

District of: Vancouver
Division No. 04 - Vernon
Court No. 11-1962433
Estate No. 11-1962433

**TRUSTEE'S REPORT TO THE CREDITORS
ON THE PRELIMINARY ADMINISTRATION
IN THE MATTER OF THE BANKRUPTCY OF
COALMONT ENERGY CORP.**

March 9, 2015



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	- 4 -
5.0	LEGAL MATTERS AND REVIEWABLE TRANSACTIONS	- 4 -
6.0	THIRD PARTY DEPOSITS AND GUARANTEES	- 6 -
7.0	OTHER	- 6 -

APPENDIX

Appendix A – Certificate of Appointment

1.0 BACKGROUND

- 1.1 On February 18, 2015 (the “**Bankruptcy Filing Date**”) Coalmont Energy Corp. (“**Coalmont**”) 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 Coalmont at the first meeting of creditors to be held on March 10, 2015. A copy of the certificate of appointment is attached as Appendix “A”.
- 1.2 Coalmont 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 Coalmont (collectively, the “**Arthon Group**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). A&M acted as Monitor in the proceedings brought by the Arthon Group under the CCAA (the “**CCAA Proceedings**”). The stay of proceedings against Coalmont in the CCAA Proceedings expired on the Bankruptcy Filing date.
- 1.3 Coalmont owned and operated a coal mine in Coalmont, BC which stopped production in October 2013 due to a number of factors including an inability to commence profitable production and the burden of increased debt resulting from higher than expected construction and development costs.
- 1.4 On January 29, 2015 an order was granted in the CCAA Proceedings approving and vesting the sale of the assets of Coalmont (the “**Coalmont Assets**”) to Sandhill Materials Inc. (“**Sandhill**”) and vesting those assets in Sandhill and a newly formed subsidiary of Industries incorporated as 1025194 B.C. Ltd. As consideration for the transfer of the Coalmont Assets from Coalmont, Sandhill assumed certain secured liabilities of Coalmont and reduced its claim against Coalmont. The sale of the Coalmont Assets was completed on February 12, 2015.
- 1.5 Coalmont is privately held and duly incorporated under the *Business Corporations Act* (British Columbia).
- 1.6 Further background on Coalmont’s 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 (the “**Trustee’s Website**”) at www.alvarezandmarsal.com/arthon.

2.0 PRELIMINARY EVALUATION OF ASSETS

- 2.1 As at the Bankruptcy Filing Date, Coalmont had no remaining assets as its assets had been sold to Sandhill pursuant to an Asset Purchase Agreement (“APA”) dated January 23, 2015 and approved by the court on January 29, 2015. Details of the APA are provided in the Eleventh Report of the Monitor in the CCAA Proceedings dated January 27, 2015 which is available on the Trustee’s Website.

3.0 CREDITORS AND SECURITY INTERESTS

- 3.1 As disclosed in the Statement of Affairs filed with the bankruptcy assignment documents of Coalmont, there are 145 known unsecured creditors with total claims of \$37.5 million.
- 3.2 One secured claim of \$8.0 million is owed to Callidus Capital Corporation (“**Callidus**”) which is secured by, among other things, a General Security Agreement against all present and after acquired personal property of Coalmont. Callidus also has a contingent secured claim of approximately \$31.6 million with respect to debts owed to Callidus by Industries which are guaranteed by Coalmont.
- 3.3 Based on the Trustee’s preliminary discussions with Coalmont and review of Coalmont’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.
- 3.4 Coalmont had no assets as at the Bankruptcy Filing Date and, accordingly, the Trustee does not expect there will be any realizations available for secured or unsecured creditors.

4.0 BOOKS AND RECORDS

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

5.0 LEGAL MATTERS AND REVIEWABLE TRANSACTIONS

Legal Matters

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

Reviewable Transactions

- 5.2 The Trustee has not yet completed a review of the books and records of Coalmont with respect to fraudulent preferences or transfers under value as defined in the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B.3, as amended.

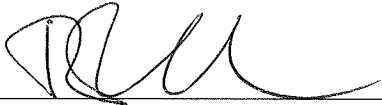
6.0 THIRD PARTY DEPOSITS AND GUARANTEES

- 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 has provided a deposit to the Trustee of \$23,100 to support the guarantee.

7.0 OTHER

- 7.1 A potential perceived conflict of interest may exist due to A&M's previous appointment as Monitor of Coalmont during the CCAA Proceedings and the appointment as Trustee in Bankruptcy of Arthon Contractors Inc. which is a creditor of Coalmont with an unsecured claim of approximately \$16.4 million. However, A&M is satisfied there is no such conflict that would prejudice it from acting as Trustee in the Bankruptcy of Coalmont.

**Alvarez & Marsal Canada Inc.,
in its capacity as Trustee in the Bankruptcy
of Coalmont Energy Corp.**

A handwritten signature in black ink, appearing to be 'Tom Powell', written over a horizontal line.

Per: Tom Powell
Director



Industry Canada

Industrie Canada

Office of the Superintendent
of Bankruptcy CanadaBureau du surintendant
des faillites Canada

District of: British Columbia
 Division No.: 04 - Vernon
 Court No.: 11-1962433
 Estate No.: 11-1962433

In the Matter of the Bankruptcy of:

Coalmont Energy Corp.

Debtor

ALVAREZ & MARSAL CANADA INC.

Trustee

Ordinary Administration

Date and time of bankruptcy:	February 18, 2015, 15:06	Security:	\$0.00
Date of trustee appointment:	February 18, 2015		
Meeting of creditors:	March 10, 2015, 15:00 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: February 18, 2015, 18:17

E-File/Dépôt Electronique

Official Receiver

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