



No. B-190481
Vancouver Registry

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
YUKON ZINC CORPORATION**

MATERIAL ADVERSE CHANGE REPORT OF THE PROPOSAL TRUSTEE

ALVAREZ & MARSAL CANADA INC.

SEPTEMBER 5TH, 2019



ALVAREZ & MARSAL

**IN THE SUPREME COURT OF BRITISH COLUMBIA
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1.0 INTRODUCTION AND BACKGROUND

- 1.1 On July 31, 2019, Yukon Zinc Corporation (“YZC” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3*, as amended (the “**BIA**”) and Alvarez & Marsal Canada Inc. consented to act as Trustee under the Proposal (“**A&M**” and the “**Proposal Trustee**”).
- 1.2 On August 22, 2019, the Supreme Court of British Columbia granted an order (the “**August 22, 2019 Order**”), which is attached hereto as Appendix “A”, that provided for, among other things, the following:
- a) extension of the initial stay period under the NOI proceedings to make a proposal from August 30, 2019 to October 7, 2019; and
 - b) authorization of YZC to borrow up to \$3.0 million under a credit facility (“**Interim Lending Facility**”) from Century Acquisitions Inc. (the “**Interim Lender**”) to fund its working capital requirements.
- 1.3 A copy of the court materials and other information pertaining to these proceedings are posted on the Proposal Trustee’s website at www.alvarezandmarsal.com/YukonZincCorporation (the “**Proposal Trustee’s Website**”).

2.0 PURPOSE OF REPORT

- 2.1 The purpose of this report is to provide the creditors and this Honourable Court with:
- a) information regarding a material adverse change in the projected cash-flow and financial circumstances of the Company; and
 - b) the Proposal Trustee’s intended course of action.

3.0 TERMS OF REFERENCE

- 3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information provided by the Company and other third parties. Although this information has been subject to review, A&M has not conducted an audit or otherwise attempted to verify the information’s accuracy or completeness. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this report, or otherwise used to prepare this report.
- 3.2 Certain of the information referred to in this report consists of financial forecasts and/or projections prepared by the Company. An examination or review of financial forecasts and projections and procedures as outlined by the Chartered Professional Accountants of Canada has

not been performed by A&M. 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 those forecasts and/or projected and the variations could be significant.

4.0 MATERIAL ADVERSE CHANGE

- 4.1 Pursuant to the August 22, 2019 Order, \$350,000 and \$268,000 were to be paid directly from the Interim Lender to the Government of Yukon (“YG”) during the weeks ending August 30, 2019 and September 6, 2019, respectively. These amounts were to fund the Projected Remediation Costs as defined in the First Report of the Proposal Trustee dated August 19, 2019. The Proposal Trustee has confirmed with the Company and YG that these amounts have not been funded and remains outstanding as at the date of this report.
- 4.2 The 13-week cash flow statement for the period ending October 25, 2019 filed by the Company (the “**13-Week Cash Flow**”) indicated that additional funding of \$274,000 was required from the Interim Lender to fund ongoing operational expenses including basic mine care, maintenance and site costs, salaries and wages, professional fees and other overhead costs up until the week ending September 6, 2019. A copy of the 13-Week Cash Flow is attached hereto as Appendix “**B**”. The Proposal Trustee has confirmed with the Company that this funding has not been received and remains outstanding as at the date of this report.
- 4.3 As a result of the inability to obtain financing from the Interim Lending Facility, the Company will be unable to meet several of its post-NOI filing obligations up until September 6, 2019, including:
- a) the Projected Remediation Costs for water treatment, plant construction and monitoring activities as required by YG of \$618,000;
 - b) estimated mine care, maintenance and site costs including fuel, flights, contractor fees, and supplies of \$123,000; and
 - c) rent for the head office lease of \$5,000.
- 4.4 Based on the foregoing, the Proposal Trustee has ascertained that there has been a material adverse change in the Company’s circumstances which has or will result in:
- a) a significant adverse effect on the projected cash-flow;
 - b) a significant or reasonably expected significant impairment to the Company’s financial circumstances and the ability of YZC to carry on operations; and
 - c) a significant impairment to the likelihood of success of a proposal.

5.0 PROPOSAL TRUSTEE'S INTENDED COURSE OF ACTION

5.1 The Proposal Trustee is of the view that a material adverse change occurred in the Company's projected cash-flow and financial circumstances pursuant to section 50.4(7)(b) of the BIA.

5.2 It is the Proposal Trustee's intended course of action to:

- a) file this report with the Official Receiver without delay pursuant to subsection 50.4(7)(b)(i) of the BIA; and
- b) distribute this report to all known creditors of the Company and make available on the Proposal Trustee's Website, pursuant to subsection 50.4(7)(c) of the BIA.

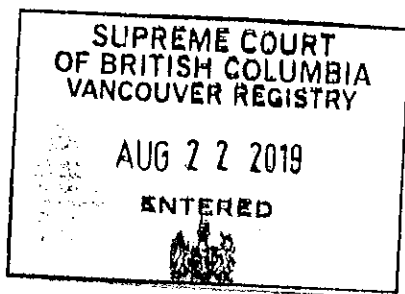
All of which is respectfully submitted to this Honourable Court this 5th day of September 2019.

Alvarez & Marsal Canada Inc.,
in its capacity as Proposal Trustee of
Yukon Zinc Corporation and not in its personal capacity



Per: Todd Martin
Senior Vice President

APPENDIX A



No. B-190481
Province of British Columbia
Bankruptcy Division
Vancouver Registry
Estate No. 11-2541152

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

IN THE MATTER OF THE NOTICE OF INTENTION TO
MAKE A PROPOSAL OF YUKON ZINC CORPORATION

ORDER MADE AFTER APPLICATION

BEFORE) THE HONOURABLE MR. JUSTICE SEWELL) August 22, 2019
)
)
)
)

ON THE APPLICATION OF Yukon Zinc Corporation (“**Yukon Zinc**”), coming on for hearing at Vancouver, British Columbia on August 22, 2019, and on hearing Kibben Jackson and Glen Nesbitt, counsel for Yukon Zinc Corporation, and those parties listed in Schedule “A” attached hereto; AND UPON READING the material filed, including Affidavit #1 of Aihua Dang, sworn August 14, 2019 (the “**First Dang Affidavit**”) and the First Report of the Proposal Trustee dated August 19, 2019 (the “**First Report**”);

THIS COURT ORDERS that:

1. Pursuant to Section 50.4(9) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”), the time by which Yukon Zinc must file a proposal in these proceedings is hereby extended to October 7, 2019.
2. By consent, the application of Government of Yukon (“**YG**”) for an order terminating the time for Yukon Zinc to make a proposal as set out in its Notice of Application filed herein on August 19, 2019 is hereby dismissed.
3. Alvarez & Marsal Canada Inc. (the “**Proposal Trustee**”), in its capacity as proposal trustee of Yukon Zinc, counsel to the Proposal Trustee and counsel to Yukon Zinc shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on the assets, property and undertakings of Yukon Zinc (the “**Property**”), which charge shall not exceed the aggregate amount of \$250,000, as security for their respective fees and disbursements incurred at the standard rates and charges of the

Proposal Trustee and its counsel and of counsel for Yukon Zinc, both before and after the making of this order, which are related to Yukon Zinc's proposal and the fulfillment of the Proposal Trustee's duties hereunder and under the *BIA*.

4. The Administration Charge shall rank in priority to all other security interests, trusts, liens, charges, encumbrances and other claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**"), in favour of any person, save and except any security interest in favour of YG that may arise pursuant to Section 14.06(7) of the *BIA* (the "**YG Security**").
5. Yukon Zinc is hereby authorized and empowered to obtain and borrow funds under a credit facility (the "**Interim Lending Facility**") from Century Acquisitions Inc. (the "**Interim Lender**") in order to finance Yukon Zinc's working capital requirements, including the costs associated with its care and maintenance obligations at the Wolverine Mine site and these proceedings, provided that borrowings under such credit facility shall not exceed \$3,000,000 unless permitted by further order of this court.
6. The Credit Facility shall be on the terms and subject to the conditions set forth in the interim credit facility agreement between Yukon Zinc and the Interim Lender dated August 14, 2019 (the "**Interim Financing Agreement**"), a copy of which is attached as Exhibit "L" to the First Dang Affidavit.
7. Yukon Zinc is hereby authorized and empowered to execute and deliver such other documents (collectively, the "**Definitive Documents**") as are contemplated by the Interim Financing Agreement or as may be reasonably required by the Interim Lender pursuant to the terms thereof, and Yukon Zinc is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to and in favour of the Interim Lender under and pursuant to the Interim Financing Agreement and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this order.
8. From the funds advanced by the Interim Lender under the Interim Financing Agreement, the amounts shown in the cashflow forecast attached as Appendix "C" to the First Report (the "**Cashflow Forecast**") as amounts required to be paid for "Regulatory initiative" shall be paid directly from the Interim Lender to YG in the weeks specified in the Cashflow Forecast, provided, however, that the first such amount shall be paid in two instalments as follows: (i) a payment in the amount of \$350,000 during the week ending August 30, 2019; and (ii) a payment in the amount of \$268,000 during the week ending September 6, 2019.
9. The Interim Lender shall be entitled to the benefits of and is hereby granted a charge on the Property (the "**Interim Lender's Charge**") to secure all obligations under the Interim Financing Agreement and the Definitive Documents incurred on or after the date of this order which charge shall not exceed the aggregate amount advanced on or after the date of this order under the Interim Financing Agreement and the Definitive Documents plus any interest thereon and fees payable under the Definitive Documents.

10. The Interim Lender's Charge shall rank in priority to all Encumbrances in favour of any person, save and except: (i) the YG Security; and (ii) the Administration Charge.
11. Notwithstanding any other provision of this order or the stay pursuant to section 69.1 of the *BIA*:
 - (a) the Interim Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the Interim Lender's Charge or any of the Definitive Documents;
 - (b) upon the occurrence of an event of default under the Interim Financing Agreement, the Definitive Documents or the Interim Lender's Charge, the Interim Lender, immediately upon providing written notice to Yukon Zinc and the Trustee, may exercise any and all of its rights and remedies against Yukon Zinc or the Property under or pursuant to the Interim Financing Agreement, the Definitive Documents and the Interim Lender's Charge, including without limitation, to cease making advances to Yukon Zinc and set off and/or consolidate any amounts owing by the Interim Lender to Yukon Zinc against the obligations of Yukon Zinc to the Interim Lender under the Interim Financing Agreement, the Definitive Agreements or the Interim Lender's Charge, to make demand, accelerate payment and give other notices, or to apply to this court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against Yukon Zinc and for the appointment of a trustee in bankruptcy of Yukon Zinc; and
 - (c) the foregoing rights and remedies of the Interim Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of Yukon Zinc or the Property.
12. The filing, registration or perfection of the Administration Charge and the Interim Lender's Charge (together, the "**Charges**") shall not be required, and the Charges shall be valid and enforceable for all purposes, including as against any right, title and interest filed, registered, recorded or perfected subsequent to Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.
13. Except as otherwise expressly provided for herein, or as may be approved by this court, Yukon Zinc shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, the Charges, unless Yukon Zinc also obtains the prior written consent of the Proposal Trustee and the beneficiaries of the applicable Charge.
14. The Charges, the Interim Financing Agreement and the Definitive Documents shall not be rendered invalid or unenforceable and the rights and remedies of the Interim Lender thereunder shall not otherwise be limited or impaired in any way by:
 - (a) any application(s) for bankruptcy order(s) issued pursuant to the *BIA*, or any bankruptcy order(s) made pursuant to such applications;
 - (b) the filing of any assignments for the general benefit of creditors made pursuant to the *BIA*;

- (c) the filing by Yukon Zinc for relief pursuant to the *Companies' Creditors Arrangement Act*;
 - (d) the provisions of any federal or provincial statutes; or
 - (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt and the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds Yukon Zinc, and notwithstanding any provision to the contrary in any Agreement:
 - (i) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents in respect thereof, including the Interim Financing Agreement or the Definitive Documents, shall create or be deemed to constitute a new breach by Yukon Zinc of any Agreement to which it is a party; and the beneficiaries of the Charges shall not have any liability to any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges, or Yukon Zinc entering into the Interim Financing Agreement, or the execution, delivery or performance of the Definitive Documents; and
 - (ii) the payments made by Yukon Zinc pursuant to this order, including pursuant to the Interim Financing Agreement or the Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct or other challengeable or voidable transactions under any applicable law.
15. Any interested Person may apply to this court on notice to any other party likely to be affected, for an order to allocate either or both of the Charges amongst the various assets comprising the Property.
16. This court hereby requests the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada to give effect to this order and to assist Yukon Zinc and the Proposal Trustee, and their respective agents in carrying out the terms of this order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to Yukon Zinc and to the Trustee, as an officer of this court, as may be necessary or desirable to give effect to this order, to assist Yukon Zinc and the Trustee and their respective agents in carrying out the terms of this order.
17. Any interested party (including Yukon Zinc and the Proposal Trustee) may apply to this court to vary or amend this order on not less than seven days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this court may order.
18. This order and all of its provisions are effective as of 12:01 a.m. Pacific Time on the date of this order.

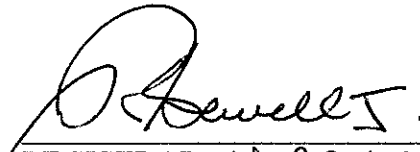
19. Endorsement of this order by counsel and all other parties appearing is hereby dispensed with, other than counsel for Yukon Zinc.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT.



Signature of Kibben Jackson
Lawyer for Yukon Zinc Corporation

BY THE COURT



REGISTRAR IN BANKRUPTCY

SCHEDULE "A"

List of Counsel Appearing

Name of Party	Counsel Name
Alvarez & Marsal Canada Inc.	Lisa Hiebert
Government of Yukon	John Porter
Welichem Research General Partnership	John Fiddick

APPENDIX B

Yukon Zinc Corporation
Cash Flow Statement
For the 13 week ending October 25, 2019
(\$5000s)

Notes	Week 1 2-Aug	Week 2 9-Aug	Week 3 16-Aug	Week 4 23-Aug	Week 5 30-Aug	Week 6 6-Sep	Week 7 13-Sep	Week 8 20-Sep	Week 9 27-Sep	Week 10 4-Oct	Week 11 11-Oct	Week 12 18-Oct	Week 13 25-Oct	Total
Operating Disbursements														
Mine care, maintenance and site costs	(1) \$ 11	\$ 27	\$ 28	\$ 10	\$ 28	\$ 123	28	11	65	54	5	34	65	\$ 489
Head office salaries and benefits	(2) -	29	34	-	34	-	34	-	-	34	-	34	-	199
General & administrative costs	(3) -	-	-	10	-	5	5	-	-	5	-	-	5	30
Restructuring professional fees	(4) 15	-	25	25	-	25	-	25	-	-	25	-	25	165
Insurance	(5) -	22	-	-	-	-	-	-	25	-	-	-	-	47
Contingency	(6) -	-	-	-	25	-	-	-	25	-	-	-	25	75
Regulatory initiatives: water treatment and monitoring														
Dena Cho Environmental	-	-	-	-	130	-	-	-	-	-	-	-	-	130
EDI	-	-	-	-	60	-	-	10	-	-	-	10	-	80
Minnow Environmental	-	-	-	-	20	-	-	5	-	-	-	5	-	30
Alexco Environmental Group	-	-	-	-	383	-	-	945	-	-	-	745	-	2,073
Jacobs Engineering	-	-	-	-	25	-	-	25	-	-	-	25	-	75
Total regulatory initiatives: water treatment and monitoring	(7) -	-	-	-	618	-	-	985	-	-	-	785	-	2,388
Total Operating Disbursements	(26)	(78)	(87)	(45)	(705)	(153)	(67)	(1,021)	(115)	(93)	(30)	(853)	(120)	(3,393)
Net Cash Flow From Operations														
Other Receipts and Disbursements														
Financing received from parent company	(8) 200	-	-	-	-	-	-	-	-	-	-	-	-	200
Interim financing advances / (repayments)	(9) -	-	-	1,000	-	-	1,000	-	1,000	-	-	-	-	3,000
Total Other Receipts and Disbursements	200	-	-	1,000	-	-	1,000	-	1,000	-	-	-	-	3,200
Net Cash Flow	174	(78)	(87)	955	(705)	(153)	933	(1,021)	885	(93)	(30)	(853)	(120)	(193)
Cash Position														
Opening Cash Position	2	176	98	11	966	261	108	1,041	20	905	812	782	(71)	2
Closing Cash Position	\$ 176	\$ 98	\$ 11	\$ 966	\$ 261	\$ 108	\$ 1,041	\$ 20	\$ 905	\$ 812	\$ 782	\$ (71)	\$ (191)	\$ (191)

UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT, MUST BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS & TRUSTEE'S REPORT ON THE CASH FLOW STATEMENT

2019-08-19
Date

August 19, 2019
Date

Aihua Dang, COO

Alvarez & Marsal Canada Inc.
in its capacity as Proposal Trustee of Yukon Zinc Corporation

Per: Todd M. Martin, Senior Vice President

Yukon Zinc Corporation
Assumptions for Cash Flow Statement
For the 13 week ending October 25, 2019

- (1) Mine care, maintenance and site costs include weekly payments of \$5,000 to site contractors and biweekly payments to 3 site employees of \$23,000. In addition, these costs include biweekly flight costs of \$3,000 and food supplies of \$3,000 and monthly payments for parts and other site supplies of \$20,000. In Week 1, there is a catch-up payment of food and parts supplies of approximately \$10,000.
- (2) Head office salaries consist of \$34,000 paid on a biweekly basis, including source deductions and RRSP contributions by the employee/employer. In Week 2, there is a catch-up payment of RRSP contributions of \$29,000 for the period April 1 to July 31, 2019. Certain head office employees receive rent reimbursements for their accommodation, which total to \$7,500 per month. These amounts have not been included in the cash flow forecast.
- (3) General and administrative costs are based on historical run rates and includes monthly rent of \$5,000 for the head office.
- (4) Restructuring professional fees includes retainers and fees paid to the Proposal Trustee and the Company's legal counsel.
- (5) Payment of insurance premiums of \$22,000 is for the renewal of commercial general liability insurance from April 1 to September 30, 2019, with an additional 6 month renewal of \$25,000 due at the end of September.
- (6) A contingency of \$25,000 per month has been included to provide for any unforeseen site costs or administrative expenses.
- (7) The Government of Yukon ("YG") has initiated certain required site initiatives including upgrades to water management systems and related monitoring at the Wolverine Mine. YG has estimated the costs to total \$3.1 million for the period between August 2019 to March 2020, mainly for water treatment, plant construction and monitoring activities.
- (8) The Company received \$200,000 on August 1, 2019 from its parent company, Jindicheng Canada Resources Corporation Limited, under a demand promissory note of \$500,000 with interest of 17.5% per annum. The remaining \$300,000 was received prior to July 31, 2019, the date of the filing of the Notice of Intention to Make a Proposal.
- (9) In accordance with an executed Interim Credit Facility Agreement between Century Acquisitions Inc. ("Century") and the Company dated August 14, 2019 for interim financing of up to \$3,000,000 with super priority charge and claim over all of the present and after-acquired real and personal property, assets and undertaking of the Company. The interest rate is 18% per annum and the principal and interest are payable on demand or earlier of 6 months after the initial draw date, date on which the stay is terminated, the date on which the Company enters into bankruptcy, or the date on which Century demands repayment after the occurrence of an event of default. The Interim Credit Facility Agreement is subject to Court approval which has not yet been granted. The assumption inherent herein is that Court approval will be granted by August 23, 2019.