/or officers.

7.3 A summary of key terms and dates of the Claims Process Order is tabled below:

CPO – Notices and Other Particulars	Applicable Dates/Timing
<p>1. Monitor’s Website Post on Monitor’s Website a copy of: (a) the CPO, (b) the Instruction Letter, (c) a blank Proof of Claim form, and (d) a blank Notice of Dispute form.</p>	<p>2 business days following issuance of Claims Process Order (tentatively, October 31, 2014)</p>
<p>2. Notice of Claims Claims Package sent to: a. Creditors with Claims, and b. Counter-party to any contract or agreement with Petitioner Parties in respect of which a Notice of Disclaimer or Resiliation has been issued</p>	<p>3 business days following issuance of Claims Process Order (tentatively, November 3, 2014)</p>
<p>3. Newspaper Notice Publication of Notice of Claims Process for one (1) Business Day in the Vancouver Sun and the Kelowna Daily Courier</p>	<p>Caused to be published at the next available publication date within 4 days following issuance of the Claims Process Order</p>
<p>4. Claims Bar Date Applies to all Pre-filing Claims</p>	<p>November 28, 2014 5:00pm</p>
<p>5. Restructuring Claims Bar Date Applies to all Restructuring Claims</p>	<p>The later of November 28, 2014 5:00pm and 10 days after a Notice of Disclaimer or Resiliation is issued 5:00pm</p>
<p>6. Adjudication of Claims (a) Monitor in consultation with Petitioners shall review all Proofs of Claim received on or before the Claims Bar Date or the Restructuring Claims Bar Date (b) If applicable, issue a Notice of Revision or Disallowance Creditor (c) Creditor issues a Notice of Dispute in respect of a disputed Notice of Revision or Disallowance Creditor (d) If necessary, a Claims Officer will be appointed to determine the validity and/or amount of a disputed Creditor Claim</p>	<p>Following receipts of Proofs of Claim No later than 5 days after Claims Bar Date or the Restructuring Claims Bar Date No later than 5:00pm on date that is 10 days after Notice of Revision or Disallowance Creditor As soon as practicable after receipt of the Notice of Dispute</p>

7.4 The Claims Process Order generally contemplates that creditors with Pre-Filing Claims will not have to submit a Proof of Claim if they do not dispute the amount reflected as owed to them in the Company's books and records.

7.5 The Monitor views the terms of the proposed CPO and applicable timeline as reasonable in the circumstances.

8.0 CALLIDUS DIP

8.1 On May 8, 2014, this Honourable Court granted an increase to the Callidus DIP from \$5.0 million to \$7.5 million.

8.2 As at the date of the Seventh Report, the Petitioners have advised the Monitor that Callidus has approved an increase to the available facilities and the parties are in the process of finalizing the related documentation.

8.3 The total senior secured debt owed by the Petitioners, Sandhill and the Company's Belvedere joint venture as at October 10, 2014 is summarized in the table below:

Callidus Facilities Summary				
For the period December 23, 2013 to October 10, 2014				
(\$000's)				
	Petitioners	Sandhill	Belvedere	Total
Payout of HSBC	\$ 39,823	\$ 2,333	\$ 5,939	\$ 48,095
Draw on HSBC letter of credit	(10,000)	-	-	(10,000)
Forbearance fee	608	32	-	640
Guarantee of Belvedere Facility	523	-	(523)	-
Sale of equipment	(729)	-	(5,392)	(6,121)
Accrued interest	1,400	85	103	1,589
Net Advances on Callidus Facilities	4,018	6,210	194	10,422
Total Callidus Facilities (October 10, 2014)	\$ 35,644	\$ 8,660	\$ 321	\$ 44,625

8.4 As at October 10, 2014, Callidus has made net advances of approximately \$4.0 million to the Petitioners under the Callidus DIP.

8.5 In July 2014 Callidus drew down a standby letter of credit issued by HSBC in support of the portion of the Callidus Facilities attributed to Coalmont of approximately \$10.0 million. HSBC now enjoys security against the assets of Coalmont in priority to Callidus in respect of the \$10.0 million it is owed.

8.6 The Petitioners have advised the Monitor that they expect to reach a settlement agreement with HSBC which now enjoys a first charge on the Coalmont Mine. This settlement agreement

currently contemplates that Callidus will advance a loan to Sandhill without any guarantees from the Petitioners and Sandhill will use the proceeds to purchase the security held by HSBC. The latter will then be subordinated to the security provided in support of the Callidus Facility. Management hopes that this settlement agreement which will result in HSBC no longer being a stakeholder in the CCAA Proceedings will be concluded in November 2014.

9.0 COAL SALES PROCEEDS

9.1 As described in the Sixth Report, the Monitor was holding coal sales proceeds of approximately \$617,000 in trust pending determination of entitlement.

9.2 The Monitor has been advised by the Petitioners that the parties with interests in the proceeds including HSBC, Canada Revenue Agency and Lafarge Canada Inc. have reached an agreement as to a proposed distribution of the proceeds subject to finalizing the agreement terms and Court approval. A summary of the proposed distribution of proceeds is tabled below:

Pro-forma Distribution of Coal Sales Proceeds (\$000's)	
Lafarge (post-filing storage fees)	\$ 80
Lafarge	80
CRA	265
HSBC	192
Total distributions	<u>\$ 617</u>

9.3 The post-filing storage fees of \$80,000 were paid to Lafarge on October 23, 2014.

9.4 The Monitor is seeking the Distribution Order to authorize the distribution of the remaining coal sales proceeds in accordance with the settlement.

10.0 OTHER RESTRUCTURING MATTERS

Environmental Clean-up

10.1 The Company has advised the Monitor that it is compliant with the Pollution Abatement Order issued by the MOE in respect of the slurry spill at the Coalmont Mine (as disclosed in the Leong Affidavit #1 and summarized in the First Report of the Monitor dated December 9, 2013).

10.2 Triton Environmental Consultants (“**Triton**”), the firm retained by the Company to complete the Environmental Impact Assessment (“**EIA**”), has commenced follow-up testing and monitoring pursuant to the EIA report and has advised Management that the test results indicate that the

Company is in compliance with the applicable guidelines. Triton will perform further testing and submit a final EIA to the MOE on or before March 30, 2015.

Insurance

- 10.3 The Company has advised the Monitor that the insurance policies as summarized in the Third Report of the Monitor dated February 25, 2014 remain in place with the exception the commercial general liability coverage which has been reduced from \$10.0 million to \$5.0 million. The previous coverage level was a requirement of the Ministry of Transportation and Infrastructure (“**MOTI**”) but is no longer necessary as Arthon Group has no ongoing projects with MOTI.

11.0 EXTENSION OF THE STAY OF PROCEEDINGS

- 11.1 The Stay of Proceedings is currently set to expire on October 31, 2014 for the Petitioners, excluding Contractors, and the Company is seeking the Extension Order to extend the Stay Period to January 30, 2015.
- 11.2 In reviewing this matter, the Monitor has considered a number of factors, including:
- a) the progress made by the Company in its efforts to monetize Sandhill and the prospects of entering into an agreement prior to January 30, 2015;
 - b) the prospects of some or all of the Petitioners putting forward a viable plan of compromise or arrangement prior to January 30, 2015;
 - c) the period required to complete the Claims Process;
 - d) the support of certain key creditors including Callidus and HSBC and the apparent lack of any opposition voiced by other stakeholders;
 - e) the possibility of material financial prejudice to any of the Petitioners’ stakeholders;
 - f) the actual results achieved in relation to those forecast in the various cash flow statements provided during the CCAA Proceedings;
 - g) the Sixth Cash Flow Statement and the forecast liquidity of the Company during the term of the requested extension; and
 - h) whether the Petitioners are acting in good faith and with due diligence and if the Company’s prospects of affecting a viable restructuring would be enhanced by an extension of the Stay Period.

11.3 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 an extension of the Stay of Proceedings to January 30, 2015.

12.0 MONITOR'S RECOMMENDATIONS

12.1 In summary, the Petitioners appear to be making significant progress towards monetizing Sandhill and putting forward a viable plan of compromise or arrangement to creditors. Accordingly, the Monitor respectfully recommends that this Honourable Court grant the following orders:

- a) the Claims Process Order;
- b) the Petitioners' Sealing Order;
- c) the Monitor's Sealing Order;
- d) the Distribution Order; and
- e) the Extension Order.

All of which is respectfully submitted to this Honourable Court this 29th day of October, 2014.

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



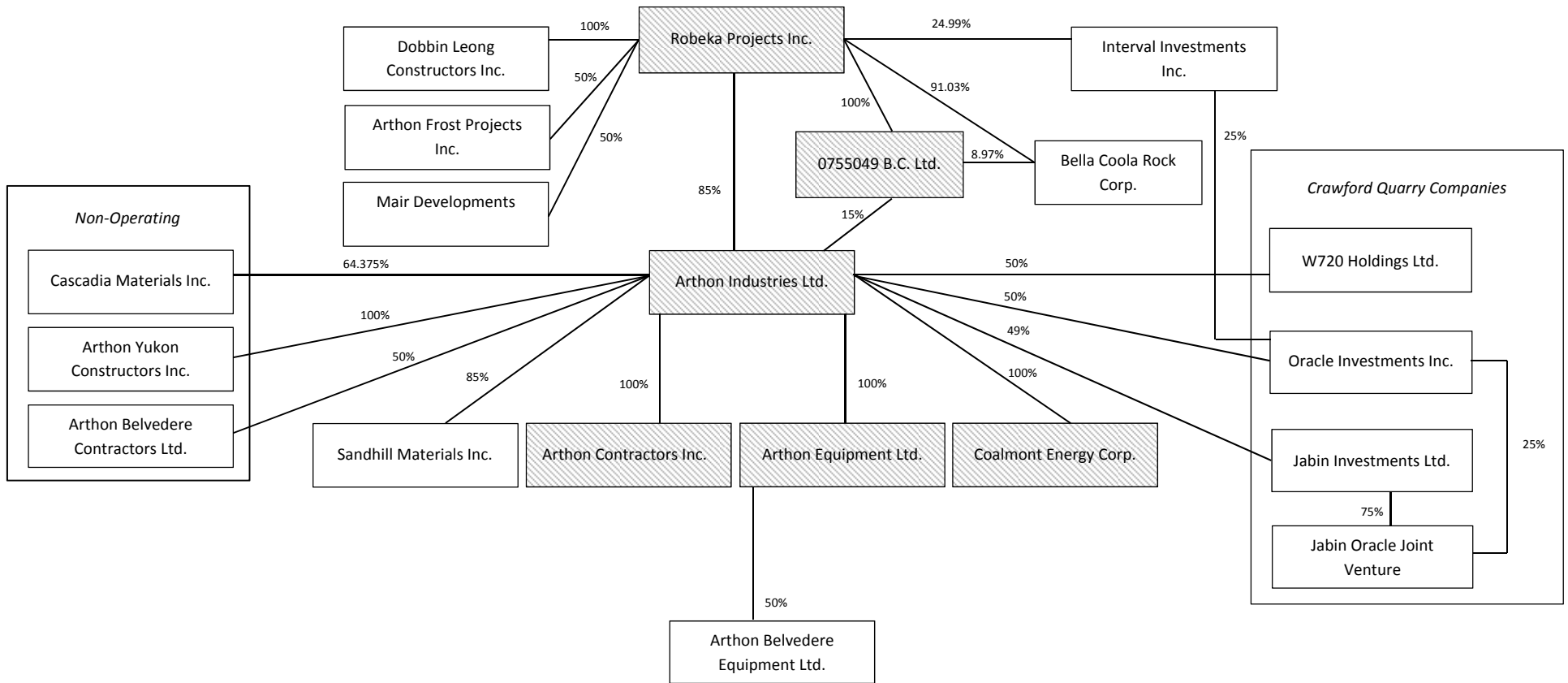
Per: Peter Gibson
Senior Vice President




Per: Tom Powell
Director

APPENDIX A

Corporate Organization Chart
As At January 31, 2014



Legend:

 CCAA filing entities

APPENDIX B

Arthon Industries Ltd. et al.
Sixth Cash Flow Statement (Note 1)
For the 61 Week Period Ending January 30, 2015

	Week 1 to Week 45 Actual 10-Oct-14	Week 46 Forecast 17-Oct-14	Week 47 Forecast 24-Oct-14	Week 48 Forecast 31-Oct-14	Week 49 Forecast 07-Nov-14	Week 50 Forecast 14-Nov-14	Week 51 Forecast 21-Nov-14	Week 52 Forecast 28-Nov-14	Week 53 Forecast 05-Dec-14	Week 54 Forecast 12-Dec-14	Week 55 Forecast 19-Dec-14	Week 56 Forecast 26-Dec-14	Week 57 Forecast 02-Jan-15	Week 58 Forecast 09-Jan-15	Week 59 Forecast 16-Jan-15	Week 60 Forecast 23-Jan-15	Week 61 Forecast 30-Jan-15	Week 45 to Week 61 Forecast	Week 1 to Week 61 Total	Notes
Operating Receipts																				
Aggregate Sales	\$ 192,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 192,035	2
Capital Assets Sale/Purchase	632,359	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	632,359	3
Receipts - Sandhill Materials Inc.	7,066,723	81,200	-	-	485,000	-	-	-	485,000	-	-	-	485,000	-	-	-	-	1,536,200	8,602,923	4
Receipts - Other	419,600	-	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	165,000	584,600	5
Total Operating Receipts	8,310,718	81,200	11,000	11,000	496,000	11,000	11,000	11,000	496,000	11,000	11,000	11,000	496,000	11,000	11,000	11,000	11,000	1,701,200	10,011,918	
Operating Disbursements																				
Financing Costs	4,901,211	-	-	-	435,000	-	-	-	435,000	-	-	-	435,000	-	-	-	-	1,305,000	6,206,211	6
Fuel	214,656	1,700	2,500	2,500	17,500	2,500	2,500	2,500	17,500	2,500	2,500	2,500	17,500	2,500	2,500	2,500	2,500	84,200	298,856	7
General & Administrative	792,168	700	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	63,700	255,868	7
Insurance, Permits & Royalties	480,802	-	-	-	9,000	-	-	-	30,000	9,000	-	-	9,000	-	-	-	-	57,000	537,802	8
Management Fees	551,773	-	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	13,308	199,614	751,387	9
Mine Care & Maintenance	684,064	2,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	70,000	754,064	10
Payroll, Benefits & Payroll Taxes	1,684,463	18,300	-	53,000	-	53,000	-	-	53,000	-	-	-	53,000	-	53,000	-	53,000	389,300	2,073,763	9
Pre-filing Liabilities to Critical Suppliers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7
Production Costs	164,896	4,300	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	43,300	208,296	11
Professional Fees	2,201,659	9,000	39,500	43,500	97,500	13,500	27,500	43,500	97,500	13,500	27,500	43,500	97,500	13,500	27,500	43,500	43,500	638,000	2,839,659	12
Repairs & Maintenance	275,629	2,900	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	80,900	356,529	13
Subcontractors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7
Taxes	265,485	3,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,700	269,185	7
Total Operating Disbursements	11,616,905	43,100	71,808	128,808	588,808	98,808	59,808	158,808	588,808	98,808	59,808	128,808	588,808	98,808	59,808	128,808	32,308	2,934,714	14,551,620	
Net Operating Cash Flow	\$ (3,306,188)	\$ 38,100	\$ (60,808)	\$ (117,808)	\$ (92,808)	\$ (87,808)	\$ (48,808)	\$ (147,808)	\$ (92,808)	\$ (87,808)	\$ (48,808)	\$ (117,808)	\$ (92,808)	\$ (87,808)	\$ (48,808)	\$ (117,808)	\$ (21,308)	\$ (1,233,514)	\$ (4,539,702)	
Financing and Refinancing																				
Repayment - HSBC Operating Facilities	12,763,132	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,763,132	14
Repayment - Callidus Facilities B-F	(728,731)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(728,731)	15
Net Cash Flow	\$ 8,728,213	\$ 38,100	\$ (60,808)	\$ (117,808)	\$ (92,808)	\$ (87,808)	\$ (48,808)	\$ (147,808)	\$ (92,808)	\$ (87,808)	\$ (48,808)	\$ (117,808)	\$ (92,808)	\$ (87,808)	\$ (48,808)	\$ (117,808)	\$ (21,308)	\$ (1,233,514)	\$ 7,494,699	
Opening Operating Facilities	\$ (12,583,582)	\$ (3,855,369)	\$ (3,817,269)	\$ (3,878,076)	\$ (3,995,884)	\$ (4,088,691)	\$ (4,176,499)	\$ (4,225,307)	\$ (4,373,114)	\$ (4,465,922)	\$ (4,553,729)	\$ (4,602,537)	\$ (4,720,345)	\$ (4,813,152)	\$ (4,900,960)	\$ (4,949,768)	\$ (5,067,575)		\$ (12,583,582)	
Closing Operating Facilities	\$ (3,855,369)	\$ (3,817,269)	\$ (3,878,076)	\$ (3,995,884)	\$ (4,088,691)	\$ (4,176,499)	\$ (4,225,307)	\$ (4,373,114)	\$ (4,465,922)	\$ (4,553,729)	\$ (4,602,537)	\$ (4,720,345)	\$ (4,813,152)	\$ (4,900,960)	\$ (4,949,768)	\$ (5,067,575)	\$ (5,088,883)		\$ (5,088,883)	16

Notes

(1) The purpose of this cash flow statement is to set out the liquidity requirements of Arthon Industries Ltd. ("Industries"), Arthon Equipment Ltd. ("Equipment"), Robeka Projects Inc. ("Robeka") and Coalmont Energy Corp. ("Coalmont") during the CCAA proceedings. Sandhill Materials Inc. ("Sandhill"), a subsidiary of Industries is excluded from the CCAA proceedings and thus is not included in the consolidated cash flow statement. Arthon Contractors Inc. ("Contractors") was a CCAA Entity until its stay of proceedings ended on June 13, 2014. Actual results include Contractors to June 13, 2014. The forecast does not include any receipts from the sale of assets of entities not included in the CCAA proceedings that may facilitate a partial or full repayment of the secured creditor described in note 3. The Sixth Cash Flow Statement does not reflect any payments that may be made in respect of a plan or compromise or arrangement that may be put forward to creditors prior to January 30, 2015.

(2) No receipts from aggregate sales have been forecast as the inventory held by Industries may be subject to a claim by the bankrupt estate of Contractors and receipts are being held in trust pending resolution as to entitlement.

(3) Sales of machinery and equipment are used to repay Callidus Capital Corp. ("Callidus"). Actual results include sales of assets owned by Equipment. In addition to the payments shown in Actual results, other Obligors (as defined in the Forbearance Agreement) to Callidus not included in the CCAA proceeding made payments totaling \$5.4 million prior to March 31, 2014. The forecast minimum \$5.0 million payments due June 30 and September 30, 2014 were not achieved. Callidus has provided confirmation that this does not constitute a default under the Forbearance Agreement. The next minimum payment is \$5.0 million due December 31, 2014.

(4) Collections from Sandhill include amounts paid by Sandhill to entities included in the CCAA proceedings for use of their employees, equipment and administration charges as well interest payments made by Sandhill on behalf of the CCAA entities.

(5) Other receipts relate to miscellaneous receivables. Other receipts do not include coal sale receipts of \$182,000 (January 2014), \$374,000 (July 2014) and \$61,000 (October 2014) paid directly to the monitor in trust. These funds are held by the monitor pending resolution of priority to those funds.

(6) Financing costs include interest paid to Callidus, interest and letter of credit fees paid to HSBC Bank Canada ("HSBC") and miscellaneous operating lease payments. Accrued interest and accrued financing fees are not included in the cash flow statement.

(7) Disbursements were projected based on past historical run rates and anticipated future events.

(8) Insurance, permits and royalties includes renewal of insurance coverage, mining royalties and mining permit renewal for Coalmont which owns the mine. Quarterly mining royalties of \$30,000 are included in October 2014. The insurance policies for the other CCAA Entities were renewed in July 2014. There is also \$9,000 per month in IBCB premiums.

(9) Management fees and payroll, benefits and payroll taxes are projected to continue at the current run rate. Payroll remittances are made concurrent with the payroll dates.

(10) Mine care and maintenance costs included certain employee costs, security, fuel and other costs to safeguard the mine and related equipment.

(11) Production costs relate to producing aggregate (note 2) inventory for the 2014 selling season.

(12) Professional fee disbursements have been projected based on costs by professional service firms relating to the restructuring. Approximately \$398,000 which were paid to professionals directly by the secured lenders pursuant to the terms of a forbearance and assignment agreement dated December 20, 2013 are not included in the cash flow statement.

(13) Repairs and maintenance includes payments to maintain the Petibou's equipment fleet.

(14) The repayment to HSBC by Callidus of amounts owing by the CCAA Entities included the operating facilities totaling \$12.8 million as well as term facilities, leases, reimbursement for professional fees incurred by the secured lenders and accrued forbearance fees totaling \$27.7 million.

(15) The forbearance agreement with Callidus requires a minimum principal repayment of \$5.0 million due by March 31, June 30, September 30 and December 31, 2014. All principal repayments incur a 2% fee. The March 31 minimum \$5.0 million repayment was made by other Obligors to Callidus that are not in the CCAA proceedings. The June 30 and September 30, 2014 repayments are described in note 3.

(16) The loans from Callidus include both specific facilities used to payout HSBC and a revolving facility. The ending Operating Facilities line includes both the revolving facility and cash deposit and disbursement accounts.