



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.**

**SIXTH REPORT OF THE MONITOR**

**ALVAREZ & MARSAL CANADA INC.**

**JULY 22, 2014**



ALVAREZ & MARSAL

## TABLE OF CONTENTS

1.0	INTRODUCTION.....	3
2.0	PURPOSE OF REPORT.....	5
3.0	TERMS OF REFERENCE .....	5
4.0	CASH FLOW VARIANCE ANALYSIS .....	6
5.0	FIFTH CASH FLOW STATEMENT.....	8
6.0	RESTRUCTURING PROCESS .....	10
7.0	CALLIDUS DIP.....	14
8.0	OTHER RESTRUCTURING MATTERS.....	15
9.0	EXTENSION OF THE STAY OF PROCEEDINGS.....	16
10.0	MONITOR’S RECOMMENDATIONS.....	16

## APPENDICES

**Appendix A:** Corporate Organization Chart

**Appendix B:** Fifth Cash Flow Statement for the 48-Week Period Ending October 31, 2014

**Appendix C:** Trustee’s Report to the Creditors on the Preliminary Administration in the Matter of the Bankruptcy of Arthon Contractors Inc. dated July 11, 2014

## 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 has 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 provides 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:
- a) monetizing the assets of its subsidiary, Sandhill Materials Inc. (“**Sandhill**”);
  - b) attempting to sell a portion of the equipment of the Arthon Group; and
  - c) 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. The bankruptcy of Contractors is discussed further in section 6.8.

- 1.11 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](http://www.alvarezandmarsal.com/arthon) (the "**Monitor's Website**").

## **2.0 PURPOSE OF REPORT**

- 2.1 This sixth report (the "**Sixth 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 32 week period ended July 11, 2014 to those reflected in the 35 week cash flow statement (the "**Fourth Cash Flow Statement**") which was filed with the seventh affidavit of Kerry Leong dated May 1, 2014 ("**Leong Affidavit #7**");
  - b) a review of the updated cash flow statement for the 48 week period ending October 31, 2014, including actual results for the 32 week period ended July 11, 2014 and those forecast for the 16 week period ending October 31, 2014 (the "**Fifth Cash Flow Statement**");
  - c) an update on the status of the restructuring;
  - d) an update on the status of the Callidus DIP; and
  - e) the Monitor's comments with respect to the Petitioners' application for an extension of the Stay Period to October 31, 2014.

## **3.0 TERMS OF REFERENCE**

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

#### **4.0 CASH FLOW VARIANCE ANALYSIS**

4.1 A&M provided comments on the Fourth Cash Flow Statement in its fifth report dated May 6, 2014 (the “**Fifth 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 Fourth Cash Flow Statement. The Company's actual receipts and disbursements as compared to the Fourth Cash Flow Statement for the 32 week period November 29, 2013 through July 11, 2014 are summarized below:

**Arthon Industries Limited et al**  
**Unaudited Summary of Actual Versus Forecast Cash Flows**  
**For the period November 29, 2013 to July 11, 2014**  
**(\$000's)**

	November 29, 2013 to July 11, 2014		
	Actual	Forecast	Variance
<b>Operating Receipts</b>			
Aggregate sales	\$ 140	\$ 222	\$ (82)
Proceeds from disposition of capital assets	584	5,503	(4,919)
Sandhill Materials Inc. receipts	5,404	2,567	2,837
Other	98	41	57
<b>Total Operating Receipts</b>	<b>6,226</b>	<b>8,333</b>	<b>(2,107)</b>
<b>Operating Disbursements</b>			
Production costs	121	97	24
Payroll, benefits and payroll taxes	1,339	1,409	(70)
Management fees	369	365	4
Mine care and maintenance	532	499	33
Fuel	162	208	(46)
Insurance, permits and royalties	319	286	33
Repairs and maintenance	250	234	16
General and administrative	145	154	(9)
Professional fees	1,934	2,146	(212)
Taxes	171	86	85
Financing costs	3,791	3,749	42
Pre-filing liabilities to critical suppliers	-	-	-
<b>Total Operating Disbursements</b>	<b>9,133</b>	<b>9,233</b>	<b>(100)</b>
<b>Net Cash Flow From Operations</b>	<b>(2,907)</b>	<b>(900)</b>	<b>(2,007)</b>
<b>Cash Flow From Financing</b>			
Repayment of HSBC Operating Facilities	12,763	12,763	-
Repayment of Callidus Facilities	(635)	(5,571)	4,936
	12,128	7,192	4,936
<b>Net Cash Flow</b>	<b>9,221</b>	<b>6,292</b>	<b>2,929</b>
<b>Opening Cash Balance</b>	<b>(12,584)</b>	<b>(12,584)</b>	<b>-</b>
Net Cash Flow	9,221	6,292	2,929
<b>Closing Cash Balance</b>	<b>\$ (3,363)</b>	<b>\$ (6,292)</b>	<b>\$ 2,929</b>

4.3 In summary, the Company experienced a net positive cash flow variance of \$2.9 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 Fourth Cash Flow Statement contemplated the sale of \$5.0 million of equipment, proceeds from which were to be used to pay down the Callidus facilities (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 6.15 to 6.17. Management has advised the Monitor

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

- b) Sandhill receipts were higher than forecast due to the latter paying interest to Callidus on behalf of the Petitioners as well as a \$1.0 million partial repayment of intercompany loans made from Sandhill to Industries. Sandhill is a subsidiary of Industries, one of the Petitioners, but is not directly included in the CCAA Proceedings; and
- c) 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 July 11, 2014 are summarized in the table below:

<b>Summary of Professional Fees</b>						
<b>For the period November 29, 2013 to July 11, 2014</b>						
<b>(\$000's)</b>						
<b>Firm</b>	<b>Retainer</b>	<b>Fees</b>	<b>Disbursements</b>	<b>Taxes</b>	<b>Total</b>	
Alvarez & Marsal Canada Inc.	\$ 50	\$ 355	\$ 5	\$ 18	\$ 428	
Bidulka Financial Management Inc.	15	181	22	10	228	
Blake, Cassels & Graydon LLP	50	82	-	10	142	
Davis LLP	52	491	8	59	610	
MNP LLP	-	290	13	19	322	
Other Professionals	31	159	2	12	204	
<b>Total</b>	<b>\$ 198</b>	<b>\$ 1,558</b>	<b>\$ 50</b>	<b>\$ 128</b>	<b>\$ 1,934</b>	

- 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 FIFTH CASH FLOW STATEMENT**

- 5.1 The Company has prepared the Fifth Cash Flow Statement to reflect the actual and anticipated receipts and disbursements for the 48 weeks ending October 31, 2014. This includes actual results for the 32 weeks ended July 11, 2014 and forecast results for the 16 weeks ending October 31, 2014 (the “**16 Week Forecast**”).
- 5.2 In preparing the Fifth Cash Flow Statement, Management has adopted the probable and hypothetical assumptions set out in the accompanying notes to the Fifth Cash Flow Statement, a copy of which is attached as Appendix “**B**”. A summary of the Fifth Cash Flow Statement is provided in the table below:



**Arthon Industries Limited et al**  
**Fifth Cash Flow Statement Summary**  
**For the period November 29, 2013 to October 31, 2014**  
**(\$000's)**

	Nov 29, 2013 to Jul 11, 2014 Actual	Jul 12, 2014 to Oct 31, 2014 Forecast	Total
<b>Operating Receipts</b>			
Aggregate sales	\$ 140	\$ 71	\$ 211
Proceeds from disposition of capital assets	584	5,000	5,584
Sandhill Materials Inc. receipts	5,404	1,853	7,257
Other	98	40	138
<b>Total Operating Receipts</b>	<b>6,226</b>	<b>6,964</b>	<b>13,190</b>
<b>Operating Disbursements</b>			
Production costs	121	63	184
Payroll, benefits and payroll taxes	1,339	528	1,867
Management fees	369	213	582
Mine care and maintenance	532	305	837
Fuel	162	86	248
Insurance, permits and royalties	319	186	505
Repairs and maintenance	250	95	345
General and administrative	145	67	212
Professional fees	1,934	761	2,695
Taxes	171	-	171
Financing costs	3,791	1,744	5,535
Subcontractors	-	15	15
<b>Total Operating Disbursements</b>	<b>9,133</b>	<b>4,063</b>	<b>13,196</b>
<b>Net Cash Flow From Operations</b>	<b>(2,907)</b>	<b>2,901</b>	<b>(6)</b>
<b>Cash Flow From Financing</b>			
Repayment of HSBC Operating Facilities	12,763	-	12,763
Repayment of Callidus Facilities	(635)	(5,000)	(5,635)
	12,128	(5,000)	7,128
<b>Net Cash Flow</b>	<b>9,221</b>	<b>(2,099)</b>	<b>7,122</b>
<b>Opening Operating Facility</b>	<b>(12,584)</b>	<b>(3,363)</b>	<b>(12,584)</b>
Net Cash Flow	9,221	(2,099)	7,122
<b>Closing Operating Facility</b>	<b>\$ (3,363)</b>	<b>\$ (5,462)</b>	<b>\$ (5,462)</b>

- 5.3 In summary, and as indicated in the Fifth Cash Flow Statement, during the 16 Week Forecast:
- a) cash receipts total approximately \$7.0 million and largely comprise of \$5.0 million of net proceeds from the sale of certain machinery and equipment and \$1.9 million 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;

- b) \$528,000 of payroll, benefits and payroll withholdings remittances are forecast to be kept current and include the costs of employees required for the care and maintenance of the Coalmont Mine and head office staff;
- c) management fees of \$213,000 include payments to senior members of the executive team who have oversight of the business generally as well as of the quarry operations and care and maintenance of the Coalmont Mine;
- d) mine care and maintenance disbursements of \$305,000 include environmental monitoring costs of \$210,000 pursuant to the Pollution Abatement Order issued by the Ministry of Environment (“MOE”) and other costs necessary to safeguard the mine and related equipment;
- e) insurance, permits and royalties disbursements of approximately \$186,000 relate to the renewal of certain insurance policies for the Petitioners, excluding Contractors, as well as payment of quarterly mining royalties due to Pacific West Coal Ltd. in August 2014;
- f) repairs and maintenance disbursements of \$95,000 include costs expected to be incurred in preparing equipment for sale and replacement of certain computer equipment and related software;
- g) professional fees of \$761,000 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;
- h) financing costs are forecast to be approximately \$1.7 million, including interest payments, letter of credit fees and prepayment fees largely related to the Callidus Facilities; and
- i) principal repayments to Callidus of \$5.0 million during the week ended September 26, 2014.

5.4 In summary, and as indicated in the Fifth Cash Flow Statement, the Callidus DIP which is currently authorized by this Honourable Court at \$7.5 million is forecast to increase by \$2.1 million during the 16 Week Forecast period from \$3.4 million to \$5.5 million.

5.5 As at July 22, 2014, the Callidus DIP has been approved by Callidus to a maximum of \$5.0 million. The Monitor has been advised by the Petitioners and Callidus that the requested increase to \$7.5 million is under consideration by Callidus’ credit committee. If Callidus does not approve the increase, it appears from the Fifth Cash Flow Statement that the Company can operate within the existing limits until the week ending October 3, 2014.

## **6.0 RESTRUCTURING PROCESS**

6.1 As described in the Fifth Report, the Company has revised the focus of its immediate restructuring efforts away from a sale of all or part of the Coalmont Mine and expanded the scope of its realization efforts to include monetization of the assets of Sandhill.

- 6.2 The Company is 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

- 6.3 The Company has engaged its financial advisor, MNP Corporate Finance Inc. ("**MNP**") to assist with developing and monetizing 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
  - d) debt and/or subordinated debt secured by a first financial charge against Sandhill's property.
- 6.4 Highlights of the efforts made since commencing the monetization process in June 2014 in pursuing the alternatives listed in 6.3 above include:
- a) identifying 51 prospective investors, customers or purchasers including 33 financial and 18 strategic parties;
  - b) circulating a one-page transaction overview to interested parties;
  - c) receiving 11 executed confidentiality agreements from interested parties;
  - d) preparing a confidential information memorandum ("**CIM**") containing detailed financial and operational information as well as the terms of a non-binding letter of intent to interested parties that have executed confidentiality agreements; and
  - e) providing periodic updates to the Monitor, Callidus and HSBC as to the status of the monetization process and related matters.
- 6.5 The Company is planning to impose a deadline of August 15, 2014 for submission of non-binding letters of intent with respect to this process.

6.6 [Redacted]

#### Coalmont

6.7 As noted in the Fifth 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 continue to 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.

#### Contractors

6.8 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.

6.9 The assets of Contractors are limited to approximately \$31,000 of cash, leased equipment with an appraised value of \$35,000, accounts receivable that management has estimated will result in recoveries of \$23,000 and two project claims against the Ministry of Transportation and Infrastructure ("MOTI") that are disclosed in our Fifth Report and, accordingly, are not repeated here.

- 6.10 The Trustee has advised creditors that the claims against MOTI are no longer being pursued by Contractors or the Trustee due to inability to fund further legal costs. Certain creditors and stakeholders have enquired with the Trustee regarding the opportunity to fund the Trustee in pursuit of the amounts due from MOTI or the possibility of buying claims against MOTI from the estate.
- 6.11 As disclosed in the Statement of Affairs filed with the bankruptcy assignment documents of Contractors, there are 109 creditors with total claims of \$20.3 million and additional unknown claim amounts. In addition, the aggregate loans due to Callidus from the Arthon Group are secured by a general security agreement against all present and after acquired personal property of the Arthon Group including Contractors.
- 6.12 Given that the CRA may have a statutory super priority for its deemed trust claim which may be for up to \$1.8 million, the Trustee expects that the realization from the assets of Contractors will be insufficient to satisfy this deemed trust claim. Accordingly, it is not expected that there will be any realizations available for secured or unsecured creditors.
- 6.13 Industries has provided a guarantee to the Trustee with respect to its reasonable fees and disbursements subject to taxation and have provided a deposit of \$10,500 to support the guarantee.
- 6.14 The Trustee's Report to the Creditors on the Preliminary Administration in the Matter of the Bankruptcy of Contractors is attached as Appendix "C" and the minutes of the first meeting of creditors and other materials related to the bankruptcy proceedings are available on the Monitor's Website.

#### Equipment

- 6.15 The Company is continuing its efforts to divest of machinery and equipment directly and through Great West Equipment in the manner provided for in the Equipment Sales Process.
- 6.16 To date, equipment sales for Arthon Group have totalled \$6.0 million including \$5.4 million for 18 pieces sold by the Company's Arthon Belvedere Joint Venture ("**Belvedere**") and net proceeds of \$584,000 for 7 pieces sold by Equipment.
- 6.17 The Company has advised the Monitor that they are planning to meet with Great West Equipment in late July 2014 to discuss the status of various equipment items listed for sale. Management have indicated that they will consider reducing the list prices in order to expedite further sales and meet the scheduled principal repayments provided for in the Forbearance Agreement.

## 7.0 CALLIDUS DIP

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

7.2 As at the date of the Sixth Report, the Monitor notes that Callidus has yet to approve the increase sought by the Petitioners and approved by this Honourable Court but is considering the request and the Company is continuing to operate within their available facilities.

7.3 The total senior secured debt owed by the Petitioners, Sandhill and the Company's Belvedere as at July 11, 2014 is summarized in the table below:

<b>Callidus Facilities Summary</b>				
<b>For the period December 23, 2013 to July 11, 2014</b>				
<b>(\$000's)</b>				
	<b>Petitioners</b>	<b>Sandhill</b>	<b>Belvedere</b>	<b>Total</b>
Payout to HSBC	\$ 39,823	\$ 2,333	\$ 5,939	\$ 48,095
Forbearance fee	608	32	-	640
Sale of equipment	(635)	-	(5,392)	(6,027)
Accrued interest	970	56	96	1,122
Net Advances on Callidus Facilities	3,573	4,921	168	8,662
Total Callidus Facilities (July 11, 2014)	<u>\$ 44,339</u>	<u>\$ 7,342</u>	<u>\$ 811</u>	<u>\$ 52,492</u>

7.4 As at July 11, 2014, Callidus has made net advances of approximately \$3.6 million to the Petitioners under the Callidus DIP.

7.5 The Company is forecasting that over the 16 week period ended October 31, 2014 the total net advances on Callidus Facilities will decrease to \$52.1 million after further equipment sales as reflected in the following table:

<b>Callidus Facilities Summary</b>	
<b>For the period July 11, 2014 to October 31, 2014</b>	
<b>(\$Millions)</b>	
Total Callidus Facilities as at July 11, 2014	\$ 52.5
Forecast net disbursements (as per Fifth Cash Flow Statement)	2.1
Interest accrued on Callidus Facilities	0.5
Forecast net disbursements from Sandhill	2.0
Repayment from sale of equipment	<u>(5.0)</u>
Total Callidus Facilities (October 31, 2014)	<u>\$ 52.1</u>

Note 1: Includes senior secured debt of the Petitioners, Sandhill and Belvedere.

## **8.0 OTHER RESTRUCTURING MATTERS**

### Vitol

- 8.1 The nature of Vitol's interest as a stakeholder in the CCAA Proceedings is described in the Third Report of the Monitor dated February 25, 2014 (the "**Third Report**") and, accordingly, that information is not repeated here.
- 8.2 On May 8, 2014 this Honourable Court approved the Vitol Settlement Agreement, which among other things:
- a) terminated the Offtake Agreement;
  - b) released the parties from all claims arising from the Offtake Agreement; and
  - c) provided for a payment from Coalmont to Vitol of \$50,000 as a partial reimbursement of legal fees incurred by Vitol in the CCAA Proceedings.

### Environmental Clean-up

- 8.3 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).
- 8.4 Triton Environmental Consultants, 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 reported to Management that the test results indicate that the Company is in compliance with the applicable guidelines. The testing results have been submitted to MOE and Coalmont has yet to receive comments. Further testing is scheduled for August and September 2014, which has been provided for in the Fifth Cash Flow Statement.

### Insurance

- 8.5 The Company has advised the Monitor that the insurance policies as summarized in the Third Report remain in place. The insurance policies of the Arthon Group entities other than Coalmont expire on July 31, 2014 and the Company is currently in discussions to renew the insurance. The renewal premiums have been provided for in the Fifth Cash Flow Statement.
- 8.6 Management has advised the Monitor that they are planning to reduce their general liability coverage from \$10.0 million to \$5.0 million. The \$10.0 million limit was a requirement of the British Columbia Ministry of Transportation and Infrastructure which is no longer a customer of the Petitioners.

### Coal Sales

- 8.7 As disclosed in the Third Report, Lafarge Canada Inc. (“**Lafarge**”) purchased coal, which they claim lien rights against, from the Company for net proceeds of approximately \$182,000. The Monitor is holding the proceeds in trust pending determination of entitlement as the Canada Revenue Agency is claiming a deemed trust over the assets of Coalmont.
- 8.8 Additional stockpiles were sold to Lehigh Hanson Materials Limited on May 5, 2014 for net proceeds of \$374,000 which have been remitted to the Monitor’s trust account.

### **9.0 EXTENSION OF THE STAY OF PROCEEDINGS**

- 9.1 The Stay of Proceedings is currently set to expire on July 31, 2014 for the Petitioners, excluding Contractors, and the Company is seeking an extension to October 31, 2014.
- 9.2 In reviewing this matter, the Monitor has considered a number of factors, including:
- a) progress made by the Company in its efforts to monetize Sandhill;
  - b) the support of certain key creditors including Callidus and HSBC and the limited opposition voiced by other stakeholders;
  - c) the possibility of material financial prejudice to any of the Petitioners’ stakeholders;
  - d) the actual results achieved in relation to those forecast in the various cash flow statements provided during the CCAA Proceedings;
  - e) the Fifth Cash Flow Statement and the forecast liquidity of the Company during the term of the requested extension; and
  - f) 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.
- 9.3 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 October 31, 2014.

### **10.0 MONITOR’S RECOMMENDATIONS**

- 10.1 Based on the foregoing, the Monitor supports an extension of the Stay of Proceedings to October 31, 2014.

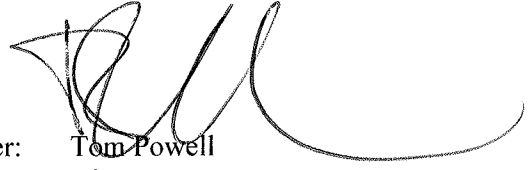


\*\*\*\*\*

All of which is respectfully submitted to this Honourable Court this 22<sup>nd</sup> day of July, 2014.

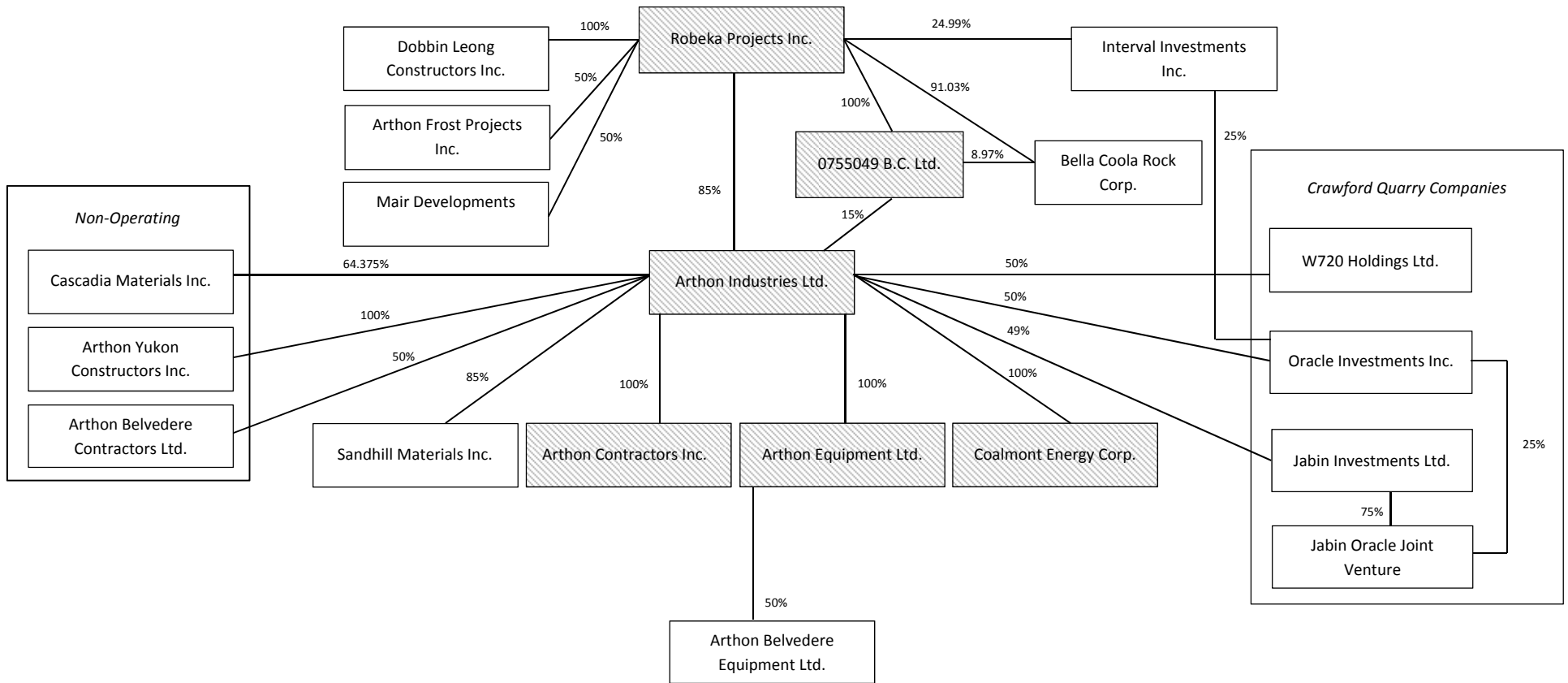
**Alvarez & Marsal Canada Inc.**  
in its capacity as Monitor of  
Arthon Industries Ltd. and those  
affiliated and subsidiary companies listed

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.  
**Fifth Cash Flow Statement (Note 1)**  
For the 48 Week Period Ending October 31, 2014

	Week 1 to Week 32 Actual 11-Jul-14	Week 33 Forecast 18-Jul-14	Week 34 Forecast 25-Jul-14	Week 35 Forecast 01-Aug-14	Week 36 Forecast 08-Aug-14	Week 37 Forecast 15-Aug-14	Week 38 Forecast 22-Aug-14	Week 39 Forecast 29-Aug-14	Week 40 Forecast 05-Sep-14	Week 41 Forecast 12-Sep-14	Week 42 Forecast 19-Sep-14	Week 43 Forecast 26-Sep-14	Week 44 Forecast 03-Oct-14	Week 45 Forecast 10-Oct-14	Week 46 Forecast 17-Oct-14	Week 47 Forecast 24-Oct-14	Week 48 Forecast 31-Oct-14	Week 33 to Week 48 Forecast	Week 1 to Week 48 Total	Notes	
<b>Operating Receipts</b>																					
Aggregate Sales	\$ 140,333	\$ 5,000	5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 71,000	\$ 211,333	2	
Capital Assets Sale/Purchase	583,924	-	-	-	-	-	-	-	-	-	-	5,000,000	-	-	-	-	-	5,000,000	5,583,924	3	
Receipts - Sandhill Materials Inc.	5,404,228	-	-	-	657,000	-	-	-	598,000	-	-	-	598,000	-	-	-	-	-	1,853,000	7,257,228	4
Receipts - Other	97,562	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	40,000	137,562	5	
<b>Total Operating Receipts</b>	<b>6,226,046</b>	<b>7,500</b>	<b>7,500</b>	<b>7,500</b>	<b>664,500</b>	<b>7,500</b>	<b>7,500</b>	<b>7,500</b>	<b>605,500</b>	<b>7,500</b>	<b>7,500</b>	<b>5,007,500</b>	<b>605,500</b>	<b>7,500</b>	<b>4,500</b>	<b>4,500</b>	<b>4,500</b>	<b>6,964,000</b>	<b>13,190,046</b>		
<b>Operating Disbursements</b>																					
Financing Costs	3,790,569	1,000	26,000	1,000	608,000	1,000	1,000	1,000	549,000	1,000	1,000	1,000	549,000	1,000	1,000	1,000	1,000	1,744,000	5,534,569	6	
Fuel	162,133	3,500	3,500	18,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	18,500	3,500	3,500	3,500	3,500	86,000	248,133	7	
General & Administrative	145,257	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	4,200	67,200	212,457	7	
Insurance, Permits & Royalties	319,493	-	8,500	129,000	-	-	-	30,000	9,000	-	-	-	9,000	-	-	-	-	185,500	504,993	8	
Management Fees	369,069	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	13,308	212,922	581,991	9	
Mine Care & Maintenance	532,217	6,000	40,000	6,000	66,000	6,000	6,000	92,000	6,000	35,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	305,000	837,217	10	
Payroll, Benefits & Payroll Taxes	1,339,054	66,000	-	66,000	-	66,000	-	66,000	-	66,000	-	66,000	-	66,000	-	66,000	-	528,000	1,867,054	9	
Pre-filing Liabilities to Critical Suppliers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	
Production Costs	121,125	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	62,400	183,525	11	
Professional Fees	1,933,691	105,500	13,500	57,500	13,500	97,500	38,500	57,500	13,500	97,500	13,500	57,500	13,500	97,500	13,500	27,500	43,500	761,000	2,694,691	12	
Repairs & Maintenance	250,157	5,000	20,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	95,000	345,157	13	
Subcontractors	-	-	-	-	-	-	-	-	-	-	-	-	15,000	-	-	-	-	15,000	15,000	7	
Taxes	170,926	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	170,926	7	
<b>Total Operating Disbursements</b>	<b>9,133,691</b>	<b>208,408</b>	<b>132,908</b>	<b>304,408</b>	<b>717,408</b>	<b>200,408</b>	<b>75,408</b>	<b>276,408</b>	<b>607,408</b>	<b>229,408</b>	<b>50,408</b>	<b>160,408</b>	<b>637,408</b>	<b>200,408</b>	<b>50,408</b>	<b>130,408</b>	<b>80,408</b>	<b>4,062,022</b>	<b>13,195,713</b>		
<b>Net Operating Cash Flow</b>	<b>\$ (2,907,645)</b>	<b>\$ (200,908)</b>	<b>\$ (125,408)</b>	<b>\$ (296,908)</b>	<b>\$ (52,908)</b>	<b>\$ (192,908)</b>	<b>\$ (67,908)</b>	<b>\$ (268,908)</b>	<b>\$ (1,908)</b>	<b>\$ (221,908)</b>	<b>\$ (42,908)</b>	<b>\$ 4,847,092</b>	<b>\$ (31,908)</b>	<b>\$ (192,908)</b>	<b>\$ (45,908)</b>	<b>\$ (125,908)</b>	<b>\$ (75,908)</b>	<b>\$ 2,901,978</b>	<b>\$ (5,667)</b>		
<b>Financing and Refinancing</b>																					
Repayment - HSBC Operating Facilities	12,763,132	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,763,132	14	
Repayment - Callidus Facilities B-F	(635,419)	-	-	-	-	-	-	-	-	-	-	(5,000,000)	-	-	-	-	-	(5,000,000)	(5,635,419)	15	
<b>Net Cash Flow</b>	<b>\$ 9,220,068</b>	<b>\$ (200,908)</b>	<b>\$ (125,408)</b>	<b>\$ (296,908)</b>	<b>\$ (52,908)</b>	<b>\$ (192,908)</b>	<b>\$ (67,908)</b>	<b>\$ (268,908)</b>	<b>\$ (1,908)</b>	<b>\$ (221,908)</b>	<b>\$ (42,908)</b>	<b>\$ (152,908)</b>	<b>\$ (31,908)</b>	<b>\$ (192,908)</b>	<b>\$ (45,908)</b>	<b>\$ (125,908)</b>	<b>\$ (75,908)</b>	<b>\$ (2,098,022)</b>	<b>\$ 7,122,046</b>		
<b>Opening Operating Facilities</b>	<b>\$ (12,583,582)</b>	<b>\$ (3,363,514)</b>	<b>\$ (3,564,421)</b>	<b>\$ (3,689,829)</b>	<b>\$ (3,986,737)</b>	<b>\$ (4,039,644)</b>	<b>\$ (4,232,552)</b>	<b>\$ (4,300,459)</b>	<b>\$ (4,569,367)</b>	<b>\$ (4,571,275)</b>	<b>\$ (4,793,182)</b>	<b>\$ (4,836,090)</b>	<b>\$ (4,988,998)</b>	<b>\$ (5,020,905)</b>	<b>\$ (5,213,813)</b>	<b>\$ (5,259,720)</b>	<b>\$ (5,385,628)</b>		<b>\$ (12,583,582)</b>		
<b>Closing Operating Facilities</b>	<b>\$ (3,363,514)</b>	<b>\$ (3,564,421)</b>	<b>\$ (3,689,829)</b>	<b>\$ (3,986,737)</b>	<b>\$ (4,039,644)</b>	<b>\$ (4,232,552)</b>	<b>\$ (4,300,459)</b>	<b>\$ (4,569,367)</b>	<b>\$ (4,571,275)</b>	<b>\$ (4,793,182)</b>	<b>\$ (4,836,090)</b>	<b>\$ (4,988,998)</b>	<b>\$ (5,020,905)</b>	<b>\$ (5,213,813)</b>	<b>\$ (5,259,720)</b>	<b>\$ (5,385,628)</b>	<b>\$ (5,461,536)</b>		<b>\$ (5,461,536)</b>	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.
- (2) Sales of aggregate are seasonal.
- (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 payment due June 30, 2014 was not achieved. Callidus has provided verbal confirmation that this does not constitute a default under the Forbearance Agreement. The next minimum payment is \$5.0 million and is due September 30, 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 \$188,000 in January 2014 paid directly to the monitor in trust. They also do not include forecast receipts of approx. \$376,000 that are intended to be paid directly to the monitor. 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 August. The insurance policies for the other CCAA Entities expire July 2014 and their renewal is forecast at \$120,000 in August 2014 plus \$9,000 per month in ICBC 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. Included in the forecast is approx. \$210,000 in environmental monitoring costs required pursuant to agreement with the Ministry of Environment.
- (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 prepare machinery and equipment for sale (note 3) and replacement of computer servers.
- (14) The repayment to HSBC by Callidus of amounts owing by the CCAA Entities included the operating facilities totalling \$12.8 million as well as term facilities, leases, reimbursement for professional fees incurred by the secured lenders and accrued forbearance fees totalling \$27.7 million.
- (15) The forbearance agreement with Callidus requires a minimum principal repayment of \$5.0 million due by March 31, June 30 and September 30, 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.

## APPENDIX C

**District of:** Vancouver  
**Division No.** 04 - Vernon  
**Court No.** 11-1886644  
**Estate No.** 11-1886644

**TRUSTEE'S REPORT TO THE CREDITORS  
ON THE PRELIMINARY ADMINISTRATION  
IN THE MATTER OF THE BANKRUPTCY OF  
ARTHON CONTRACTORS INC.**

**July 11, 2014**



ALVAREZ & MARSAL

**TABLE OF CONTENTS**

**1.0 BACKGROUND ..... - 3 -**  
**2.0 PRELIMINARY EVALUATION OF ASSETS ..... - 3 -**  
**3.0 CREDITORS AND SECURITY INTERESTS ..... - 4 -**  
**4.0 BOOKS AND RECORDS ..... - 5 -**  
**5.0 LEGAL MATTERS AND REVIEWABLE TRANSACTIONS ..... - 5 -**  
**6.0 THIRD PARTY DEPOSITS AND GUARANTEES..... - 6 -**

**APPENDIX**

Appendix A – Certificate of Appointment



## **1.0 BACKGROUND**

- 1.1 On June 27, 2014 (the “**Bankruptcy Filing Date**”) Arthon Contractors Inc. (“**Contractors**”) filed a voluntary assignment in bankruptcy and Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed trustee (the “**Trustee**”), subject to affirmation by the creditors of Contractors at the first meeting of creditors to be held on July 14, 2014. A copy of the certificate of appointment is attached as Appendix “**A**”.
- 1.2 Contractors was previously subject to a stay of proceedings pursuant to an order pronounced by the Supreme Court of British Columbia on November 29, 2013 on the application of Arthon Industries Limited (“**Industries**”) and certain of its subsidiaries and affiliated companies including Contractors (collectively, the “**Arthon Group**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings brought by the Arthon Group under the CCAA will be referred to as the “**CCAA Proceedings**”. While the CCAA Proceedings remain ongoing, the stay of proceedings against Contractors expired on June 13, 2014.
- 1.3 Contractors was the construction arm of the Arthon Group and was engaged in road building, bulk materials handling, aggregate processing and mining activities. By October 2013, much of the Company’s operations had discontinued as the Company had encountered difficulties bidding for further work due to an inability to obtain bonding or access sufficient working capital to undertake new projects.
- 1.4 Much of the workforce used by the Arthon Group were employees of Contractors and have been transferred to other entities within the Arthon Group prior to the Bankruptcy Filing Date.
- 1.5 Contractors is privately held and duly incorporated under the *Business Corporations Act* (British Columbia).
- 1.6 Further background on Contractors’ business affairs, financial difficulties and CCAA Proceedings is disclosed in the Monitor’s reports which, along with other related materials, are available on the Trustee’s website at [www.alvarezandmarsal.com/arthon](http://www.alvarezandmarsal.com/arthon).

## **2.0 PRELIMINARY EVALUATION OF ASSETS**

- 2.1 As at the Bankruptcy Filing Date, the assets of Contractors are limited to the following:
- a) cash on hand of approximately \$31,000;
  - b) leased equipment with a net book value of approximately \$47,000 and an appraised value of \$35,000;

- c) accounts receivable of which management of Contractors has estimated that \$23,000 is collectible; and
- d) two project claim accounts receivable due from the Ministry of Transportation and Infrastructure (“MOTI”) totalling approximately \$2.7 million of which \$2.5 million relates to a project in Summerland, BC (the “**Summerland Project**”) and \$216,000 relates to a project in Revelstoke, BC (the “**Revelstoke Project**”). The amount due in respect of the Summerland Project is disputed and while MOTI acknowledges the liability relating to the Revelstoke Project, they are claiming a right of offset against a counter claim in respect of the Summerland Project. On June 18, 2014 Canada Revenue Agency (“CRA”) issued a requirement to pay to MOTI in respect of the amounts due by Contractors to the CRA. The disputed amounts due from MOTI are discussed in further detail in section 5.0.

### 3.0 CREDITORS AND SECURITY INTERESTS

- 3.1 As disclosed in the Statement of Affairs filed with the bankruptcy assignment documents of Contractors, there are 109 creditors with total claims of \$20.3 million and additional unknown claim amounts which are summarized as follows:

Arthon Contractors Inc. Summary of Creditors As at June 27, 2014 (000's)	
CRA deemed trust claim	\$ 1,800
Secured creditors:	
Roynat Inc.	32
Intact Insurance Company	400
Callidus Capital Corp. (Note 1)	1,700
Industries	3,100
	5,232
Unsecured creditors	13,294
<b>Total creditors</b>	<b>\$ 20,326</b>
Note 1 - Approximately \$52.0 million is owed to Callidus Capital Corp. in aggregate from the Arthon Group and the loans are secured by a GSA against all present and after acquired personal property of the Arthon Group including Contractors.	

- 3.2 CRA is owed approximately \$1.8 million for unremitted payroll source deductions which have accrued over the period April to November 2013. A portion of this amount may constitute a deemed trust with a statutory super priority.

- 3.3 Roynat Inc. is owed approximately \$32,000 and has registered security against Contractors' leased equipment, attachments and accessories.
- 3.4 Intact Insurance Company is owed approximately \$400,000 relating to payments made pursuant to a performance bond in respect of the Revelstoke Project and has a registered General Security Agreement ("GSA") against all present and after acquired personal property of Contractors.
- 3.5 Callidus Capital Corporation ("Callidus") is owed approximately \$1.7 million directly from Contractors and approximately \$52.0 million in aggregate from the Arthon Group which is secured by a GSA against all present and after acquired personal property of Contractors as well as other entities in the Arthon Group. HSBC Bank Canada ("HSBC") has provided a \$10 million letter of credit in favour of Callidus which will be drawn upon if certain assets of another Arthon Group company, Coalmont Energy Corp., are sold for anything less than \$10 million. Pending elimination of any remaining exposure under the Callidus refinancing, HSBC will hold a second position behind that of Callidus to the extent the letter of credit is called upon.
- 3.6 Industries is owed approximately \$3.1 million which is secured by, among other things, a GSA against all present and after acquired personal property of Contractors.
- 3.7 Given that CRA may have a statutory super priority for its deemed trust claim to all secured creditors, the Trustee expects that the realization from the assets of Contractors will be insufficient to satisfy the deemed trust claim owed to CRA. Accordingly, it is not expected that there will be any realizations available for secured or unsecured creditors.
- 3.8 Based on the Trustee's preliminary discussions with the Company and review of the Company's books and records, it appears that there are no amounts due for wages that are eligible for priority claims in accordance with the Wage Earner Protection Program Act.

#### **4.0 BOOKS AND RECORDS**

- 4.1 The Trustee has taken possession of the books and records of Contractors which are being held at the office of the Trustee.

#### **5.0 LEGAL MATTERS AND REVIEWABLE TRANSACTIONS**

##### Legal Matters

- 5.1 Contractors retained McLean & Armstrong LLP to provide legal advice with respect to its disputed final progress claim against MOTI relating to the Summerland Project. The Trustee has been advised that MOTI has made a counter claim against Contractors with respect to the same

project. As at the Bankruptcy Filing Date the amounts claimed by Contractors remained unpaid and the matter was no longer being pursued by Contractors due to inability to fund further legal costs.

- 5.2 The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the estate.

Reviewable Transactions

- 5.3 The Company has advised the Trustee that prior to the bankruptcy (in or around June, 2014) it transferred approximately \$531,000 of aggregates inventory to Industries in consideration of a reduction in the intercompany amounts due from Contractors to Industries. The Trustee has requested further information from management of the Arthon Group with respect to this transaction and has not yet completed a review of the transaction with respect to potential fraudulent preferences or transfers under value as defined in the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (“TUVs”).
- 5.4 The Trustee has not yet completed a review of the books and records of Contractors with respect to fraudulent preferences or TUVs.

**6.0 THIRD PARTY DEPOSITS AND GUARANTEES**

- 6.1 Industries has provided a guarantee to the Trustee with respect to its reasonable fees and disbursements subject to taxation of the Trustee’s accounts and have provided a deposit to the Trustee of \$10,500 to support the guarantee.

\*\*\*\*\*

**Alvarez & Marsal Canada Inc.,  
in its capacity as Trustee in the Bankruptcy  
of Arthon Contractors Inc.**



Per: Tom Powell  
Director



Industry Canada  
Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada  
Bureau du surintendant  
des faillites Canada

District of: British Columbia  
Division No.: 04 - Vernon  
Court No.: 11-1886644  
Estate No.: 11-1886644

In the Matter of the Bankruptcy of:

**Arthon Contractors Inc.**  
Debtor

**ALVAREZ & MARSAL CANADA INC.**  
Trustee

Ordinary Administration

---

Date and time of bankruptcy:	June 30, 2014, 14:22	Security:	\$0.00
Date of trustee appointment:	June 30, 2014		
Meeting of creditors:	July 14, 2014, 11:00 Sandman Hotel and Suites, Westbank Room 2130 Harvey Avenue Kelowna, British Columbia Canada,		
Chair:	Trustee		

---

CERTIFICATE OF APPOINTMENT - Section 49 of the Act; Rule 85

I, the undersigned, official receiver in and for this bankruptcy district, do hereby certify that:

- the aforementioned debtor filed an assignment under section 49 of the *Bankruptcy and Insolvency Act*;
- the aforementioned trustee was duly appointed trustee of the estate of the debtor.

The said trustee is required:

- to provide to me, without delay, security in the aforementioned amount;
- to send to all creditors, within five days after the date of the trustee's appointment, a notice of the bankruptcy; and
- when applicable, to call in the prescribed manner a first meeting of creditors, to be held at the aforementioned time and place or at any other time and place that may be later requested by the official receiver.

Date: June 30, 2014, 17:27

E-File/Dépôt Electronique

Official Receiver

300 Georgia Street W, Suite 2000, Vancouver, British Columbia, Canada, V6B6E1, (877)376-9902

Canada