

Court File No. _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT
OF CLINE MINING CORPORATION, NEW ELK COAL COMPANY LLC AND
NORTH CENTRAL ENERGY COMPANY**

Applicants

**APPLICATION RECORD
(Returnable December 3, 2014)**

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**ONTARIO
SUPERIOR COURT OF JUSTICE
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**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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NORTH CENTRAL ENERGY COMPANY**

**SERVICE LIST
(as at December 3, 2014)**

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judith.sebald@computershare.com

Trustee under the 2011 Indenture and the 2013 Indenture

INDEX

INDEX

Tab	Document
1.	Notice of Application
2.	Draft Initial CCAA Order
3.	Blackline of Draft Initial CCAA Order Against Model CCAA Order
4.	Affidavit of Matthew Goldfarb
A	Exhibit "A" – Cline Group organizational chart
B	Exhibit "B" – Cline Group's financial statements
C	Exhibit "C" – Summaries of the security registrations against the Applicants in Ontario, British Columbia, Colorado and Kansas
D	Exhibit "D" – Applicants' 13-week cash flow projections
E	Exhibit "E" – Support Agreement
F	Exhibit "F" – Plan of Compromise and Arrangement
5.	Consent of FTI Consulting Canada Inc. to act as Monitor

TAB 1

Court File No. _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE AND
ARRANGEMENT OF CLINE MINING CORPORATION,
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NORTH CENTRAL ENERGY COMPANY LLC**

Applicants

**NOTICE OF APPLICATION
(Returnable December 3, 2014)**

TO THE RESPONDENTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicants. The claim made by the Applicants appears on the following pages.

THIS APPLICATION will come on for a hearing on December 3, 2014, at 10:00 a.m. or as soon after that time as the matter may be heard at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with the documents in the application, you or an Ontario lawyer acting for you must prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the Applicants' lawyers and file it, with proof of service, in the court office where the application is to be heard, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you and your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicants' lawyers and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than two (2) days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LEGAL AID OFFICE.

Date: December 2, 2014

Issued by _____

Address of Court Office:
330 University Avenue, 10th Floor
Toronto, Ontario
M5G 1E6

TO: THE SERVICE LIST

APPLICATION

1. Cline Mining Corporation (“**Cline**”), New Elk Coal Company LLC (“**New Elk**”) and North Central Energy Company (“**North Central**” and, together with Cline and New Elk, the “**Applicants**”) make an Application for an initial order (the “**Initial Order**”) pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) substantially in the form attached at Tab “2” of the within Application Record, *inter alia*:
 - (a) abridging the time for and validating the service of this Notice of Application and the Application Record;
 - (b) declaring that the Applicants are parties to which the CCAA applies;
 - (c) staying all proceedings taken or that might be taken in respect of the Applicants;
 - (d) staying all proceedings taken or that might be taken in respect of any of the current, former or future directors or officers of the Applicants;
 - (e) authorizing the Applicants to file with this Court, collectively or individually, a plan of compromise and arrangement (the “**Plan**”);
 - (f) authorizing the Applicants to pay certain expenses incurred prior to, on or after the date of the Initial Order, subject to the provisions of the Initial Order;
 - (g) appointing FTI Consulting Canada Inc. (“**FTI**”) as officer of this Court to monitor the assets, businesses and affairs of the Applicants (the “**Monitor**”);
 - (h) authorizing the Monitor to act as the foreign representative of the Applicants and to apply for recognition of these proceedings in the United States under Chapter 15, Title 11 of the United States Code in the event the Applicants believe such proceedings to be necessary or desirable;
 - (i) granting the following charges over the assets and property of the Applicants, with relative priorities as set out below:
 - (i) a charge in favour of the Monitor, counsel to the Monitor, counsel to Marret (as defined below), the Chief Restructuring Officer of the

Applicants and counsel to the Applicants, such charge to be in a maximum amount of \$350,000, and

- (ii) a charge in favour of the directors and officers of the Applicants, to a maximum amount of \$500,000; and
- (j) such further and other relief as this Court deems just.

2. The grounds for the Application are:

- (a) the Applicants are in the business of locating, exploring and developing mineral resource properties, principally with respect to gold and metallurgical coal;
- (b) the Applicants are insolvent;
- (c) the Applicants are companies to which the CCAA applies;
- (d) Cline is the borrower and each of New Elk and North Central is a guarantor in respect of the following secured debt obligations (collectively, the “**Secured Notes**”):
 - (i) the senior secured notes (the “**2011 Notes**”) issued under an indenture dated December 13, 2011, as amended from time to time (the “**2011 Indenture**”), which have a stated interest rate of 10% per annum payable semi-annually on June 15th and December 15th of each year and which matured on June 15, 2014, and which are secured by a security interest over substantially all of the assets and property of the Applicants, and
 - (ii) the senior secured notes (the “**2013 Notes**”) issued under an indenture dated July 8, 2013, as amended from time to time (the “**2013 Indenture**”), which have a stated interest rate of 10% per annum payable semi-annually on June 15th and December 15th of each year and which matured on June 15, 2014, and which are secured by a security interest over substantially all of the assets and property of the Applicants;
- (e) all of the Secured Notes held by beneficial holders of the Secured Notes (the “**Secured Noteholders**”) are managed and controlled by Marret Asset Management Inc. (in such capacity, “**Marret**”);

- (f) the Applicants are in default of the 2011 Indenture and the 2013 Indenture as a result of, *inter alia*, their inability to make required interest payments in respect of the Secured Notes and their inability to repay the principal amount of the Secured Notes when both became due on June 15, 2014;
- (g) on the instructions of the Secured Noteholders, Computershare Trust Company of Canada, in its capacities as trustee under the 2011 Indenture and trustee under the 2013 Indenture (in such capacities, the “**Trustee**”), entered into a series of forbearance agreements with the Applicants in connection with the Applicants’ defaults under the 2011 Indenture and the 2013 Indenture; however, the Trustee’s forbearance expired on November 28, 2014;
- (h) Marret has advised that the Secured Noteholders have directed the Trustee to accelerate the Secured Notes; accordingly all amounts owing in respect of the Secured Notes are now immediately due and payable by the Applicants;
- (i) total obligations of \$110,173,897 in respect of the Secured Notes are now due, which amount the Applicants is unable to pay;
- (j) Marret, on behalf of the Secured Noteholders, is now in a position to cause the Trustee to enforce their security over the assets and property of the Applicants as a result of the Applicants’ inability to satisfy the obligations in respect of the Secured Notes;
- (k) the Applicants have engaged in extensive efforts to find a solution to the present financial challenges faced by the Applicants, including operational initiatives and refinancing, restructuring and sale efforts;

- (l) among other things, the Applicants engaged an investment bank, Moelis & Company, to conduct a sale and investment solicitation process; however, no offers for the Applicants or their property were received as part of that process;
- (m) the Applicants continue to face significant adverse industry-wide challenges, including a protracted downturn in prices for metallurgical coal and an over-supply of coal-related assets available for sale;
- (n) it is apparent that the amounts owed in respect of the Secured Notes exceed the realizable value of the assets of the Applicants at the present time, and that the Secured Noteholders (represented by Marret) are the only creditors with a residual economic interest in the Applicants;
- (o) the Applicants' senior management and advisors have engaged in discussions with Marret, on behalf of the Secured Noteholders, and Marret's advisors regarding a consensual recapitalization of the Applicants (the **"Recapitalization"**);
- (p) the Applicants and Marret (on behalf of the Secured Noteholders) have entered into a Support Agreement pursuant to which Marret (on behalf of the Secured Noteholders) has agreed to support the Applicants' proposed Recapitalization;
- (q) the Recapitalization is to be implemented pursuant to the Plan under the CCAA;
- (r) the Recapitalization and the Plan, if implemented, would reduce the Applicants' secured debt by in excess of \$55 million, reduce annual interest expense in the near term and preserve certain beneficial tax attributes and result in an improved capital structure;

- (s) the Applicants intend to continue paying many of their suppliers and contractors going forward and to continue paying ordinary salary and wages to their employees for services performed in the ordinary course during these proceedings;
- (t) the Applicants require a stay of proceedings to protect their assets, property and business as they pursue completion of the Recapitalization and the Plan;
- (u) the protection sought will provide the Applicants with an orderly and effective forum for addressing the various matters arising in connection with their restructuring, including their pursuit of the Recapitalization and the Plan;
- (v) Toronto, Ontario is the nerve centre of the Applicants' management, business and operations and is the location readily ascertainable by creditors of the Applicants, including Toronto-based Marret, which exercises control and discretion over the Secured Noteholders;
- (w) the Applicants intend to commence ancillary proceedings in the United States under Chapter 15 of Title 11 of the United States Code to ensure that they are protected from creditor actions in the United States during these proceedings and to give effect to the Recapitalization in the United States;
- (x) the circumstances that exist make the Order sought by the Applicants appropriate;
- (y) the provisions of the CCAA and this Court's equitable and statutory jurisdiction thereunder;
- (z) Rules 2.03, 3.02, 14.05(2) and 16 of the Ontario *Rules of Civil Procedure*, R.S.O. 1990, Reg. 194, as amended;

- (aa) Rule 137(2) of the Ontario *Courts of Justice Act*, R.S.O. 1990, c C.43; and
 - (bb) such further and other grounds as counsel may advise and this Court may permit.
3. The following documentary evidence will be used at the hearing of the application:
- (a) the Affidavit of Matthew Goldfarb sworn December 2, 2014 and the exhibits attached thereto;
 - (b) the Monitor's Pre-Filing Report and the appendices attached thereto;
 - (c) the consent of FTI to act as Monitor; and
 - (d) such further and other materials as counsel may advise and this Court may permit.

Date: December 2, 2014

GOODMANS LLP

Barristers & Solicitors
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Lawyers for the Applicants

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

Court File No: _____

**AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT
OF CLINE MINING CORPORATION, NEW ELK COAL COMPANY LLC AND
NORTH CENTRAL ENERGY COMPANY**

**ONTARIO
SUPERIOR COURT OF JUSTICE-
COMMERCIAL LIST**

Proceeding commenced at Toronto

**NOTICE OF APPLICATION
(Returnable December 3, 2014)**

GOODMANS LLP
Barristers & Solicitors
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Robert J. Chadwick LSUC#: 35165K
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Lawyers for the Applicants

TAB 2

Court File No. _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE REGIONAL)	WEDNESDAY, THE 3 RD
)	
SENIOR JUSTICE MORAWETZ)	DAY OF DECEMBER, 2014

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF CLINE MINING CORPORATION,
NEW ELK COAL COMPANY LLC AND NORTH
CENTRAL ENERGY COMPANY (each an "Applicant" and
collectively, the "Applicants")**

INITIAL ORDER

THIS APPLICATION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Matthew Goldfarb sworn December 2, 2014 and the Exhibits thereto (the "**Goldfarb Affidavit**") and the Pre-Filing Report of the Proposed Monitor, FTI Consulting Canada Inc. ("**FTI**"), and on being advised that there are no secured creditors who are likely to be affected by the charges created herein other than those served, and on hearing the submissions of counsel for the Applicants, FTI, Marret Asset Management Inc. (on behalf of the beneficial holders of the Secured Notes (as defined below) (the "**Secured Noteholders**"), in such capacity "**Marret**") and such other counsel as were present, no one else appearing for any other party, and on reading the consent of FTI to act as the Monitor,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that the Applicants are companies to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that each of the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court, individually or collectively, a plan of compromise or arrangement (hereinafter referred to as the “**Plan**”).

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “**Property**”). Subject to further Order of this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of their business (the “**Business**”) and Property. The Applicants are authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively “**Assistants**”) currently retained or employed by them, with liberty to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business in accordance with existing Business practices or for the carrying out of the terms of this Order.

5. THIS COURT ORDERS that the Applicants shall be entitled to continue to utilize the central cash management system currently in place as described in the Goldfarb Affidavit or replace it with another substantially similar central cash management system (the “**Cash Management System**”) and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or

legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

6. THIS COURT ORDERS that the Applicants shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, commissions, bonuses, incentive payments, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order in respect of employees, contractors, directors, officers or other personnel providing services to the Applicants, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements and, without limiting the generality of the foregoing, the Applicants are authorized to have deposited with AIG Insurance Company of Canada an amount of up to \$50,000 for the purpose of obtaining a directors and officers run-off insurance policy;
- (b) all outstanding and future amounts owing to or in respect of individuals working as independent contractors in connection with the Business in respect of services provided to the Business and expenses payable in respect thereof, in each case in the ordinary course of business and consistent with existing policies and arrangements;
- (c) the fees and disbursements of any Assistants retained or employed by any of the Applicants in respect of these proceedings or any similar or ancillary proceedings in other jurisdictions or in respect of related corporate matters, including, for greater certainty, any counsel or advisors referred to in paragraph 29 of this Order, at their standard rates and charges, including the fees and disbursements of legal counsel, financial advisors and other professional advisors retained by the Applicants; and

- (d) any payment referred to in paragraphs 7(a) or 7(b) of this Order that was incurred during or that pertains to the period prior to the date of this Order if, in the opinion of the Applicants and with the consent of the Monitor, the supplier of the applicable good or service or the provider of the applicable license or permit, as applicable, is critical to the Business and the ongoing operations of the Applicants.

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the Applicants in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance, security services and any license fees, permit fees, royalties, user fees or levies in respect of the Business or the Property; and
- (b) payment for goods and services supplied or to be supplied to any of the Applicants, or to obtain the release of goods contracted for prior to the date of this Order.

8. THIS COURT ORDERS that the Applicants shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan and (iii) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "**Sales Taxes**") required to be remitted by the Applicants in connection with the sale of goods and services by the Applicants, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and

- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicants.

9. THIS COURT ORDERS that until a real property lease is disclaimed in accordance with the CCAA, the Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the applicable Applicant and the landlord from time to time (“**Rent**”), for the period commencing from and including the date of this Order, at such intervals as such Rent is usually paid in the ordinary course of business, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. THIS COURT ORDERS that, except as specifically permitted herein, the Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicants to any of their creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of their Property; (c) to not grant credit or incur liabilities except in the ordinary course of the Business in accordance with existing Business practices; and (d) to make no payments in respect of equity claims or equity interests.

RESTRUCTURING

11. THIS COURT ORDERS that each of the Applicants shall, subject to such requirements as are imposed by the CCAA, have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and to dispose of redundant or non-material assets not exceeding \$750,000 in any one transaction or \$1.5 million in the aggregate, subject to the prior approval of Marret;

- (b) to sell assets not exceeding \$750,000 in any one transaction or \$1.5 million in the aggregate, subject to the prior approval of Marret;
- (c) terminate the employment of such of its employees or temporarily or indefinitely lay off such of its employees as it deems appropriate and on such terms as may be agreed by the applicable Applicant and the applicable employee, or, failing such agreement, to deal with the consequences thereof in the Plan;
- (d) in accordance with paragraphs 12 and 13, vacate, abandon or quit the whole but not part of any leased premises and disclaim any real property lease and any ancillary agreements relating to any leased premises, in accordance with Section 32 of the CCAA, on such terms as may be agreed upon between the applicable Applicant and such landlord, or failing such agreement, to deal with the consequences thereof in the Plan, subject in each case to the prior approval of Marret;
- (e) disclaim, in whole or in part, such of its arrangements or agreements of any nature whatsoever with whomsoever, whether oral or written, as the applicable Applicant deems appropriate, in accordance with Section 32 of the CCAA, with such disclaimers to be on such terms as may be agreed upon between the applicable Applicant and such counter-parties, or failing such agreement, to deal with the consequences thereof in the Plan, subject in each case to the prior approval of Marret;
- (f) subject to the consent of the Monitor and Marret, return any equipment that is subject to a valid first-ranking security to the applicable equipment provider holding such security in satisfaction of such equipment provider's claims on terms to be agreed between the applicable Applicant and such equipment provider, or failing such agreement, to deal with the consequences thereof in the Plan; and
- (g) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing,

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "**Restructuring**").

12. THIS COURT ORDERS that each of the Applicants shall provide each of the relevant landlords with notice of the applicable Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the applicable Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and such Applicant, or by further Order of this Court upon application by such Applicant on at least two (2) days notice to such landlord and any such secured creditors. If any of the Applicants disclaims a lease governing a premises leased by such Applicant in accordance with Section 32 of the CCAA, such Applicant shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to such Applicant's claim to the fixtures in dispute.

13. THIS COURT ORDERS that if a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the applicable Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the applicable Applicant in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANTS OR THE PROPERTY

14. THIS COURT ORDERS that until and including December 31, 2014, or such later date as this Court may order (the "**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of any of the Applicants or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all

Proceedings currently under way against or in respect of any of the Applicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being “**Persons**” and each being a “**Person**”) against or in respect of any of the Applicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicants to carry on any business which the Applicants are not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

16. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by any of the Applicants, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

17. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with any of the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, equipment leasing services, transportation services, utility or other services to the Business or any of the Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the applicable Applicant, and that the Applicants shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each

case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the applicable Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

18. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicants. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

19. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of any of the Applicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of any of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

20. THIS COURT ORDERS that each of the Applicants shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the applicable Applicant after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

21. THIS COURT ORDERS that the directors and officers of the Applicants shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on the Property, which charge shall not exceed an aggregate amount of \$500,000, as security for the indemnities

provided in paragraph 20 of this Order. The Directors' Charge shall have the priority set out in paragraphs 32 and 34 hereof.

22. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 20 of this Order.

APPOINTMENT OF MONITOR

23. THIS COURT ORDERS that FTI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicants with the powers and obligations set out in the CCAA and as set forth herein, and that the Applicants and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

24. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicants' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) advise and assist the Applicants in their preparation of the Applicants' cash flow statements, which information shall be reviewed with the Monitor on a periodic basis;
- (d) advise and assist the Applicants in their development and implementation of the Plan and any amendments to the Plan;

- (e) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' meetings for voting on the Plan;
- (f) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicants, to the extent that is necessary to adequately assess the Applicants' business and financial affairs or to perform its duties arising under this Order;
- (g) assist the Applicants, to the extent required by the Applicants, with their restructuring activities;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (i) assist the Applicants, to the extent required by the Applicants, with any matters relating to any foreign proceedings commenced in relation to the Applicants, including retaining independent legal counsel, agents, experts, accountants or such other persons as the Monitor deems necessary or advisable; and
- (j) perform such other duties as are required by this Order or by this Court from time to time.

25. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

26. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the

Canadian Environmental Protection Act, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the “**Environmental Legislation**”), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor’s duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

27. THIS COURT ORDERS that the Monitor shall provide any creditor of the Applicants with information provided by the Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicants may agree.

28. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

29. THIS COURT ORDERS that the Monitor, counsel to the Monitor, counsel to the Applicants, the Chief Restructuring Officer of the Applicants (the “**CRO**”) and counsel to Marret shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, whether incurred prior to or after the date of this Order, by the Applicants as part of the costs of these proceedings. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel to the Monitor, counsel to the Applicants, the CRO and counsel to Marret on a weekly basis, or on such basis as otherwise agreed by the Applicants and the applicable payee and, in addition, the Applicants are hereby authorized to have paid to the Monitor a retainer in the amount of \$50,000, to be held by the Monitor as security for payment of its fees and disbursements outstanding from time to time, and the Applicants are hereby

authorized to have paid to counsel to the Monitor a retainer in the amount of \$40,000, to be held by counsel to the Monitor as security for the payment of its fees and disbursements outstanding from time to time.

30. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

31. THIS COURT ORDERS that the Monitor, counsel to the Monitor, counsel to the Applicants, the CRO and counsel to Marret shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on the Property, which charge shall not exceed an aggregate amount of \$350,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor, the CRO and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 32 and 34 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

32. THIS COURT ORDERS that the priorities of the Directors’ Charge and the Administration Charge (collectively, the “**Charges**”), as among them, shall be as follows:

First – Administration Charge; and

Second – Directors’ Charge.

33. THIS COURT ORDERS that the filing, registration or perfection of the Charges shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

34. THIS COURT ORDERS that each of the Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, “**Encumbrances**”) in favour of any Person, notwithstanding the order

of perfection or attachment, except for any security interest listed on Schedule “A” hereto that is validly perfected and enforceable.

35. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, including pursuant to the terms of the Plan, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicants also obtain the prior written consent of the Monitor, Marret and the chargees entitled to the benefit of the Charges (collectively, the “**Chargees**”) affected thereby, or further Order of this Court. The Applicants shall not seek any further Court-ordered charges on their Property or Business without the prior approval of Marret. Unless otherwise ordered by this Court, the terms of the release and discharge of any of the Charges shall be acceptable to the applicable Chargees affected thereby.

36. THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the Chargees under the Charges shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the *Bankruptcy and Insolvency Act*, R.S.C., c. B-3, as amended (the “**BIA**”), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (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 or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) the creation of the Charges shall not create or be deemed to constitute a breach by any of the Applicants of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and
- (c) the payments made by any of the Applicants pursuant to this Order, 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.

37. THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the applicable Applicants' interest in such real property leases.

THE INDENTURE TRUSTEE AND MARRET

38. THIS COURT ORDERS that, until the termination of these proceedings, further Order of this Court or as otherwise instructed in writing by the Secured Noteholders, Computershare Trust Company of Canada, in its capacity as indenture trustee (the "**Trustee**") in respect of the 10% senior secured bonds due June 15, 2014 (CUSIP 186905AA3 / ISIN CA 186905AA37) issued pursuant to the indenture dated December 13, 2011, as amended, and the 10% senior secured bonds due June 15, 2014 (CUSIP 186905AE5 / ISIN CA 186905AE58) issued pursuant to the indenture dated July 8, 2013, as amended (collectively the "**Secured Notes**") is hereby relieved of any obligation to take any further actions in these proceedings in respect of the Secured Notes and the indentures governing the Secured Notes (the "**Indentures**"), and Marret is hereby authorized and empowered to take all such actions in these proceedings, including without limitation: (i) filing claims of the Secured Noteholders in the CCAA claims process (provided that nothing herein prevents the Trustee from filing a proof of claim against the Applicants in relation to any unpaid fees and expenses incurred by it in the course of acting as Trustee in accordance with the Indentures); (ii) administering, soliciting and facilitating the casting of votes by the Secured Noteholders in respect of any plan of compromise or arrangement in respect of the Applicants; (iii) facilitating the distribution of consideration under the CCAA Plan to the Secured Noteholders; (iv) taking any steps or actions with respect to the security over the assets and property of the Applicants held by the Trustee in respect of the Secured Notes, including any waiver, discharge or enforcement of the security; and (v) taking any steps the Trustee is otherwise required or may be directed to take on behalf of the Secured Noteholders under the Indentures in respect of the Secured Notes. Notwithstanding the foregoing, upon agreement between Cline Mining Corporation, Marret and the Trustee, and with the consent of the Monitor, the Trustee may take such actions as are necessary to facilitate the distribution of consideration to the Secured Noteholders pursuant to the Plan. The Trustee is entitled to rely upon this

paragraph 38 and shall have no liability to any Person for complying with this paragraph 38. Cline Mining Corporation is hereby authorized to pay the reasonable and documented fees, expenses and disbursements of the Trustee (including the reasonable and documented fees, expenses and disbursements of the Trustee's counsel) incurred and payable in accordance with the Indentures up to an amount to be determined by agreement of the Applicants, the Trustee and the Monitor, or failing such agreement, by Order of the Court. In accordance with the Indentures, any amounts that are payable to the Trustee, in its individual corporate capacity, pursuant to the terms of the Indentures, if not paid in cash by the Applicants, shall be payable out of any distributions, dividends, securities or other consideration issued to the holders of the Secured Notes by the Applicants in any Plan, liquidation or otherwise.

SERVICE AND NOTICE

39. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in The Globe and Mail, the Denver Post and the Pueblo Chieftain a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against any of the Applicants of more than \$1000, provided that with respect to contingent claims against the Applicants in respect of the WARN Act Class Action (as defined in the Goldfarb Affidavit), the Monitor shall only be required to send a notice to counsel of record for the representative plaintiffs in the WARN Act Class Action, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder, provided that the Monitor shall not make the names and addresses of individuals who are creditors publicly available and provided further that only the representative plaintiffs in the WARN Act Class Action shall be listed in respect of the contingent claims against the Applicants in respect of the WARN Act Class Action.

40. THIS COURT ORDERS that the E-Service Protocol of the Commercial List (the "**Protocol**") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service->

protocol/) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: <http://cfcanada.fticonsulting.com/cline>.

41. THIS COURT ORDERS that if the service or distribution of documents in accordance with the Protocol is not practicable, the Applicants and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile or other electronic transmission to the Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or distribution by courier, personal delivery or facsimile or other electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

42. THIS COURT ORDERS that the Applicants are hereby relieved of any obligation to call and hold annual meetings of their shareholders until after the termination of these CCAA proceedings or further Order of this Court.

43. THIS COURT ORDERS that each of the Applicants and the Monitor may from time to time apply to this Court to amend, vary, supplement or replace this Order or for advice and directions concerning the discharge of their respective powers and duties under this Order or the interpretation or application of this Order.

44. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

45. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, or in any other foreign jurisdiction, to give effect to this Order and to assist the Applicants, the Monitor

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 the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

46. THIS COURT ORDERS that each of the Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of these CCAA proceedings for the purpose of having these CCAA proceedings recognized in a jurisdiction outside Canada. Without limiting the generality of the foregoing, the Monitor is hereby authorized, as the foreign representative of the Applicants, to, if deemed advisable by the Monitor and the Applicants, apply for recognition of these CCAA proceedings and to act as the representative of these CCAA proceedings in any proceedings in the United States pursuant to Chapter 15, Title 11 of the United States Code.

47. THIS COURT ORDERS that any interested party (other than the Applicants or the Monitor) that wishes to amend or vary this Order shall be entitled to appear or bring a motion before this Court on a date to be set by this Court upon the granting of this Order (the “**Comeback Date**”), and any such interested party shall give notice to any other party or parties likely to be affected by the order sought in advance of the Comeback Date.

48. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

SCHEDULE “A”

SECURITY REGISTRATIONS

Secured Party	Filing No.	Collateral Description	Equipment Serial No. (if applicable)	Jurisdiction
Bank of Montreal/Banque de Montreal	675927639 – 20120130 1837 1532 2055 (5 years)	Accounts, Other (relates to security for balances in respect of corporate credit cards provided by Bank of Montreal)	N/A	Ontario
Komatsu Financial Limited Partnership & Power Motive Corporation	2010F070368	Grader Wheel Loader Wheel Loader	51669 66173 55610	Colorado
Applied Industrial Technologies, Inc.	21012F002747	Purchase Money Security Interest in and to all Consignee’s now held or hereafter acquired equipment consigned or shipped to Consignee by or on behalf of Consignor or others and under any product name, including all additions and accessions thereto and substitutions therefor and products thereof.	N/A	Colorado
Caterpillar Global Mining Virginia LLC	20122061314	Miscellaneous Assembly Drive Units & Parts	CO-0-3529520146 888198	Colorado
Komatsu Financial Limited Partnership	20132010774	Crawler Dozer	11716	Colorado
Komatsu Financial Limited Partnership	20132011002	Crawler Dozer	81206	Colorado

Secured Party	Filing No.	Collateral Description	Equipment Serial No. (if applicable)	Jurisdiction
Applied Industrial Technologies, Inc.	098991194	Purchase Money Security Interest in and to all Consignee's now held or hereafter acquired equipment consigned or shipped to Consignee by or on behalf of Consignor or others and under any product name, including all additions and accessions thereto and substitutions therefor and products thereof.	N/A	Kansas
Komatsu Financial Limited Partnership	071129329	Motor Grader	51669	Kansas
Komatsu Financial Limited Partnership	071129386	Articulated Truck	A11045	Kansas
Komatsu Financial Limited Partnership	071129394	Articulated Truck	A11052	Kansas
Komatsu Financial Limited Partnership	071129402	Wheel Loader	55610	Kansas
Komatsu Financial Limited Partnership	071129410	Wheel Loader	66173	Kansas

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CLINE MINING
CORPORATION, NEW ELK COAL COMPANY LLC AND NORTH CENTRAL ENERGY COMPANY**

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

INITIAL ORDER

Goodmans LLP

Barristers & Solicitors
Bay Adelaide Centre
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Toronto, Canada M5B 2M6

Robert J. Chadwick (LSUC# 35165K)
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Lawyers for the Applicants

TAB 3

Court File No. _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE ——— REGIONAL) ~~WEEKDAY~~ WEDNESDAY, THE # 3RD
SENIOR JUSTICE ——— MORAWETZ) DAY OF MONTH DECEMBER, 20YR 2014

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF ~~[APPLICANT'S NAME]~~ (the CLINE
MINING CORPORATION, NEW ELK COAL COMPANY
LLC AND NORTH CENTRAL ENERGY COMPANY (each
an "Applicant" and collectively, the "Applicants"))**

INITIAL ORDER

THIS APPLICATION, made by the ~~Applicant~~ Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of ~~[NAME]~~ Matthew Goldfarb sworn ~~[DATE]~~ December 2, 2014 and the Exhibits thereto (the "**Goldfarb Affidavit**") and the Pre-Filing Report of the Proposed Monitor, FTI Consulting Canada Inc. ("FTI"), and on being advised that ~~there are~~ no secured creditors who are likely to be affected by the charges created herein ~~were given notice~~ other than those served, and on hearing the submissions of counsel for ~~[NAMES]~~, no one appearing for ~~[NAME]~~ [†] although duly served as appears from the affidavit of service of ~~[NAME]~~ sworn ~~[DATE]~~ the Applicants, FTI, Marret Asset Management Inc. (on behalf of the beneficial holders of the Secured Notes (as defined below) (the "Secured Noteholders")), in such capacity

[†] Include names of secured creditors or other persons who must be served before certain relief in this model Order may be granted. See, for example, CCAA Sections 11.2(1), 11.3(1), 11.4(1), 11.51(1), 11.52(1), 32(1), 32(3), 33(2) and 36(2).

“Marret”) and such other counsel as were present, no one else appearing for any other party, and on reading the consent of [MONITOR’S NAME] ETI to act as the Monitor,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged and validated² so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that the ~~Applicant is a company~~ Applicants are companies to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that ~~each of the Applicant~~ Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court, individually or collectively, a plan of compromise or arrangement (hereinafter referred to as the “**Plan**”).

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the ~~Applicant~~ Applicants shall remain in possession and control of ~~its~~ their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “**Property**”). Subject to further Order of this Court, the ~~Applicant~~ Applicants shall continue to carry on business in a manner consistent with the preservation of ~~its~~ their business (the “**Business**”) and Property. The ~~Applicant is~~ Applicants are authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively “**Assistants**”) currently retained or employed by ~~it~~ them, with liberty to retain such further Assistants as ~~it deems~~ they deem reasonably necessary or desirable in the ordinary course of business in accordance with existing Business practices or for the carrying out of the terms of this Order.

² ~~If service is effected in a manner other than as authorized by the Ontario Rules of Civil Procedure, an order validating irregular service is required pursuant to Rule 16.08 of the Rules of Civil Procedure and may be granted in appropriate circumstances.~~

5. {THIS COURT ORDERS that the ~~Applicant~~Applicants shall be entitled to continue to utilize the central cash management system³ currently in place as described in the Goldfarb Affidavit of [NAME] sworn [DATE] or replace it with another substantially similar central cash management system (the “**Cash Management System**”) and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the ~~Applicant~~Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the ~~Applicant~~Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.}

6. THIS COURT ORDERS that the ~~Applicant~~Applicants shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, commissions, bonuses, incentive payments, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order in respect of employees, contractors, directors, officers or other personnel providing services to the Applicants, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and, without limiting the generality of the foregoing, the Applicants are authorized to have deposited with AIG Insurance Company of Canada an amount of up to \$50,000 for the purpose of obtaining a directors and officers run-off insurance policy;
- (b) all outstanding and future amounts owing to or in respect of individuals working as independent contractors in connection with the Business in respect of services

³~~This provision should only be utilized where necessary, in view of the fact that central cash management systems often operate in a manner that consolidates the cash of applicant companies. Specific attention should be paid to cross border and inter-company transfers of cash.~~

- provided to the Business and expenses payable in respect thereof, in each case in the ordinary course of business and consistent with existing policies and arrangements;
- (c) ~~(b)~~ the fees and disbursements of any Assistants retained or employed by any of the ApplicantApplicants in respect of these proceedings or any similar or ancillary proceedings in other jurisdictions or in respect of related corporate matters, including, for greater certainty, any counsel or advisors referred to in paragraph 29 of this Order, at their standard rates and charges, including the fees and disbursements of legal counsel, financial advisors and other professional advisors retained by the Applicants; and
- (d) any payment referred to in paragraphs 7(a) or 7(b) of this Order that was incurred during or that pertains to the period prior to the date of this Order if, in the opinion of the Applicants and with the consent of the Monitor, the supplier of the applicable good or service or the provider of the applicable license or permit, as applicable, is critical to the Business and the ongoing operations of the Applicants.

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the ApplicantApplicants shall be entitled but not required to pay all reasonable expenses incurred by the ApplicantApplicants in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance ~~and~~ security services and any license fees, permit fees, royalties, user fees or levies in respect of the Business or the Property; and
- (b) payment for goods ~~or~~ and services actually supplied or to the Applicant followingbe supplied to any of the Applicants, or to obtain the release of goods contracted for prior to the date of this Order.

8. THIS COURT ORDERS that the ~~Applicant~~Applicants shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, and (iii) ~~Quebec Pension Plan,~~ and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the ~~Applicant~~Applicants in connection with the sale of goods and services by the ~~Applicant~~Applicants, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the ~~Applicant~~Applicants.

9. THIS COURT ORDERS that until a real property lease is disclaimed ~~for resiliated~~⁴ in accordance with the CCAA, the ~~Applicant~~Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the applicable Applicant and the landlord from time to time ("Rent"), for the period commencing from and including the date of this Order, ~~twice monthly in equal payments on the first and fifteenth day of each month~~ at such intervals as such Rent is usually paid in the ordinary course of business, in advance (but not in

⁴The term "resiliate" should remain if there are leased premises in the Province of Quebec, but can otherwise be removed.

arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. THIS COURT ORDERS that, except as specifically permitted herein, the ~~Applicant~~ ~~is Applicants are~~ hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the ~~Applicant~~ ~~Applicants~~ to any of ~~its~~ ~~their~~ creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of ~~its~~ ~~their~~ Property; ~~and~~ (c) to not grant credit or incur liabilities except in the ordinary course of the Business in accordance with existing Business practices; and (d) to make no payments in respect of equity claims or equity interests.

RESTRUCTURING

11. THIS COURT ORDERS that ~~each of the Applicant~~ ~~Applicants~~ shall, subject to such requirements as are imposed by the CCAA ~~and such covenants as may be contained in the Definitive Documents (as hereinafter defined)~~, have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, ~~and to dispose of redundant or non-material assets not exceeding \$750,000 in any one transaction or \$1.5 million in the aggregate~~⁵, subject to the prior approval of Marret;
- (b) to sell assets not exceeding \$750,000 in any one transaction or \$1.5 million in the aggregate, subject to the prior approval of Marret;
- (c) ~~(b) [terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate]; and terminate the employment of such of its employees or temporarily or indefinitely lay off such of its employees as it deems appropriate and on such terms as may be agreed by the applicable Applicant and the applicable employee, or, failing such agreement, to deal with the consequences thereof in the Plan~~;

⁵Section 36 of the amended CCAA does not seem to contemplate a pre-approved power to sell (see subsection 36(3)) and moreover requires notice (subsection 36(2)) and evidence (subsection 36(7)) that may not have occurred or be available at the initial CCAA hearing.

- (d) in accordance with paragraphs 12 and 13, vacate, abandon or quit the whole but not part of any leased premises and disclaim any real property lease and any ancillary agreements relating to any leased premises, in accordance with Section 32 of the CCAA, on such terms as may be agreed upon between the applicable Applicant and such landlord, or failing such agreement, to deal with the consequences thereof in the Plan, subject in each case to the prior approval of Marret;
- (e) disclaim, in whole or in part, such of its arrangements or agreements of any nature whatsoever with whomsoever, whether oral or written, as the applicable Applicant deems appropriate, in accordance with Section 32 of the CCAA, with such disclaimers to be on such terms as may be agreed upon between the applicable Applicant and such counter-parties, or failing such agreement, to deal with the consequences thereof in the Plan, subject in each case to the prior approval of Marret;
- (f) subject to the consent of the Monitor and Marret, return any equipment that is subject to a valid first-ranking security to the applicable equipment provider holding such security in satisfaction of such equipment provider's claims on terms to be agreed between the applicable Applicant and such equipment provider, or failing such agreement, to deal with the consequences thereof in the Plan; and
- (g) ~~(e)~~ pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing,

all of the foregoing to permit the ~~Applicant~~Applicants to proceed with an orderly restructuring of the Business (the “**Restructuring**”).

12. THIS COURT ORDERS that ~~each of the Applicant~~Applicants shall provide each of the relevant landlords with notice of the applicable Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the applicable Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and ~~the~~such Applicant, or by further Order of this Court upon application by ~~the~~such

Applicant on at least two (2) days notice to such landlord and any such secured creditors. If any of the ApplicantApplicants disclaims ~~for resiliates~~ the lease governing such leased premises, leased by such Applicant in accordance with Section 32 of the CCAA, ~~itsuch Applicant~~ shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer ~~for resiliation~~ of the lease shall be without prejudice to ~~thesuch~~ Applicant's claim to the fixtures in dispute.

13. THIS COURT ORDERS that if a notice of disclaimer ~~for resiliation~~ is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer ~~for resiliation~~, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the applicable Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer ~~for resiliation~~, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the applicable Applicant in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE ~~APPLICANT~~ APPLICANTS OR THE PROPERTY

14. THIS COURT ORDERS that until and including ~~{DATE — MAX. 30 DAYS}~~, December 31, 2014, or such later date as this Court may order (the “**Stay Period**”), no proceeding or enforcement process in any court or tribunal (each, a “**Proceeding**”) shall be commenced or continued against or in respect of any of the ApplicantApplicants or the Monitor, or affecting the Business or the Property, except with the written consent of the ApplicantApplicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of any of the ApplicantApplicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the

foregoing, collectively being “**Persons**” and each being a “**Person**”) against or in respect of any of the ApplicantApplicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the ApplicantApplicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the ApplicantApplicants to carry on any business which the ApplicantApplicants are not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

16. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by any of the ApplicantApplicants, except with the written consent of the ApplicantApplicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

17. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with any of the ApplicantApplicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, equipment leasing services, transportation services, utility or other services to the Business or any of the ApplicantApplicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the applicable Applicant, and that the ApplicantApplicants shall be entitled to the continued use of ~~its~~their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the ApplicantApplicants in accordance with normal payment practices of the ApplicantApplicants or such other practices as may be agreed upon by the supplier or service provider and each of the applicable Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

18. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the ApplicantApplicants. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.⁶

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

19. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of any of the ApplicantApplicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of any of the ApplicantApplicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, ~~until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicant or this Court.~~

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

20. THIS COURT ORDERS that each of the ApplicantApplicants shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the applicable Applicant after the commencement of the within proceedings,⁷ except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

⁶ ~~This non-derogation provision has acquired more significance due to the recent amendments to the CCAA, since a number of actions or steps cannot be stayed, or the stay is subject to certain limits and restrictions. See, for example, CCAA Sections 11.01, 11.04, 11.06, 11.07, 11.08, 11.1(2) and 11.5(1).~~

⁷ ~~The broad indemnity language from Section 11.51 of the CCAA has been imported into this paragraph. The granting of the indemnity (whether or not secured by a Directors' Charge), and the scope of the indemnity, are discretionary matters that should be addressed with the Court.~~

21. THIS COURT ORDERS that the directors and officers of the ~~Applicant~~Applicants shall be entitled to the benefit of and are hereby granted a charge (the “**Directors’ Charge**”)⁸ on the Property, which charge shall not exceed an aggregate amount of \$~~●~~500,000, as security for the ~~indemnity~~indemnities provided in paragraph ~~{20}~~ of this Order. The Directors’ Charge shall have the priority set out in paragraphs ~~{38}~~32 and ~~{40}~~ herein.34 hereof.

22. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors’’ Charge, and (b) the ~~Applicant’s~~Applicants’ directors and officers shall only be entitled to the benefit of the Directors’’ Charge to the extent that they do not have coverage under any directors’’ and officers’’ insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph ~~{20}~~ of this Order.

APPOINTMENT OF MONITOR

23. THIS COURT ORDERS that ~~[MONITOR’S NAME]~~ETI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the ~~Applicant~~Applicants with the powers and obligations set out in the CCAA ~~or and as~~ set forth herein, and that the ~~Applicant~~Applicants and ~~its~~their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the ~~Applicant~~Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor’’s functions.

24. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the ~~Applicant’s~~Applicants’ receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

⁸~~Section 11.51(3) provides that the Court may not make this security/charging order if in the Court’s opinion the Applicant could obtain adequate indemnification insurance for the director or officer at a reasonable cost.~~

- ~~(e)~~ assist the Applicant, to the extent required by the Applicant, in its dissemination, to the DIP Lender and its counsel on a [TIME INTERVAL] basis of financial and other information as agreed to between the Applicant and the DIP Lender which may be used in these proceedings including reporting on a basis to be agreed with the DIP Lender;
- ~~(d)~~ advise and assist the Applicants in ~~its~~their preparation of the Applicant's Applicants' cash flow statements ~~and reporting required by the DIP Lender~~, which information shall be reviewed with the Monitor ~~and delivered to the DIP Lender and its counsel~~ on a periodic basis, ~~but not less than [TIME INTERVAL]~~, or as otherwise agreed to by the DIP Lender;
- ~~(e)~~ advise and assist the Applicants in ~~its~~their development and implementation of the Plan and any amendments to the Plan;
- ~~(f)~~ assist the Applicants, to the extent required by the Applicant Applicants, with the holding and administering of creditors' ~~or shareholders'~~ meetings for voting on the Plan;
- ~~(g)~~ have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant Applicants, to the extent that is necessary to adequately assess the Applicant's Applicants' business and financial affairs or to perform its duties arising under this Order;
- ~~(g)~~ assist the Applicants, to the extent required by the Applicants, with their restructuring activities;
- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- ~~(i)~~ assist the Applicants, to the extent required by the Applicants, with any matters relating to any foreign proceedings commenced in relation to the Applicants,

including retaining independent legal counsel, agents, experts, accountants or such other persons as the Monitor deems necessary or advisable; and

- (i) ~~(i)~~ perform such other duties as are required by this Order or by this Court from time to time.

25. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

26. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, “**Possession**”) of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the “**Environmental Legislation**”), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor’s duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

27. THIS COURT ORDERS that ~~that~~ the Monitor shall provide any creditor of the ~~Applicant~~ ~~and the DIP Lender~~ Applicants with information provided by the ~~Applicant~~ Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the ~~Applicant~~ Applicants is confidential, the Monitor shall not

provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the ~~Applicant~~Applicants may agree.

28. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

29. THIS COURT ORDERS that the Monitor, counsel to the Monitor, ~~counsel to the Applicant~~Applicants, the Chief Restructuring Officer of the Applicants (the “CRO”) and ~~counsel to the Applicant~~Marret shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, ~~by the Applicant~~whether incurred prior to or after the date of this Order, by the Applicants as part of the costs of these proceedings. ~~The Applicant is~~Applicants ~~are~~ hereby authorized and directed to pay the accounts of the Monitor, ~~counsel for the Monitor and counsel for the Applicant on a [TIME INTERVAL] basis and, in addition, the Applicant is~~counsel to the Monitor, counsel to the Applicants, the CRO and counsel to Marret on a weekly basis, or on such basis as otherwise agreed by the Applicants and the applicable payee and, in addition, the Applicants are hereby authorized to ~~pay to the Monitor, counsel to the Monitor, and counsel to the Applicant, retainers~~have paid to the Monitor a retainer in the amount[s] of \$~~●~~[-, respectively,]50,000, to be held by ~~them~~the Monitor as security for payment of ~~their respective~~its fees and disbursements outstanding from time to time, and the Applicants are hereby authorized to have paid to counsel to the Monitor a retainer in the amount of \$40,000, to be held by counsel to the Monitor as security for the payment of its fees and disbursements outstanding from time to time.

30. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

31. THIS COURT ORDERS that the Monitor, ~~counsel to the Monitor, if any, and~~counsel to the Applicant'sApplicants, the CRO and counsel to Marret shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on the Property, which charge shall not exceed an aggregate amount of \$~~●~~—350,000, as security for their professional fees and

disbursements incurred at the standard rates and charges of the Monitor, the CRO and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs ~~[38]~~32 and ~~[40]~~34 hereof.

DIP FINANCING

~~32. THIS COURT ORDERS that the Applicant is hereby authorized and empowered to obtain and borrow under a credit facility from [DIP LENDER'S NAME] (the "DIP Lender") in order to finance the Applicant's working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed \$● unless permitted by further Order of this Court.~~

~~33. THIS COURT ORDERS THAT such credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between the Applicant and the DIP Lender dated as of [DATE] (the "Commitment Letter"), filed.~~

~~34. THIS COURT ORDERS that the Applicant is hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "Definitive Documents"), as are contemplated by the Commitment Letter or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the Applicant is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the Commitment Letter and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.~~

~~35. THIS COURT ORDERS that the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "DIP Lender's Charge") on the Property, which DIP Lender's Charge shall not secure an obligation that exists before this Order is made. The DIP Lender's Charge shall have the priority set out in paragraphs [38] and [40] hereof.~~

~~36. THIS COURT ORDERS that, notwithstanding any other provision of this Order:~~

- (a) ~~the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender's Charge or any of the Definitive Documents;~~
- (b) ~~upon the occurrence of an event of default under the Definitive Documents or the DIP Lender's Charge, the DIP Lender, upon ● days notice to the Applicant and the Monitor, may exercise any and all of its rights and remedies against the Applicant or the Property under or pursuant to the Commitment Letter, Definitive Documents and the DIP Lender's Charge, including without limitation, to cease making advances to the Applicant and set off and/or consolidate any amounts owing by the DIP Lender to the Applicant against the obligations of the Applicant to the DIP Lender under the Commitment Letter, the Definitive Documents or the DIP 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 the Applicant and for the appointment of a trustee in bankruptcy of the Applicant; and—~~
- (c) ~~the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicant or the Property.—~~

37. ~~THIS COURT ORDERS AND DECLARES that the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicant under the CCAA, or any proposal filed by the Applicant under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the Definitive Documents.~~

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

32. ~~38.~~ THIS COURT ORDERS that the priorities of the Directors' Charge, and the Administration Charge and (collectively, the DIP Lender's Charge "**Charges**"), as among them, shall be as follows⁹:

⁹ ~~The ranking of these Charges is for illustration purposes only, and is not meant to be determinative. This ranking may be subject to negotiation, and should be tailored to the circumstances of the case before the Court. Similarly, the quantum and caps applicable to the Charges should be considered in each case. Please also note that the CCAA now permits Charges in favour of critical suppliers and others, which should also be incorporated into this Order (and the rankings, above), where appropriate.~~

First – Administration Charge ~~(to the maximum amount of \$●); and~~

Second – ~~DIP Lender’s Charge; and~~ Third – Directors’ Charge ~~(to the maximum amount of \$●).~~

33. ~~39.~~ THIS COURT ORDERS that the filing, registration or perfection of the ~~Directors’ Charge, the Administration Charge or the DIP Lender’s Charge~~ (collectively, the “~~Charges~~”) Charges shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

34. ~~40.~~ THIS COURT ORDERS that each of the ~~Directors’ Charge, the Administration Charge and the DIP Lender’s Charge~~ Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, “**Encumbrances**”) in favour of any Person, notwithstanding the order of perfection or attachment, except for any security interest listed on Schedule “A” hereto that is validly perfected and enforceable.

35. ~~41.~~ THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, ~~the Applicant~~ including pursuant to the terms of the Plan, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the ~~Directors’ Charge, the Administration Charge or the DIP Lender’s Charge~~ Charges, unless the ~~Applicant~~ Applicants also ~~obtains~~ obtain the prior written consent of the Monitor, ~~the DIP Lender and the beneficiaries of the Directors’ Charge and the Administration Charge~~ Marret and the chargees entitled to the benefit of the Charges (collectively, the “Chargees”) affected thereby, or further Order of this Court. The Applicants shall not seek any further Court-ordered charges on their Property or Business without the prior approval of Marret. Unless otherwise ordered by this Court, the terms of the release and discharge of any of the Charges shall be acceptable to the applicable Chargees affected thereby.

36. ~~42.~~ THIS COURT ORDERS that the ~~Directors’ Charge, the Administration Charge, the Commitment Letter, the Definitive Documents and the DIP Lender’s Charge~~ Charges shall not be

rendered invalid or unenforceable and the rights and remedies of the ~~chargees entitled to the benefit of~~ Chargees under the Charges ~~(collectively, the “Chargees”)~~ and/or the DIP Lender ~~thereunder~~ shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to ~~BIA~~ the *Bankruptcy and Insolvency Act, R.S.C., c. B-3, as amended* (the “BIA”), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (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 or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) ~~neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Commitment Letter or the Definitive Documents shall not~~ create or be deemed to constitute a breach by any of the ApplicantApplicants of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the ~~Applicant entering into the Commitment Letter, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents;~~ and
- (c) the payments made by any of the ApplicantApplicants pursuant to this Order, ~~the Commitment Letter 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.

37. ~~43.~~ THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the ~~Applicant's~~ Applicants' applicable Applicants' interest in such real property leases.

THE INDENTURE TRUSTEE AND MARRET

38. THIS COURT ORDERS that, until the termination of these proceedings, further Order of this Court or as otherwise instructed in writing by the Secured Noteholders, Computershare Trust Company of Canada, in its capacity as indenture trustee (the “Trustee”) in respect of the 10% senior secured bonds due June 15, 2014 (CUSIP 186905AA3 / ISIN CA 186905AA37) issued pursuant to the indenture dated December 13, 2011, as amended, and the 10% senior secured bonds due June 15, 2014 (CUSIP 186905AE5 / ISIN CA 186905AE58) issued pursuant to the indenture dated July 8, 2013, as amended (collectively the “Secured Notes”) is hereby relieved of any obligation to take any further actions in these proceedings in respect of the Secured Notes and the indentures governing the Secured Notes (the “Indentures”), and Marret is hereby authorized and empowered to take all such actions in these proceedings, including without limitation: (i) filing claims of the Secured Noteholders in the CCAA claims process (provided that nothing herein prevents the Trustee from filing a proof of claim against the Applicants in relation to any unpaid fees and expenses incurred by it in the course of acting as Trustee in accordance with the Indentures); (ii) administering, soliciting and facilitating the casting of votes by the Secured Noteholders in respect of any plan of compromise or arrangement in respect of the Applicants; (iii) facilitating the distribution of consideration under the CCAA Plan to the Secured Noteholders; (iv) taking any steps or actions with respect to the security over the assets and property of the Applicants held by the Trustee in respect of the Secured Notes, including any waiver, discharge or enforcement of the security; and (v) taking any steps the Trustee is otherwise required or may be directed to take on behalf of the Secured Noteholders under the Indentures in respect of the Secured Notes. Notwithstanding the foregoing, upon agreement between Cline Mining Corporation, Marret and the Trustee, and with the consent of the Monitor, the Trustee may take such actions as are necessary to facilitate the distribution of consideration to the Secured Noteholders pursuant to the Plan. The Trustee is entitled to rely upon this paragraph 38 and shall have no liability to any Person for complying with this paragraph 38. Cline Mining Corporation is hereby authorized to pay the reasonable and documented fees, expenses and disbursements of the Trustee (including the reasonable and documented fees, expenses and disbursements of the Trustee’s counsel) incurred and payable in accordance with the Indentures up to an amount to be determined by agreement of the Applicants, the Trustee and the Monitor, or failing such agreement, by Order of the Court. In accordance with the

Indentures, any amounts that are payable to the Trustee, in its individual corporate capacity, pursuant to the terms of the Indentures, if not paid in cash by the Applicants, shall be payable out of any distributions, dividends, securities or other consideration issued to the holders of the Secured Notes by the Applicants in any Plan, liquidation or otherwise.

SERVICE AND NOTICE

39. 44. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in [newspapers specified by the Court] The Globe and Mail, the Denver Post and the Pueblo Chieftain a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against any of the Applicant of more than \$1000, Applicants of more than \$1000, provided that with respect to contingent claims against the Applicants in respect of the WARN Act Class Action (as defined in the Goldfarb Affidavit), the Monitor shall only be required to send a notice to counsel of record for the representative plaintiffs in the WARN Act Class Action, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder, provided that the Monitor shall not make the names and addresses of individuals who are creditors publicly available and provided further that only the representative plaintiffs in the WARN Act Class Action shall be listed in respect of the contingent claims against the Applicants in respect of the WARN Act Class Action.

40. 45. THIS COURT ORDERS that the E-Service Protocol of the Commercial List (the “Protocol”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that

a Case Website shall be established in accordance with the Protocol with the following URL-
 <@>: http://cfcanada.fticonsulting.com/cline.

41. ~~46.~~ THIS COURT ORDERS that if the service or distribution of documents in accordance with the Protocol is not practicable, the ~~Applicant~~Applicants and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery—~~or,~~ facsimile or other electronic transmission to the ~~Applicant's~~Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the ~~Applicant~~Applicants and that any such service or distribution by courier, personal delivery or facsimile or other electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

42. ~~47.~~ THIS COURT ORDERS that the ~~Applicant or Applicants~~ are hereby relieved of any obligation to call and hold annual meetings of their shareholders until after the termination of these CCAA proceedings or further Order of this Court.

43. THIS COURT ORDERS that each of the Applicants and the Monitor may from time to time apply to this Court to amend, vary, supplement or replace this Order or for advice and directions ~~in~~ concerning the discharge of ~~its~~ their respective powers and duties hereunder under this Order or the interpretation or application of this Order.

44. ~~48.~~ THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the ~~Applicant~~Applicants, the Business or the Property.

45. ~~49.~~ THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, or in any other foreign jurisdiction, to give effect to this Order and to assist the ~~Applicant~~Applicants, the Monitor 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 the ~~Applicant~~Applicants and to the Monitor, as an officer of this

Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the ~~Applicant~~Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

46. ~~50.~~ THIS COURT ORDERS that each of the ~~Applicant~~Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of ~~the within~~these CCAA proceedings for the purpose of having these CCAA proceedings recognized in a jurisdiction outside Canada. Without limiting the generality of the foregoing, the Monitor is hereby authorized, as the foreign representative of the Applicants, to, if deemed advisable by the Monitor and the Applicants, apply for recognition of these CCAA proceedings and to act as the representative of these CCAA proceedings in any proceedings in the United States pursuant to Chapter 15, Title 11 of the United States Code.

47. ~~51.~~ THIS COURT ORDERS that any interested party (~~including other than the Applicant and Applicants or the Monitor~~) ~~may apply to this Court to vary or~~that wishes to amend or vary this Order on not less than seven (7) days shall be entitled to appear or bring a motion before this Court on a date to be set by this Court upon the granting of this Order (the "Comeback Date"), and any such interested party shall give 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 in advance of the Comeback Date.

48. ~~52.~~ THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

SCHEDULE "A"**SECURITY REGISTRATIONS**

<u>Secured Party</u>	<u>Filing No.</u>	<u>Collateral Description</u>	<u>Equipment Serial No. (if applicable)</u>	<u>Jurisdiction</u>
<u>Bank of Montreal/Banque de Montreal</u>	<u>675927639 – 20120130 1837 1532 2055 (5 years)</u>	<u>Accounts, Other (relates to security for balances in respect of corporate credit cards provided by Bank of Montreal)</u>	<u>N/A</u>	<u>Ontario</u>
<u>Komatsu Financial Limited Partnership & Power Motive Corporation</u>	<u>2010F070368</u>	<u>Grader Wheel Loader Wheel Loader</u>	<u>51669 66173 55610</u>	<u>Colorado</u>
<u>Applied Industrial Technologies, Inc.</u>	<u>21012F00274 7</u>	<u>Purchase Money Security Interest in and to all Consignee's now held or hereafter acquired equipment consigned or shipped to Consignee by or on behalf of Consignor or others and under any product name, including all additions and accessions thereto and substitutions therefor and products thereof.</u>	<u>N/A</u>	<u>Colorado</u>
<u>Caterpillar Global Mining Virginia LLC</u>	<u>20122061314</u>	<u>Miscellaneous Assembly Drive Units & Parts</u>	<u>CO-0-35295 2014688819 8</u>	<u>Colorado</u>
<u>Komatsu Financial Limited Partnership</u>	<u>20132010774</u>	<u>Crawler Dozer</u>	<u>11716</u>	<u>Colorado</u>
<u>Komatsu Financial Limited Partnership</u>	<u>20132011002</u>	<u>Crawler Dozer</u>	<u>81206</u>	<u>Colorado</u>

<u>Applied Industrial Technologies, Inc.</u>	<u>098991194</u>	<u>Purchase Money Security Interest in and to all Consignee's now held or hereafter acquired equipment consigned or shipped to Consignee by or on behalf of Consignor or others and under any product name, including all additions and accessions thereto and substitutions therefor and products thereof.</u>	<u>N/A</u>	<u>Kansas</u>
<u>Komatsu Financial Limited Partnership</u>	<u>071129329</u>	<u>Motor Grader</u>	<u>51669</u>	<u>Kansas</u>
<u>Komatsu Financial Limited Partnership</u>	<u>071129386</u>	<u>Articulated Truck</u>	<u>A11045</u>	<u>Kansas</u>
<u>Komatsu Financial Limited Partnership</u>	<u>071129394</u>	<u>Articulated Truck</u>	<u>A11052</u>	<u>Kansas</u>
<u>Komatsu Financial Limited Partnership</u>	<u>071129402</u>	<u>Wheel Loader</u>	<u>55610</u>	<u>Kansas</u>
<u>Komatsu Financial Limited Partnership</u>	<u>071129410</u>	<u>Wheel Loader</u>	<u>66173</u>	<u>Kansas</u>

TAB 4

Court File No. _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT
OF CLINE MINING CORPORATION, NEW ELK COAL COMPANY LLC AND
NORTH CENTRAL ENERGY COMPANY**

Applicants

AFFIDAVIT OF MATTHEW GOLDFARB
(sworn December 2, 2014)

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	BACKGROUND REGARDING THE CLINE GROUP	6
	(A) Corporate Structure	6
	(B) Overview of the Cline Business	9
	(C) Financial Position of the Cline Group	16
	(D) Secured Obligations of the Cline Group	19
III.	ASSESSMENT OF STRATEGIC ALTERNATIVES AND RESTRUCTURING EFFORTS TO DATE	28
	(A) Performance of the Cline Business	28
	(B) Challenges with Financing Arrangements	29
	(C) Sale Process	33
IV.	CCAA PROCEEDINGS	37
	(A) Cline Group is Insolvent	37
	(B) Stay of Proceedings under the CCAA	37
	(C) Funding of the Cline Group	38
	(D) Recapitalization of the Cline Group	39
	(E) Payments for Goods and Services	43
	(F) Monitor	44
	(G) Directors' and Officers' Charge	44
	(H) Priorities of Charges	46
	(I) Chapter 15 Proceedings	47
	(J) Postponement of Annual General Meeting	47
	(K) Marret and the Trustee	48
	(L) Claims Procedure Order and Meetings Order	48
V.	CONCLUSION	59

Court File No. _____

ONTARIO
SUPERIOR COURT OF JUSTICE
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NORTH CENTRAL ENERGY COMPANY

Applicants

AFFIDAVIT OF MATTHEW GOLDFARB
(sworn December 2, 2014)

I, Matthew Goldfarb, in the City of Toronto, in the Province of Ontario, MAKE OATH
AND SAY:

I. INTRODUCTION

1. I am the Chief Restructuring Officer and acting Chief Executive Officer of Cline Mining Corporation (“**Cline**”). I was appointed to serve in such capacities as of December 11, 2013 and January 15, 2014, respectively. My responsibilities include, among other things, managing the business and affairs of Cline and its subsidiaries and evaluating and implementing strategic alternatives, including negotiating with various creditors and stakeholders. As such, I have personal knowledge of the matters to which I depose in this affidavit. Where I do not possess personal knowledge, I have stated the source of my information and, in all such cases, believe it to be true.

2. This affidavit is sworn in support of an application for an Order (the “**Initial Order**”) pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the

“**CCAA**”) in respect of Cline, New Elk Coal Company LLC (“**New Elk**”) and North Central Energy Company (“**North Central**” and, together with Cline and New Elk, the “**Applicants**”).

3. This Affidavit is also sworn in support of a motion by the Applicants for:

(a) an order establishing a process for the identification and determination of claims against the Applicants and their present and former directors and officers (the “**Claims Procedure Order**”); and

(b) an order authorizing the Applicants to file a plan of compromise and arrangement and to convene meetings of their affected creditors to consider and vote on the plan of compromise and arrangement (the “**Meetings Order**”).

4. If this Court grants the Initial Order, the Applicants request that this Court hear the motion for the Claims Procedure Order and the Meetings Order immediately following the granting of the Initial Order.

5. The Applicants, along with Raton Basin Analytical LLC (“**Raton Basin**” and, together with the Applicants, the “**Cline Group**”), are in the business of locating, exploring and developing mineral resource properties, with a particular focus on gold and metallurgical coal (the “**Cline Business**”).

6. The Cline Group is headquartered in Toronto, Ontario. Cline is incorporated under the laws of British Columbia and its shares were publicly listed on the Toronto Stock Exchange (the “**TSX**”) until Cline voluntarily delisted the shares on June 21, 2013. The Cline Group has interests in resource properties in Canada, the United States and Madagascar. Most of the Cline

Group's properties remain in the development stage; however, the New Elk metallurgical coal mine in Colorado (the "**New Elk Mine**") became operational in December 2010.

7. As described in detail below, the Cline Group has experienced financial challenges that have necessitated a recapitalization of the Applicants under the CCAA. The New Elk Mine became operational at the beginning of a protracted downturn in the global metallurgical coal markets and has been unable to operate profitably due to continuing adverse market conditions that have negatively affected the entire industry. In July 2012, the Cline Group largely suspended mining operations at the New Elk Mine to reduce costs and minimize losses. This suspension of mining operations was intended to be temporary. However, the price of metallurgical coal, which is heavily influenced by the demand for and production of steel, has worsened materially, and global overcapacity has made it difficult to reduce existing inventories. Accordingly, the New Elk Mine remains on a care and maintenance program at this time.

8. Since the Cline Group's other resource investments remain at the development stage, the Cline Group's current inability to derive revenue from the New Elk Mine has rendered the Applicants unable to meet their financial obligations as they become due. Cline is in default of its 2011 series 10% senior secured notes (the "**2011 Notes**") as well as its 2013 series 10% senior secured notes (the "**2013 Notes**", and collectively with the 2011 Notes, the "**Secured Notes**"). Total obligations of \$110,173,897 are owed in respect of the Secured Notes as of December 1, 2014. The Secured Notes matured on June 15, 2014 and remain unpaid. The Applicants do not have the ability to repay the Secured Notes.

9. The Secured Notes are issued by Cline and guaranteed by New Elk and North Central. The indenture trustee in respect of the Secured Notes, Computershare Trust Company of Canada

(“**Computershare**” or the “**Trustee**”), holds a first-ranking security interest over substantially all of the assets, property and undertakings of Cline, New Elk and North Central and is now in a position to enforce that security.

10. In an effort to maximize value for their stakeholders, the Applicants undertook a comprehensive sale process in respect of the Cline Group in the spring and summer of 2014 (the “**Sale Process**”), as more fully explained in section III(C) of this affidavit. Based on the results of the Sale Process and the current industry-wide challenges in the metallurgical coal markets, it is apparent that the amounts owing under the Secured Notes exceed the realizable value of the Cline Business at the present time, meaning there would be no recovery for unsecured creditors if the Trustee were to enforce its security in respect of the Secured Notes. Consequently, the beneficial holders of the Secured Notes (the “**Secured Noteholders**”) are the only parties with a remaining economic interest in the Cline Business and the assets of the Applicants.

11. All of the Secured Notes are held by beneficial owners whose investments are managed by Marret Asset Management Inc. (“**Marret**”). I am advised by Marret and do verily believe that Marret has the ability to exercise all powers and rights of the Secured Noteholders.

12. With the assistance of its professional advisors, Cline has engaged in discussions with representatives of Marret regarding a consensual recapitalization of the Applicants. These discussions have ultimately resulted in a proposed recapitalization transaction that is supported by Marret (on behalf of all of the Secured Noteholders) (the “**Recapitalization**”). If implemented, the Recapitalization would:

- (a) maintain the Cline Group as a unified corporate enterprise;
- (b) reduce the Applicants’ secured indebtedness by in excess of \$55 million;

- (c) reduce the Applicants' annual interest expense in the near term;
- (d) preserve certain tax attributes within the restructured companies;
- (e) provide a limited recovery for unsecured creditors that they could not expect to receive under any other bankruptcy or debt enforcement scenario; and
- (f) effectuate a reduced debt structure to enable the Cline Group to better withstand prolonged weakness in the price of metallurgical coal.

13. It is contemplated that the Recapitalization would be implemented pursuant to a plan of compromise and arrangement under the CCAA (the "**Plan**") that is recognized in the United States under Chapter 15, Title 11 of the United States Code.

14. Cline and Marret (on behalf of the Secured Noteholders) have entered into a Support Agreement dated December 2, 2014, which sets forth the principal terms of the proposed Recapitalization. Based on Marret's agreement to the Recapitalization (on behalf of the Secured Noteholders), the Applicants have achieved support from the creditors with a remaining economic interest in the Applicants, representing in excess of 95% of the total indebtedness of the Applicants.

15. The Applicants believe that the Recapitalization is the optimal value-maximizing transaction in the circumstances, and that it is preferable for the Applicants and their stakeholders to proceed with the Recapitalization on a consensual basis rather than for the Applicants to become subject to an involuntary debt and security enforcement process, which would destroy value for the Secured Noteholders and leave nothing for the Applicants' unsecured creditors.

16. The Applicants are seeking the Initial Order, the Claims Procedure Order and the Meetings Order at this time in order to stabilize their financial situation and to proceed with the Recapitalization as efficiently and expeditiously as possible.

17. Having reviewed and considered the alternatives, the Applicants and their boards of directors have determined that it is in the best interests of the Applicants to seek protection under the CCAA and to move forward with the Recapitalization in order to provide the Cline Group with a stable financial footing that will enable the Applicants to withstand the current market challenges.

II. BACKGROUND REGARDING THE CLINE GROUP

(A) Corporate Structure

18. The Cline Group is in the business of locating, exploring and developing mineral resource properties. The principal resources of interest to the Cline Group are gold, metallurgical coal and iron ore. The Cline Group's properties include mineral rights and developments in Canada, the United States and Madagascar.

19. A copy of the corporate organizational chart of the Cline Group is attached hereto as Exhibit "A".

(i) Cline Mining Corporation

20. Cline is a public company incorporated under the laws of British Columbia, with its registered head office located in Vancouver, British Columbia. Cline commenced business under the laws of Ontario in 2003 and its principal business office, which serves as the head office and nerve centre of the Cline Group, is located in Toronto, Ontario.

21. Prior to June 21, 2013, Cline's shares were publicly-listed on the TSX. After having been placed on remedial listing review by the TSX, Cline made a voluntary application for de-listing that was accepted by the TSX, and its shares were de-listed from the TSX at the close of trading on June 21, 2013.

22. Since Cline's shares were traded publicly, I am not aware of the identities of the beneficial owners of Cline's shares. I have been advised by Marret and do verily believe that Marret does not hold any equity interest in Cline at this time.

23. The current directors of Cline are Sandra Rosch, V. James Sardo and me, Matthew Goldfarb.

24. Cline owns an interest in a gold exploration property located near Wawa, Ontario (the "**Cline Lake Gold Project**"). In addition to this direct, wholly-owned interest, Cline owns minority interests in (i) Iron Ore Corporation of Madagascar SARL ("**IOCM**") (25%), (ii) Strike Minerals Inc. (12.5%¹) and (iii) UMC Energy plc ("**UMC**") (5.02%), which is an energy resource exploration company listed on the London Stock Exchange AIM market with interests in oil and uranium. Cline also owns all of the shares of New Elk, its direct, wholly-owned subsidiary.

25. The Cline Lake Gold Project is presently in the exploration stage.

26. Until recently, Cline was also engaged in the exploration of coal mining properties in British Columbia, where it held two coal licenses and had submitted two additional applications for coal licenses issued by the Province of British Columbia. However, those licenses were

¹ The amount of this equity interest is subject to a dispute and is alleged by other parties to be less than 12.5%.

revoked and the applications were cancelled by the Province after the Province passed legislation limiting mining activities in the watershed area in which the related projects were situated. Cline subsequently filed a civil claim against the Province seeking a declaration that Cline's rights in respect of the coal mining licenses and applications had been expropriated. In April 2014, Cline and the Province entered into a settlement agreement pursuant to which Cline agreed to abandon the coal mining licenses and applications in return for a \$9.8 million payment by the Province. Cline has used the settlement proceeds to fund the operations of the Cline Business during the summer and fall of 2014 and anticipates that it will be able to continue using the remaining settlement proceeds to fund its ongoing costs during these CCAA proceedings, subject to the approval of cash flow budgets by Marret. The Applicants' projected cash flows are discussed below in section IV(C) of this affidavit.

(ii) Cline Subsidiaries

27. Cline is the direct or indirect parent company of New Elk, North Central, and Raton Basin.

28. New Elk is a limited liability company incorporated pursuant to the laws of the State of Colorado. Cline is the sole shareholder of New Elk. New Elk holds mining rights in the New Elk Mine, located in southern Colorado. The lands on which the New Elk Mine is situated are owned and controlled by a number of parties, including New Elk, North Central and the State of Colorado. The rights to mine the coal at the New Elk Mine are held by New Elk pursuant to a coal mining lease with the State of Colorado (the "**DOW Lease**") and an underground coal lease with XTO Energy Inc. (the "**XTO Lease**"). New Elk is a guarantor of Cline's obligations in respect of the Secured Notes.

29. North Central is a corporation incorporated pursuant to the laws of the State of Colorado. Cline acquired 100% of the capital stock of North Central on July 12, 2010 and subsequently assigned its entire ownership interest in North Central to New Elk. New Elk is the sole shareholder of North Central. North Central holds a fee simple interest in certain coal parcels on which the New Elk Mine is situated. North Central is a guarantor of Cline's obligations in respect of the Secured Notes.

30. Raton Basin is a corporation incorporated pursuant to the laws of the State of Colorado. New Elk is the sole shareholder of Raton Basin. Raton Basin is inactive and has no material assets or liabilities.

31. New Elk and North Central are Applicants in these proceedings. Raton Basin is not an applicant in these proceedings.

(B) Overview of the Cline Business

(i) The Cline Business and its Principal Markets

32. The Cline Business is focused on locating, exploring and developing mineral resource properties, primarily with respect to gold, metallurgical coal and iron ore. The Cline Group also has an interest in oil and uranium exploration through its small minority interest in UMC.

Gold Exploration

33. Cline is engaged in gold exploration at its Cline Lake Gold Project in Wawa, Ontario.

34. The land on which the Cline Lake Gold Project is situated is leased from the Government of Ontario pursuant to a lease originally issued in 1996 and extended to August 31, 2017. The

gold mine on the property dates to the early 1930s and Cline acquired its interest in 2008. Cline has completed an extensive drilling program on the property and has identified seven significant new gold zones and the potential for future exploration work.

35. The next step for the Cline Lake Gold Project is the more advanced, underground evaluation of certain reserves, including the new gold zones identified through recent drilling. The cost of this development phase is estimated at \$12.5 million and is thus dependant on a successful restructuring of the Applicants and the generation of additional working capital for the Cline Group.

Coal Production

36. The primary revenue-capable asset of the Cline Business is the New Elk Mine. The New Elk Mine was acquired by Cline on July 25, 2008. The coal mine originally opened in 1951 and was operated by a number of other owners until 1989, after which time it lay dormant until its acquisition by New Elk. The New Elk Mine is located near the town of Trinidad in southern Colorado and consists of a metallurgical coal reserve, underground mine developments, a surface coal preparation plant, mining equipment and related infrastructure. The New Elk Mine has the necessary permits to mine and produce coal and to transport the coal to a nearby rail-loading facility, as well as all required environmental permits.

37. Under New Elk ownership, miners first went underground at the New Elk Mine in April 2010. Over the next year, additional coal seams were discovered and testing of various coal deposits was undertaken. In August 2011, the first commercial delivery of coal from the New Elk Mine was made.

38. Unfortunately, as coal production at the New Elk Mine was commencing, the global market for metallurgical coal entered a protracted downturn. Metallurgical coal markets are influenced by the level of crude steel production, which in turn is largely dependent on global economic conditions. Recessionary forces in the global economy reduced global demand for metallurgical coal and resulted in a precipitous decline of nearly 65% in its price, from US\$330 per metric tonne in April 2011 to US\$119 in November 2014.

39. In response to these developments, mining operations at the New Elk Mine were largely suspended on July 11, 2012 in an effort to reduce costs and minimize losses during the depressed market. This suspension of mining operations was meant to be temporary, and the Cline Group intended to resume operations once existing inventories had been depleted, metallurgical coal prices had recovered and sustainable off-take arrangements had been put in place. However, it has not been possible to put economically-feasible off-take arrangements in place given that metallurgical coal prices have worsened significantly and there is significant global overcapacity. In light of these challenges, operations at the New Elk Mine remain substantially curtailed.

Iron Ore Interests

40. Cline holds a 25% interest in IOCM, a corporation incorporated pursuant to the laws of Madagascar. IOCM holds four greenfield exploration permits and one advanced stage permitted exploration project in the Bekisopa iron ore properties in south-central Madagascar (the “**Bekisopa Iron Ore Project**”). Extensive geophysical airborne and ground surveys have revealed known and expected deposits of iron ore at the Bekisopa Iron Ore Project. Iron ore is principally used in the steelmaking process and thus demand for iron ore is generally influenced by the same factors that influence demand for metallurgical coal.

41. Until recently, IOCM was a wholly-owned subsidiary of Cline. On June 19, 2014, Cline sold 75% of its equity interest in IOCM to India Pacific Resources Limited (“**India Pacific**”). India Pacific has assumed management control of IOCM and is responsible for funding all expenditures of IOCM until such time as India Pacific has made the final purchase price payment to Cline in the amount of US\$175,000 and is prepared to move into the project’s development phase.

*(ii) **Employees***

42. The workforces of the Applicants are presently reduced as a result of the temporary production halt at the New Elk Mine and the Cline Group’s financial inability to continue developing its other projects. At present, the Cline Group directly employs 19 people. The officers of the Cline Group are engaged as independent consultants. The Cline Group is heavily dependent on a relatively small number of key personnel. The Cline Group engages other contractors and consultants from time to time to work on specific projects and for administrative, accounting, legal and other services as required. None of the Cline Group’s personnel are unionized.

*(iii) **Centre of Main Interests***

43. The Applicants in these proceedings are Cline, New Elk and North Central.

44. Cline is incorporated pursuant to the laws of, and has its registered head office in, British Columbia. Cline commenced business in Ontario over a decade ago and its principal business office, which serves as the head office of the Cline Group, is located in Toronto, Ontario (the “**Toronto Head Office**”).

45. New Elk is incorporated as a limited liability corporation under the laws of the State of Colorado and is a wholly-owned subsidiary of Cline. North Central is a Colorado corporation and is a wholly-owned subsidiary of New Elk. Both New Elk and North Central are integrated members of the Cline Group.

46. The Cline Group is managed from the Toronto Head Office as a seamless group from a corporate, strategic and management perspective.

47. The centre of main interests of the Cline Group, including all of the Applicants in this proceeding, is in Ontario, Canada, as evidenced by the following:

- (a) the corporate head office and the nerve centre of the Cline Group is located in Toronto, Ontario;
- (b) Cline, the parent of the Cline Group and the principal borrower/obligor under the Secured Notes, is a Canadian entity;
- (c) New Elk and North Central rely nearly exclusively on Cline, their Canadian parent, to finance their operations and are liable as guarantors for Cline's obligations in respect of the Secured Notes;
- (d) until June 2013, the shares of Cline were publicly-listed on the Toronto Stock Exchange, and the most recent annual general meeting of Cline was held in Toronto, Ontario;

- (e) corporate-level decision making for the Cline Group, including decisions with respect to New Elk, North Central and the New Elk Mine, are undertaken by the executive management of Cline;
- (f) the majority of the executive management of the Cline Group, including the management of New Elk and North Central, is shared;
- (g) I serve on the boards of directors of all three of the Applicants, and the Chief Financial Officer of Cline, Paul Haber, also serves on the board of directors of North Central;
- (h) the Cline Group's major contracts, including those of New Elk and North Central, were approved at the corporate level by the executive management of Cline;
- (i) a substantial portion of the administrative functions in respect of the Cline Group, including information technology, general accounting, financial reporting, budgeting, and human resource functions related to the Applicants, are carried out at the Toronto Head Office;
- (j) the Secured Notes are the principal source of financing for the Cline Group – representing in excess of 95% of the Cline Group's liabilities – and all of the Secured Notes are held by beneficial owners whose investments are managed by Marret, which is based in Toronto, Ontario;
- (k) I am advised by representatives of Marret and verily believe that approximately 97% of the Secured Notes are beneficially held by Secured Noteholders that are domiciled in Canada;

- (l) the Trustee of the Secured Notes, Computershare, is located in Toronto, Ontario;
- (m) the 2011 Indenture and the 2013 Indenture (each as hereinafter defined) are governed by the laws of the Province of Ontario;
- (n) New Elk is treated as a branch of Cline (and not as a separate taxable corporation) for U.S. federal income tax purposes;
- (o) Cline operates a centralized cash management system from the Toronto Head Office (details of which are outlined in section II(C)(iii) of this affidavit), pursuant to which Cline, as parent company, approves the expenditures of all members of the Cline Group, advances funds for all such expenditures, controls and monitors the consolidated cash balance of the Cline Group and provides reporting on the Cline Group's cash balances to the board of directors of Cline;
- (p) the Applicants all have Canadian bank accounts with the Bank of Montreal located in Toronto, Ontario;
- (q) Cline prepares consolidated financial statements that incorporate the financial results and position of the entire Cline Group, including New Elk and North Central; and
- (r) the consolidated financial statements are specified in the 2011 Indenture and the 2013 Indenture as the relevant financial information for determining Cline's compliance with certain financial covenants relating to the Secured Notes.

48. Based on the factors listed above and my knowledge as Acting Chief Executive Officer and Chief Restructuring Officer of Cline, I believe that the Cline Group operates as an integrated enterprise centered out of Toronto, Ontario, Canada.

(C) **Financial Position of the Cline Group**

(i) **Financial Statements**

49. Copies of the Cline Group's unaudited financial statements for the quarter ended August 31, 2014, its audited financial statements for the year ended November 30, 2013 and its unaudited financial statements for the quarters ended February 28, 2014 and May 31, 2014 are attached hereto as Exhibit "B".

(ii) **Assets and Liabilities of the Cline Group**

Assets

50. The Cline Group prepares its financial statements on a consolidated basis. As at August 31, 2014, which is the date of the Cline Group's most recent financial statements, the Cline Group had assets with a stated book value of approximately \$156 million. This included cash of \$9 million, reclamation deposits held by the State of Colorado of \$6 million, and mineral properties under development with a book value for accounting purposes of \$135 million (all amounts approximate).

51. For the year ended November 30, 2013, Cline recognized an impairment loss of \$164 million on the New Elk Mine. Even with this write-down, it is my belief, based on the results of the Sale Process in respect of the Cline Group and the current state of the metallurgical coal market, that the actual realizable value of the Cline Group's assets is materially less than the

book value reported on the balance sheet for accounting purposes, and is in fact materially less than the amounts owing in respect of the Secured Notes.²

Liabilities

52. As at August 31, 2014, the Cline Group's liabilities amounted to approximately \$99 million. The primary secured liabilities at that time were:

(a) 2011 Notes in the principal amount of \$71,381,900, plus accrued and unpaid interest and other amounts. The 2011 Notes have an annual interest rate of 10% and matured on June 15, 2014; and

(b) 2013 Notes in the principal amount of \$12,340,998, plus accrued and unpaid interest and other amounts. The 2013 Notes have an annual interest rate of 10% and matured on June 15, 2014.

53. As at December 1, 2014, the total amount owing in respect of the Secured Notes, including accrued and unpaid interest and other amounts, is \$110,173,897.

54. In addition, the Cline Group has certain obligations outstanding in respect of leased equipment used at its New Elk Mine. As at August 31, 2014, the Cline Group had loans for construction equipment outstanding in the principal amount of \$654,174. Under the terms of the loans, Cline is obligated to remit monthly payments of \$33,850 until March 2016.

² The Cline Group's financial statements for the quarter ended August 31, 2014 included a going concern note indicating that the circumstances surrounding the Cline Group cast significant doubt as to its ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern business.

55. Presently, the Applicants are aware of approximately \$3.7 million in other unsecured claims, including accounts payable relating to ordinary course trade payables.

Contingent Claims

56. A class action lawsuit was filed against New Elk on February 1, 2013 alleging that New Elk violated the U.S. federal Worker Adjustment and Retraining Notification Act (the “**WARN Act**”) by failing to provide personnel at the New Elk Mine with at least sixty days advance written notice of the significant curtailment of production at the New Elk Mine (the “**WARN Act Class Action**”). The plaintiffs (the “**WARN Act Plaintiffs**”) are seeking judgment for alleged unpaid wages, salary, commissions, bonuses, and pension and other amounts, together with interest, legal fees and costs. On October 3, 2013, the WARN Act Plaintiffs filed an amended complaint that, among other things, added Cline as a defendant in the lawsuit on the basis that Cline and New Elk are an integrated “single employer” based on, among other things, Cline’s control of New Elk, the common management of Cline and New Elk and New Elk’s reliance on Cline for financing. New Elk and Cline dispute the allegation that there was a violation of the WARN Act and are vigorously defending themselves against the allegations. The WARN Act Class Action has not been certified as of the date hereof.

57. In addition to the WARN Act Class Action, the Cline Group is aware of a number of other contingent litigation claims that have been asserted against it. The total presently-quantifiable amount claimed by the plaintiffs in the claims other than the WARN Act Class Action is less than \$1 million. To my knowledge, the plaintiffs in the WARN Act Class Action have not particularized the amounts alleged to be owing in that case.

(iii) Centralized Cash Management System

58. The Cline Group has a centralized cash management system, such that the cash resources of the entire Cline Group are managed by Cline at the Toronto Head Office. Invoices for all expenditures incurred by members of the Cline Group are reviewed at the Toronto Head Office by the accounting department. Once approved, two signatures are required before payment is issued, and all invoices and material payments are confirmed with the Acting Chief Executive Officer of Cline or, in his absence, the Chairperson of the Cline board of directors.

59. The operations of New Elk and North Central are funded by Cline, which transfers cash to the applicable subsidiary, when necessary, after Cline approves the proposed expenditure to be made by such subsidiary. New Elk and North Central, as applicable, then pay the applicable expenditure with the funds provided by Cline.

60. The Cline Group's cash balance is managed online with the Bank of Montreal from the Toronto Head Office. Cline monitors and has control over all of the cash accounts of members of the Cline Group. Cline maintains a U.S.-dollar bank account with BMO Harris Bank in Chicago, Illinois, and New Elk and North Central maintain Canadian dollar bank accounts with Bank of Montreal in Toronto, Ontario. Cline reports the cash balances of the Cline Group on a weekly basis to the board of directors of Cline.

(D) Secured Obligations of the Cline Group

(i) 2011 Notes

61. Cline is the issuer of the 2011 Notes, which are a first-ranking secured obligation. The 2011 Notes have an interest rate of 10% per annum payable semi-annually on June 15th and

December 15th of each year. The aggregate principal amount of the 2011 Notes issued by Cline was \$71,381,900. The 2011 Notes matured on June 15, 2014 and remain unpaid. The obligations of Cline in respect of the 2011 Notes are guaranteed by New Elk and North Central.

62. The 2011 Notes are governed by a Trust Indenture dated December 13, 2011, as amended by a series of seven supplemental indentures (as amended, the “**2011 Indenture**”). The 2011 Notes were issued in four installments, as follows: US\$25 million were issued on February 27, 2012 pursuant to the first supplemental indenture; US\$25 million were issued on April 30, 2012 pursuant to the second supplemental indenture; US\$13 million were issued on January 11, 2013 pursuant to the fourth supplemental indenture; and US\$2.5 million were issued on April 11, 2013 pursuant to the fifth supplemental indenture. Pursuant to the seventh supplemental indenture dated May 23, 2014, all amounts payable in respect of the 2011 Secured Notes became payable in Canadian dollars using the Canadian dollar/U.S. dollar Bank of Canada exchange rate on May 22, 2014.

63. Computershare acts as trustee (in such capacity, the “**2011 Trustee**”) on behalf of the beneficial holders of the 2011 Notes (the “**2011 Noteholders**”). Marret manages and exercises sole discretion and control over all of the 2011 Noteholders.

64. All amounts owing in respect of the 2011 Notes are now immediately due and payable.

(ii) 2013 Notes

65. Cline is the issuer of the 2013 Notes, which are a first-ranking secured obligation that rank *pari passu* with the 2011 Notes. The 2013 Notes have an interest rate of 10% per annum payable semi-annually on June 15th and December 15th of each year. The aggregate principal

amount of the 2013 Notes issued by Cline was \$12,340,998. The 2013 Notes matured on June 15, 2014 and remain unpaid. The obligations of Cline in respect of the 2013 Notes are guaranteed by New Elk and North Central.

66. The 2013 Notes are governed by a Trust Indenture dated July 8, 2013, as amended by a series of three supplemental indentures (as amended, the “**2013 Indenture**”). The 2013 Notes were issued in three installments: 2013 Notes in the principal amount of \$9,490,998 were issued on July 8, 2013 pursuant to the first supplemental indenture; 2013 Notes in the principal amount of \$1,100,000 were issued on October 11, 2013 pursuant to the second supplemental indenture; and 2013 Notes in the principal amount of \$1,750,000 were issued on November 14, 2013 pursuant to the third supplemental indenture. Computershare acts as trustee (in such capacity, the “**2013 Trustee**”) on behalf of the beneficial holders of the 2013 Notes (the “**2013 Noteholders**”).

67. Marret manages and exercises sole discretion and control over all of the 2013 Noteholders.

68. All amounts owing in respect of the 2013 Notes are now immediately due and payable.

(iii) Security in respect of the 2011 Notes and 2013 Notes

Cline Security in Favour of the Trustee

69. As security for the payment of all obligations in respect of the 2011 Notes and the 2013 Notes, Cline granted security interests in favour of the 2011 Trustee and 2013 Trustee (as applicable) over substantially all of its real and personal property, pursuant to the following documents (collectively, the “**Cline Security Documents**”):

- (a) general security agreements governed by the laws of Ontario in favour of each of the 2011 Trustee and the 2013 Trustee, granting a security interest in all of Cline's personal property; and
- (b) mining lease debentures governed by the laws of Ontario in favour of each of the 2011 Trustee and the 2013 Trustee, registered on title to the Cline Lake Gold Project on December 14, 2011 and July 22, 2013, respectively.

70. Pursuant to the terms of the Cline Security Documents, Cline pledged to the 2011 Trustee and the 2013 Trustee its equity interest in New Elk represented by 1,000 units, its equity interest in UMC represented by 12,272,667 ordinary shares (the “**UMC Shares**”) and its equity interest in Strike Minerals Inc. represented by 2,000,000 common shares, and delivered the corresponding original share and unit certificates and irrevocable stock transfer powers. The original share and unit certificates, with the exception of the UMC Shares, are currently held by the Trustee.

71. In December 2013, at the request of Cline, the 2011 Trustee, the 2013 Trustee and Marret agreed to release their respective security interests in the UMC Shares for the purpose of enabling Cline to sell the UMC Shares to a third party. The UMC Shares have not been sold by Cline at this time.

72. The security interests of the 2011 Trustee and the 2013 Trustee created by the Cline Security Documents have been registered under the *Personal Property Security Act* (Ontario), the *Personal Property Security Act* (British Columbia) and the *Uniform Commercial Code* (including in the states of Colorado and Kansas). Attached as Exhibit “C” are summaries of the security registrations against the Applicants in Ontario, British Columbia, Colorado and Kansas.

73. In connection with the issuance by Cline of 2013 Notes on July 8, 2013, Bennett Jones LLP, in its capacity as Ontario counsel to Cline, prepared a title opinion dated July 22, 2013 (the “**Bennett Jones Opinion**”) with respect to the lands on which the Cline Lake Gold Project is located (the “**Cline Lake Lands**”). The Bennett Jones Opinion concluded that, subject only to certain specified encumbrances, Cline had a good and marketable leasehold title to the Cline Lake Lands. Other than an encumbrance for a “caution and grant of right of way” in favour of Great Lakes Power Distribution Inc., the only encumbrances listed in the Bennett Jones Opinion are in favour of the Trustee and Marret (in respect of the security interests in favour of Marret discussed below). Based on the results of the Bennett Jones Opinion, I understand that there are no encumbrances on the Cline Lake Lands that would rank in priority to the security interests of the Trustee and Marret in the Cline Lake Lands.

Subsidiary Security in Favour of the Trustee

74. The obligations in respect of the Secured Notes are guaranteed by New Elk and North Central, both of which have executed guarantees in favour of the 2011 Trustee and the 2013 Trustee. As security for the payment of the Secured Notes, New Elk and North Central granted security interests in favour of the 2011 Trustee and 2013 Trustee (as applicable) over all of their real and personal property, pursuant to the following documents (collectively, the “**Subsidiary Security Documents**”):

- (a) pledge and security agreements of New Elk and North Central in favour of each of the 2011 Trustee and the 2013 Trustee, granting a security interest in all personal property of New Elk and North Central, including a pledge of New Elk’s 100% equity interest in North Central represented by 100 common shares of

North Central and New Elk's 100% membership interest in Raton Basin represented by a membership certificate. The original share and membership certificates and corresponding irrevocable transfer powers are held by the Trustee; and

- (b) mortgages and assignments of production and proceeds from New Elk and North Central in favour of each of the 2011 Trustee and the 2013 Trustee, registered on title to the New Elk Mine on May 17, 2012 and July 16, 2013, respectively, granting the Trustee a security interest in, *inter alia*, the freehold and leasehold interests held by New Elk and North Central in the New Elk Mine, all coal and other minerals existing at the New Elk Mine and all operating equipment and facilities at the New Elk Mine.

75. Notice of the security interests of the 2011 Trustee and the 2013 Trustee created by the Subsidiary Security Documents have been registered under the *Uniform Commercial Code*, including in the State of Colorado.

76. In connection with the issuance by Cline of the Secured Notes, Cline engaged the Denver, Colorado office of Holland & Hart LLP to prepare the following Colorado title opinions (collectively, the "**Colorado Title Opinions**") in respect of the lands on which the New Elk Mine is located (the "**New Elk Lands**"):

- (a) Opinion dated January 11, 2013 and updated July 8, 2013 with respect to the lands leased by New Elk from the State of Colorado pursuant to the DOW Lease;

- (b) Opinion dated July 8, 2013 and updated July 11, 2013 with respect to the lands leased by New Elk from XTO Energy Inc. pursuant to the XTO Lease; and
- (c) Opinion dated July 8, 2013 and updated July 11, 2013 with respect to the lands owned by North Central.

77. The Colorado Title Opinions conclude that the only encumbrances in respect of the New Elk Lands are a number of “Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing” registrations from New Elk and North Central to and for the benefit of the Trustee and Marret (in respect of the security interests in favour of Marret discussed below). Based on the results of the Colorado Title Opinions, I understand that there are no encumbrances on the New Elk Lands that would rank in priority to the security interests of the Trustee and Marret in the New Elk Lands.

(iv) Security in Favour of Marret

78. As security for any obligations owed to Marret pursuant to the 2011 Indenture and the 2013 Indenture, and the guarantee of such obligations by New Elk and North Central, Cline, New Elk and North Central granted security interests in favour of Marret over their real and personal property, pursuant to the following documents (collectively, the “**Marret Security Documents**”):

- (a) general security agreements governed by the laws of Ontario in favour of Marret, granting Marret a security interest in all of Cline’s personal property;
- (b) mining lease debentures governed by the laws of Ontario in favour of Marret, registered on title to the Cline Lake Gold Project on July 22, 2013;

- (c) pledge and security agreements of New Elk and North Central granting Marret a security interest in all personal property of New Elk and North Central, including a pledge of New Elk's 100% equity interest in North Central represented by 100 common shares of North Central and New Elk's 100% membership interest in Raton Basin represented by a membership certificate; and
- (d) mortgages and assignments of production and proceeds from New Elk and North Central in favour of Marret, registered on title to the New Elk Mine on July 16, 2013, granting Marret a security interest in, *inter alia*, the freehold and leasehold interests held by New Elk and North Central in the New Elk Mine, all coal and other minerals existing at the New Elk Mine and all operating equipment and facilities at the New Elk Mine.

79. Notice of the security interests in favour of Marret created by the Marret Security Documents have been registered under the *Personal Property Security Act* (Ontario), the *Personal Property Security Act* (British Columbia) and the *Uniform Commercial Code* (in the United States).

80. The Applicants are not aware of any amounts presently owing directly to Marret at this time, other than the amounts owed in respect of the Secured Notes held or controlled by Marret.

(v) **Intercreditor Agreement**

81. The 2011 Trustee, the 2013 Trustee, Marret, Cline, New Elk and North Central are parties to an intercreditor agreement dated July 8, 2013 (the "**Intercreditor Agreement**") that governs the priority of security interests in the real and personal property of the Applicants (the

“**Collateral**”) as between the 2011 Noteholders, the 2013 Noteholders and Marret. The Intercreditor Agreement provides that the security interests of the 2011 Noteholders and the 2013 Noteholders in the Collateral rank *pari passu* for all purposes. It further provides that, as between the Secured Noteholders and Marret, the Secured Noteholders have a first-ranking and senior security interest in the Collateral and Marret has a second-ranking and subordinated security interest in the Collateral.

82. In summary, the material secured interests against the Applicants consist of: (i) ranking first, the security over substantially all assets and property of the Applicants held by the Trustee (on behalf of the Secured Noteholders) in respect of the 2011 Notes and the 2013 Notes and (ii) ranking second, the security over substantially all assets and property of the Applicants held by Marret in respect of any claims of Marret against the Applicants in relation to the Secured Notes.

(vi) **Other Security**

83. There are also certain secured interests in specific pieces of equipment used by the Applicants. As further described below, it is proposed that the secured claims relating to specific pieces of equipment would be unaffected in the Plan, and it is contemplated that they will not be primed by any Court-ordered charges in the proposed Initial Order.

84. Bank of Montreal also has a security interest in certain accounts of Cline to secure the repayment of amounts owing on corporate credit cards issued to Cline by the Bank of Montreal (up to a maximum amount of approximately \$230,000). Cline continues to use corporate credit cards in the ordinary course of business, so this secured interest would be unaffected in the Plan and will not be primed by any Court-ordered charges in the proposed Initial Order.

III. ASSESSMENT OF STRATEGIC ALTERNATIVES AND RESTRUCTURING EFFORTS TO DATE

(A) Performance of the Cline Business

85. The business of exploring and developing mining properties is subject to a number of risks, most notably the cyclical nature of global resource prices. While the Cline Group holds a variety of resource interests, the New Elk metallurgical coal mine is presently the sole asset of the Cline Group with earnings-generating capability. Accordingly, the performance of the Cline Business is significantly affected by volatility in the price of metallurgical coal. Metallurgical coal markets have undergone a protracted period of low prices in recent years due to broader challenges in the global economy and a global oversupply of metallurgical coal.

86. Following the Cline Group's acquisition of the New Elk Mine in 2008, the Cline Group made significant progress towards the rehabilitation, development and ultimate operation of the mine. New coal seams had been identified, various mining permits and surface transportation approvals had been obtained, and the first commercial coal delivery at the mine occurred in August 2011. Further exploration and testing since that time identified additional coal reserves, and on July 6, 2012 the Cline Group released a technical report noting a 59% increase in the measured and indicated coal resources at the New Elk Mine.

87. However, just as production at the New Elk Mine was beginning, conditions in the broader coal industry deteriorated significantly. Metallurgical coal prices in the first two quarters of 2012 decreased sharply as a result of shrinking demand, and the industry was saddled with excess capacity. On July 11, 2012, mining operations at the New Elk Mine were largely suspended. As noted above, this curtailment of operations was originally intended to be

temporary; however, market conditions in the coal industry have continued to worsen and the suspension of full-scale mining activities is largely still in effect.

88. Management continues to identify, control and reduce operating costs across the Cline Group to historically low levels. The Cline Group has developed a new mining plan for the New Elk Mine, creating a significantly lower cost model to address market realities. The Cline Group is attempting to undertake limited mining activities at the New Elk Mine to service regional industrial demand from cement kilns in Colorado and New Mexico, though it has not yet been determined whether such limited mining activities can achieve a sustainable operating profit. The Cline Lake Gold Project remains in the exploration stage, with further development being postponed until the Cline Group is able to access sufficient capital to proceed with additional underground evaluation. In the short term, management of the Cline Group is focused on maintaining sufficient funding to meet its working capital requirements during these proceedings, keeping its mineral claims and title in good standing and completing the Recapitalization as efficiently and expeditiously as possible.

(B) Challenges with Financing Arrangements

89. The suspension in July 2012 of full-scale mining activities at the Cline Group's only earnings-capable project has made it impossible for the Cline Group to meet its financial commitments as they become due. In late 2012, when it became apparent that Cline would be unable to make a semi-annual interest payment in respect of the 2011 Notes on December 15, 2012, Cline entered into discussions with Marret (on behalf of the 2011 Noteholders) regarding a possible forbearance of the 2011 Noteholders' rights and access to additional debt financing. Those discussions culminated in a forbearance agreement dated December 24, 2012, pursuant to

which the 2011 Trustee (at Marret's direction) agreed to temporarily forbear from demanding repayment of the 2011 Notes outstanding at that time in exchange for, among other things, a forbearance and restructuring fee in the amount of US\$2,500,000 and the execution of a commitment letter (the "**Commitment Letter**") between Cline and Marret, as agent for the 2011 Noteholders, providing for a financial restructuring of the Cline Group.

90. Pursuant to the Commitment Letter dated December 24, 2012, Marret committed to purchase a total of US\$9.5 million principal amount of additional 2011 Notes, consisting of US\$7.0 million of 2011 Notes to be purchased by January 11, 2013 and US\$2.5 million of 2011 Notes to be purchased on a later date to be determined by the parties.

91. The parties also agreed pursuant to the Commitment Letter to proceed with a Marret-sponsored recapitalization plan (the "**Marret Plan**") unless, by April 30, 2013, Cline was able to implement a different recapitalization transaction that satisfied certain conditions (the "**Cline Transaction**").

92. Pursuant to the fourth supplemental indenture, also dated December 24, 2012, Cline issued additional 2011 Notes in the principal amount of US\$13 million, US\$2.5 million of the proceeds of which was used to satisfy the December 2012 interest payment. Following the issuance of the 2011 Notes under the fourth supplemental indenture, 2011 Notes with a total principal amount of US\$63 million were outstanding.

93. On April 1, 2013, Cline announced that it had entered into a subscription agreement with Portpool Investments Ltd. for an equity recapitalization of the Cline Group, the terms of which would constitute a "Cline Transaction" for the purposes of the Commitment Letter. Cline vigorously pursued that transaction; however, Cline did not receive the \$2.5 million non-

refundable deposit from Portpool Investments Ltd. by April 10, 2013 as required by the subscription agreement, and as a result the equity recapitalization did not proceed.

94. On April 11, 2013, Cline issued additional 2011 Notes in the principal amount of US\$2.5 million pursuant to the fifth supplemental indenture. Since the “Cline Transaction” was not implemented by the deadline in the Commitment Letter, Cline took the initial steps to proceed with the Marret Transaction by negotiating a recapitalization of the Cline Group. On April 25, 2013, Cline and Marret entered into an agreement (the “**Recapitalization Agreement**”) setting out the terms of the proposed transaction. Cline filed a preliminary short form prospectus dated April 25, 2013 with respect to the transactions contemplated by the Recapitalization Agreement. However, the transactions contemplated in the Recapitalization Agreement did not proceed, and the preliminary short form prospectus was ultimately withdrawn on June 3, 2013.

95. Cline was unable to make a required semi-annual interest payment in respect of the 2011 Notes in the approximate amount of US\$3.3 million due June 17, 2013. On June 17, 2013, the 2011 Trustee (at the direction of the Secured Noteholders) entered into a second forbearance agreement with Cline, New Elk and North Central pursuant to which the 2011 Trustee agreed to forbear from taking any action to enforce certain of its rights under the 2011 Indenture until June 30, 2013 (subsequently extended until July 12, 2013), provided that Cline continued to discuss alternate financing with Marret on behalf of the 2011 Noteholders.

96. On July 8, 2013, an alternate financing with Marret was achieved when Cline issued 2013 Notes pursuant to the 2013 Indenture in the principal amount of \$9,490,998, \$3,300,998 of which was used to pay the June 2013 interest payment in respect of the 2011 Notes. Cline

secured additional needed funding by issuing 2013 Notes in the principal amounts of \$1.1 million on October 11, 2013 and \$1.75 million on November 14, 2013.

97. On December 16, 2013, Cline was unable to make a semi-annual interest payment in the amount of approximately US\$3.3 million in respect of the 2011 Notes and a semi-annual interest payment in the amount of approximately \$552,000 in respect of the 2013 Notes. Upon the instructions of Marret, the Trustee entered into new forbearance agreements with Cline, New Elk and North Central (collectively, the “**Forbearance Agreements**”) in respect of certain events of default, including the failure to make the December 2013 interest payments in respect of the Secured Notes. Pursuant to the Forbearance Agreements, the Trustee (at the direction of the Secured Noteholders) agreed to forbear from demanding repayment of the amounts owing under the 2011 Indenture and the 2013 Indenture and from enforcing the security held by each of them until January 16, 2014 or such later date as Marret may agree in writing.

98. The Secured Notes matured on June 15, 2014 and remain unpaid. Through a series of amendments and extensions, the Forbearance Agreements were extended to November 28, 2014 and it was agreed that the Forbearance Agreements would also apply to the Applicants’ failure to make the required June 15, 2014 interest payments and to repay the Secured Notes on maturity.

99. The Forbearance Agreements expired on November 28, 2014. On December 2, 2014, Marret confirmed that the Secured Noteholders had given instructions to the Trustee to accelerate the Secured Notes. The Secured Notes are now immediately due and payable and, subject to instructions from Marret and the Support Agreement described below, the Trustee is now in a position to enforce its rights and remedies against Cline, New Elk and North Central.

100. Over the past several months, the Cline Group and its advisors have engaged in discussions with Marret and its advisors regarding a restructuring or sale of the Cline Group that would be acceptable to Marret. These discussions resulted in the Sale Process (described below) and, ultimately, following the inability to generate interest in the Cline Group through the Sale Process, a Support Agreement between Cline and Marret pursuant to which Cline has agreed to initiate these CCAA proceedings and pursue the Recapitalization with the support of Marret.

101. Despite the Applicants' significant efforts to resolve their financial difficulties, the Applicants can no longer continue without restructuring their affairs under the CCAA.

(C) **Sale Process**

102. In April 2014, as part of its pursuit and assessment of solutions to its financial challenges, Cline engaged Moelis & Company LLC ("Moelis") to act as Cline's investment banking advisor for the purpose of pursuing a Sale Process in respect of the Cline Business. The objective of the Sale Process was to identify and pursue a sale or merger transaction as a means to generate sufficient proceeds to satisfy the obligations owing in respect of the Secured Notes and the Cline Group's other financial obligations. It was contemplated that a sale of the Cline Business could be completed either as part of a restructuring or as an alternative to a restructuring of the Cline Group.

103. Cline selected Moelis to conduct the Sale Process due to, among other things, its excellent market reputation and expertise in the metals and mining industries. Moelis is an independent investment bank with extensive experience in recapitalization and restructuring sales and transactions. I understand from representatives of Moelis that since 2008, Moelis has advised on over US\$425 billion of restructuring transactions, in which it has advised on over 180

assignments throughout Canada, the United States, Europe, the Middle East and Asia Pacific. Moelis has consistently been ranked as a top-tier financial restructuring advisor in the United States, and it has extensive expertise advising on strategic transactions in resource-based industries.

104. Prior to the formal commencement of the Sale Process, Moelis worked with management of the Applicants to gain an understanding of the Applicants' business, assets, operations and marketplace. Moelis identified potential purchasers of the Cline Business and reviewed recent completed and attempted sales of similar businesses to assess the market for such businesses and the comparative advantages and challenges of the Cline Business.

105. After this review of the Cline Business and the market, Moelis worked with the Cline Group's management to develop a confidential information memorandum (the "CIM") for prospective purchasers to review upon execution of a confidentiality agreement. Moelis also prepared a teaser document to be sent to potential purchasers on a confidential basis to generate further interest in the Cline Business.

106. Moelis contacted a broad range of potential purchasers, including 29 strategic and financial players, to assess their initial interest in purchasing the Cline Business. In response to these initial discussions, Moelis sent teaser documents to 23 of the potential purchasers.

107. Ultimately, 15 potential purchasers entered into confidentiality agreements and nine were provided with the CIM. I understand from representatives of Moelis that Moelis has had further discussions with these nine potential purchasers to highlight the acquisition opportunity and to respond to questions posed by the potential purchasers with respect to the Cline Business. There was no minimum amount required for bidding in the Sale Process.

108. The potential purchasers have now had several weeks to review the CIM, seek further information from the Applicants and Moelis and to decide whether they were interested in pursuing further discussion with respect to a potential purchase of or investment in the Cline Business. Unfortunately, the Cline Group has not received any indications of interest from prospective purchasers.

109. Six of the nine potential purchasers have expressly declined to pursue a purchase of the Cline Business and I believe it is unlikely that the other three parties that received the CIM are interested in pursuing a purchase of the Cline Group at this time given that they have not expressed any such interest in the preceding several weeks.

110. I understand from representatives of Moelis that, in the course of the Sale Process, Moelis obtained feedback with respect to the current market realities facing the Cline Group. The global hard coking coal benchmark price reached highs of US\$330 per metric tonne shortly after the New Elk Mine commenced operations in December 2010; however, over the past four years, prices have fallen by nearly 65%, to under US\$120 per metric tonne. I understand from representatives of Moelis that the potential purchasers indicated that they viewed it as unlikely that the New Elk Mine could be operated profitably at this time given the presently depressed price of metallurgical coal and the challenges facing the Cline Group, and that potential financial buyers indicated that were not prepared to operate the New Elk Mine on a cash flow negative basis for an indeterminate period of time.

111. These industry-wide challenges have led to diminished interest among purchasers for coal-related assets. Additionally, the market glut of coal-related assets for sale – including assets owned by Cliffs Natural Resources, Patriot Coal Corporation, SunCoke Energy Inc., Mechel

OAO, Walter Energy Inc. and James River Coal Company – makes it difficult to obtain a favourable price for the Cline Business. Until metallurgical coal prices improve and the New Elk Mine can produce coal at a positive cash margin, market interest in the New Elk Mine is unlikely to increase. Since the New Elk Mine is the only asset of the Cline Group with the potential to generate revenue in the near term, weakness in the value of the mine translates into weakness in the overall value of the Cline Business.

112. Based on the results of the Sale Process and my discussions with Moelis, and having regard to the historically low prices for metallurgical coal and the broader industry-wide challenges in the global metallurgical coal markets, there is no realistic prospect of the Cline Group achieving a sale of the Cline Business at the present time at values that would enable the Cline Group to satisfy its obligations in respect of the Secured Notes.

113. The amount of the obligations in respect of the Secured Notes exceeds the realizable value of the Cline Group at the present time. I understand that the practical implications of this are that (i) the Secured Noteholders would suffer a significant shortfall in the amounts owed to them if they were to enforce their security; (ii) there would be no residual value left over to pay the Cline Group's unsecured creditors or the WARN Act Plaintiffs if the Cline Group's secured creditors were to enforce their security; and (iii) the existing equity interests in Cline have no economic value.

IV. CCAA PROCEEDINGS

(A) Cline Group is Insolvent

114. Despite its extensive efforts to date, the Cline Group has been unable resolve its financial difficulties.

115. The Applicants are facing an impending liquidity crisis, with no reasonable prospect of generating operating earnings in the near term. Cline is immediately required to pay \$110,173,897 in respect of the Secured Notes. The Cline Group does not have the ability to pay these amounts. Consequently, without a CCAA stay of proceedings and Marret's support for the Recapitalization, the Trustee (at the direction of the Secured Noteholders) would be in a position to enforce its security over the assets and property of Cline, New Elk and North Central.

116. The aggregate value of the Applicants' assets, property and undertaking, taken at fair value, is not sufficient to enable the Applicants to pay their obligations, due and accruing due. The Applicants are therefore insolvent.

117. The Applicants and their boards of directors have thoroughly considered the circumstances and the alternatives available to the Applicants. In exercise of their business judgement, they have determined that the filing by the Applicants for protection under the CCAA is necessary at this time and the pursuit of the Recapitalization is in the best interests of the Applicants.

(B) Stay of Proceedings under the CCAA

118. At this time, I believe that, without the benefit of CCAA protection, there could be a significant erosion of the value of the Cline Group to the detriment of all stakeholders. In

particular, a debt enforcement against the Applicants could result in the loss of tax attributes and the need to transfer or re-apply for various exploration, mining and environmental permits that are currently held by the Cline Group. This would impair value that can be preserved in a CCAA restructuring and would lead to a lower recovery for both Secured Noteholders and unsecured creditors of the Applicants, who would be expected to receive no recovery in a debt-enforcement or bankruptcy scenario.

119. The Applicants are seeking CCAA protection to permit them to pursue a restructuring of the Cline Business with a view to maximizing its value for the benefit of their stakeholders. The stay of proceedings is necessary to maintain the stability and value of the Cline Business while the Applicants undertake the Recapitalization.

(C) **Funding of the Cline Group**

120. The Cline Group's principal use of cash during this period will consist of the costs associated with ongoing payments made in the ordinary course, including employee, independent contractor and officer compensation, rent, utility services, and general and administrative expenses. The Cline Group must also make periodic payments in order to keep its mining and exploration licenses in good standing. The Cline Group is obligated to remit annual land lease, railroad lease, and royalty payments of US\$520,877 and annual water lease payments of US\$105,000 in respect of the New Elk Mine. The costs associated with the New Elk Mine reflect that the mine is largely non-operational and is being maintained under a care and maintenance program.

121. In addition to the regular course expenditures listed above, the Cline Group will also incur professional fees and disbursements in connection with these proceedings and the

Recapitalization. The Applicants are seeking to complete the Recapitalization as quickly and efficiently as reasonably possible in order to minimize restructuring and transactional costs during the CCAA proceedings. The Applicants anticipate that their existing cash levels will provide the Cline Group with sufficient liquidity during the CCAA proceedings.

122. The Applicants' 13-week cash flow projections are attached hereto as Exhibit "D".

(D) Recapitalization of the Cline Group

123. The Cline Group, together with its advisors, has engaged in discussions with Marret (on behalf of the Secured Noteholders) regarding a consensual recapitalization of the Cline Group. Ultimately, these discussions resulted in the proposed Recapitalization. Cline and Marret have entered into the Support Agreement, pursuant to which Marret (on behalf of the Secured Noteholders) has agreed to support the Recapitalization and the Plan. A copy of the Support Agreement is attached hereto as Exhibit "E".

124. The terms of the Recapitalization are set out in the Plan, a copy of which is attached hereto as Exhibit "F". The material terms of the Recapitalization include the following:

- (a) the Plan is filed on a consolidated basis in respect of the Applicants;
- (b) the Plan provides for three separate classes of creditors, namely the Secured Noteholders Class, the Affected Unsecured Creditors Class and the WARN Act Plaintiffs Class (each as defined below);
- (c) the Plan apportions the aggregate Secured Noteholders' claim between the portion of that claim that is secured (the "**Secured Noteholders Allowed Secured Claim**") and the portion of that claim that represents an unsecured deficiency

claim (the “**Secured Noteholders Allowed Unsecured Claim**”), and, for purposes of the Plan, the Secured Noteholders Allowed Secured Claim is \$92,673,897 and the Secured Noteholders Allowed Unsecured Claim is \$17,500,000;

- (d) the Secured Noteholders Allowed Secured Claim will be compromised, released and discharged in exchange for new Cline common shares representing 100% of the equity in Cline, and new indebtedness in favour of the Secured Noteholders evidenced by a credit agreement with a term of seven years in the principal amount of \$55,000,000, bearing interest at 0.01% per annum plus an additional variable interest payable only once the Applicants have achieved certain operating revenue targets;
- (e) the claims of affected unsecured creditors (the “**Affected Unsecured Creditors**”), which exclude the WARN Act Plaintiffs but include the Secured Noteholders Allowed Unsecured Claim, will be compromised, released and discharged in exchange for each such Affected Unsecured Creditor’s *pro rata* share of an unsecured, subordinated, non-interest bearing entitlement to receive \$225,000 from Cline on the date that is eight years from the date the Plan is implemented (the “**Unsecured Plan Entitlement**”);
- (f) notwithstanding the Secured Noteholders Allowed Unsecured Claim, the Secured Noteholders will waive their entitlement to the proceeds of the Unsecured Plan Entitlement, and all such proceeds will be available for distribution to the other

Affected Unsecured Creditors with valid claims who are entitled to the Unsecured Plan Entitlement, allocated on a *pro rata* basis;

- (g) all Affected Unsecured Creditors with valid claims of up to \$10,000 will, instead of receiving their *pro rata* share of the Unsecured Plan Entitlement, be paid in cash for the full value of their claim and will be deemed to vote in favour of the Plan unless they indicate otherwise, provided that this cash payment will not apply to any Secured Noteholder with respect to its Secured Noteholders Allowed Unsecured Claim;
- (h) all WARN Act Claims will be compromised, released and discharged in exchange for an unsecured, subordinated, non-interest bearing entitlement to receive \$100,000 from Cline on the date that is eight years from the date the Plan is implemented (the “**WARN Act Plan Entitlement**”);
- (i) certain claims against the Applicants, including claims covered by insurance, certain prior-ranking secured claims of equipment providers and the secured claim of Bank of Montreal in respect of corporate credit card payables, will remain unaffected by the Plan;
- (j) existing equity interests in Cline will be cancelled for no consideration; and
- (k) the shares of New Elk and North Central will not be affected by the Recapitalization and will remain owned by Cline and New Elk, respectively.

125. The Plan provides that if it is not approved by the required majorities of both the Unsecured Creditors Class and the WARN Act Plaintiffs Class, or the Applicants determine that

such approvals are not forthcoming, the Applicants are permitted to withdraw the Plan and file an amended and restated plan (the “**Alternate Plan**”) without further order of the Court. The Alternate Plan would provide, *inter alia*, that all unsecured claims and all WARN Act Claims against the Applicants are treated as unaffected claims, the only voting class under the Alternate Plan is the Secured Noteholders Class, and all assets of the Applicants will be transferred to an entity designated by the Secured Noteholders in exchange for a release of the Secured Noteholders Allowed Secured Claim.

126. If implemented, the Recapitalization would result in a reduction of over \$55 million in interest-bearing debt and would reduce the Applicants’ annual interest expense in the near term.

127. I understand from the Cline Group’s professional advisors that secured creditors frequently pursue an asset transfer transaction under a debt enforcement process in circumstances where the secured debts of the debtor company exceed the realizable value of the business. In reviewing its alternatives, the Applicants ultimately determined that they and their stakeholders would be best served by attempting to complete the Recapitalization under the CCAA with ancillary recognition under Chapter 15, in order to preserve certain tax attributes and exploration, mining and environmental permits owned or held by the Cline Group. Accordingly, the Applicants are of the view that pursuing the Recapitalization pursuant to a CCAA plan of arrangement, which would preserve and maintain all assets within the existing Cline Group corporate entities, is in the best interests of the Applicants and their stakeholders.

128. In addition, I believe that the Recapitalization is preferable to other alternatives because it provides a limited recovery for the Applicants’ unsecured creditors and the WARN Act Plaintiffs, who would otherwise receive no recovery in a security enforcement or asset sale

scenario (since the amounts owed in respect of the Secured Notes exceed the value of the Applicants' property).

(E) Payments for Goods and Services

129. The Applicants have identified certain business relationships with independent contractors and agents, experts, accountants, advisors and counsel (the “**Assistants**”) as critical to the successful operation of the Cline Business and the successful implementation of the Recapitalization. The continued service of the Applicants' employees is also critical. These parties may discontinue ongoing services if the Applicants cease to pay them in the ordinary course. In addition, the Cline Group must also make periodic payments in order to keep its mining and exploration development permits in good standing. Accordingly, to avoid any disruption that would impair the successful restructuring of the Cline Business, the Applicants are seeking authorization in the Initial Order to continue to make ongoing payments in respect of these obligations, regardless of whether such obligations arose before or after the commencement of these CCAA proceedings.

130. In addition, the Applicants are seeking authority in the Initial Order to continue to pay during the CCAA proceedings all reasonable expenses and capital expenditures necessary for the preservation of the Cline Business or the property of the Applicants and to make payment for goods and services supplied to the Cline Group, including pre-CCAA obligations if, in the opinion of the Applicants and with the consent of the Monitor, the supplier of goods or services is critical to the Cline Business.

(F) **Monitor**

131. The Applicants are seeking the appointment of FTI Consulting Canada Inc. as the proposed CCAA monitor in these proceedings (the “**Monitor**”). FTI is a recognized leader in the financial restructuring industry and has consented to act as the Monitor. A copy of its consent is attached at Tab “5” of the Application Record.

132. In connection with its appointment, it is contemplated that a Court-ordered charge over the assets, property and undertaking of the Applicants (the “**Administration Charge**”) would be granted in favour of the Monitor, its legal counsel, counsel to the Applicants, the Chief Restructuring Officer of the Applicants and counsel to Marret in respect of their fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel and advisors, over the assets, property and undertaking of the Applicants. The proposed Administration Charge is in an aggregate amount of \$350,000.

133. All of the beneficiaries of the Administration Charge have contributed, and continue to contribute, to the recapitalization of the Applicants. The Applicants have sought to ensure that there is no unwarranted duplication of roles so as to minimize the professional fees associated with the Recapitalization.

(G) **Directors’ and Officers’ Charge**

134. The directors and officers of the Applicants have been actively involved in the attempts to address the Applicants’ current financial circumstances and difficulties, including through the exploration of alternatives, communicating with Marret and other stakeholders and participating in the negotiation of the proposed Recapitalization.

135. The directors and officers have been mindful of their duties with respect to the supervision and guidance of the Applicants in advance of these CCAA proceedings. Nevertheless, it is my understanding, based on advice from counsel, that in certain circumstances, directors and officers can be held personally liable for certain corporate obligations, including in connection with payroll remittances, harmonized sales taxes, goods and services taxes, workers compensation remittances, etc. Furthermore, I understand it may be possible for directors and officers of a corporation to be held personally liable for certain unpaid employment-related obligations.

136. Cline maintains an insurance policy with AIG Insurance Company of Canada in respect of the potential liability of directors and officers of the Applicants (the “**D&O Insurance Policy**”). Cline has also deposited approximately \$45,000 with AIG Insurance Company of Canada as a pre-payment for a run-off directors and officers insurance policy that is expected to be purchased at a later date. The D&O Insurance Policy insures the directors and officers of the Applicants for certain claims that may arise against them in their capacity as directors and/or officers of the Applicants; however, the D&O Insurance Policy contains several exclusions and limitations to the coverage provided, and there is a potential for there to be insufficient coverage in respect of the potential director and officer liabilities.

137. The directors and officers of the Applicants have expressed their desire for certainty with respect to potential personal liability if they continue in their current capacities. In order to continue to carry on business during the CCAA proceedings and in order to conduct the Recapitalization most effectively, the Applicants require the active and committed involvement of the members of their boards of directors and senior officers.

138. The Applicants request a Court-ordered charge (the “**Directors’ Charge**”) in the amount of \$500,000 over the assets, property and undertaking of the Applicants to indemnify their directors and officers in respect of liabilities they may incur during the CCAA proceedings in their capacities as directors and officers. The amount of the Directors’ Charge has been calculated based on the estimated exposure of the directors and officers of the Applicants and has been reviewed with the prospective Monitor. The proposed Directors’ Charge would apply only to the extent that the directors and officers do not have coverage under the D&O Insurance Policy.

(H) Priorities of Charges

139. It is contemplated that the priorities of the various charges set out herein will be as follows:

- (a) First – the Administration Charge; and
- (b) Second – the Directors’ Charge.

140. The Initial Order sought by the Applicants provides for the Administration Charge and the Directors’ Charge (collectively, the “**Charges**”) to rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, “**Encumbrances**”) in favour of any person, notwithstanding the order of perfection or attachment, except for any validly perfected security interest listed on Schedule “A” to the proposed Initial Order. The secured creditors that are affected by the Charges, namely the Trustee and Marret, have been given notice of these CCAA proceedings and the relief being requested in the Initial Order.

141. The Applicants believe the amount of the Charges is fair and reasonable in the circumstances.

(I) Chapter 15 Proceedings

142. The Applicants believe that the Recapitalization of the Cline Group ought to be dealt with primarily in a single forum. Since, as outlined in section II(B)(iii) of this Affidavit, the Cline Group operates as an integrated enterprise with its interests centred in Toronto, Canada, I am of the view that it is appropriate for CCAA proceedings in Toronto, Canada to be the primary court-supervised proceedings in respect of the Cline Group. However, the Applicants and the proposed Monitor are of the view that the Recapitalization of the Cline Group is likely to require judicial approval in the United States to address the assets and obligations of the Cline Group in the United States.

143. Accordingly, the Applicants, with the assistance of the Monitor as foreign representative, intend to commence proceedings in respect of the Applicants pursuant to Chapter 15, Title 11 of the United States Code (“**Chapter 15 Proceedings**”). The proposed Initial Order authorizes the Monitor to act as the foreign representative in respect of the CCAA proceedings and, if deemed advisable by the Monitor and the Applicants, to apply for recognition of the CCAA proceedings in Chapter 15 Proceedings in the United States.

(J) Postponement of Annual General Meeting

144. I am advised by counsel that Cline is presently required under the *Business Corporations Act* (British Columbia) to hold an annual general meeting of its shareholders. The previous annual general meeting of Cline was held on August 15, 2013, and Cline was therefore

statutorily required to hold an annual meeting on or before November 15, 2014. I believe that it would serve no purpose for Cline to hold an annual general meeting of shareholders in the present circumstances because the shareholders do not have an economic interest in Cline as a result of its insolvency, and preparing for and holding an annual general meeting of shareholders would result in unnecessary costs and divert the attention of senior management away from implementing the proposed Recapitalization. Accordingly, Cline is seeking relief in the Initial Order to be relieved of any obligation to call and hold an annual general meeting of its shareholders until the completion of these proceedings or further Order of the Court.

(K) Marret and the Trustee

145. As noted above, Marret exercises sole discretion and control over the Secured Noteholders. Accordingly, to simplify and expedite dealings between the Cline Group and the Secured Noteholders during these proceedings, Marret has confirmed that the Secured Noteholders have directed the Trustee to stand down from its obligations in respect of the Secured Notes and to allow Marret to exercise all powers and authorities ordinary exercised by the Trustee in respect of the Secured Notes. To that end, the Applicants, with the support of Marret, are seeking a paragraph in the Initial Order to authorize and give effect to those arrangements.

(L) Claims Procedure Order and Meetings Order

146. The Applicants will be bringing a motion, seeking to proceed immediately, for a Claims Procedure Order authorizing and directing the Applicants to undertake a process (the “**Claims Procedure**”) to identify and determine all affected claims against the Applicants and their

present and former directors and officers for voting and distribution purposes with respect to the Plan.

147. Also, the Applicants will be bringing a motion, seeking to proceed immediately, for a Meetings Order authorizing and directing the Applicants to file the Plan with the Court and to convene meetings of their affected creditors to vote on a resolution to approve the Plan and any amendments thereto.

148. The Applicants are seeking the Claims Procedure Order and the Meetings Order at this stage because they wish to effectuate the Recapitalization as efficiently as possible. Completing the Recapitalization in a timely manner is in the best interests of all stakeholders of the Applicants and will ensure that the Cline Group has a reduced debt structure to enable the Cline Group to better withstand prolonged weakness in the market for its resources.

149. Each of the proposed Claims Procedure Order and Meetings Order contains a “Comeback Clause” allowing interested parties who wish to amend or vary the applicable Order to appear before the Court or bring a motion before the Court on a date to be set by the Court.

(ii) Claims Procedure Order

150. In this section, defined terms not defined herein will be as defined in the Claims Procedure Order.

151. The draft Claims Procedure Order provides a process for identifying and determining claims against the Applicants and their directors and officers, including, *inter alia*, the following:

- (a) Cline and Marret, shall determine the aggregate of all amounts owing by the Applicants under the 2011 Indenture and the 2013 Indenture in respect of the

Secured Notes up to the Filing Date, such amounts being collectively the Secured Noteholders Allowed Claim;

- (b) the Secured Noteholders Allowed Claim will be apportioned between the Secured Noteholders Allowed Secured Claim and the Secured Noteholders Allowed Unsecured Claim (being the amount of the Secured Noteholders Allowed Claim that is designated as unsecured having regard to the value of the security held by the 2011 Trustee and 2013 Trustee), as set out in the Claims Procedure Order, and as described below;
- (c) the Monitor will send a Claims Package to all Known Creditors, which Claims Package shall include a Notice of Claim specifying the Known Creditor's Claim against the Applicants for voting and distribution purposes, and specifying whether the Known Creditor's claim is secured or unsecured;
- (d) the Claims Procedure Order contains provisions allowing a Known Creditor to dispute its Claim as determined in the applicable Notice of Claim for either voting or distribution purposes or with respect to whether such Claim is secured or unsecured, and sets out a procedure for resolving such disputes;
- (e) the Monitor will publish a notice to creditors in The Globe and Mail (National Edition), the Denver Post and the Pueblo Chieftain to solicit Claims against the Applicants by potential claimants who are as yet unknown to the Applicants;
- (f) the Monitor will deliver a Claims Package to any Unknown Creditor who makes a request therefor prior to the Claims Bar Date containing a Proof of Claim to be

completed by such Unknown Creditor and filed with the Monitor prior to the Claims Bar Date;

- (g) the proposed Claims Bar Date for Proofs of Claim for Unknown Creditors and for Notices of Dispute in the case of Known Creditors is January 13, 2015 (which is 42 days following the date of the Claims Procedure Order, assuming that Order is granted at this time);
- (h) the Claims Procedure Order contains provisions allowing the Applicants to dispute a Proof of Claim as against an Unknown Creditor and provides a procedure for resolving such disputes for either voting or distribution purposes or with respect to whether such claim is secured or unsecured;
- (i) the Claims Procedure Order allows the Applicants to allow a Claim for purposes of voting on the Plan without prejudice to whether that Claim has been accepted for purposes of receiving distributions under the Plan;
- (j) where the Applicants or the Monitor send a notice of disclaimer or resiliation to any Creditor after the Filing Date, such notice shall be accompanied by a Claims Package allowing such Creditor to make a claim against the Applicants in respect of a Restructuring Period Claim;
- (k) the Restructuring Period Claims Bar Date, in respect of claims arising as on or after the Applicants' date of CCAA filing shall be seven (7) days after the day such a Restructuring Period Claim arises;

- (l) for purposes of the matters set out in the Claims Procedure Order in respect of any WARN Act Claims: (i) the WARN Act Plaintiffs will be treated as Unknown Creditors since the Applicants are not aware of (and have not quantified) any bona fide claims of the WARN Act Plaintiffs; and (ii) Class Action Counsel shall be entitled to file Proofs of Claim, Notices of Dispute of Revision and Disallowance, receive service and notice of materials and to otherwise deal with the Applicants and the Monitor on behalf of the WARN Act Plaintiffs, provided that Class Action Counsel shall require an executed proxy in order to cast votes on behalf of any WARN Act Plaintiffs at the WARN Act Plaintiffs' Meeting;
- (m) Creditors may file a Proof of Claim with respect to a Director/Officer Claim; and
- (n) interested parties who wish to amend or vary the Claims Procedure Order may appear before the Court or bring a motion before the Court on a date to be set by the Court.

152. The Claims Procedure Order is designed to identify the Claims of all possible Creditors in a manner that preserves the rights of such Creditors while allowing the Applicants to proceed expeditiously.

(iii) Meetings Order

153. The draft Meetings Order provides that the Applicants are authorized to file the Plan and to convene meetings of their affected creditors to consider and vote on the Plan as follows:

- (a) a meeting of the Secured Noteholders (the “**Secured Noteholders Class**”);

- (b) a meeting of affected unsecured creditors other than claimants with WARN Act Claims (the “**Affected Unsecured Creditors Class**”); and
- (c) a meeting of any claimants in respect of WARN Act Claims (the “**WARN Act Plaintiffs Class**”).

154. The Secured Noteholders Class will consist of the Secured Noteholders in respect of the portion of their claims against the Applicants that is to be treated as secured. Each Secured Noteholder will be entitled to vote its *pro rata* portion of that amount in the Secured Noteholders Class.

155. The Affected Unsecured Creditors Class consists of all of the unsecured creditors of the Applicants who are to be affected by the Plan, including the Secured Noteholders in respect of the remaining unsecured balance of their claims (i.e. the portion of their claims that is to be treated as unsecured), but excluding any WARN Act Plaintiff in respect of a WARN Act Claim. Each Secured Noteholder will be entitled to vote its *pro rata* portion of the Secured Noteholders Allowed Unsecured Claim in the Affected Unsecured Creditors Class. The Affected Unsecured Creditors Class also includes the second-ranking secured claims of Marret (in its individual capacity), if any. The claims of Marret would be treated as unsecured because they rank below the Secured Notes, which will already suffer a deficiency in the value of their available security.

156. The Affected Unsecured Creditors Class will include a convenience class of unsecured creditors with Affected Unsecured Claims of up to \$10,000 who will be paid in cash in full of their Affected Unsecured Claims and who will be deemed to vote in favour of the Plan, as members of the Affected Unsecured Creditors Class, unless they indicate otherwise.

157. The WARN Act Plaintiffs Class consists of all WARN Act Plaintiffs in the WARN Act Class Action who may assert WARN Act Claims against the Applicants.

158. I believe that this classification of creditors is fair having regard to the creditors' legal interests, the remedies available to them, and the extent to which they would recover their claims by exercising those remedies. In addition, all of the creditors in the Affected Unsecured Creditors Class have no security enforcement remedy in respect of the claims to be voted in that class, either because they have no security interest in the Applicants at all or because the value of the Applicants' assets is insufficient to satisfy the secured claims against them. All of the claims in the Affected Unsecured Creditors Class are similar in that they would remain unpaid in the event of a security enforcement or liquidation scenario.

159. The WARN Act Plaintiffs Class consists of contingent litigation creditors who assert (or who may assert) claims against Cline and New Elk in an uncertified class action proceeding. The WARN Act Claims have not been proven and are contested by the Applicants.

160. It is proposed that the Meetings will be held at Goodmans LLP, 333 Bay Street, Suite 3400, Toronto, Ontario on January 21, 2015 at 10:00 a.m. for the WARN Act Plaintiffs Class, 11:00 a.m. for the Affected Unsecured Creditors Class, and 12:00 p.m. for the Secured Noteholders Class.

161. The draft Meetings Order provides for, *inter alia*, the following in respect of the governance of the Meetings (defined terms not otherwise defined herein shall have the meaning given to those terms in the Plan):

- (a) an officer of the Monitor shall preside as the chair of the Meetings;

- (b) the only parties entitled to notice of, attend or speak at the Meetings are the Eligible Voting Creditors (or their respective duly appointed proxyholders), representatives of the Monitor, the Applicants, Marret, all such parties' financial and legal advisors, the Chair, the Secretary, the Scrutineers, and such other parties as may be admitted to a Meeting only by invitation of the Applicants or the Chair;
- (c) only Creditors with Voting Claims or their duly appointed proxyholders are entitled to vote at the Meetings; provided that, in the event a Creditor holds a Claim that is a Disputed Voting Claim as at the date of a Meeting, such Disputed Voting Claim may be voted at the applicable Meeting (by the applicable Creditor or its proxyholder) but shall be tabulated separately and shall not be counted for any purpose unless, until, and only to the extent that such Claim is ultimately determined to be a Voting Claim;
- (d) each WARN Act Plaintiff or its proxyholder shall be entitled to cast an individual vote on the Plan as part of the WARN Act Plaintiffs Class and Class Action Counsel shall be permitted to cast votes on behalf of those WARN Act Plaintiffs who have duly appointed Class Action Counsel as their proxy pursuant to the terms of the Meetings Order;
- (e) the quorum for each Meeting is one Creditor with a Voting Claim, provided that if there are no WARN Act Plaintiffs voting in the WARN Act Plaintiffs Class, the Applicants will have the right to combine the WARN Act Plaintiffs Class with the Affected Unsecured Creditors Class and proceed without a vote of the WARN

Act Plaintiffs Class, in which case there shall be no WARN Act Plan Entitlement under the Plan;

- (f) the Monitor shall keep separate tabulations of votes in respect of:
 - (i) Voting Claims; and
 - (ii) Disputed Voting Claims, if any;
- (g) the Scrutineers shall tabulate the vote(s) taken at each Meeting and determine whether the Plan has been accepted by the required majorities of the Secured Noteholders Class, the Affected Unsecured Creditors Class and the WARN Act Plaintiffs Class;
- (h) if the approval or non-approval of the Plan may be affected by the votes cast in respect of the Disputed Voting Claims, if any, as determined by the Monitor, the Applicants and the Monitor may seek directions from this Court; and
- (i) the results of the vote conducted at the Meetings shall be binding on each creditor of the Applicants whether or not such creditor is present in person or by proxy or voting at a Meeting.

162. The Applicants may elect to proceed with the Meetings notwithstanding that the resolution of Claims in accordance with the Claims Procedure may not be complete. As noted above, the Meetings Order, if approved, authorizes and directs the Monitor to tabulate votes in respect of Voting Claims separately from votes in respect of Disputed Voting Claims, if any. If the approval or non-approval of the Plan may be affected by the votes cast in respect of Disputed Voting Claims, if any, then only if the Disputed Voting Claims are ultimately determined to be

Voting Claims, in whole or in part, will such Claims, in whole or in part, as applicable, be counted for purposes of determining whether the requisite majorities of the Secured Noteholders Class, the Affected Unsecured Creditors Class and the WARN Act Plaintiffs Class have voted to approve the Plan. This way, the Meetings can proceed concurrently with the conclusion of the Claims Procedure.

163. By proceeding with the Meetings concurrently with the conclusion of the Claims Procedure, the Applicants hope to move more expeditiously towards the implementation of the Recapitalization and the conclusion of the Recapitalization.

164. The Meetings Order includes a comeback provision providing interested parties who wish to amend or vary the Meetings Order with the ability to appear before the Court or bring a motion before the Court on a date to be set by the Court.

165. Marret has confirmed that it supports the Recapitalization and the Plan on behalf of the Secured Noteholders and it has entered into the Support Agreement to that effect.

166. The class of unsecured creditors of the Applicants is relatively small, and most of the Applicants' known unsecured creditors are knowledgeable about the operations of the Applicants. As a result, I believe the counterparties would not be prejudiced by the timeframes being proposed in the requested Claims Procedure Order and Meetings Order.

*(iv) **Fairness of Plan and the Recapitalization***

167. The Applicants have considered a number of factors in deciding to move forward with the Recapitalization, the Plan and the relief sought under the CCAA, including:

- (a) the industry-wide challenges facing the metallurgical coal market, including historically low prices for metallurgical coal;
- (b) the results of the Sale Process, including the fact that no offers or expressions of interest for the Cline Group were received in the Sale Process;
- (c) the Secured Notes are now past due, Marret has advised that the Secured Noteholders have directed the Trustee to accelerate the Secured Notes and the Trustee (at the direction of the Secured Noteholders) is in a position to enforce its security;
- (d) the fact that Marret (on behalf of the Secured Noteholders) has forbore on its rights for an extended period of time to allow the Applicants to consider and pursue alternatives and has allowed the Cline Group to use its cash collateral to fund the Cline Group during that time; however, Marret is not prepared to forbear and support the Cline Group any longer in the absence of the Recapitalization;
- (e) the Applicants have achieved the support of Marret, which represents the Applicants' largest creditor group and the creditors with the remaining economic interest in the Cline Group;
- (f) the Plan would provide for limited recoveries for Affected Unsecured Creditors and WARN Act Plaintiffs, who would otherwise expect to receive nothing in a debt enforcement or liquidation scenario; and
- (g) the Applicants do not presently have any other viable alternative for continuing the Cline Business other than the Recapitalization.

- 59 -

168. In light of these considerations, the Applicants have concluded that the terms of the Recapitalization and the Plan are fair and reasonable in the circumstances.

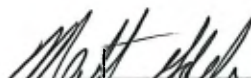
V. CONCLUSION

169. The Applicants are currently in an unsustainable financial position. The Cline Group has a number of valuable interests in mineral properties but currently lacks the financial capacity to develop and operate them. The depressed global market for metallurgical coal and the ongoing suspension of full-scale coal mining activities at the New Elk Mine has led to the inability of the Applicants to satisfy their obligations in respect of the Secured Notes and has rendered the Applicants insolvent. In order to avoid a debt enforcement scenario and the accompanying loss of value, the Cline Group has negotiated the Recapitalization and achieved the support of Marret (on behalf of the Secured Noteholders). The Applicants have determined that it is in the best interests of the Applicants and their stakeholders to seek protection under the CCAA and to move forward with the Recapitalization as efficiently and expeditiously as possible. Accordingly, I swear this Affidavit in support of the relief sought by the Applicants.

SWORN before me in the City of Toronto,
in the Province of Ontario, on December 2,
2014.



A Commissioner for taking affidavits
Name:



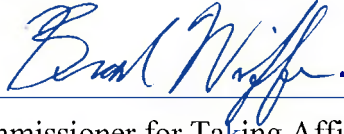
MATTHEW GOLDFARB

Exhibit “A”

THIS IS EXHIBIT "A"

TO THE AFFIDAVIT OF MATTHEW GOLDFARB

SWORN BEFORE ME ON THE 2ND DAY OF DECEMBER, 2014.

A handwritten signature in blue ink, appearing to read "Brad Wiff", is written above a horizontal line.

Commissioner for Taking Affidavits

Cline Group – Corporate Organizational Chart

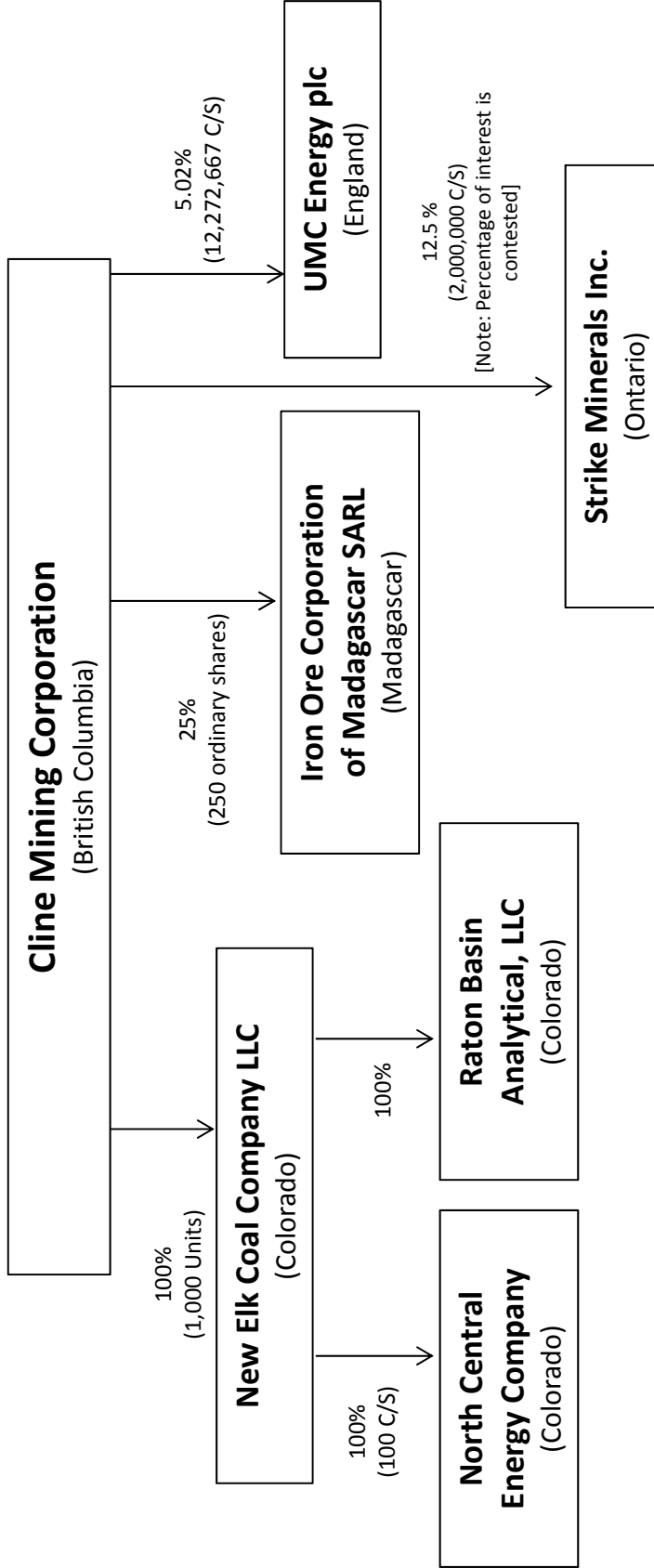
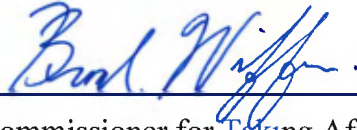


Exhibit “B”

THIS IS EXHIBIT "B"

TO THE AFFIDAVIT OF MATTHEW GOLDFARB

SWORN BEFORE ME ON THE 2ND DAY OF DECEMBER, 2014.

A handwritten signature in blue ink, appearing to read "Brad Wiffen", is written above a horizontal line.

Commissioner for Taking Affidavits



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED AUGUST 31, 2014

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited)

As at	August 31, 2014	November 30, 2013
ASSETS		
Current		
Cash and cash equivalents (Note 6)	\$ 9,324,532	\$ 1,515,625
Trade and other receivables	408,171	1,402,812
Prepaid expenses and deposits	641,884	267,483
Inventory	3,772,173	3,459,822
Total Current Assets	14,146,761	6,645,742
Mineral properties under development (Note 9)	135,469,761	133,364,786
Exploration and evaluation assets (Note 8)	1	1
Bond on land (Note 12)	5,714,451	5,581,483
Reclamation deposits (Note 12)	-	50,000
Contractor deposits	103,837	101,421
Investments (Note 7)	665,358	704,421
Property, plant and equipment (Note 10)	48,623	173,664
Total Assets	\$156,148,792	\$146,621,518
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 17)	\$ 3,902,500	\$ 5,941,413
Income taxes payable	79,079	79,079
Current portion of loans payable (Note 17(vii))	406,201	387,238
Bonds payable (Note 11)	93,474,578	85,170,992
Total Current Liabilities	97,862,358	91,578,722
Provision for environmental rehabilitation (Note 12)	837,215	760,683
Long-term portion of loans payable (Note 17(vii))	247,973	579,827
Total Liabilities	98,947,547	92,919,232
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	226,992,609	226,992,609
Contributed surplus	33,619,487	33,619,487
Warrants (Note 16)	10,878,265	10,878,265
Deficit	(230,543,885)	(231,500,643)
Accumulated other comprehensive income	16,254,769	13,712,568
Total Shareholders' Equity	57,201,245	53,702,286
Total Liabilities and Shareholders' Equity	\$156,148,792	\$146,621,518

Nature of Operations and Going Concern (Note 1)
 Commitments and Contingencies (Note 17)
 Subsequent Events (Note 19)

Approved on Behalf of the Board:

" Vincent (James) Sardo "
Director

" Matthew Goldfarb "
Director

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND
COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2014	2013	2014	2013
EXPENSES				
Consulting and management fees	\$160,974	\$543,283	\$569,015	\$1,052,802
Legal and audit	199,047	104,214	865,827	1,771,438
Directors fees and expenses	24,551	36,000	73,652	248,533
Mine expenses	975,078	-	2,589,091	-
General, administrative and office	196,051	104,673	449,824	352,996
Transfer agent, filing and investor relations	-	44,194	102,054	129,283
Travel and accommodation	7,840	24,505	45,738	79,493
Interest and accretion on bonds and restructuring fees (Note 11)	2,098,554	-	6,286,499	-
Amortization	17,035	2,163	61,616	6,369
Foreign exchange (gain) loss	248,156	1,109,276	2,082,977	4,737,033
	(3,927,286)	(1,968,308)	(13,126,293)	(8,377,947)
OTHER INCOME (EXPENSES)				
Interest income and expenses	17,944	1,708	20,799	5,313
Litigation settlement (Note 17(v))	-	-	9,800,000	-
Gain on sale of assets	334,108	-	4,326,988	-
Gain on sale of IOCM options	25,000	-	25,000	-
Loss on sale of equipment	-	-	(31,174)	-
Impairment loss on mineral property	-	(79,644)	-	(129,189)
Accretion of provision for environmental rehabilitation (Note 12)	(19,388)	(25,000)	(58,561)	(100,000)
Gain (Loss) for the period before income taxes	(3,569,622)	(2,071,244)	956,759	(8,601,823)
Income taxes	-	-	-	-
Gain (Loss) for the period	(3,569,622)	(2,071,244)	956,759	(8,601,823)
Items that will be reclassified to operations				
Unrealized gain (loss) on investments, net of tax	10,537	(1,114,230)	(39,063)	(1,909,182)
Currency translation adjustment	328,832	4,195,865	2,581,265	15,308,586
Comprehensive income (loss)	\$(3,230,253)	\$1,010,391	\$3,498,961	\$4,797,581
Basic and diluted earnings (loss) per share	\$(0.02)	\$(0.01)	\$0.01	\$(0.04)
Weighted average number of shares outstanding – basic and diluted	209,144,977	209,144,977	209,144,977	209,144,977

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, November 30, 2013	\$226,992,609	\$33,619,487	\$10,878,265	\$(231,500,643)	\$13,712,568	\$53,702,286
Net gain for the period	-	-	-	956,759	-	956,759
Cumulative translation adjustments	-	-	-	-	2,581,265	2,581,265
Unrealized loss on investment for the period, net of tax	-	-	-	-	(39,063)	(39,063)
Balance, August 31, 2014	\$226,992,609	\$33,619,487	\$10,878,265	\$(230,543,885)	\$16,254,769	\$57,201,245
	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2012	\$226,992,609	\$31,919,216	\$12,552,727	\$(31,829,416)	\$(1,980,995)	\$237,654,141
Net loss for the period	-	-	-	(8,601,823)	-	(8,601,823)
Issuance of warrants	-	-	53,200	-	-	53,200
Modification of warrants	-	-	232,304	-	-	232,304
Expiry of warrants	-	1,959,966	(1,959,966)	-	-	-
Cumulative translation adjustments	-	-	-	-	15,308,586	15,308,586
Unrealized loss on investment for the period, net of tax	-	-	-	-	(1,909,182)	(1,909,182)
Balance, August 31, 2013	\$226,992,609	\$33,879,182	\$10,878,265	\$(40,431,239)	\$11,418,409	\$242,737,226

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

For the Nine Months Ended August 31,	2014	2013
Cash Flows Provided by (Used in) Operating Activities		
Income (Loss) for the period	\$ 956,759	\$ (8,601,823)
Items not involving cash:		
Amortization	61,616	6,369
Accretion of provision for environmental rehabilitation (Note 12)	58,561	100,000
Accretion on bonds	6,286,499	-
Impairment of mineral property expenditures	-	129,189
Loss on sale of equipment	31,174	-
Unrealised foreign exchange loss	2,017,088	4,932,934
	9,411,697	(3,433,331)
Changes in working capital items other than cash:		
Trade and other receivables	993,626	628,980
Inventory	(312,943)	(65,741)
Prepaid expenses and deposits	(377,496)	(51,319)
Accounts payable and accrued liabilities	(1,735,560)	807,594
	7,979,323	(2,113,817)
Cash Flows (Used in) Provided by Financing Activities		
Proceeds from issuance of bonds	-	9,217,426
Shareholder loan receivable	-	35,548
Loan payments	(336,737)	-
	(213,495)	9,252,974
Cash Flows Provided by (Used in) Investing Activities		
Bond on land	-	(312,185)
Mineral properties under development	25,000	(7,420,358)
Proceeds on sale of property and equipment	32,236	-
Purchase of equipment	-	(1,474)
	57,236	(7,734,017)
Effect of exchange rate change on cash held in foreign currencies	134,084	(57,283)
Change in cash and cash equivalents	7,808,908	(652,143)
Cash and cash equivalents, beginning of period	1,515,625	2,009,398
Cash and cash equivalents, end of period (Note 6)	\$ 9,324,532	\$ 1,357,255
Supplemental cash flow information		
Cash interest received	\$ 88,302	\$ 5,313
Cash paid for interest	\$ -	\$ 5,760,498
Cash received for property working interest	\$ 25,000	\$ -
Cash paid for income taxes	\$ -	\$ -

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Cline Mining Corporation and its wholly-owned subsidiaries, New Elk Coal Company LLC, Iron Ore Corporation of Madagascar SARL ("IOCM"), North Central Energy Company and Raton Basin LLC, are hereinafter referred to as "Cline" or the "Company". Cline is engaged in the business of locating, exploring and mining mineral resource properties. Substantially all of the efforts of Cline are devoted to these business activities. Cline is incorporated and domiciled in Canada and with a registered office in British Columbia and maintains its head office at 161 Bay Street, Toronto, Ontario, Canada.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. As at and for the nine months ended August 31, 2014, the Company incurred a net gain of \$956,759, reported an accumulated deficit of \$230,543,885 and had a working capital deficiency of \$83,715,598. The Company was unable to meet its scheduled principal and interest payments in respect of its senior secured bonds on December 16, 2013 and its senior secured convertible bonds on June 15, 2014, and was granted an extension of original forbearance agreement until the earlier of October 31, 2014 or the Forbearance Termination Event occurrence as defined in the forbearance agreement.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of development and exploration and evaluation properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise additional financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require additional material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development in which it has an interest, in accordance with industry standards for the current stage of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

In addition to its working capital requirements, the Company has been unable to secure off-take agreements for its metallurgical coal production at acceptable terms and must secure sufficient funding to meet its working capital requirements, advance the New Elk coal mine into run-rate production and keep its mineral claims, leases and title in good standing. These circumstances cast significant doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern.

The Company is currently working on securing additional capital to meet these needs. However, there is no guarantee that the Company's financing efforts will be successful or sufficient to fund these requirements. The Company may incur significant additional dilution to the holdings of existing shareholders in order to obtain financing.

These condensed interim consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting.

These condensed interim consolidated financial statements are prepared on a historical cost basis, except for cash equivalents and investments, which are carried at fair value.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 27, 2014.

Changes in Accounting Standards

The Company has adopted the following new standards, along with any consequential amendments, effective December 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The Company determined that the impact of the amendment did not have a material impact on its financial statements, although it did affect disclosure in the statements of loss (income) and comprehensive loss (income).

IFRS 7 — Financial Instruments: Disclosures ("IFRS 7") amended by the IASB in December 2011, requires disclosure of information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The adoption of this standard did not result in any changes to the Company's disclosure of its financial instruments.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") issued by the IASB in May 2011 and replaces IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. IFRS 10 identifies three elements of control: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. The adoption of this standard did not result in any changes in the consolidation status of the Company's subsidiaries.

IFRS 11 – Joint Arrangements ("IFRS 11") issued by the IASB in May 2011 and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 classifies joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. The adoption of this standard did not result in any changes to the Company's investments in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12") issued by the IASB in May 2011. IFRS 12 provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not result in any changes to the Company's disclosure requirements for interests in other entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in Accounting Standards (Continued)

IFRS 13 – Fair Value Measurement (“IFRS 13”) issued by the IASB in May 2011. IFRS 13 provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The adoption of this standard did not result in any significant changes to the Company’s disclosures of its financial instruments.

IAS 27 - Separate Financial Statements (“IAS 27”) was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The adoption of this standard did not result in any changes to the Company’s financial statements.

IAS 28 - Investments in Associates and Joint Ventures (“IAS 28”) issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The adoption of this standard did not result in any changes to the Company’s investments in joint ventures.

Future Changes in Accounting Standards

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Changes in Accounting Standards (Continued)

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated financial statements and related notes to the condensed interim consolidated financial statements. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may differ from those estimates and these estimates could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets’ carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Notes 8 and 9 for details of capitalized development and exploration and evaluation costs.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, “Standards of Disclosure for Mineral Projects”, issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company’s control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management’s assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company’s financial position and results of operations.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (Continued)

Impairment of mineral properties under development, exploration and evaluation assets and property, plant and equipment

While assessing whether any indications of impairment exist for mineral properties under development, exploration and evaluation assets and property, plant and equipment, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties under development, exploration and evaluation assets and property, plant and equipment.

Internal sources of information include the manner in which the assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties under development, exploration and evaluation assets and property, plant and equipment.

Impairments of non-financial assets of \$Nil have been recorded for the three and nine months ended August 31, 2014 (three and nine months ended August 31, 2013 - \$79,644 and \$129,189, respectively).

Estimation of provision for environmental rehabilitation and the timing of expenditures

The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Environmental rehabilitation and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of environmental rehabilitation or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at August 31, 2014, the Company had recognized \$837,215 (November 30, 2013 - \$760,683) in environmental rehabilitation provisions.

Production stage of a mine

The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. As a mine is constructed, costs incurred are capitalized and proceeds from metal sales are offset against the capitalized costs. This continues until the mine is available for use in the manner intended by management, which requires significant judgment in its determination.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (Continued)

Income taxes and recoverability of potential deferred tax assets (Continued)

Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets or liabilities recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

4. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be bonds payable and equity, comprising share capital, contributed surplus, warrants, accumulated other comprehensive income and deficit, which at August 31, 2014 totaled \$150,675,823 (November 30, 2013 - \$138,873,278).

The properties in which the Company currently has an interest are either in limited production or in the exploration and development stage. The Company has engaged in limited mining activities at its New Elk coking coal mine and is seeking to extend its mining activities as market conditions allow. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and seek to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the three and nine months ended August 31, 2014. The Company is required to comply with certain financial covenants in connection with the trust indenture agreement underlying the Company's bonds payable. (See Notes 11 and 19).

5. FINANCIAL RISK FACTORS

Financial Risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, including interest rate risk, foreign exchange rate risk, and commodity price risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill trade and other payment obligations. The Company's credit risk is primarily attributable to cash, and trade and other receivables.

Cash is held with reputable financial institutions. Management believes that the credit risk concentration with respect to financial instruments included in cash, and receivables is minimal. The cash is invested with one Canadian and three U.S. Chartered financial institutions.

5. FINANCIAL RISK FACTORS (Continued)

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure, when it is possible, that it will have sufficient liquidity to meet liabilities when due. As at August 31, 2014, the Company had an aggregate cash and cash equivalents balance of \$9,324,532 (November 30, 2013 - \$1,515,625) to settle current liabilities of \$97,862,358 (November 30, 2013 - \$91,578,722). Other than the loans and bonds payable, all of the Company's financial liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. The Company has been unable to meet its scheduled interest and trade payments as they come due. The Company is attempting to raise additional capital to finance its ongoing operations. There is no assurance that additional funding will be secured. (See Notes 11 and 19).

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i) Interest Rate Risk

The Company currently has no investments. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks. The Company maintains loans payable at fixed interest rates. The Company's bonds payable bear interest at 10% per annum. As the interest rates are fixed, the associated interest rate risk is nominal.

ii) Foreign Currency Risk

The majority of the Company's funds are held in Canadian currency. The Company provides funding of its operations in New Elk in US currency, currently without hedging its US dollar purchases and is considered to be exposed to significant foreign currency risk. The Company has bonds outstanding denominated in US dollars with a face value of USD\$65,500,000 as at August 31, 2014 and November 30, 2013. The Company has fixed the exchange rate on the bonds at Cdn\$1.00 to US\$0.9176.

iii) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as it relates to coal, precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

The Corporation is exposed to foreign currency risk based on fluctuations of financial instruments related to cash, receivables, and accounts payable and accrued liabilities and bonds payable denominated in United States Dollars and Madagascar Arias.

Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net earnings, with all other variables held constant, and based on the net monetary liabilities denominated in foreign currencies. Sensitivity to a plus or minus 10% change in share prices would affect the reported net income, based on the value of investments held. Cash balances held in operating accounts do not yield interest and are therefore not subject to sensitivity from rate fluctuation.

The sensitivity to a plus or minus 10% change in foreign exchange rates would result in a change in net income of zero to \$65,000 as the Company has pegged the exchange rate on its US\$ denominated bonds.

5. FINANCIAL RISK FACTORS (Continued)

Fair Value Hierarchy and Liquidity Risk Disclosure

Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The fair value of short term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, trade and other receivables, investments and accounts payable and accrued liabilities and bonds payable.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments. The classifications are as follows:

- i) the use of quoted market prices for identical financial instruments (Level 1);
- ii) internal models using observable market information as inputs (Level 2);
- iii) internal models without observable market information as inputs (Level 3).

August 31, 2014	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 30,000	-	-
Investment in UMC Energy	\$ 635,358	-	-

November 30, 2013	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 40,000	-	-
Investment in UMC Energy	\$ 664,421	-	-

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and term deposits issued by banks that are highly liquid investments with maturities of 90 days or less at the date of acquisition. Cash and cash equivalents are comprised of:

	August 31, 2014	November 30, 2013
Cash	\$ 9,324,532	\$ 1,515,625

7. INVESTMENTS

	August 31, 2014	November 30, 2013
Strike Minerals Inc. (2,000,000 common shares)	\$ 30,000	\$ 40,000
UMC Energy plc (12,272,667 common shares)	635,358	664,421
	\$ 665,358	\$ 704,421

8. EXPLORATION AND EVALUATION ASSETS

	August 31, 2014	November 30, 2013
Cline Lake Gold Property	\$ 1	\$ 1

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended August 31, 2014
(Expressed in Canadian Dollars)
(Unaudited)

8. EXPLORATION AND EVALUATION ASSETS (Continued)

Cline Lake Gold Property, Ontario

The Company owns a 100% interest in a mineral claim mining lease in the Sault Ste. Marie Mining Division, Ontario. A maximum royalty of \$200,000 based on 5% of the proceeds of production and a 1½% net smelter return royalty are payable on production from the property.

The Company did not work on the property in 2013 and has no intention to do so in the near future, therefore this property was written down during the year ended November 30, 2013, to \$1.

9. MINERAL PROPERTIES UNDER DEVELOPMENT

A continuity of the mineral properties under development is as follows:

	August 31, 2014	November 30, 2013
Balance, beginning of period	\$ 133,364,786	\$ 271,647,166
Development expenditures	-	7,938,369
Depreciation	(336,737)	-
Impairment loss	-	(163,564,642)
Translation adjustment	2,441,712	17,343,893
Balance, end of period	\$ 135,469,761	\$ 133,364,786

New Elk Coal Property

On July 25, 2008, the Company acquired the coal mining properties and related assets owned by the New Elk Coal Company LLC ("New Elk"). The property is located in the western part of Las Animas County, in southeastern Colorado. The property consists of the New Elk Mine and three contiguous, long-term leases. Other assets include various railroad rights of way, the Picketwire Preparation Plant and a refuse disposal area located adjacent to the mine and prep plant.

During the three and nine months ended August 31, 2014 and for the year ended November 30, 2013, borrowing costs were no longer capitalized to mineral properties under development. On December 1, 2012, the Company ceased capitalizing borrowing costs due to the suspension of activities at the New Elk property. Capitalized development cost has been adjusted to reflect subsequent depreciation charges.

For the year end November 30, 2013, the Company identified weakness in met coal pricing as an indicator of impairment. Consequently, the Company performed an assessment to determine the recoverable amount of its mine operations for potential impairment by comparing the carrying value of the mine, the lowest level of assets and liabilities for which there are independent cash flows, to the discounted cash flows expected from the use and eventual disposition of identified assets and liabilities.

The key assumptions used in determining the recoverable amount of the mine are the future coal price, based on forward prices and industry analysis, discount rates, capital expenditures and operating cash costs.

The cash flows were forecasted on the mine plan, based on management assumptions, estimates of revenues and expenditures.

The Company concluded that as at November 30, 2013, an impairment of \$163,564,642 would be charged against the mine property assets, as the carrying value of the long-lived assets of the New Elk's mine exceeded their discounted cash flows over the life of the mine.

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended August 31, 2014
(Expressed in Canadian Dollars)
(Unaudited)

131

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are represented by the following:

Cost	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2013	\$10,082	\$336,247	\$53,296	\$716	\$361,160	\$761,501
Additions/Disposals	-	2,774	1,192	-	(122,445)	(118,479)
August 31, 2014	\$10,082	\$339,021	\$54,488	\$716	\$238,715	\$643,022
Accumulated Amortization						
November 30, 2013	\$9,120	\$336,247	\$26,030	\$466	\$215,978	\$587,841
Amortization/Adjustments	288	2,774	9,474	27	(6,004)	6,559
August 31, 2014	\$9,408	\$339,021	\$35,504	\$493	\$209,974	\$594,399
Net Book Value						
November 30, 2013	\$962	\$ -	\$27,268	\$250	\$145,184	\$173,664
August 31, 2014	\$674	\$ -	\$18,984	\$223	\$28,739	\$48,623

11. BONDS PAYABLE

A continuity of the bonds is as follows:

	Period ended August 31, 2014	Year ended November 30, 2013
Balance, beginning of period	\$85,170,992	\$43,164,777
Acquisition of bonds	-	23,935,008
Effect of re-price of warrants	-	(232,304)
Accrued interest and accretion	6,286,499	20,098,156
Foreign exchange	2,017,088	4,065,353
Payments made	-	(5,859,998)
Balance, end of period	\$93,474,578	\$85,170,992

As at August 31, 2014, the Company was in default on all bonds, and as such the Company continues to record all bonds as a current liability at their face values. The Company expects it will require its secured lenders to waive certain defaults pursuant to the terms of the bond indentures in the future. While the Company has been granted waivers in the past, there is no assurance that it will be granted additional waivers in the future. (See Note 19).

12. PROVISION FOR ENVIRONMENTAL REHABILITATION AND RECLAMATION DEPOSITS

The provision for environmental rehabilitation of \$837,215 represents the estimated present value of the Company's future obligation for site remediation of its New Elk coal property. During the three and nine months ended August 31, 2014, the Company recognized accretion on the decommissioning liability of \$19,388 and \$58,561 respectively (three and nine months ended August 31, 2013 - \$25,000 and \$100,000, respectively), which has been expensed on the Company's condensed interim consolidated statement of loss.

12. PROVISION FOR ENVIRONMENTAL REHABILITATION AND RECLAMATION DEPOSITS (Continued)

The liability is based upon estimates and assumptions, as follows:

- a) Total undiscounted future remediation costs are estimated to be \$7,055,112. This has been calculated assuming a 1.2% annual rate of inflation, with settlement of the liability occurring in approximately twenty four years.
- b) Weighted average risk adjusted rate of 10%.

A continuity of the provision for environmental rehabilitation is as follows:

	Period ended August 31, 2014	Year ended November 30, 2013
Balance, beginning of period	\$ 760,683	\$ 793,838
Foreign exchange	17,971	(99,840)
Accretion	58,561	66,685
Balance, end of period	\$ 837,215	\$ 760,683

The Company's reclamation deposit in the amount of \$50,000 has been settled as a part of final proceeds received from the Government of British Columbia ("B.C."). (See Note 17).

The Company has \$5,714,451 of reclamation bonds (November 30, 2013 - \$5,581,483) held with the Colorado Department of Natural Resources. Included in the total reclamation bonds figure is a cash amount of \$1,587,749 held by the State of Colorado to secure reclamation requirements for land under the New Elk mine and the Golden Eagle permits. The properties are currently undergoing remediation and rehabilitation. Also included is a cash bond of \$1,008,059 held by the State of Colorado for the remediation and rehabilitation of the Lorencito property adjacent to the New Elk mine. This property has undergone extensive remediation and rehabilitation and is currently in the monitoring cycle by the State of Colorado. The cash held as security for this bond is expected to be released by the State at the end of the monitoring cycle.

Cash funds for remaining reclamation bonds in aggregate of \$4,706,392 were posted directly with the State of Colorado (November 30, 2013 - \$4,596,881).

13. RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES

Transactions with related parties in the normal course of business measured and recorded at the exchange amount, as agreed to by the parties.

- i) During the three and nine months ended August 31, 2014, companies related to or controlled by officers and directors of the Company were paid \$88,274 and \$305,378, respectively (three and nine months ended August 31, 2013 - \$541,944 and \$1,223,783, respectively) for consulting and management fees. In addition, the Company paid a total of \$24,551 and \$73,652 for the three and nine months ended August 31, 2014 (three and nine months ended August 31, 2013 - \$36,000 and \$248,533, respectively) on director's fees.
- ii) Accounts payable and accrued liabilities includes amounts due to, or accrued as payable to, directors or officers in the amount of \$484,924 as at August 31, 2014 (May 31, 2013 - \$50,001) with respect to consulting fees and related expenses.
- iii) Receivables include \$Nil (November 30, 2013 - \$9,455) due from officers and directors with respect to consulting fees advances.

13. RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES (Continued)

A summary of remuneration of directors and senior management of the Company, is as follows:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2014	2013	2014	2013
Remuneration of senior management	\$88,274	\$541,944	\$305,378	\$1,223,783
Remuneration of directors	24,551	36,000	73,652	248,533
Total	\$112,825	\$577,944	\$379,030	\$1,472,316

14. SHARE CAPITAL

Authorized – Unlimited common shares without par value:

	Number of Shares	Amount
Balance as at November 30, 2013 and August 31, 2014	209,144,977	\$ 226,992,609

15. STOCK OPTIONS

During the year ended November 30, 2013, all outstanding options expired after eligible option plan members left the Company. There are no stock options outstanding as at August 31, 2014.

16. WARRANTS

The number of share purchase warrants represents the number of shares that may be acquired on the exercise of the outstanding warrants. As at November 30, 2013 and August 31, 2014, the following broker warrants were outstanding:

Expiry Date	Number of Warrants	Number of Warrant Shares	Fair Value of Warrants	Weighted Average Exercise Price
May 14, 2015	10,000,000	10,000,000	\$ 10,825,065	\$ 0.09
January 11, 2016	1,400,000	1,400,000	53,200	0.09
	11,400,000	11,400,000	\$ 10,878,265	\$ 0.09

17. COMMITMENTS AND CONTINGENCIES

- i) Under the terms of an occupancy lease agreement expiring August 1, 2015, the Company is required to make monthly payments for office space amounting to \$10,365. During the year ended November 30, 2013, the Company finalized a sublease for that office space with monthly occupancy fee reimbursement.
- ii) In November 2013, the Company entered into a second short-term occupancy lease agreement until March 31, 2014. On April 1st, 2014, the occupancy lease was renewed with required monthly fee increased to approximately \$6,000 that will be extended automatically until brought to an end by notice from either party to the agreement.
- iii) With respect to the New Elk Coal Property, the Company is obligated to remit perpetual annual land lease, railroad lease, and royalty payments of US\$520,560 (\$566,005) and annual water lease payments of US\$155,000 (\$168,532).

17. COMMITMENTS AND CONTINGENCIES (Continued)

- iv) In order to keep its mineral properties in good standing, the Company is required to make perpetual annual payments of approximately \$60,000 to the government of Madagascar for permit fees.

On June 20, 2014, the Company entered into an agreement pursuant to which it transferred 75% of its ownership interest in its wholly-owned subsidiary, IOCM, to Indian Pacific Resources ("IPR"), in exchange for a series of instalment payments aggregating \$200,000, together with IPR's commitment to become solely responsible for all exploration costs related to the IOCM property during the exploration and evaluation phase.

- v) The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject to clean up costs and liability for toxic or hazardous substances which may exist on or under any of its properties, or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement (including increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees).

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

A reclamation deposit was provided by the Company in the amount of \$50,000 with respect to the work permits issued by the Government of B.C. and representing the estimated liabilities for restoration and completion of B.C. projects. The reclamation deposit has been accounted within the final settlement of the Company's compensation claim against the Government of B.C. as the restoration work related to each project for which the Company was issued work permits has been completed.

The Lodgepole, Sage Creek and Cabin Creek Coal Mine properties were written off in a prior year due to the revocation of the Company's coal mining Licenses (Titles) by the Government of B.C. At the request of the British Columbia government, the Company filed a claim for compensation.

The Company received a total of \$9.8 million as compensation on April 17, 2014 and the use of the proceeds is subject to the terms of the Company's forbearance agreements.

- vi) Under the terms of the acquisition of the New Elk Property assets, the Company maintains environmental remediation bonds. See Note 12.
- vii) As at August 31, 2014, the outstanding principal balance on the loans for New Elk's construction equipment is US\$601,650 (\$654,174) (November 30, 2013 - US\$910,607; \$967,065). Under the terms of these loans, the Company is obligated to remit monthly payments of US\$31,132 (\$33,850), which commenced in March 2012 for a period of 48 months.
- viii) A Statement of Claim was filed against Cline for costs and damages of approximately US\$558,000 on August 8, 2013. The plaintiff is the former Executive Vice President and Chief Operating Officer of the Company who was terminated for cause on June 21, 2013. The Company has subsequently filed a Statement of Defence and will rigorously defend its position.

The outcome of this lawsuit is not determinable at this time, and as a result, a total of \$484,924 has been accrued as at August 31, 2014 (November 30, 2013 - \$484,924).

17. COMMITMENTS AND CONTINGENCIES (Continued)

- ix) A Statement of Claim under civil procedure Rule 76 was filed for cost and damages, on August 31, 2013. The plaintiff provided certain legal services to the Company which the Company alleges were not approved and were consequently overcharged. A total of \$64,985 has been accrued relating to the Statement of Claim. The Company has filed a Statement of Defence and will rigorously defend its position.
- x) On March 27, 2014, the Company was able to achieve a termination of the agreement with the Port of Corpus Christi Authority of Texas. The agreement originally provided New Elk with a long-term lease of 18 acres of land for a coal storage area, adjacent to the shipping channel and proximate to the bulk coal ship-loader. At the date of settlement, an aggregate US\$1,164,615 (\$1,262,676) of accounts payable and accrued liabilities related to this agreement.

Under the terms of the lease termination agreement, the amount owing with respect to the property lease was settled with a US\$150,000 (\$165,480) termination fee paid to the Port of Corpus Christi and no further payments are required with respect to the agreement.

- xi) A class action lawsuit was filed against the Company on February 1, 2013. The plaintiffs' allege that New Elk violated the Worker Adjustment and Retraining Notification Act ("WARN Act") by failing to provide the plaintiffs and other similarly situated employees at least sixty (60) days advance written notice of the layoffs.

In the Complaint, the plaintiffs request that the class be certified by the Court and seek a judgment for "unpaid wages, salary, commissions, bonuses, accrued holiday pay, accrued vacation pay, pension and 401(k) contributions and other ERISA benefits, for sixty (60) days, that would have been covered and paid under the then-applicable employee benefits plans," together with interest, attorneys' fees and costs. (The Employee Retirement Income Security Act was enacted by the 93rd United States Congress on September 2, 1974 ("ERISA") to protect pension and benefit plan recipients and beneficiaries).

On April 5, 2013, NECC filed its Answer to the Complaint denying the plaintiffs' allegations that NECC violated the WARN Act. On October 3, 2013, the plaintiffs filed an Amended Complaint that, among other things, added Cline as a defendant in the lawsuit. On October 17, 2013, NECC filed its Answer to the Amended Complaint and on October 29, 2013, Cline filed its Answer to the Amended Complaint. NECC and Cline denied the allegations in the Amended Complaint pertaining to the applicability of the WARN Act to them. The Court has ordered that discovery in this matter be bifurcated. The discovery cut-off for Phase I was March 17, 2014.

Following the Phase I discovery cut-off, each of the defendants in the case filed motions for summary judgement requesting that the Court find that they are not subject to the WARN Act and have no obligations whatsoever to the named plaintiffs or other individuals covered by plaintiffs' lawsuit. The Plaintiffs also filed a motion for summary judgment. The briefing on the parties' respective motions for summary judgment was closed on May 29, 2014 and the Court's ruling on the parties' summary judgment motions is currently pending. The outcome of this lawsuit is not determinable at this time and as a result, no amounts had been accrued as at August 31, 2014.

18. SEGMENTED INFORMATION

The Company operates in one segment and has one head office segment - the exploration, development and mining of mineral properties, which are located in Canada and the United States of America. Identifiable assets are as follows:

August 31, 2014	Canada		USA		Total
Mineral interest	\$	1	\$	135,469,761	\$ 135,469,762
Corporate and other assets		9,872,625		10,806,405	20,679,030
Total assets	\$	9,872,626	\$	146,276,166	\$ 156,148,792
Gain for the period	\$	681,476	\$	275,283	\$ 956,759

November 30, 2013	Canada		USA		Total
Mineral interest	\$	1	\$	133,364,786	\$ 133,364,787
Corporate and other assets		3,509,756		9,746,975	13,256,731
Total assets	\$	3,509,757	\$	143,111,760	\$ 146,621,518
Loss for the year	\$	(30,153,934)	\$	(169,517,293)	\$ (199,671,227)

19. SUBSEQUENT EVENTS

- (i) Upon the instructions of the Bondholders, the Trustee has agreed to forbear from demanding repayment of the amounts owing under the Trust Indenture. On December 15, 2013, the Company was unable to make the semi-annual interest payments in the amount of approximately US\$3.3 million on its US secured bonds and of approximately \$552,000 on its convertible bonds due to the Company's financial situation. The principal reason for the Company's financial difficulties are the current economic and market conditions, which have resulted in lower demand for production from the mine, which is the only revenue generating asset the Company has.

The Company consequently entered into a series of forbearance agreements with Computershare Trust Company of Canada (the "Trustee") and Marret Asset Management Inc. ("Marret") under the 10% senior secured bond trust indenture dated December 13, 2011, and the 10% senior secured convertible bond trust indenture dated July 8, 2013.

Pursuant to the terms of the forbearance agreements, which originally expired January 16th and subsequently were extended several times, most recently to August 29th, the forbearance agreements have been extended further until the earlier of (i) October 31, 2014 and (ii) the occurrence of a Forbearance Termination Event.

- (ii) The Company failed to make scheduled principal and interest payments due in respect of its US\$65.5 million 10% senior secured bonds and its CDN\$12.3 million 10% senior secured convertible bonds which matured on June 15, 2014 due to continuing financial constraints and unfavorable market conditions. The Company was notified by the holders of the Secured Notes of their agreement to treat the above-referenced payment defaults as part of the existing forbearance agreements which are set to expire on or before October 31, 2014. The Company continues to assess financing options aimed at maximizing the long-term value of its assets.



CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2013 AND 2012
(EXPRESSED IN CANADIAN DOLLARS)
(AUDITED)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cline Mining Corporation:

We have audited the accompanying consolidated financial statements of Cline Mining Corporation and its subsidiaries, which comprise the consolidated balance sheet as at November 30, 2013, and the consolidated statement of loss (income) and comprehensive loss (income), consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cline Mining Corporation and its subsidiaries as at November 30, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended November 30, 2013, a working capital deficiency and an accumulated deficit as at November 30, 2013. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matters

The consolidated financial statements of Cline Mining Corporation for the year ended November 30, 2012, were audited by other auditors who expressed an unmodified opinion on those statements on February 28, 2013.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 28, 2014

CLINE MINING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

As at November 30,	2013	2012
ASSETS		
Current		
Cash and cash equivalents (Note 6)	\$ 1,515,625	\$ 2,009,398
Trade and other receivables	1,402,812	710,833
Prepaid expenses and deposits	267,483	79,216
Inventory	3,459,822	2,187,707
Total Current Assets	6,645,742	4,987,154
Mineral properties under development (Note 9)	133,364,786	271,647,166
Exploration and evaluation assets (Note 8)	1	3,695,000
Bond on land (Note 12)	5,581,483	5,221,998
Reclamation deposits (Note 12)	50,000	50,000
Contractor deposits	101,421	1,354,850
Investments (Note 7)	704,421	2,678,305
Property, plant and equipment (Note 10)	173,664	301,798
Shareholder loan receivable (Note 13)	-	35,548
Total Assets	\$146,621,518	\$289,971,819
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 17)	\$5,941,413	\$8,279,984
Income taxes payable	79,079	79,079
Current portion of loans payable (Note 17)	387,238	-
Current portion of bonds payable (Note 11)	85,170,992	2,093,046
Total Current Liabilities	91,578,722	10,452,109
Provision for environmental rehabilitation (Note 12)	760,683	793,838
Long-term portion of loans payable (Note 17)	579,827	-
Long-term portion of bonds payable (Note 11)	-	41,071,731
Total Liabilities	92,919,232	52,317,678
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	226,992,609	226,992,609
Contributed surplus	33,619,487	31,919,216
Warrants (Note 16)	10,878,265	12,552,727
Deficit	(231,500,643)	(31,829,416)
Accumulated other comprehensive (loss) income	13,712,568	(1,980,995)
Total Shareholders' Equity	53,702,286	237,654,141
Total Liabilities and Shareholders' Equity	\$146,621,518	\$289,971,819

Nature of Operations and Going Concern (Note 1)
 Commitments and Contingencies (Note 17)
 Subsequent Events (Note 20)

Approved on Behalf of the Board:

" Vincent (James) Sardo "
 Director

" Matthew Goldfarb "
 Director

The accompanying notes form an integral part of these consolidated financial statements.

CLINE MINING CORPORATION
CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
(Expressed in Canadian Dollars)

For the years ended November 30,	2013	2012
EXPENSES		
Consulting and management fees	\$ 1,256,216	\$ 1,039,419
Legal and audit	2,860,819	959,396
Directors fees and expenses	280,563	414,334
Stock based compensation	-	2,884,000
General, administrative and office	159,962	714,406
Transfer agent, filing and investor relations	134,890	218,048
Travel and accommodation	87,002	720,668
Interest and accretion on bonds and restructuring fees (Note 11)	23,385,265	-
Amortization	9,203	9,277
Foreign exchange loss (gain)	3,779,021	(162,189)
	(31,952,941)	(6,797,359)
OTHER INCOME (EXPENSES)		
Interest expense and other income	(92,839)	129,627
(Loss) gain on sale of property (Note 8)	(629,919)	2,018,490
Impairment loss on mineral property	(168,184,346)	(135,828)
Accretion of decommissioning liability (Note 12)	(66,685)	(173,661)
(Loss) for the year before income taxes	(200,926,730)	(4,958,731)
Income taxes - current (Note 19)	995,808	-
Income taxes - deferred (Note 19)	259,695	-
(Loss) for the year	(199,671,227)	(4,958,731)
Unrealized (loss) gain on investments for the year, net of tax	(1,973,885)	819,950
Currency translation adjustment	17,667,445	(7,171,070)
Comprehensive (loss)	\$ (183,977,667)	\$ (11,309,851)
Basic (loss) per share	\$ (0.95)	\$ (0.02)
Weighted average number of shares outstanding – basic and diluted	209,044,259	209,044,259

The accompanying notes form an integral part of these consolidated financial statements.

CLINE MINING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2012	\$226,992,609	\$31,919,216	\$12,552,727	\$(31,829,416)	\$(1,980,995)	\$237,654,141
Net loss for the year	-	-	-	(199,671,227)	-	(199,671,227)
Issuance of warrants (Note 16)	-	-	53,200	-	-	53,200
Modification of warrants (Note 16)	-	-	232,304	-	-	232,304
Expiration of warrants (Note 16)	-	1,959,966	(1,959,966)	-	-	-
Tax impact on expiration of warrants	-	(259,695)	-	-	-	(259,695)
Cumulative translation adjustments	-	-	-	-	17,667,448	17,667,448
Unrealized loss on investment for the year, net of tax	-	-	-	-	(1,973,885)	(1,973,885)
Balance, November 30, 2013	\$226,992,609	\$33,619,487	\$10,878,265	\$(231,500,643)	\$13,712,568	\$53,702,286
	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2011	\$226,424,014	\$28,165,111	\$7,106,331	\$(26,870,685)	\$4,370,125	\$239,194,896
Net loss for the year	-	-	-	(4,958,731)	-	(4,958,731)
Issuance of warrants (Note 16)	-	-	6,482,218	-	-	6,482,218
Exercise of warrants (Note 16)	570,557	-	(165,717)	-	-	404,840
Stock based compensation	-	2,884,000	-	-	-	2,884,000
Expiration of warrants	-	870,105	(870,105)	-	-	-
Cumulative translation adjustments	-	-	-	-	(7,171,070)	(7,171,070)
Unrealized loss on investment for the year, net of tax	-	-	-	-	819,950	819,950
Cost of issue	(1,962)	-	-	-	-	(1,962)
Balance, November 30, 2012	\$226,992,609	\$31,919,216	\$12,552,727	\$(31,829,416)	\$(1,980,995)	\$237,654,141

The accompanying notes form an integral part of these consolidated financial statements.

CLINE MINING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

For the years ended November 30,	2013	2012
Cash Flows Used in Operating Activities		
(Loss) for the year	\$(199,671,227)	\$ (4,958,731)
Items not involving cash:		
Amortization	9,203	9,277
Accretion of provision for environmental rehabilitation (Note 12)	66,685	173,661
Stock based compensation	-	2,884,000
Accretion on bonds	14,025,265	-
Impairment of mineral property expenditures	168,184,346	135,828
Loss (gain) on sale of equipment	629,919	(2,018,490)
Deferred tax recovery	(259,695)	-
Unrealised foreign exchange	4,065,353	(162,189)
	(12,950,149)	(3,936,644)
Changes in working capital items other than cash:		
Trade and other receivables	(691,979)	(449,892)
Inventory	(1,272,115)	(357,398)
Prepaid expenses and deposits	(86,846)	541,315
Accounts payable and accrued liabilities	536,534	(405,420)
	(14,464,555)	(4,608,039)
Cash Flows Provided by Financing Activities		
Shareholder loan received	35,548	-
Issuance of shares, net of costs	-	402,878
Proceeds from issuance of bonds	27,593,198	48,566,196
Costs of issuance of bonds	(3,392,099)	(1,639,706)
	24,236,647	47,329,368
Cash Flows Used in Investing Activities		
Bond on land	-	79,199
Exploration and evaluation assets	(25,056)	-
Mineral properties under development	(10,101,227)	(100,829,137)
Proceeds on sale of property and equipment	39,754	2,018,000
Purchase of equipment	(1,475)	(167,342)
	(10,088,004)	(98,899,280)
Effect of exchange rate change on cash held in foreign currencies	(177,861)	(42,050)
Change in cash and cash equivalents	(493,773)	(56,220,001)
Cash and cash equivalents, beginning of year	2,009,398	58,229,399
Cash and cash equivalents, end of year (Note 6)	\$ 1,515,625	\$ 2,009,398
Supplemental cash flow information		
Cash interest received	\$ 7,540	\$ 129,627
Cash paid for interest	\$ 5,859,998	\$ 1,088,000
Cash paid for income taxes	-	\$ 1,060,000

The accompanying notes form an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Cline Mining Corporation and its wholly-owned subsidiaries, New Elk Coal Company LLC, Iron Ore Corporation of Madagascar SARL ("IOCM"), North Central Energy Company and Raton Basin LLC, are hereinafter referred to as "Cline" or the "Company". Cline is delisted from the Toronto Stock Exchange ("TSX") and is engaged in the business of locating, exploring and mining mineral resource properties. Substantially all of the efforts of Cline are devoted to these business activities. Cline is incorporated and domiciled in Canada and its registered office is 161 Bay Street, Toronto, Ontario, Canada.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. For the year ended November 30, 2013, the Company incurred a net loss of \$199,671,227, reported an accumulated deficit of \$231,500,643 and had a working capital deficiency of \$84,932,980 at November 30, 2013. The Company has been unable to meet its scheduled interest payment of approximately US\$3.3 million and CAN\$552,000 on its bonds on December 16, 2013 (see Note 20 for further information regarding subsequent events).

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of development and exploration and evaluation properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise additional financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require additional material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development in which it has an interest, in accordance with industry standards for the current stage of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

In addition to its working capital requirements, the Company has been unable to secure off-take agreements for its coal production at acceptable terms and must secure sufficient funding to meet its working capital requirements, advance the New Elk coal mine into commercial production and keep its mineral claims and title in good standing. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern.

The Company is currently working on securing additional capital to meet these needs. However, there is no guarantee that the Company's financing efforts will be successful or sufficient to fund these requirements. The Company may incur significant dilution to the holdings of existing shareholders in order to obtain financing.

These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB").

These financial statements are prepared on a historical cost basis, except for cash equivalents, investments, reclamation deposits and bonds on land which are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Compliance (Continued)

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 28, 2014.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-Company transactions and balances are eliminated on consolidation.

Financial Instruments

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets measured at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred. Securities are accounted for at the trade date. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets and liabilities at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives that are not part of an effective and designated hedging relationship. Financial assets and liabilities classified as FVTPL are measured at fair value, with changes recognized in the statement of loss. The Company's financial assets classified as FVTPL include cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category by management or not designated in any of the other categories. Financial assets classified as available for sale are measured at fair value, with changes recognized in other comprehensive income. When an available-for-sale financial asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of loss and are included in accumulated other comprehensive income on the Company's consolidated statement of equity.

The Company's investments are classified as available-for-sale. If the fair value of an investment declines below the carrying amount, we undertake qualitative and quantitative assessments of whether the impairment is either significant or prolonged. We consider all relevant facts and circumstances in this assessment, particularly the length of time and extent to which fair value has been less than the carrying amount. If an unrealised loss on an available-for-sale investment has been recognised in OCI and it is deemed to be either significant or prolonged, any cumulative loss that had been recognised in OCI is reclassified as an impairment loss in the consolidated statement of loss.

The reclassification adjustment is calculated as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognised. If the value of a previously impaired available for sale equity investment subsequently recovers, additional unrealised gains are recorded in other comprehensive income or loss ("OCI") and the previously recorded impairment losses are not subject to reversal through the consolidated statement of loss.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Cash, trade and other receivables and shareholder loan receivable are classified as loans and receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Other financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Accounts payable, accrued liabilities and bonds payable are classified as other financial liabilities.

Foreign Currency Translation

Items included in the financial statements of each entity in the Cline group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Primary and secondary indicators are used to determine the functional currency (primary indicators have priority over secondary indicators). Primary indicators include the currency that mainly influences sales prices and the currency that mainly influences labour, material and other costs. Secondary indicators include the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained. The Canadian dollar has been determined to be the functional currency for the Company and its subsidiaries, with the exception of New Elk Coal Company LLC, for which the functional currency is the United States dollar ("USD").

The consolidated financial statements are presented in Canadian dollars unless otherwise stated.

At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences are recognized in profit or loss.

At each balance sheet date, the assets and liabilities of New Elk Coal Company LLC are translated into Canadian dollars using the exchange rate at period end. Income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). These exchange differences on translation to the presentation currency are included in accumulated other comprehensive income (loss) in the statement of changes in equity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with financial institutions, including highly liquid investments with maturity dates of 3 months or less after the date of acquisition. Cash equivalents are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Inventory

Inventory consists of parts and supplies, and is carried at the lower of carrying value or replacement costs for supplies. Cost is determined using the first-in-first out ("FIFO") method.

Exploration and Evaluation Assets

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation assets. Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mineral properties under development.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral Properties Under Development

Acquired mineral properties are recognized at cost, or if acquired as part of a business combination, at fair value at the date of acquisition. All costs directly related to exploration activities are capitalized once the Company has obtained the legal right to explore. Mineral properties under exploration are reclassified when technical feasibility and commercial viability of the property can be demonstrated. Borrowing costs of the Company are capitalized to mineral properties under development.

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to construction are re-classified as a mineral property under development. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues.

Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

Contractor Deposits

Deposits advanced to contractors with respect to mine development and construction projects are recorded as a long term asset, consistent with the nature and classification of the underlying expenditure. Amounts are relieved and capitalized to mineral properties under development upon delivery of the asset.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and amortized using the straight line method over the assets' estimated useful economic life from three to seven years. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of loss in the period which they are incurred.

Residual values, method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

Impairment Non-financial Assets

At each balance sheet reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. For the purposes of measuring the recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash generated units or CGUs).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of loss.

An impairment loss, excluding those recognized on goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Decommissioning Liabilities

The Company recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in accretion of decommissioning liability in the consolidated statement of loss. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The liabilities are reviewed on a regular basis for changes in cost estimates, discount rates and operating lives.

Deferred Income Taxes

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting period, and any adjustments to tax payable related to prior years. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries or associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized to the extent that realization is considered probable. Deferred tax assets and liabilities are offset when they are from the same jurisdiction.

Borrowing Costs

The Company capitalizes borrowing costs that are directly attributable to the acquisition, construction, or production of property, plant and equipment or mineral properties under development as part of the cost of that asset. The Company recognizes other borrowing costs as an expense in the period in which it incurs them. The capitalization of borrowing costs is suspended during extended periods in which the Company suspends active development of the asset.

Stock Based Compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Stock options granted are settled with shares of the Company. The expense is determined based on the fair value of the award granted and recognized over the period for which services are received, which is usually the vesting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Based Compensation (Continued)

For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of loss.

The fair value of stock based compensation, as at the date of the grant, is measured using the Black Scholes pricing model and is recognized over the applicable vesting period as compensation expense, based on the number of stock based awards expecting to vest, with a corresponding increase in equity.

Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed assuming the weighted average number of common shares used in the basic loss per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential ordinary shares had been issued at the beginning of the year. Potential common shares represent the common shares issuable upon the exercise of stock options or warrants, or the conversion of bonds payable. Potential common shares are excluded from the calculation if their effect is anti-dilutive.

In the Company's case, diluted loss per share is the same as basic loss per share for the years presented as the effects of including all convertible securities would be anti-dilutive.

Changes in Accounting Standards

The Company has adopted the following new standards, along with any consequential amendments, effective December 1, 2012. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The Company determined that the impact of the amendment did not have a material impact on its financial statements, although it did affect disclosure in the statements of loss (income) and comprehensive loss (income).

Future Changes in Accounting Standards

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2013 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 7 — Financial Instruments: Disclosures (“IFRS 7”) was amended by the IASB in December 2011 to amend the disclosure requirements in IFRS 7 to require information about all recognized financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Changes in Accounting Standards (Continued)

that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) was issued by the IASB in May 2011 and will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent Company. Control is comprised of three elements: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 – Joint Arrangements (“IFRS 11”) was issued by the IASB in May 2011 and will replace IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013.

IAS 27 - Separate Financial Statements (“IAS 27”) was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. This standard is effective for annual periods beginning on or after January 1, 2013.

IAS 28 - Investments in Associates and Joint Ventures (“IAS 28”) was issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 also provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is effective for annual periods beginning on or after January 1, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Changes in Accounting Standards (Continued)

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these estimates could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Notes 8 and 9 for details of capitalized development and exploration and evaluation costs.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (Continued)

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operations.

Impairment of mineral properties under development, exploration and evaluation assets and property, plant and equipment

While assessing whether any indications of impairment exist for mineral properties under development, exploration and evaluation assets and property, plant and equipment, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties under development, exploration and evaluation assets and property, plant and equipment.

Internal sources of information include the manner in which the assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties under development, exploration and evaluation assets and property, plant and equipment.

Impairments of non-financial assets of \$168,184,346 have been recorded for the year ended November 30, 2013 (2012 - \$135,828).

Estimation of provision for environmental rehabilitation and the timing of expenditures

The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Environmental rehabilitation and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of environmental rehabilitation or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at November 30, 2013, the Company had recognized \$760,683 in environmental rehabilitation provisions (2012 - \$793,838).

Production stage of a mine

The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. As a mine is constructed, costs incurred are capitalized and proceeds from metal sales are offset against the capitalized costs. This continues until the mine is available for use in the manner intended by management, which requires significant judgment in its determination.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (Continued)

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets or liabilities recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments

Management determines costs for share-based payments using the Black-Scholes option pricing model. The fair value of the market-based and performance-based share awards are determined at the date of grant and incorporates certain input assumption's including the future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

4. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be bonds payable and equity, comprising share capital, contributed surplus, warrants, accumulated other comprehensive loss (income), and deficit, which at November 30, 2013 totaled \$138,873,278 (November 30, 2012 - \$280,818,918).

The properties in which the Company currently has an interest are in the exploration and development stage. The Company has engaged into limited mining activities in the short-term and is seeking to extend its mining activities. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and seek to raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the years ended November 30, 2013 and November 30, 2012. The Company is required to comply with certain financial covenants in connection with the trust indenture agreement underlying the Company's bonds payable (see Subsequent Events, Note 20).

5. FINANCIAL RISK FACTORS

Financial Risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, including interest rate, foreign exchange rate, and commodity price risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill trade and other payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents are held with reputable financial institutions which are closely monitored by management. Financial instruments included in receivables, consist of advances to directors and employees for future operating disbursements and amounts due from customers. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, and receivables is minimal. The cash is invested with one Canadian and three U.S. Chartered financial institutions.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure when it is possible, that it will have sufficient liquidity to meet liabilities when due. As at November 30, 2013, the Company had an aggregate cash and cash equivalents balance of \$1,515,625 (2012 - \$2,009,398) to settle current liabilities of \$91,578,722 (2012 - \$10,452,109). Other than the loans and bonds payable, all of the Company's financial liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. The Company is attempting to raise additional capital as and when required to finance its ongoing development project. During 2013, the Company obtained additional financing from its secured creditors. There is no assurance that additional funding will be provided. (See Notes 11 and 20).

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i) Interest Rate Risk

The Company has cash and cash equivalent balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks. The Company maintains bonds payable bearing interest at 10% per annum. As the interest rate is fixed, the associated interest rate risk is nominal.

ii) Foreign Currency Risk

The majority of the Company's funds are held in Canadian currency. The Company provides funding of its operations in New Elk in US currency, currently without hedging its US dollar purchases and is considered to be exposed to significant foreign currency risk. As at November 30, 2013, the Company has bonds denominated in US dollars with a face value of USD\$65,500,000 (2012 – USD\$50,000,000).

5. FINANCIAL RISK FACTORS (Continued)

Market Risk (Continued)

(iii) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as it relates to coal, precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, receivables, accounts payable and accrued liabilities, and bonds payable that are denominated predominantly in United States Dollars and Madagascar Arias. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net earnings by approximately \$6.6 million, with all other variables held constant.

Financial assets include investments subject to market fluctuations. Sensitivity to a plus or minus 10% change in share prices would affect the reported net income by approximately \$70,000. Cash balances held in operating accounts do not yield interest and are therefore not subject to sensitivity from rate fluctuation.

Fair Value Hierarchy and Liquidity Risk Disclosure

Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The fair value of short term financial instruments and cash equivalents approximates their carrying amounts due to the relatively short period to maturity. These include cash, trade and other receivables, investments and accounts payable and accrued liabilities and bonds payable.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments. The classifications are as follows:

- i) the use of quoted market prices for identical financial instruments (Level 1);
- ii) internal models using observable market information as inputs (Level 2);
- iii) internal models without observable market information as inputs (Level 3).

November 30, 2013	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 40,000	-	-
Investment in UMC Energy	\$ 664,421	-	-
November 30, 2012	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 90,000	-	-
Investment in UMC Energy	\$ 2,588,305	-	-

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and term deposits issued by banks that are highly liquid investments with maturities of 90 days or less at the date of acquisition. Included in cash and cash equivalents at November 30, 2012 is a performance bond of \$236,703, pending completion of certain highway construction related to the Company's New Elk Coal property.

Cash and cash equivalents are comprised of:

	November 30, 2013	November 30, 2012
Cash	\$ 1,515,625	\$ 1,774,210
Term deposits (varying rates and terms)	-	235,188
	\$ 1,515,625	\$ 2,009,398

7. INVESTMENTS

	November 30, 2013	November 30, 2012
Strike Minerals Inc. (2,000,000 common shares)	\$ 40,000	\$ 90,000
UMC Energy plc (12,272,667 common shares)	664,421	2,588,305
	\$ 704,421	\$ 2,678,305

8. EXPLORATION AND EVALUATION ASSETS

	November 30, 2013	November 30, 2012
Cline Lake Gold Property	\$ 1	\$ 2,514,443
Strike Edwards Gold Property	-	1,180,557
	\$ 1	\$ 3,695,000

Cline Lake Gold Property, Ontario

The Company owns a 100% interest in a mineral claim mining lease in the Sault Ste. Marie Mining Division, Ontario. A maximum royalty of \$200,000 based on 5% of the proceeds of production and a 1½% net smelter return royalty are payable on production from the property.

The Company has not worked on the property in 2013 and has no intention to do so in the near future, therefore this property has been written down to \$1 value.

Strike Edwards Gold Property

On December 11, 2006, the Company entered into an agreement with Strike Minerals Inc. ("Strike") to earn an interest in three mineral claims owned by Strike and located in Jacobson Township, northeast of Wawa, Ontario (the "Strike Edwards property"). The Agreement provided that the Company could earn up to a 12.5% joint venture interest in the Strike Edwards property and related assets by spending up to \$350,000 on a diamond drilling exploration program on the property by June 30, 2007. During fiscal 2007, the Company spent the required amount on qualifying exploration expenditures on the property and has earned its 12.5% interest in the Strike Edwards property. Pursuant to the agreement, a joint venture was formed during fiscal 2008 and the interest earned in the property transferred to Cline. The Company had accrued \$613,351 of expenditures per the joint venture agreement up to 2012. The Company's interest in the joint venture was diluted down to 1.7% on January 1, 2013, as it has not contributed its share of costs, therefore the total value of this property has been written down.

8. EXPLORATION AND EVALUATION ASSETS (Continued)

Strike Edwards Gold Property (Continued)

During the year ended November 30, 2013, \$22,056 in shared operational costs of Edwards Mine Site were capitalized to exploration and evaluation assets.

Bull Moose and Waterfall Creek Properties

During the year ended November 30 2012, the Company sold its interest in certain coal licenses in the Peace River area in northeast British Columbia for aggregate consideration of \$2,250,000. All costs associated with these properties were written down in a prior period. After transaction costs of \$231,510, a gain on disposition of \$2,018,490 was reported on the consolidated statement of income.

9. MINERAL PROPERTIES UNDER DEVELOPMENT

Changes in mineral properties under development during the period are as follows:

	2013	2012
Balance, beginning of year	\$ 271,647,166	\$ 169,603,022
Development expenditures	7,938,369	106,647,298
Impairment loss	(163,564,642)	-
Translation adjustment	17,343,893	(4,603,154)
Balance, end of year	\$ 133,364,786	\$ 271,647,166

New Elk Coal Property

On July 25, 2008, the Company acquired the coal mining properties and related assets owned by the New Elk Coal Company LLC ("New Elk"). The property is located in the western part of Las Animas County, in southeastern Colorado. The property consists of the New Elk Mine and three contiguous, long-term leases. Other assets include various railroad rights of way, the Picketwire Preparation Plant and a refuse disposal area located adjacent to the mine and prep plant.

During the year ended November 30, 2013, \$Nil (2012 - \$6,938,359) in borrowing costs were capitalized to mineral properties under development. On December 1, 2012, the Company ceased capitalizing borrowing costs due to the suspension of activities at the New Elk property.

During 2013, the Company identified weakness in met coal pricing as an indicator of impairment. Consequently, the Company performed an assessment to determine the recoverable amount of its mine operations for potential impairment by comparing the carrying value of the mine, the lowest level of assets and liabilities for which there are independent cash flows, to the discounted cash flows expected from the use and eventual disposition of identified assets and liabilities.

The key assumptions used in determining the recoverable amount of the mine are the future coal price, based on forward prices and industry analysis, discount rates, capital expenditures and operating cash costs.

The cash flows were forecasted on the mine plan, based on management assumptions, estimates of revenues and expenditures.

The Company concluded that an impairment of \$163,564,642 would be charged against the mine property assets for the year ended November 30, 2013, as the carrying value of the long-lived assets of the New Elk's mine and other projects exceeded their discounted cash flows over the mine lives.

After recognizing the impairment loss, the estimated fair value of the mineral properties is equal to their carrying values as at November 30, 2013.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are represented by the following:

Cost	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2011	\$32,488	\$324,821	\$72,709	\$32,044	\$164,275	\$626,337
Additions/Disposals	92	1,111	17,633	-	264,264	283,100
November 30, 2012	32,580	325,932	90,342	32,044	428,539	909,437
Additions/Disposals	(22,498)	10,315	(37,046)	(31,328)	(67,379)	(147,936)
November 30, 2013	\$10,082	\$336,247	\$53,296	\$716	\$361,160	\$761,501
Accumulated Amortization	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2011	\$24,811	\$320,883	\$39,811	\$15,757	\$81,342	\$482,604
Amortization/Adjustments	3,864	5,049	7,978	4,221	103,923	125,035
November 30, 2012	28,675	325,932	47,789	19,978	185,265	607,639
Amortization/Adjustments	(19,555)	10,315	(21,759)	(19,512)	30,713	(19,798)
November 30, 2013	\$9,120	\$336,247	\$26,030	\$466	\$215,978	\$587,841
Net Book Value	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2012	\$3,905	\$ -	\$42,553	\$12,066	\$243,274	\$301,798
November 30, 2013	\$962	\$ -	\$27,268	\$250	\$145,184	\$173,664

11. BONDS PAYABLE

A continuity of the bonds as at November 30, 2013, is as follows:

	2013	2012
Balance, beginning of year	\$43,164,777	\$ -
Acquisition of bonds	23,935,008	37,421,729
Effect of re-price of warrants	(232,304)	-
Accrued interest and accretion	20,098,156	6,938,359
Foreign exchange	4,065,353	(107,029)
Payments made	(5,859,998)	(1,088,282)
Balance, end of year	\$85,170,992	\$43,164,777

11. BONDS PAYABLE (Continued)

A summary of the bonds issued during the year is as follows:

Acquisition of bonds	2013	Acquisition of bonds	2012
Acquisition of bond #3	\$ 12,383,887	Acquisition of bond #1	\$ 14,265,374
Acquisition of bond #4	2,526,750	Acquisition of bond #2	23,156,355
Acquisition of bond #5	6,259,871		-
Acquisition of bond #6	1,067,000		-
Acquisition of bond #7	1,697,500		-
	\$ 23,935,008		\$ 37,421,729

The Marret Restructuring

On December 13, 2011, the Company executed a trust indenture, following a binding term sheet (the "Term Sheet") entered into with Marret Asset Management Inc. ("Marret") on behalf of a syndicate of lenders (the "Lenders") providing for the issuance of up to US\$50 million senior secured bonds (the "Bonds"). The Bonds were issuable to the Lenders, at the Company's option, in integral amounts of US\$25 million for a maximum of US\$50 million at any time prior to the first anniversary of the signing of the Term Sheet subject to completing definitive documentation. The Bonds have a maturity date that is two years from the date the Company first exercises its right to issue any Bonds to the Lenders and bear a coupon of 10% per annum, payable semi-annually in arrears in equal installments

On February 27, 2012 the Company issued senior secured bonds having a principal amount of US\$25 million. In consideration for the Company being permitted to draw down on the Commitment, the Company issued 1.25 million common share purchase warrants (the "First Draw Warrants") to such Lenders. The First Draw Warrants were exercisable at a price of C\$2.49 and will expire on February 27, 2015. This is recorded as Bond #1 in the above chart.

Cash costs of issue amounted to \$1,491,107, with the 7,500,000 commitment warrants and 1,250,000 drawdown warrants being assigned a fair value of \$7,902,294 and \$1,316,250 respectively. Accretion of \$4,917,076 was recorded during the year ended November 30, 2012 and charged to mineral properties under development.

On April 30, 2012, the Company issued a second round of certain senior secured bonds having a principal amount of US\$25 million, under the terms of the above noted trust indenture. The Bonds issued on April 30, 2012 will mature on February 27, 2014 and will bear a coupon of 10% per annum, payable semi-annually in arrears in equal installments. This is recorded as Bond #2 in the above chart.

Cash costs of issue amounted to \$148,599, with the above noted 1,250,000 drawdown warrants being assigned a fair value of \$576,250 and the incremental fair value assigned of \$797,967 due to the repricing of the warrants was treated as transaction costs. Accretion of \$2,021,284 was recorded for the year ended November 30, 2012 and charged to mineral properties under development.

On December 18, 2012, the Company was unable to make the semi-annual payment of interest on the Bonds in the amount of US\$2,500,000 that was due on December 17, 2012 (the "Interest Default"). The principal reason for Cline's present financial difficulties was the suspension of operations at Cline's New Elk metallurgical coal mine in Los Animas County, Colorado, as announced by Cline on July 11, 2012. Due to economic and industry-specific pressures, demand for production from the mine, which was the only revenue generating mining asset of Cline, had dropped to such an extent that a temporary suspension of production was necessary and is still in effect in order to manage costs until market conditions will improve.

On December 27, 2012 the Company entered into an agreement with Marret, on behalf of certain funds advised by it, providing for a financial restructuring (the "Restructuring") of the Company. Under the terms of the Restructuring, adjustments were negotiated to the terms of the Company's outstanding 10% senior secured bonds and, subject to approval by the TSX, changes to the exercise price of the Company's outstanding share purchase warrants and the issuance of additional securities of the Company, as described below.

11. BONDS PAYABLE (Continued)

The Bonds were issued under a trust indenture as supplemented (the "Trust Indenture") dated as of December 13, 2011 between Cline, Computershare Trust Company of Canada (the "Trustee") and Marret. In connection with the execution of the Trust Indenture and the issuance of the Bonds, the Company originally issued 10 million warrants (the "Existing Warrants") to certain bondholders (each Existing Warrant entitled the holder to purchase one common share of the Company at a price of \$1.15 until May 14, 2015).

The principal terms of the Restructuring were as follows:

- the Trustee to forbear from taking any action to enforce certain of its rights under the Trust Indenture, subject to the Restructuring being carried out within specified time limits;
- the Trust Indenture to be amended to permit the issuance of additional Bonds, which will rank equally with the existing Bonds;
- Marret, on behalf of the bondholders, purchased US\$13,000,000 (\$12,797,200) in aggregate of new Bonds which have the same terms as the existing Bonds (as amended), with US\$2,500,000 (\$2,459,500) used to satisfy in full the amount of the Interest Default. This was recorded as Bond #3 above, net of costs of \$413,313;
- Cline paid the bondholders a forbearance and restructuring fee in the amount of US\$2,500,000, (\$2,540,500) which was satisfied by issuing additional Bonds. This was recorded as Bond #4, net of costs of \$13,750;
- the exercise price for the Existing Warrants was amended to 100% of the weighted average trading price of Cline's common shares on the TSX for the five trading days preceding December 24, 2012, the date of the agreement providing for the Restructuring;
- Cline to pay all out-of-pocket expenses properly incurred by Marret, the Trustee and the bondholders in connection with the Restructuring, including the legal fees, costs and expenses of the legal counsel to Marret, the Trustee and the bondholders;
- the price payable by Cline to the bondholders in the event of a change of control of Cline (which includes, among other things, a sale of all or substantially all of the assets of Cline and its subsidiaries) will be increased from 104.5% to 110% of the principal and interest owing on the Bonds;
- Cline to pay to the bondholders a fee of 10% of the principal and unpaid interest owing on the Bonds if an event of default occurs prior to the completion of a Cline Transaction or Marret Plan (as defined below);
- the interest rate on the Bonds to increase by 2% per annum after the occurrence of an event of default;
- Cline paid the bondholders a commitment fee in the amount of US\$350,000 (\$355,670). This fee is included in the carrying amount of the Bond #3;
- Cline issued 1,400,000 new warrants (the "New Warrants") to the bondholders as an additional commitment fee, with the New Warrants having the same terms as the Existing Warrants (as amended). These warrants were issued January 15, 2013.

As the Restructuring would result in the issuance of common shares to the bondholders in excess of 25% of the number of currently outstanding common shares of the Company and at a price that is at a significant discount to the current market price of the common shares, the Restructuring would ordinarily require shareholder approval under the requirements of the TSX. The TSX has granted the Company an exemption from the TSX's shareholder approval requirement, on the basis of financial hardship.

11. BONDS PAYABLE (Continued)

On January 11, 2013 the TSX accepted the amendment to the exercise price of the Existing Warrants and the issuance of the New Warrants. The exercise price of the Existing Warrants was changed from \$1.15 to \$0.09 per common share, which was 100% of the weighted average trading price of Cline's common shares on the TSX for the five trading days preceding December 24, 2012, the date of the agreement providing for the Restructuring. Other than a change to the exercise price, the New Warrants will have the same terms as the Existing Warrants (as amended) and have a three-year term and the incremental fair value assigned of \$232,304 due to the re-pricing of warrants was treated as transaction costs.

The Restructuring also included a recapitalization (the "Marret Plan"), unless, by April 30, 2013, Cline implements a transaction the ("Cline Transaction") which results in any of (i) a takeover bid of, or other business combination with, Cline in which any person or group of persons acting in concert acquires 50% or more of the equity securities of Cline, (ii) the sale of all or substantially all of the assets or business of Cline and its subsidiaries, or (iii) a recapitalization of Cline, subject to certain conditions including that as a result of such recapitalization Cline receives at least \$35,000,000 of gross cash proceeds from the issuance of equity securities or, as a result of such sale, Cline receives sufficient net proceeds to repay all amounts (including interest, premium, principal and other fees) owing on or under the Bonds and the other financing documents. As part of the Marret Plan, Marret, on behalf of the bondholders, acted as stand-by underwriter for the \$35,000,000 rights offering for a fee of USD\$3,500,000 which was paid by the Company. On June 3, 2013, the Company announced that it did not proceed with the recapitalization agreement.

On April 11, 2013 in accordance with the terms of the Company's financial Restructuring announced on December 27, 2012, certain investment funds advised by Marret purchased US\$2,500,000 of 10% secured bonds which have the same terms as the Company's other outstanding bonds.

On June 18, 2013, the Company signed a forbearance agreement with Computershare Trust Company. The Company was unable to pay a June 17, 2013, \$3.3 million interest payment with the Trustee agreed to forbear from taking action under the Trust Indenture.

On July 8, 2013, the Company closed a \$9,490,998 10% senior secured convertible bond (the "Convertible Bonds") financing with Marret and on behalf of certain funds advised by it. The financing is comprised of \$3,000,000 in cash proceeds, settlement of \$3,300,998 in interest payments which were due June 17, 2013 and of \$3,174,048 in fees associated with the financing. The Convertible Bonds are convertible into 1,978,999,600 common shares of the Company, on the basis of \$0.05 per share. Additionally, cash costs of \$57,079 were incurred in connection with this financing. This is recorded as Bond #5.

On October 11, 2013, the Company closed on a second round of \$1,100,000 10% senior secured convertible bond financing with Marret and on behalf of certain funds advised by it. The Convertible Bonds were issued at a 3.0% discount, convertible at \$0.05, and resulting in net realizable funds of \$1,067,000 for the Company. This is recorded as Bond #6 in the above chart.

On November 14, 2013, the Company issued another round of \$1,750,000 10% senior secured bond financing with Marret and on behalf of certain funds advised by it. The Convertible Bonds were issued at a 3.0% discount resulting in net realizable funds of \$1,697,500 for the Company. This is recorded as Bond #7 in the above chart.

The Bonds and Convertible Bonds are due June 15, 2014. As at November 30, 2013, the Company was in default on all loans, and as such all are reflected as a current liability and are recorded at their face values. The Company expects it will require its secured lenders to waive certain defaults pursuant to the terms of the bond indentures in the future. While the Company has been granted waivers in the past, there is no assurance that it will be granted additional waivers in the future. See Note 20.

12. PROVISION FOR ENVIRONMENTAL REHABILITATION AND RECLAMATION DEPOSITS

The provision for environmental rehabilitation of \$760,683 represents the estimated present value of the Company's future obligation for site remediation of its New Elk coal property. During the year ended November 30, 2013, the Company recognized accretion on the decommissioning liability of \$66,685 (2012 - \$173,661), which has been expensed on the Company's consolidated statement of loss.

The liability is based upon estimates and assumptions, as follows:

- a) Total undiscounted future remediation costs are estimated to be \$7,055,112. This has been calculated assuming a 1.2% annual rate of inflation, with settlement of the liability occurring in approximately twenty four years.
- b) Weighted average risk adjusted rate of 10%.

A continuity of the provision for environmental rehabilitation as at November 30, 2013, is as follows:

	2013	2012
Balance, beginning of year	\$ 793,838	\$ 620,177
Foreign exchange	(99,840)	-
Accretion	66,685	173,661
Balance, end of year	\$ 760,683	\$ 793,838

As at November 30, 2013, the Company has a \$50,000 (2012 - \$50,000) reclamation deposit and has \$5,581,483 of reclamation bonds (2012 - \$5,221,998) held with the Colorado Department of Natural Resources.

Included in the total reclamation bonds figure is a cash amount of \$1,550,804 held by the State of Colorado to secure reclamation requirements for land under the New Elk mine and the Golden Eagle permits. The properties are currently undergoing remediation and rehabilitation. Also included is a cash bond of \$984,603 held by the State of Colorado for the remediation and rehabilitation of the Lorencito property adjacent to the New Elk mine. This property has undergone extensive remediation and rehabilitation and is currently in the monitoring cycle by the State of Colorado. The cash held as security for this bond is expected to be released by the State at the end of the monitoring cycle.

The remaining reclamation bond of \$4,596,881 (2012 - \$4,300,811) was secured through Letters of Credit ("LC") of US\$2,744,969 (\$2,915,157) (2012 - US\$3,069,969; \$3,050,321) in aggregate, secured in cash and issued by Wells Fargo Bank. Wells Fargo Bank charges an annual fee of 1.5% of the cash security held. The Company earns 0.4% on the cash deposit held with Wells Fargo Bank, which is applied against the annual fee.

Wells Fargo Bank did not renew the LC's totalling US\$325,000 (\$345,150) after their maturity on September 16, 2013. The Company pledged cash of US\$125,000 (\$132,750) to secure the reclamation requirements under the Coal Storage Agreement and transferred cash of US\$200,000 (\$212,400) to the Company's operating account.

The LC of US\$2,744,969 (\$2,915,152) matured in February 2014, and Wells Fargo Bank advised that it will not renew the LC for a new term. The funds were then posted directly with the State of Colorado.

13. RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES

Transactions with related parties in the normal course of business measured and recorded at the exchange amount, as agreed to by the parties.

- i) During the year ended November 30, 2013, companies related to or controlled by officers and directors of the Company were paid \$1,292,367 (2012 - \$1,118,733) with respect to consulting and management fees. In addition, certain officers of the Company, who also acted as directors were paid a total of \$280,564 (year ended November 30, 2012 - \$414,334) with respect to directors fees.
- ii) Shareholder loan receivable includes \$nil (2012 - \$35,548) due from an officer with respect to travel and expense advances. The shareholder loan from 2012 was non-interest bearing and was paid out in full during 2013.
- iii) Accounts payable and accrued liabilities includes amounts due to, or accrued as payable to, directors or officers in the amount of \$484,924 (November 30, 2012 - \$33,844) with respect to consulting fees and related expenses.
- iv) Receivables include \$9,455 (November 30, 2012 - \$nil) due from officers and directors with respect to consulting fees advances. These amounts were subsequently received by the Company.

A summary of remuneration of directors and senior management of the Company, for the years ended November 30, 2013 and 2012, is as follows:

	2013	2012
Remuneration of senior management	\$ 1,292,367	\$1,118,733
Share-based payments	-	1,442,000
Remuneration of directors	280,563	414,334
Total	\$ 1,572,930	\$2,975,067

14. SHARE CAPITAL

Authorized – Unlimited common shares without par value:

	Number of Shares	Amount
Balance as at November 30, 2011	208,626,977	\$ 226,424,014
Exercise of warrants	518,000	570,557
Costs of issuance	-	(1,962)
Balance as at November 30, 2012 and 2013	209,144,977	\$ 226,992,609

15. STOCK OPTIONS

Outstanding stock options as at and for the year ended November 30, 2013 are as follows:

	Number of options	Weighted average exercise price
Balance as at November 30, 2011	13,300,000	\$ 2.14
Options granted	4,000,000	1.37
Options expired	(2,000,000)	(1.37)
Balance as at November 30, 2012	15,300,000	2.04
Options expired	(15,300,000)	(2.04)
Balance as at November 30, 2013	-	\$ -

15. STOCK OPTIONS (Continued)

During the year ended November 30, 2013, all outstanding options were fully vested and exercisable. All outstanding options expired after eligible option plan members left the Company.

The Black-Scholes pricing model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions.

In addition, this pricing model requires the use of estimates, including management's assumptions about future stock price volatility and expected time until exercise. The Company's outstanding stock options have characteristics which are significantly different from those of traded options, and changes in any of the assumptions can materially affect fair value estimates.

For purposes of stock-based compensation, the fair value of each option granted in 2012 was estimated on the date of grant using the Black-Scholes option pricing model. Assumptions used for the purpose of valuing the grants in 2012 were as follows: dividend yield 0%, risk-free interest rate of 1.31%, expected volatility of 129.70% expected life of 5 years. The weighted average grant date fair value of options granted during the year was \$1.37 per option and a forfeiture rate of 0%. Volatility is determined using the daily volatility of the Company's stock over the expected life of the options.

16. WARRANTS

The number of share purchase warrants represents the number of shares that may be acquired on the exercise of the outstanding warrants. The Company's share purchase warrants outstanding for the year-ended November 30, 2013, and 2012, and the changes during the years then ended are as follows:

Broker Warrants	Number of Warrant Shares	Fair value Warrants	Weighted average exercise price
Balance as at November 30, 2011	5,411,894	\$6,942,444	\$2.07
Issued	7,000,000	6,482,218	1.15
Exercised	(183,000)	(1,830)	(1.48)
Expired	(581,864)	(870,105)	(1.95)
Balance as at November 30, 2012	11,647,030	\$12,552,727	\$1.38
Issued (i)	1,400,000	53,200	1.15
Modified (ii)	-	232,304	-
Expired	(1,647,030)	(1,959,966)	2.75
Balance as at November 30, 2013	11,400,000	\$10,878,265	\$0.09

- (i) On December 13, 2011, the Company issued 4,500,000 warrants in connection with the debt financing the same day. The warrants expire September 30, 2014, have an exercise price of \$1.75, and were assigned a fair value of \$3,791,751 using the Black Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 93%, a risk free interest rate of 0.87%, and an expected life of 2.75 years.
- (ii) On February 27, 2012, 1,250,000 warrants were issued on the first \$25 million draw down of the credit facility, with an exercise price of \$2.49. The warrants were assigned a fair value of \$1,316,250 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 101%, a risk free interest rate of 1.06%, and an expected maturity of 3 years.
- (iii) On April 30, 2012 1,250,000 warrants were issued on the second \$25 million draw down of the credit facility, with an exercise price of \$2.49. The warrants were assigned a fair value of \$576,250 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 91.48%, a risk free interest rate of 1.44%, and an expected maturity of 3 years.

16. WARRANTS (Continued)

- (iv) On May 14, 2012, the Company re-issued 10,000,000 warrants in connection with the a re-negotiation of certain terms of certain terms of the trust indenture underlying its bonds payable (3,000,000 issued in October 2011 and 7,000,000 issued in 2012). The warrants expire May 14, 2015, have an exercise price of \$1.15 and the incremental fair value increases due to the re-issuance to the amount of \$797,967 which was calculated using the Black Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 92.34%, a risk free interest rate of 1.34%, and an expected life of 3 years.
- (v) On January 11, 2013, the Company issued 1,400,000 warrants in connection with debt financing. The warrants expire January 11, 2016, have an exercise price of \$0.09, and were assigned a fair value of \$53,200 using the Black Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 118.68%, a risk free interest rate of 1.27%, and an expected life of three years.
- (vi) On January 11, 2013, the Company modified the terms of 10,000,000 May 14, 2015 warrants in connection with the re-negotiation of certain terms of certain terms of the trust indenture underlying its bonds payable. The exercise price was reduced from \$1.15 to \$0.09 with all other terms remaining the same. The incremental fair value increases by \$232,304 as a result of this change

As at November 30, 2013, the following broker warrants were outstanding:

Expiry Date	Number of Warrants	Number of Warrant Shares	Fair Value of Warrants	Weighted Average Exercise Price
May 14, 2015	10,000,000	10,000,000	\$ 10,825,065	\$ 0.09
January 11, 2016	1,400,000	1,400,000	53,200	0.09
	11,400,000	11,400,000	\$ 10,878,265	\$ 0.09

17. COMMITMENTS AND CONTINGENCIES

- (i) Under the terms of an occupancy lease agreement expiring August 1, 2015, the Company is required to make monthly payments for office space amounting to \$10,365. Toward the end of the year ended November 30, 2013, the Company finalized a sublease for that office space with monthly occupancy fee reimbursement.
- (ii) In November 2013, the Company entered into a second short-term occupancy lease agreement until March 31, 2014 with the agreement renewal option. The required monthly fee is approximately \$5,500.
- (iii) In order to keep its mineral properties in good standing, the Company is required to make perpetual annual payments of approximately \$60,000 to the government of Madagascar for permit fees.
- (iv) With respect to the New Elk Coal Property, the Company is obligated to remit perpetual annual land lease, railroad lease, and royalty payments of US\$504,207 (\$535,468) and annual water lease payments of US\$155,000 (\$164,610).
- (v) Under the terms of the acquisition of the New Elk Property assets, the Company holds environmental remediation bonds. See Note 12.

17. COMMITMENTS AND CONTINGENCIES (Continued)

- (vi) The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject to clean up costs and liability for toxic or hazardous substances which may exist on or under any of its properties, or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement (including increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees).

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

Currently, the Company's financial obligations relating to environmental protection include the restoration of areas affected by the exploration work carried out on our mineral properties. As a condition of work permits issued by the Government of British Columbia ("B.C."), the Company has provided reclamation deposits in amounts representing the estimated liabilities for restoration and completion of each project in the amount of \$50,000 with respect to the work permits which have been issued. The restoration work related to each project for which the Company was issued work permits has been completed and the Company has requested the return of the reclamation deposits from the B.C. government.

- (vii) As at November 30, 2013, the outstanding principal balance on the eight loans for New Elk's construction equipment held is US\$910,607 (\$967,065). Under the terms of these loans, the Company is obligated to remit monthly payments of US\$32,846 (\$34,882), which commenced in March 2012 for a period of 48 months.
- (viii) The Company entered into a long term arrangement with the Port of Corpus Christi Authority of Texas providing New Elk with a long-term lease of 18 acres of land that will serve as a coal storage area, adjacent to the shipping channel and proximate to the bulk coal ship-loader. This will provide New Elk with immediate access to the world seaborne export coal markets for the sale of metallurgical coal.

The property lease is effective February 8, 2011, and provides for an initial 5-year lease, with the option for the Company to extend the lease for five additional periods of 5 years. The facility is capable of supporting a throughput of up to 2 million tons of metallurgical coal per year and additional storage area is available to the Company at the Port to accommodate future mine production schedules. Contractual commitments under the terms of the operating lease comprise rent of US\$18,750 (\$19,913) per month discounted up to 50% for the first 10 years up to a maximum of \$1,125,000. New Elk shall have the right to reduce the amount by 50% of the cost of improvements. New Elk is entitled to a 50% discount on ship loader fees for up to 10 years for a maximum 1,000,000 tons per year, discount not to exceed \$625,000 in any one year.

The Company was unable to sustain this obligation and ceased making payments on the lease while it attempts to terminate the arrangement through a settlement. As at November 30, 2013, US\$693,615 (\$736,619) is included in accounts payable and accrued liabilities, relating to this agreement. On March 27, 2014, the property lease was terminated.

- (ix) A Statement of Claim was filed against Cline for costs and damages of approximately US\$558,000 on August 8, 2013. The plaintiff is the former Executive Vice President and Chief Operating Officer of the Corporation and was terminated for cause on June 21, 2013. The Company has subsequently filed a Statement of Defence and will rigorously defend its position.

17. COMMITMENTS AND CONTINGENCIES (ix) (Continued)

The outcome of this lawsuit is not determinable at this time, and as a result, the total of \$484,924 has been accrued to consultants and related costs as at November 30, 2013.

- (x) A Statement of Claim under civil procedure Rule 76 was filed for cost and damages, on August 31, 2013. The plaintiff provided certain legal services to the Company which it alleges were not approved and were consequently overcharged. The total of \$64,985 has been accrued as legal expenditure, relating to the Statement of Claim. The Company has subsequently filed a Statement of Defence and will rigorously defend its position.
- (xi) A class action lawsuit was filed against the Company on February 1, 2013. The plaintiffs' allege that New Elk violated the Worker Adjustment and Retraining Notification Act ("WARN Act") by failing to provide the plaintiffs and other similarly situated employees at least sixty (60) days advance written notice of the layoffs.

In the Complaint, the plaintiffs request that the class be certified by the Court and seek a judgment for "unpaid wages, salary, commissions, bonuses, accrued holiday pay, accrued vacation pay, pension and 401(k) contributions and other ERISA benefits, for sixty (60) days, that would have been covered and paid under the then-applicable employee benefits plans," together with interest, attorneys' fees and costs.

On April 5, 2013, NECC filed its Answer to the Complaint denying the plaintiffs' allegations that NECC violated the WARN Act. On October 3, 2013, the plaintiffs filed an Amended Complaint that, among other things, added Cline as a defendant in the lawsuit. On October 17, 2013, NECC filed its Answer to the Amended Complaint and on October 29, 2013, Cline filed its Answer to the Amended Complaint. NECC and Cline denied the allegations in the Amended Complaint pertaining to the applicability of the WARN Act to them. The Court has ordered that discovery in this matter be bifurcated.

The discovery cut-off for Phase I was March 17, 2014. Following the Phase I discovery cut-off, each of the defendants in the case intend to file motions for summary judgement requesting that the Court find that they are not subject to the WARN Act and have no obligations whatsoever to the named plaintiffs or other individuals covered by plaintiffs' lawsuit.

The outcome of this lawsuit is not determinable at this time and as a result, no amounts had been accrued as at November 30, 2013.

- (xii) Lodgepole, Sage Creek and Cabin Creek Coal Mine properties have been written off due to the revocation by Government of the Company's coal mining Licenses (Titles), issued by Government in British Columbia, Canada. At the request of the British Columbia government, the Company has filed a claim for compensation. The Company has met with the government, and believes compensation is forthcoming. The amount and timing of a settlement, if any, is uncertain.

18. SEGMENTED INFORMATION

The Company operates in one segment and has one head office segment - the exploration and development of mineral properties, which are located in Canada and the United States of America. Identifiable assets are as follows:

November 30, 2013	Canada		USA		Total
Mineral interest	\$	1	\$	133,364,786	\$ 133,364,787
Corporate and other assets		3,509,756		9,746,975	13,256,731
Total assets	\$	3,509,757	\$	143,111,760	\$ 146,621,518
Loss for the year	\$	(30,153,934)	\$	(169,517,293)	\$ (199,671,227)

18. SEGMENTED INFORMATION (Continued)

	Canada		USA		Total
November 30, 2012					
Mineral interest	\$	3,695,000	\$	271,647,166	\$ 275,342,166
Corporate and other assets		4,488,466		10,141,187	14,629,653
Total assets	\$	8,183,466	\$	281,788,353	\$ 289,971,819
Loss for the year	\$	(4,708,397)	\$	(250,334)	\$ (4,958,731)

19. INCOME TAXES

The major components of income tax expense are as follows:

Tax expense applicable to:	2013		2012	
Current taxes	\$	(995,808)	\$	-
Deferred taxes		(259,695)		-
Total tax expense (recovery)	\$	(1,255,503)	\$	-

A reconciliation between tax expense and the product of accounting loss multiplied by the Corporation's domestic tax rate is as follows:

	2013		2012	
Statutory tax rate		26.50%		26.50%
Net loss for the year, before income taxes	\$	(200,926,730)	\$	(4,958,731)
Tax benefit of statutory rate	\$	(53,245,583)	\$	(1,314,063)
Permanent differences		-		915,543
Deferred taxes not recognized		51,990,080		410,116
Foreign tax rates		-		(11,595)
Total tax recovery	\$	(1,255,503)	\$	-

During 2013, a deferred tax expense was recorded directly in equity in the amount of \$259,695, relating to the expiry of warrants.

Components of deferred tax assets/ (liabilities):

	November 30, 2013	November 30, 2012
Deferred Tax Assets		
Non-capital losses and other	\$ -	\$ 1,304,729
Deferred Tax Liabilities		
Mineral property	-	(830,005)
Investments	-	(265,323)
Bonds payable	-	(209,401)
	-	(1,304,729)
Net deferred tax asset/(liability)	\$ -	\$ -

19. INCOME TAXES (Continued)

Deferred tax assets have not been recognized in respect of the following temporary differences in Canada:

	November 30, 2013	November 30, 2012
Non-capital losses	\$ 20,147,000	\$ 2,471,000
Exploration and evaluation assets	891,000	-
Share issue costs	19,374,000	11,680,000
Bonds payable	2,434,000	-
Other	219,000	198,000
Total	\$ 43,065,000	\$ 14,349,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

The Company has Canadian non-capital losses of \$20,147,000 as at November 30, 2013, which under certain circumstances can be used to reduce the taxable income of future years. These losses expire in 2032 and 2033.

20. SUBSEQUENT EVENTS

Upon the instructions of the Bondholders, the Trustee has agreed to forbear from demanding repayment of the amounts owing under the Trust Indenture. On December 15, 2013, the Company was unable to make the semi-annual interest payments in the amount of approximately US\$3.3 million on its US secured notes and of approximately \$552,000 on its convertible bonds due to the Company's present financial situation. The principal reason for the Company's present financial difficulties are the current economic and market conditions, which have resulted in lower demand for production from the mine, which is the only revenue generating asset the Company has.

The Company consequently entered into a series of forbearance agreements with Computershare Trust Company of Canada (the "Trustee") and Marret under the 10% senior secured bond trust indenture dated December 13, 2011, and the 10% senior secured convertible bond trust indenture dated July 8, 2013.

Pursuant to the terms of the forbearance agreements, the Trustee provided written confirmation that the forbearance agreements have been extended until the earlier of (i) March 17, 2014 and (ii) the occurrence of a Forbearance Termination Event. On March 18, 2014, the Trustee provided written confirmation that the forbearance agreements have been extended until the earlier of (i) April 30, 2014 and (ii) the occurrence of a Forbearance Termination Event.

Subsequent to November 30, 2013, the Company entered into a lease termination agreement with the Port of Corpus Christi Authority of Texas.



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED FEBRUARY 28, 2014

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited)

As at	February 28, 2014	November 30, 2013
ASSETS		
Current		
Cash and cash equivalents (Note 6)	\$ 680,178	\$ 1,515,625
Trade and other receivables	37,069	1,402,812
Prepaid expenses and deposits	215,584	267,483
Inventory	3,657,955	3,459,822
Total Current Assets	4,590,786	6,645,742
Mineral properties under development (Note 9)	137,746,356	133,364,786
Exploration and evaluation assets (Note 8)	1	1
Bond on land (Note 12)	5,820,089	5,581,483
Reclamation deposits (Note 12)	50,000	50,000
Contractor deposits	105,758	101,421
Investments (Note 7)	552,230	704,421
Property, plant and equipment (Note 10)	126,308	173,664
Total Assets	\$148,991,528	\$146,621,518
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 17)	\$ 5,119,881	\$ 5,941,413
Income taxes payable	79,079	79,079
Current portion of loans payable (Note 17(vii))	387,238	387,238
Bonds payable (Note 11)	90,569,664	85,170,992
Total Current Liabilities	96,155,862	91,578,722
Provision for environmental rehabilitation (Note 12)	813,032	760,683
Long-term portion of loans payable (Note 17(vii))	485,884	579,827
Total Liabilities	97,454,778	92,919,232
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	226,992,609	226,992,609
Contributed surplus	33,619,487	33,619,487
Warrants (Note 16)	10,878,265	10,878,265
Deficit	(238,222,173)	(231,500,643)
Accumulated other comprehensive income	18,268,562	13,712,568
Total Shareholders' Equity	51,536,750	53,702,286
Total Liabilities and Shareholders' Equity	\$148,991,528	\$146,621,518

Nature of Operations and Going Concern (Note 1)
 Commitments and Contingencies (Note 17)
 Subsequent Events (Note 19)

Approved on Behalf of the Board:

" Vincent (James) Sardo "
 Director

" Matthew Goldfarb "
 Director

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE
(LOSS) INCOME
(Expressed in Canadian Dollars)
(Unaudited)

For the Three Months Ended February 28,	2014	2013
EXPENSES		
Consulting and management fees	\$ 255,549	\$ 228,973
Legal and audit	196,075	827,304
Directors fees and expenses	24,551	92,120
Mine expenses	614,001	-
General, administrative and office	120,179	138,799
Transfer agent, filing and investor relations	14,041	69,102
Travel and accommodation	21,657	48,195
Interest and accretion on bonds and restructuring fees (Note 11)	2,061,655	-
Amortization	24,952	2,132
Foreign exchange loss	3,474,467	1,543,778
	(6,807,127)	(2,950,403)
OTHER INCOME (EXPENSES)		
Interest income and (expense)	(8,916)	3,052
(Loss) on sale of equipment	(28,586)	-
Gain on sale of scrap	142,582	-
Impairment loss on mineral property	-	(82,207)
Accretion of provision for environmental rehabilitation (Note 12)	(19,484)	(50,000)
(Loss) for the period before income taxes	(6,721,531)	(3,079,558)
Income taxes	-	-
(Loss) for the period	(6,721,531)	(3,079,558)
Items that will be reclassified to operations		
Unrealized (loss) on investments for the year, net of tax	(152,190)	(211,607)
Currency translation adjustment	4,708,185	9,680,414
Comprehensive (loss) income	\$(2,165,536)	\$ 6,389,249
Basic (loss) per share	\$ (0.03)	\$ (0.01)
Weighted average number of shares outstanding – basic and diluted	209,144,977	209,144,977

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2013	\$226,992,609	\$33,619,487	\$10,878,265	\$(231,500,643)	\$13,712,568	\$53,702,286
Net loss for the period	-	-	-	(6,721,530)	-	(6,721,530)
Cumulative translation adjustments	-	-	-	-	4,708,185	4,708,185
Unrealized loss on investment for the period, net of tax	-	-	-	-	(152,190)	(152,190)
Balance, February 28, 2014	\$226,992,609	\$33,619,487	\$10,878,265	\$(238,222,173)	\$18,268,562	\$51,536,750
	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2012	\$226,992,609	\$31,919,216	\$12,552,727	\$(31,829,416)	\$(1,980,995)	\$237,654,141
Net loss for the period	-	-	-	(3,079,558)	-	(3,079,558)
Issuance of warrants (Note 16)	-	-	53,200	-	-	53,200
Modification of warrants (Note 16)	-	-	232,304	-	-	232,304
Cumulative translation adjustments	-	-	-	-	9,680,414	9,680,414
Unrealized loss on investment for the period, net of tax	-	-	-	-	(211,607)	(211,607)
Balance, February 28, 2013	\$226,992,609	\$31,919,216	\$12,838,231	\$(34,908,974)	\$7,487,812	\$244,328,894

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

For the Three Months Ended February 28,	2014	2013
Cash Flows Used in Operating Activities		
(Loss) for the period	\$ (6,721,531)	\$ (3,079,558)
Items not involving cash:		
Amortization	24,952	2,132
Accretion of provision for environmental rehabilitation (Note 12)	19,484	50,000
Accretion on bonds	2,061,655	-
Impairment of mineral property expenditures	-	82,207
Loss on sale of equipment	28,586	-
Unrealised foreign exchange loss	3,337,017	1,543,778
	(1,249,837)	(1,401,441)
Changes in working capital items other than cash:		
Trade and other receivables	1,365,743	471,491
Inventory	(198,133)	(196,094)
Prepaid expenses and deposits	51,899	(11,019)
Accounts payable and accrued liabilities	(802,977)	(110,147)
	(833,305)	(1,247,210)
Cash Flows (Used in) Provided by Financing Activities		
Proceeds from issuance of bonds	-	9,839,307
Loan payments	(132,927)	-
	(132,927)	9,839,307
Cash Flows Provided by (Used in) Investing Activities		
Bond on land	-	(198,719)
Mineral properties under development	(18,555)	(8,758,135)
Proceeds on sale of property and equipment	35,615	-
Purchase of equipment	-	(9,494)
	17,060	(8,966,348)
Effect of exchange rate change on cash held in foreign currencies	113,725	37,639
Change in cash and cash equivalents	(835,447)	(336,612)
Cash and cash equivalents, beginning of period	1,515,625	2,009,398
Cash and cash equivalents, end of period (Note 6)	\$ 680,178	\$ 1,672,786
Supplemental cash flow information		
Cash interest received	\$ 2,734	\$ 4,251
Cash paid for interest	\$ -	\$ 2,459,500
Cash paid for income taxes	\$ -	\$ -

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Cline Mining Corporation and its wholly-owned subsidiaries, New Elk Coal Company LLC, Iron Ore Corporation of Madagascar SARL ("IOCM"), North Central Energy Company and Raton Basin LLC, are hereinafter referred to as "Cline" or the "Company". Cline is engaged in the business of locating, exploring and mining mineral resource properties. Substantially all of the efforts of Cline are devoted to these business activities. Cline is incorporated and domiciled in Canada and its registered office is 161 Bay Street, Toronto, Ontario, Canada.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. As at and for the three months ended February 28, 2014, the Company incurred a net loss of \$6,721,531, reported an accumulated deficit of \$238,222,173 and had a working capital deficiency of \$91,565,076. The Company has been unable to meet its scheduled interest payments.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of development and exploration and evaluation properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise additional financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require additional material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development in which it has an interest, in accordance with industry standards for the current stage of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

In addition to its working capital requirements, the Company has been unable to secure off-take agreements for its coal production at acceptable terms and must secure sufficient funding to meet its working capital requirements, advance the New Elk coal mine into run-rate production and keep its mineral claims, leases and title in good standing. These circumstances cast significant doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern.

The Company is currently working on securing additional capital to meet these needs. However, there is no guarantee that the Company's financing efforts will be successful or sufficient to fund these requirements. The Company may incur significant additional dilution to the holdings of existing shareholders in order to obtain financing.

These condensed interim consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting.

These financial statements are prepared on a historical cost basis, except for cash equivalents and investments, which are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Compliance (Continued)

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2014.

Changes in Accounting Standards

The Company has adopted the following new standards, along with any consequential amendments, effective December 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The Company determined that the impact of the amendment did not have a material impact on its financial statements, although it did affect disclosure in the statements of loss (income) and comprehensive loss (income).

IFRS 7 — Financial Instruments: Disclosures (“IFRS 7”) amended by the IASB in December 2011, requires disclosure of information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) issued by the IASB in May 2011 and replaces IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. IFRS 10 identifies three elements of control: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. The adoption of this standard did not result in any changes in the consolidation status of the Company’s subsidiaries.

IFRS 11 – Joint Arrangements (“IFRS 11”) issued by the IASB in May 2011 and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 classifies joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. The adoption of this standard did not result in any changes to the Company’s investments in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) issued by the IASB in May 2011. IFRS 12 provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not result in any changes to the Company’s disclosure requirements for interests in other entities.

IFRS 13 – Fair Value Measurement (“IFRS 13”) issued by the IASB in May 2011. IFRS 13 provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The adoption of this standard did not result in any significant changes to the Company’s disclosures of its financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in Accounting Standards (Continued)

IAS 27 - Separate Financial Statements ("IAS 27") was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The adoption of this standard did not result in any changes to the Company's financial statements.

IAS 28 - Investments in Associates and Joint Ventures ("IAS 28") issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The adoption of this standard did not result in any changes to the Company's investments in joint ventures.

Future Changes in Accounting Standards

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated financial statements and related notes to the condensed interim consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these estimates could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Notes 8 and 9 for details of capitalized development and exploration and evaluation costs.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operations.

Impairment of mineral properties under development, exploration and evaluation assets and property, plant and equipment

While assessing whether any indications of impairment exist for mineral properties under development, exploration and evaluation assets and property, plant and equipment, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties under development, exploration and evaluation assets and property, plant and equipment.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (Continued)

Impairment of mineral properties under development, exploration and evaluation assets and property, plant and equipment (Continued)

Internal sources of information include the manner in which the assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties under development, exploration and evaluation assets and property, plant and equipment.

Impairments of non-financial assets of \$Nil have been recorded for the three months ended February 28, 2014 (three months ended February 28, 2013 - \$82,207).

Estimation of provision for environmental rehabilitation and the timing of expenditures

The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Environmental rehabilitation and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of environmental rehabilitation or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at February 28, 2014, the Company had recognized \$813,032 in environmental rehabilitation provisions (November 30, 2013 - \$760,683).

Production stage of a mine

The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. As a mine is constructed, costs incurred are capitalized and proceeds from metal sales are offset against the capitalized costs. This continues until the mine is available for use in the manner intended by management, which requires significant judgment in its determination.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets or liabilities recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

4. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be bonds payable and equity, comprising share capital, contributed surplus, warrants, accumulated other comprehensive income and deficit, which at February 28, 2014 totaled \$142,106,414 (November 30, 2013 - \$138,873,278).

The properties in which the Company currently has an interest are in the exploration and development stage. The Company has engaged in limited mining activities and is seeking to extend its mining activities as market conditions allow. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and seek to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the three months ended February 28, 2014. The Company is required to comply with certain financial covenants in connection with the trust indenture agreement underlying the Company's bonds payable. (See Notes 11 and 19).

5. FINANCIAL RISK FACTORS

Financial Risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, including interest rate, foreign exchange rate, and commodity price risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill trade and other payment obligations. The Company's credit risk is primarily attributable to cash, and trade and other receivables.

Cash is held with reputable financial institutions which are closely monitored by management. Financial instruments included in receivables, consist of advances to directors and employees for future operating disbursements and amounts due from customers. Management believes that the credit risk concentration with respect to financial instruments included in cash, and receivables is minimal. The cash is invested with one Canadian and three U.S. Chartered financial institutions.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure, when it is possible, that it will have sufficient liquidity to meet liabilities when due. As at February 28, 2014, the Company had an aggregate cash and cash equivalents balance of \$680,178 (November 30, 2013 - \$1,515,625) to settle current liabilities of \$96,155,862 (November 30, 2013 - \$91,578,722). Other than the loans and bonds payable, all of the Company's financial liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. The Company has been unable to meet its scheduled interest and trade payments as they come due. The Company is attempting to raise additional capital to finance its ongoing operations. There is no assurance that additional funding will be provided. (See Notes 11 and 19).

5. FINANCIAL RISK FACTORS (Continued)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i) Interest Rate Risk

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks. The Company maintains loans payable at fixed interest rates. The Company's bonds payable bearing interest is 10% per annum. As the interest rates are fixed, the associated interest rate risk is nominal.

ii) Foreign Currency Risk

The majority of the Company's funds are held in Canadian currency. The Company provides funding of its operations in New Elk in US currency, currently without hedging its US dollar purchases and is considered to be exposed to significant foreign currency risk. The Company has bonds outstanding denominated in US dollars with a face value of USD\$65,500,000 as at February 28, 2014 and November 30, 2013.

iii) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as it relates to coal, precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, receivables, accounts payable and accrued liabilities, and bonds payable that are denominated predominantly in United States Dollars and Madagascar Arias. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net earnings by approximately \$6.9 million, with all other variables held constant, and based on the net monetary liabilities denominated in foreign currencies as at February 28, 2014.

Financial assets include investments subject to market fluctuations. Sensitivity to a plus or minus 10% change in share prices would affect the reported net income by approximately \$55,000, based on the value of investments held at February 28, 2014. Cash balances held in operating accounts do not yield interest and are therefore not subject to sensitivity from rate fluctuation.

Fair Value Hierarchy and Liquidity Risk Disclosure

Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The fair value of short term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, trade and other receivables, investments and accounts payable and accrued liabilities and bonds payable.

5. FINANCIAL RISK FACTORS (Continued)

Fair Value Hierarchy and Liquidity Risk Disclosure (Continued)

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments. The classifications are as follows:

- i) the use of quoted market prices for identical financial instruments (Level 1);
- ii) internal models using observable market information as inputs (Level 2);
- iii) internal models without observable market information as inputs (Level 3).

February 28, 2014	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 40,000	-	-
Investment in UMC Energy	\$ 512,230	-	-

November 30, 2013	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 40,000	-	-
Investment in UMC Energy	\$ 664,421	-	-

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and term deposits issued by banks that are highly liquid investments with maturities of 90 days or less at the date of acquisition. Cash and cash equivalents are comprised of:

	February 28, 2014	November 30, 2013
Cash	\$ 680,178	\$ 1,515,625

7. INVESTMENTS

	February 28, 2014	November 30, 2013
Strike Minerals Inc. (2,000,000 common shares)	\$ 40,000	\$ 40,000
UMC Energy plc (12,272,667 common shares)	512,230	664,421
	\$ 552,230	\$ 704,421

8. EXPLORATION AND EVALUATION ASSETS

	February 28, 2014	November 30, 2013
Cline Lake Gold Property	\$ 1	\$ 1

Cline Lake Gold Property, Ontario

The Company owns a 100% interest in a mineral claim mining lease in the Sault Ste. Marie Mining Division, Ontario. A maximum royalty of \$200,000 based on 5% of the proceeds of production and a 1½% net smelter return royalty are payable on production from the property.

The Company did not work on the property in 2013 and has no intention to do so in the near future, therefore this property was written down during the year ended November 30, 2013, to \$1.

9. MINERAL PROPERTIES UNDER DEVELOPMENT

A continuity of the mineral properties under development is as follows:

	February 28, 2014	November 30, 2013
Balance, beginning of period	\$ 133,364,786	\$ 271,647,166
Development expenditures	-	7,938,369
Impairment loss	-	(163,564,642)
Translation adjustment	4,381,570	17,343,893
Balance, end of period	\$ 137,746,356	\$ 133,364,786

New Elk Coal Property

On July 25, 2008, the Company acquired the coal mining properties and related assets owned by the New Elk Coal Company LLC ("New Elk"). The property is located in the western part of Las Animas County, in southeastern Colorado. The property consists of the New Elk Mine and three contiguous, long-term leases. Other assets include various railroad rights of way, the Picketwire Preparation Plant and a refuse disposal area located adjacent to the mine and prep plant.

During the three month period ended February 28, 2014 and for the year ended November 30, 2013, borrowing costs were no longer capitalized to mineral properties under development. On December 1, 2012, the Company ceased capitalizing borrowing costs due to the suspension of activities at the New Elk property.

For the year end November 30, 2013, the Company identified weakness in met coal pricing as an indicator of impairment. Consequently, the Company performed an assessment to determine the recoverable amount of its mine operations for potential impairment by comparing the carrying value of the mine, the lowest level of assets and liabilities for which there are independent cash flows, to the discounted cash flows expected from the use and eventual disposition of identified assets and liabilities.

The key assumptions used in determining the recoverable amount of the mine are the future coal price, based on forward prices and industry analysis, discount rates, capital expenditures and operating cash costs.

The cash flows were forecasted on the mine plan, based on management assumptions, estimates of revenues and expenditures.

The Company concluded that as at November 30, 2013, an impairment of \$163,564,642 would be charged against the mine property assets, as the carrying value of the long-lived assets of the New Elk's mine and other projects exceeded their discounted cash flows over the mine lives.

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended February 28, 2014
(Expressed in Canadian Dollars)
(Unaudited)

183

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are represented by the following:

Cost	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2013	\$10,082	\$336,247	\$53,296	\$716	\$361,160	\$761,501
Additions/Disposals	-	4,977	2,136	-	(57,357)	(50,244)
February 28, 2014	\$10,082	\$341,224	\$55,432	\$716	\$303,803	\$711,257

Accumulated Amortization

November 30, 2013	\$9,120	\$336,247	\$26,030	\$466	\$215,978	\$587,841
Amortization/Adjustments	96	4,977	4,321	13	(12,298)	(2,980)
February 28, 2014	\$9,216	\$341,224	\$30,351	\$479	\$203,680	\$584,949

Net Book Value

November 30, 2013	\$962	\$ -	\$27,268	\$250	\$145,184	\$173,664
February 28, 2014	\$866	\$ -	\$25,081	\$237	\$100,123	\$126,308

Cost	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2012	\$32,580	\$325,932	\$90,342	\$32,044	\$428,539	\$909,437
Additions/Disposals	-	-	1,373	-	8,121	9,494
February 28, 2013	\$32,580	\$325,932	\$91,715	\$32,044	\$436,660	\$918,931

Accumulated Amortization

November 30, 2012	\$28,675	\$325,932	\$47,789	\$19,978	\$185,265	\$607,639
Amortization/Adjustments	2,226	-	815	1,126	23,549	27,716
February 28, 2013	\$30,901	\$325,932	\$48,604	\$21,104	\$208,814	\$635,355

Net Book Value

November 30, 2012	\$3,905	\$ -	\$42,553	\$12,066	\$243,274	\$301,798
February 28, 2013	\$1,679	\$ -	\$43,111	\$10,940	\$227,846	\$283,576

11. BONDS PAYABLE

A continuity of the bonds is as follows:

	Period ended February 28, 2014	Year ended November 30, 2013
Balance, beginning of period	\$85,170,992	\$43,164,777
Acquisition of bonds	-	23,935,008
Effect of re-price of warrants	-	(232,304)
Accrued interest and accretion	2,061,655	20,098,156
Foreign exchange	3,337,017	4,065,353
Payments made	-	(5,859,998)
Balance, end of period	\$90,569,664	\$85,170,992

11. BONDS PAYABLE (Continued)

The bonds payable are due June 15, 2014. As at February 28, 2014, the Company was in default on all bonds, and as such the Company continues to record all bonds as a current liability at their face values. The Company expects it will require its secured lenders to waive certain defaults pursuant to the terms of the bond indentures in the future. While the Company has been granted waivers in the past, there is no assurance that it will be granted additional waivers in the future. (See Note 19).

12. PROVISION FOR ENVIRONMENTAL REHABILITATION AND RECLAMATION DEPOSITS

The provision for environmental rehabilitation of \$813,032 represents the estimated present value of the Company's future obligation for site remediation of its New Elk coal property. During the three months ended February 28, 2014, the Company recognized accretion on the decommissioning liability of \$19,484 (three months ended February 28, 2013 - \$50,000), which has been expensed on the Company's condensed interim consolidated statement of loss.

The liability is based upon estimates and assumptions, as follows:

- a) Total undiscounted future remediation costs are estimated to be \$7,055,112. This has been calculated assuming a 1.2% annual rate of inflation, with settlement of the liability occurring in approximately twenty four years.
- b) Weighted average risk adjusted rate of 10%.

A continuity of the provision for environmental rehabilitation is as follows:

	Period ended February 28, 2014	Year ended November 30, 2013
Balance, beginning of period	\$ 760,683	\$ 793,838
Foreign exchange	32,865	(99,840)
Accretion	19,484	66,685
Balance, end of period	\$ 813,032	\$ 760,683

As at February 28, 2014, the Company has a \$50,000 (November 30, 2013 - \$50,000) reclamation deposit and has \$5,820,089 of reclamation bonds (November 30, 2013 - \$5,581,483) held with the Colorado Department of Natural Resources.

Included in the total reclamation bonds figure is a cash amount of \$1,617,100 held by the State of Colorado to secure reclamation requirements for land under the New Elk mine and the Golden Eagle permits. The properties are currently undergoing remediation and rehabilitation. Also included is a cash bond of \$1,026,694 held by the State of Colorado for the remediation and rehabilitation of the Lorencito property adjacent to the New Elk mine. This property has undergone extensive remediation and rehabilitation and is currently in the monitoring cycle by the State of Colorado. The cash held as security for this bond is expected to be released by the State at the end of the monitoring cycle.

The remaining reclamation bond of \$4,793,395 (November 30, 2013 - \$4,596,881) that was secured in cash by Wells Fargo Bank through Letters of Credit ("LC") of US\$2,744,969 (\$3,039,779) (November 30, 2013 - US\$2,744,969; \$2,915,157) in aggregate matured in February 2014, and Wells Fargo Bank has not renewed the LC for a new term. The funds were then posted directly with the State of Colorado. Subsequently, the Company closed the LC and transferred US\$51,392 of interest earned on the LC to the Company's operating account.

13. RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES

Transactions with related parties in the normal course of business measured and recorded at the exchange amount, as agreed to by the parties.

- i) During the three months ended February 28, 2014, companies related to or controlled by officers and directors of the Company were paid \$61,894 (three months ended February 28, 2013 - \$320,888) with respect to consulting and management fees. In addition, certain officers of the Company, who also acted as directors were paid a total of \$24,551 (three months ended February 28, 2013 - \$89,120) with respect to director's fees.
- ii) Accounts payable and accrued liabilities includes amounts due to, or accrued as payable to, directors or officers in the amount of \$484,924 (three months ended February 28, 2013 - \$9,857) with respect to consulting fees and related expenses.
- iii) Receivables include \$Nil (November 30, 2013 - \$9,455) due from officers and directors with respect to consulting fees advances.

A summary of remuneration of directors and senior management of the Company, is as follows:

For the three months ended February 28,	2014	2013
Remuneration of senior management	\$ 61,894	\$ 320,888
Remuneration of directors	24,551	89,120
Total	\$ 86,445	\$ 410,008

14. SHARE CAPITAL

Authorized – Unlimited common shares without par value:

	Number of Shares	Amount
Balance as at November 30, 2013 and February 28, 2014	209,144,977	\$ 226,992,609

15. STOCK OPTIONS

During the year ended November 30, 2013, all outstanding options expired after eligible option plan members left the Company. There are no stock options outstanding as at February 28, 2014.

16. WARRANTS

The number of share purchase warrants represents the number of shares that may be acquired on the exercise of the outstanding warrants.

As at November 30, 2013 and February 28, 2014, the following broker warrants were outstanding:

Expiry Date	Number of Warrants	Number of Warrant Shares	Fair Value of Warrants	Weighted Average Exercise Price
May 14, 2015	10,000,000	10,000,000	\$ 10,825,065	\$ 0.09
January 11, 2016	1,400,000	1,400,000	53,200	0.09
	11,400,000	11,400,000	\$ 10,878,265	\$ 0.09

17. COMMITMENTS AND CONTINGENCIES

- (i) Under the terms of an occupancy lease agreement expiring August 1, 2015, the Company is required to make monthly payments for office space amounting to \$10,365. During the year ended November 30, 2013, the Company finalized a sublease for that office space with monthly occupancy fee reimbursement.
- (ii) In November 2013, the Company entered into a second short-term occupancy lease agreement until March 31, 2014. On April 1st, 2014, the occupancy lease was renewed with required monthly fee increased to approximately \$6,000 that will be extended automatically until brought to an end by notice from either party of the agreement.
- (iii) In order to keep its mineral properties in good standing, the Company is required to make perpetual annual payments of approximately \$60,000 to the government of Madagascar for permit fees.
- (iv) With respect to the New Elk Coal Property, the Company is obligated to remit perpetual annual land lease, railroad lease, and royalty payments of US\$504,207 (\$558,359) and annual water lease payments of US\$155,000 (\$171,647).
- (v) Under the terms of the acquisition of the New Elk Property assets, the Company maintains environmental remediation bonds. See Note 12.
- (vi) The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject to clean up costs and liability for toxic or hazardous substances which may exist on or under any of its properties, or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement (including increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees).

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

Currently, the Company's financial obligations relating to environmental protection include the restoration of areas affected by the exploration work carried out on our mineral properties. As a condition of work permits issued by the Government of British Columbia ("B.C."), the Company has provided reclamation deposits in amounts representing the estimated liabilities for restoration and completion of each project in the amount of \$50,000 with respect to the work permits which have been issued. The restoration work related to each project for which the Company was issued work permits has been completed and the Company has requested the return of the reclamation deposits from the B.C. government.

- (vii) As at February 28, 2014, the outstanding principal balance on the eight loans for New Elk's construction equipment held is US\$788,434 (\$873,122) (November 30, 2013 - US\$910,607; \$967,065). Under the terms of these loans, the Company is obligated to remit monthly payments of US\$32,846 (\$36,374), which commenced in March 2012 for a period of 48 months.

The Company entered into a long term arrangement with the Port of Corpus Christi Authority of Texas providing New Elk with a long-term lease of 18 acres of land that was to serve as a coal storage area, adjacent to the shipping channel and proximate to the bulk coal ship-loader.

17. COMMITMENTS AND CONTINGENCIES (Continued)

The Company was unable to sustain this obligation and ceased making payments on the lease while it attempted to terminate the arrangement through a settlement. As at February 28, 2014, US\$693,615 (\$768,109) is included in accounts payable and accrued liabilities, relating to this agreement. On March 27, 2014, the amount owing with respect to the property lease was settled with a US\$150,000 (\$165,480) termination fee paid to the Port of Corpus Christi and no further payments are required with respect to the agreement.

- (viii) A Statement of Claim was filed against Cline for costs and damages of approximately US\$558,000 on August 8, 2013. The plaintiff is the former Executive Vice President and Chief Operating Officer of the Corporation and was terminated for cause on June 21, 2013. The Company has subsequently filed a Statement of Defence and will rigorously defend its position.

The outcome of this lawsuit is not determinable at this time, and as a result, the total of \$484,924 has been accrued to consultants and related costs as at February 28, 2014 (November 30, 2013 - \$484,924).

- (ix) A Statement of Claim under civil procedure Rule 76 was filed for cost and damages, on August 31, 2013. The plaintiff provided certain legal services to the Company which it alleges were not approved and were consequently overcharged. The total of \$64,985 has been accrued as legal expenditure, relating to the Statement of Claim. The Company has subsequently filed a Statement of Defence and will rigorously defend its position.
- (x) A class action lawsuit was filed against the Company on February 1, 2013. The plaintiffs' allege that New Elk violated the Worker Adjustment and Retraining Notification Act ("WARN Act") by failing to provide the plaintiffs and other similarly situated employees at least sixty (60) days advance written notice of the layoffs.

In the Complaint, the plaintiffs request that the class be certified by the Court and seek a judgment for "unpaid wages, salary, commissions, bonuses, accrued holiday pay, accrued vacation pay, pension and 401(k) contributions and other ERISA benefits, for sixty (60) days, that would have been covered and paid under the then-applicable employee benefits plans," together with interest, attorneys' fees and costs. (The Employee Retirement Income Security Act was enacted by the 93rd United States Congress on September 2, 1974 ("ERISA") to protect pension and benefit plan recipients and beneficiaries).

On April 5, 2013, NECC filed its Answer to the Complaint denying the plaintiffs' allegations that NECC violated the WARN Act. On October 3, 2013, the plaintiffs filed an Amended Complaint that, among other things, added Cline as a defendant in the lawsuit. On October 17, 2013, NECC filed its Answer to the Amended Complaint and on October 29, 2013, Cline filed its Answer to the Amended Complaint. NECC and Cline denied the allegations in the Amended Complaint pertaining to the applicability of the WARN Act to them. The Court has ordered that discovery in this matter be bifurcated. The discovery cut-off for Phase I was March 17, 2014. Following the Phase I discovery cut-off, each of the defendants in the case filed motions for summary judgement requesting that the Court find that they are not subject to the WARN Act and have no obligations whatsoever to the named plaintiffs or other individuals covered by plaintiffs' lawsuit.

The outcome of this lawsuit is not determinable at this time and as a result, no amounts had been accrued as at February 28, 2014.

- (xi) The Lodgepole, Sage Creek and Cabin Creek Coal Mine properties were written off in a prior year due to the revocation by Government of the Company's coal mining Licenses (Titles), issued by Government in British Columbia, Canada. At the request of the British Columbia government, the Company filed a claim for compensation.

On April 17, 2014, the Company received \$9.8 million from the Province of British Columbia as full and final settlement for the claim.

18. SEGMENTED INFORMATION

The Company operates in one segment and has one head office segment - the exploration, development and mining of mineral properties, which are located in Canada and the United States of America. Identifiable assets are as follows:

February 28, 2014	Canada		USA		Total
Mineral interest	\$	1	\$	137,746,356	\$ 137,746,357
Corporate and other assets		1,336,500		9,908,671	11,245,171
Total assets	\$	1,336,501	\$	147,655,027	\$ 148,991,528
Loss for the three months period	\$	(5,437,638)	\$	(1,283,893)	\$ (6,721,531)

November 30, 2013	Canada		USA		Total
Mineral interest	\$	1	\$	133,364,786	\$ 133,364,787
Corporate and other assets		3,509,756		9,746,975	13,256,731
Total assets	\$	3,509,757	\$	143,111,760	\$ 146,621,518
Loss for the year	\$	(30,153,934)	\$	(169,517,293)	\$ (199,671,227)

19. SUBSEQUENT EVENTS

- (i) Upon the instructions of the Bondholders, the Trustee has agreed to forbear from demanding repayment of the amounts owing under the Trust Indenture. On December 15, 2013, the Company was unable to make the semi-annual interest payments in the amount of approximately US\$3.3 million on its US secured bonds and of approximately \$552,000 on its convertible bonds due to the Company's present financial situation. The principal reason for the Company's present financial difficulties are the current economic and market conditions, which have resulted in lower demand for production from the mine, which is the only revenue generating asset the Company has.

The Company consequently entered into a series of forbearance agreements with Computershare Trust Company of Canada (the "Trustee") and Marret Asset Management Inc. ("Marret") under the 10% senior secured bond trust indenture dated December 13, 2011, and the 10% senior secured convertible bond trust indenture dated July 8, 2013.

Pursuant to the terms of the forbearance agreements, the forbearance agreements have been extended until the earlier of (i) April 30, 2014 and (ii) the occurrence of a Forbearance Termination Event.

- (ii) On March 27, 2014, the amount owing with respect to the property lease was settled with a US\$150,000 (\$165,480) termination fee paid to the Port of Corpus Christi and no further payments are required with respect to the agreement.
- (iii) On April 17, 2014, the Company received \$9.8 million as full and final settlement for the compensation claim against the Province of British Columbia. The use of proceeds are subject to the terms of our forbearance agreements.



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2014

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited)

As at	May 31, 2014	November 30, 2013
ASSETS		
Current		
Cash and cash equivalents (Note 6)	\$ 11,302,103	\$ 1,515,625
Trade and other receivables	69,359	1,402,812
Prepaid expenses and deposits	734,531	267,483
Inventory	3,772,747	3,459,822
Total Current Assets	15,878,739	6,645,742
Mineral properties under development (Note 9)	135,271,700	133,364,786
Exploration and evaluation assets (Note 8)	1	1
Bond on land (Note 12)	5,698,158	5,581,483
Reclamation deposits (Note 12)	-	50,000
Contractor deposits	103,541	101,421
Investments (Note 7)	654,821	704,421
Property, plant and equipment (Note 10)	65,544	173,664
Total Assets	\$157,672,505	\$146,621,518
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 17)	\$ 4,446,952	\$ 5,941,413
Income taxes payable	79,079	79,079
Current portion of loans payable (Note 17(vii))	405,043	387,238
Bonds payable (Note 11)	91,145,992	85,170,992
Total Current Liabilities	96,077,066	91,578,722
Provision for environmental rehabilitation (Note 12)	815,414	760,683
Long-term portion of loans payable (Note 17(vii))	348,527	579,827
Total Liabilities	97,241,006	92,919,232
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	226,992,609	226,992,609
Contributed surplus	33,619,487	33,619,487
Warrants (Note 16)	10,878,265	10,878,265
Deficit	(226,974,263)	(231,500,643)
Accumulated other comprehensive income	15,915,400	13,712,568
Total Shareholders' Equity	60,431,499	53,702,286
Total Liabilities and Shareholders' Equity	\$157,672,505	\$146,621,518

Nature of Operations and Going Concern (Note 1)
Commitments and Contingencies (Note 17)
Subsequent Events (Note 19)

Approved on Behalf of the Board:

" Vincent (James) Sardo "
Director

" Matthew Goldfarb "
Director

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE
INCOME (LOSS)
(Expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
EXPENSES				
Consulting and management fees	\$152,492	\$280,546	\$408,041	\$509,519
Legal and audit	470,705	839,920	666,780	1,667,224
Directors fees and expenses	24,551	120,413	49,101	212,533
Mine expenses	1,000,012	-	1,614,013	-
General, administrative and office	133,594	109,524	253,773	248,323
Transfer agent, filing and investor relations	88,014	15,987	102,054	85,089
Travel and accommodation	16,241	6,793	37,898	54,988
Interest and accretion on bonds and restructuring fees (Note 11)	2,126,290	-	4,187,945	-
Amortization	19,628	2,074	44,581	4,206
Foreign exchange (gain) loss	(1,639,645)	2,083,979	1,834,822	3,627,757
	(2,391,881)	(3,459,236)	(9,199,007)	(6,409,639)
OTHER INCOME (EXPENSES)				
Interest income and (expense)	11,771	553	2,855	3,605
Litigation settlement (Note 17(v))	9,800,000	-	9,800,000	-
Gain on sales of assets	3,850,297	-	3,992,879	-
(Loss) on sale of equipment	(2,588)	-	(31,174)	-
Impairment recovery (loss) on mineral property	-	32,662	-	(49,545)
Accretion of provision for environmental rehabilitation (Note 12)	(19,689)	(25,000)	(39,173)	(75,000)
Gain (Loss) for the period before income taxes	11,247,911	(3,451,021)	4,526,381	(6,530,579)
Income taxes	-	-	-	-
Gain (Loss) for the period	11,247,911	(3,451,021)	4,526,381	(6,530,579)
Items that will be reclassified to operations				
Unrealized gain (loss) on investments for the year, net of tax	102,590	(583,345)	(49,600)	(794,952)
Currency translation adjustment	(2,455,752)	1,432,307	2,252,433	11,112,721
Comprehensive income (loss)	\$8,894,749	\$(2,602,059)	\$6,729,214	\$3,787,190
Basic earnings (loss) per share	\$0.05	\$(0.02)	\$0.02	\$(0.03)
Weighted average number of shares outstanding – basic and diluted	209,144,977	209,144,977	209,144,977	209,144,977

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
(Unaudited)

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2013	\$226,992,609	\$33,619,487	\$10,878,265	\$(231,500,643)	\$13,712,568	\$53,702,286
Net loss for the period	-	-	-	4,526,381	-	4,526,381
Cumulative translation adjustments	-	-	-	-	2,252,433	2,252,433
Unrealized loss on investment for the period, net of tax	-	-	-	-	(49,600)	(49,600)
Balance, May 31, 2014	\$226,992,609	\$33,619,487	\$10,878,265	\$(226,974,262)	\$15,915,400	\$60,431,499
	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, November 30, 2012	\$226,992,609	\$31,919,216	\$12,552,727	\$(31,829,416)	\$(1,980,995)	\$237,654,141
Net loss for the period	-	-	-	(6,530,579)	-	(6,530,579)
Issuance of warrants (Note 16)	-	-	53,200	-	-	53,200
Modification of warrants (Note 16)	-	-	232,304	-	-	232,304
Cumulative translation adjustments	-	-	-	-	11,112,721	11,112,721
Unrealized loss on investment for the period, net of tax	-	-	-	-	(794,952)	(794,952)
Balance, May 31, 2013	\$226,992,609	\$31,919,216	\$12,838,231	\$(38,359,995)	\$8,336,774	\$241,726,835

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

CLINE MINING CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

For the Six Months Ended May 31,	2014	2013
Cash Flows Provided by (Used in) Operating Activities		
Income (Loss) for the period	\$ 4,526,381	\$ (6,530,579)
Items not involving cash:		
Amortization	44,581	4,206
Accretion of provision for environmental rehabilitation (Note 12)	39,173	75,000
Accretion on bonds	4,187,945	-
Impairment of mineral property expenditures	-	49,545
Loss on sale of equipment	31,174	-
Unrealised foreign exchange loss	1,787,056	2,268,246
	10,616,310	(4,133,582)
Changes in working capital items other than cash:		
Trade and other receivables	1,283,453	84,108
Inventory	(312,925)	(120,538)
Prepaid expenses and deposits	(417,048)	48,817
Accounts payable and accrued liabilities	(1,228,900)	582,962
	9,940,890	(3,538,233)
Cash Flows (Used in) Provided by Financing Activities		
Proceeds from issuance of bonds	-	12,366,057
Loan payments	(213,495)	-
	(213,495)	9,839,307
Cash Flows Provided by (Used in) Investing Activities		
Bond on land	-	(227,043)
Mineral properties under development	-	(10,227,983)
Proceeds on sale of property and equipment	29,312	-
Purchase of equipment	-	(9,494)
	29,312	(10,464,520)
Effect of exchange rate change on cash held in foreign currencies	29,772	(41,147)
Change in cash and cash equivalents	9,786,478	(1,677,843)
Cash and cash equivalents, beginning of period	1,515,625	2,009,398
Cash and cash equivalents, end of period (Note 6)	\$ 11,302,103	\$ 331,555
Supplemental cash flow information		
Cash interest received	\$ 64,598	\$ 5,429
Cash paid for interest	\$ -	\$ 2,459,500
Cash paid for income taxes	\$ -	\$ -

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Cline Mining Corporation and its wholly-owned subsidiaries, New Elk Coal Company LLC, Iron Ore Corporation of Madagascar SARL ("IOCM"), North Central Energy Company and Raton Basin LLC, are hereinafter referred to as "Cline" or the "Company". Cline is engaged in the business of locating, exploring and mining mineral resource properties. Substantially all of the efforts of Cline are devoted to these business activities. Cline is incorporated and domiciled in Canada and its registered office is 161 Bay Street, Toronto, Ontario, Canada.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. As at and for the six months ended May 31, 2014, the Company incurred a net gain of \$4,526,381, reported an accumulated deficit of \$226,974,263 and had a working capital deficiency of \$80,198,326. The Company was unable to meet its scheduled interest payment on its bonds on December 16, 2013, and was granted an extension of forbearance agreement until the earlier of June 30, 2014 or the Forbearance Termination Event occurrence as defined in the forbearance agreement.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of development and exploration and evaluation properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise additional financing, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require additional material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development in which it has an interest, in accordance with industry standards for the current stage of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

In addition to its working capital requirements, the Company has been unable to secure off-take agreements for its metallurgical coal production at acceptable terms and must secure sufficient funding to meet its working capital requirements, advance the New Elk coal mine into run-rate production and keep its mineral claims, leases and title in good standing. These circumstances cast significant doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern.

The Company is currently working on securing additional capital to meet these needs. However, there is no guarantee that the Company's financing efforts will be successful or sufficient to fund these requirements. The Company may incur significant additional dilution to the holdings of existing shareholders in order to obtain financing.

These condensed interim consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Compliance (Continued)

These condensed interim consolidated financial statements are prepared on a historical cost basis, except for cash equivalents and investments, which are carried at fair value.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on July 28, 2014.

Changes in Accounting Standards

The Company has adopted the following new standards, along with any consequential amendments, effective December 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended by the IASB in June 2011. As a result of the amendment, items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The Company determined that the impact of the amendment did not have a material impact on its financial statements, although it did affect disclosure in the statements of loss (income) and comprehensive loss (income).

IFRS 7 — Financial Instruments: Disclosures (“IFRS 7”) amended by the IASB in December 2011, requires disclosure of information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The adoption of this standard did not result in any changes to the Company’s disclosure of its financial instruments.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) issued by the IASB in May 2011 and replaces IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. IFRS 10 identifies three elements of control: power over an investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect returns. The adoption of this standard did not result in any changes in the consolidation status of the Company’s subsidiaries.

IFRS 11 – Joint Arrangements (“IFRS 11”) issued by the IASB in May 2011 and replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 classifies joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: joint operations and joint ventures. A joint operation exists when the parties have rights to the assets and obligations for the liabilities of a joint arrangement. A joint venture exists when the parties have rights to the net assets of a joint arrangement. Assets, liabilities, revenues and expenses in a joint operation are accounted for in accordance with the arrangement. Joint ventures are accounted for using the equity method. The adoption of this standard did not result in any changes to the Company’s investments in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities (“IFRS 12”) issued by the IASB in May 2011. IFRS 12 provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. The adoption of this standard did not result in any changes to the Company’s disclosure requirements for interests in other entities.

IFRS 13 – Fair Value Measurement (“IFRS 13”) issued by the IASB in May 2011. IFRS 13 provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. It also establishes disclosures about fair value measurement. The adoption of this standard did not result in any significant changes to the Company’s disclosures of its financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in Accounting Standards (Continued)

IAS 27 - Separate Financial Statements ("IAS 27") was amended during 2011 and replaces IAS 27 Consolidated and Separate Financial Statements. IAS 27 has been reissued to reflect the change of including the consolidation guidance in IFRS 10. In addition, IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the Company prepares separate financial statements. The adoption of this standard did not result in any changes to the Company's financial statements.

IAS 28 - Investments in Associates and Joint Ventures ("IAS 28") issued by the IASB in May 2011 and supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IAS 28 provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures should be tested for impairment. The adoption of this standard did not result in any changes to the Company's investments in joint ventures.

Future Changes in Accounting Standards

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. Earlier adoption is permitted.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated financial statements and related notes to the condensed interim consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these estimates could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Notes 8 and 9 for details of capitalized development and exploration and evaluation costs.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operations.

Impairment of mineral properties under development, exploration and evaluation assets and property, plant and equipment

While assessing whether any indications of impairment exist for mineral properties under development, exploration and evaluation assets and property, plant and equipment, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral properties under development, exploration and evaluation assets and property, plant and equipment.

3. CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTIES (Continued)

Impairment of mineral properties under development, exploration and evaluation assets and property, plant and equipment (Continued)

Internal sources of information include the manner in which the assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties under development, exploration and evaluation assets and property, plant and equipment.

Impairments of non-financial assets of \$Nil have been recorded for the three and six months ended May 31, 2014 (three and six months ended May 31, 2013 - \$(32,662) and \$49,545, respectively).

Estimation of provision for environmental rehabilitation and the timing of expenditures

The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Environmental rehabilitation and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of environmental rehabilitation or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at May 31, 2014, the Company had recognized \$815,414 in environmental rehabilitation provisions, respectively (November 30, 2013 - \$760,683).

Production stage of a mine

The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. As a mine is constructed, costs incurred are capitalized and proceeds from metal sales are offset against the capitalized costs. This continues until the mine is available for use in the manner intended by management, which requires significant judgment in its determination.

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets or liabilities recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

4. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be bonds payable and equity, comprising share capital, contributed surplus, warrants, accumulated other comprehensive income and deficit, which at May 31, 2014 totaled \$151,577,490 (November 30, 2013 - \$138,873,278).

The properties in which the Company currently has an interest are in the exploration and development stage. The Company has engaged in limited mining activities and is seeking to extend its mining activities as market conditions allow. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and seek to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the three and six months ended May 31, 2014. The Company is required to comply with certain financial covenants in connection with the trust indenture agreement underlying the Company's bonds payable. (See Notes 11 and 19).

5. FINANCIAL RISK FACTORS

Financial Risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, including interest rate risk, foreign exchange rate risk, and commodity price risk.

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill trade and other payment obligations. The Company's credit risk is primarily attributable to cash, and trade and other receivables.

Cash is held with reputable financial institutions. Management believes that the credit risk concentration with respect to financial instruments included in cash, and receivables is minimal. The cash is invested with one Canadian and three U.S. Chartered financial institutions.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure, when it is possible, that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2014, the Company had an aggregate cash and cash equivalents balance of \$11,302,103 (November 30, 2013 - \$1,515,625) to settle current liabilities of \$96,077,066 (November 30, 2013 - \$91,578,722). Other than the loans and bonds payable, all of the Company's financial liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. The Company has been unable to meet its scheduled interest and trade payments as they come due. The Company is attempting to raise additional capital to finance its ongoing operations. There is no assurance that additional funding will be secured. (See Notes 11 and 19).

5. FINANCIAL RISK FACTORS (Continued)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i) Interest Rate Risk

The Company currently has no investments. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks. The Company maintains loans payable at fixed interest rates. The Company's bonds payable bear interest at 10% per annum. As the interest rates are fixed, the associated interest rate risk is nominal.

ii) Foreign Currency Risk

The majority of the Company's funds are held in Canadian currency. The Company provides funding of its operations in New Elk in US currency, currently without hedging its US dollar purchases and is considered to be exposed to significant foreign currency risk. The Company has bonds outstanding denominated in US dollars with a face value of USD\$65,500,000 as at May 31, 2014 and November 30, 2013. The Company has fixed the exchange rate on the bonds at Cdn\$1.00 to US\$0.9176.

iii) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as it relates to coal, precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

The Corporation is exposed to foreign currency risk based on fluctuations of financial instruments related to cash, receivables, and accounts payable and accrued liabilities and bonds payable denominated in United States Dollars and Madagascar Arias.

Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net earnings, with all other variables held constant, and based on the net monetary liabilities denominated in foreign currencies. Sensitivity to a plus or minus 10% change in share prices would affect the reported net income, based on the value of investments held. Cash balances held in operating accounts do not yield interest and are therefore not subject to sensitivity from rate fluctuation.

The sensitivity to a plus or minus 10% change in foreign exchange rates would result in a change in net income of zero to \$65,000 as the Company has pegged the exchange rate on its US\$ denominated bonds.

Fair Value Hierarchy and Liquidity Risk Disclosure

Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The fair value of short term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, trade and other receivables, investments and accounts payable and accrued liabilities and bonds payable.

5. FINANCIAL RISK FACTORS (Continued)

Fair Value Hierarchy and Liquidity Risk Disclosure (Continued)

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments. The classifications are as follows:

- i) the use of quoted market prices for identical financial instruments (Level 1);
- ii) internal models using observable market information as inputs (Level 2);
- iii) internal models without observable market information as inputs (Level 3).

May 31, 2014	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 40,000	-	-
Investment in UMC Energy	\$ 614,821	-	-

November 30, 2013	Level One	Level Two	Level Three
Investment in Strike Resources	\$ 40,000	-	-
Investment in UMC Energy	\$ 664,421	-	-

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and term deposits issued by banks that are highly liquid investments with maturities of 90 days or less at the date of acquisition. Cash and cash equivalents are comprised of:

	May 31, 2014	November 30, 2013
Cash	\$ 11,302,103	\$ 1,515,625

7. INVESTMENTS

	May 31, 2014	November 30, 2013
Strike Minerals Inc. (2,000,000 common shares)	\$ 40,000	\$ 40,000
UMC Energy plc (12,272,667 common shares)	614,821	664,421
	\$ 654,821	\$ 704,421

8. EXPLORATION AND EVALUATION ASSETS

	May 31, 2014	November 30, 2013
Cline Lake Gold Property	\$ 1	\$ 1

Cline Lake Gold Property, Ontario

The Company owns a 100% interest in a mineral claim mining lease in the Sault Ste. Marie Mining Division, Ontario. A maximum royalty of \$200,000 based on 5% of the proceeds of production and a 1½% net smelter return royalty are payable on production from the property.

The Company did not work on the property in 2013 and has no intention to do so in the near future, therefore this property was written down during the year ended November 30, 2013, to \$1.

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended May 31, 2014
(Expressed in Canadian Dollars)
(Unaudited)

9. MINERAL PROPERTIES UNDER DEVELOPMENT

A continuity of the mineral properties under development is as follows:

	May 31, 2014	November 30, 2013
Balance, beginning of period	\$ 133,364,786	\$ 271,647,166
Development expenditures	-	7,938,369
Impairment loss	-	(163,564,642)
Translation adjustment	1,906,914	17,343,893
Balance, end of period	\$ 135,271,700	\$ 133,364,786

New Elk Coal Property

On July 25, 2008, the Company acquired the coal mining properties and related assets owned by the New Elk Coal Company LLC ("New Elk"). The property is located in the western part of Las Animas County, in southeastern Colorado. The property consists of the New Elk Mine and three contiguous, long-term leases. Other assets include various railroad rights of way, the Picketwire Preparation Plant and a refuse disposal area located adjacent to the mine and prep plant.

During the three and six months ended May 31, 2014 and for the year ended November 30, 2013, borrowing costs were no longer capitalized to mineral properties under development. On December 1, 2012, the Company ceased capitalizing borrowing costs due to the suspension of activities at the New Elk property.

For the year end November 30, 2013, the Company identified weakness in met coal pricing as an indicator of impairment. Consequently, the Company performed an assessment to determine the recoverable amount of its mine operations for potential impairment by comparing the carrying value of the mine, the lowest level of assets and liabilities for which there are independent cash flows, to the discounted cash flows expected from the use and eventual disposition of identified assets and liabilities.

The key assumptions used in determining the recoverable amount of the mine are the future coal price, based on forward prices and industry analysis, discount rates, capital expenditures and operating cash costs.

The cash flows were forecasted on the mine plan, based on management assumptions, estimates of revenues and expenditures.

The Company concluded that as at November 30, 2013, an impairment of \$163,564,642 would be charged against the mine property assets, as the carrying value of the long-lived assets of the New Elk's mine exceeded their discounted cash flows over the life of the mine.

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended May 31, 2014
(Expressed in Canadian Dollars)
(Unaudited)

203

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are represented by the following:

Cost	Computer Equipment	Exploration Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Vehicles	Total
November 30, 2013	\$10,082	\$336,247	\$53,296	\$716	\$361,160	\$761,501
Additions/Disposals	-	2,434	1,046	-	(123,044)	(119,564)
May 31, 2014	\$10,082	\$338,680	\$54,342	\$716	\$238,116	\$641,937
Accumulated Amortization						
November 30, 2013	\$9,120	\$336,247	\$26,030	\$466	\$215,978	\$587,841
Amortization/Adjustments	192	2,434	7,001	(241)	(20,834)	(11,448)
May 31, 2014	\$9,312	\$338,680	\$33,031	\$225	\$195,144	\$576,393
Net Book Value						
November 30, 2013	\$962	\$ -	\$27,268	\$250	\$145,184	\$173,664
May 31, 2014	\$770	\$ -	\$21,311	\$491	\$42,972	\$65,544

11. BONDS PAYABLE

A continuity of the bonds is as follows:

	Period ended May 31, 2014	Year ended November 30, 2013
Balance, beginning of period	\$85,170,992	\$43,164,777
Acquisition of bonds	-	23,935,008
Effect of re-price of warrants	-	(232,304)
Accrued interest and accretion	4,187,945	20,098,156
Foreign exchange	1,787,056	4,065,353
Payments made	-	(5,859,998)
Balance, end of period	\$91,145,992	\$85,170,992

The bonds payable are due June 15, 2014. As at May 31, 2014, the Company was in default on all bonds, and as such the Company continues to record all bonds as a current liability at their face values. The Company expects it will require its secured lenders to waive certain defaults pursuant to the terms of the bond indentures in the future. While the Company has been granted waivers in the past, there is no assurance that it will be granted additional waivers in the future. (See Note 19).

12. PROVISION FOR ENVIRONMENTAL REHABILITATION AND RECLAMATION DEPOSITS

The provision for environmental rehabilitation of \$815,414 represents the estimated present value of the Company's future obligation for site remediation of its New Elk coal property. During the three and six months ended May 31, 2014, the Company recognized accretion on the decommissioning liability of \$19,689 and \$39,173 respectively (three and six months ended May 31, 2013 - \$25,000 and \$75,000, respectively), which has been expensed on the Company's condensed interim consolidated statement of loss.

12. PROVISION FOR ENVIRONMENTAL REHABILITATION AND RECLAMATION DEPOSITS
(Continued)

The liability is based upon estimates and assumptions, as follows:

- a) Total undiscounted future remediation costs are estimated to be \$7,055,112. This has been calculated assuming a 1.2% annual rate of inflation, with settlement of the liability occurring in approximately twenty four years.
- b) Weighted average risk adjusted rate of 10%.

A continuity of the provision for environmental rehabilitation is as follows:

	Period ended May 31, 2014	Year ended November 30, 2013
Balance, beginning of period	\$ 760,683	\$ 793,838
Foreign exchange	15,558	(99,840)
Accretion	39,173	66,685
Balance, end of period	\$ 815,414	\$ 760,683

The Company's reclamation deposit in the amount of \$50,000 has been settled as a part of final proceeds received from the Government of British Columbia ("B.C."). (See Note 17).

The Company has \$5,698,158 of reclamation bonds (November 30, 2013 - \$5,581,483) held with the Colorado Department of Natural Resources. Included in the total reclamation bonds figure is a cash amount of \$1,583,222 held by the State of Colorado to secure reclamation requirements for land under the New Elk mine and the Golden Eagle permits. The properties are currently undergoing remediation and rehabilitation. Also included is a cash bond of \$1,005,185 held by the State of Colorado for the remediation and rehabilitation of the Lorencito property adjacent to the New Elk mine. This property has undergone extensive remediation and rehabilitation and is currently in the monitoring cycle by the State of Colorado. The cash held as security for this bond is expected to be released by the State at the end of the monitoring cycle.

Cash funds for remaining reclamation bonds in aggregate of \$4,692,974 (November 30, 2013 - \$4,596,881) are posted directly with the State of Colorado.

13. RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES

Transactions with related parties in the normal course of business measured and recorded at the exchange amount, as agreed to by the parties.

- i) During the three and six months ended May 31, 2014, companies related to or controlled by officers and directors of the Company were paid \$88,274 and \$217,104, respectively (three and six months ended May 31, 2013 - \$360,951 and \$681,839, respectively) for consulting and management fees. In addition, the Company paid a total of \$24,551 and \$49,101 for the three and six months ended May 31, 2014 (three and six months ended May 31, 2013 - \$126,345 and \$215,465, respectively) on director's fees.
- ii) Accounts payable and accrued liabilities includes amounts due to, or accrued as payable to, directors or officers in the amount of \$484,924 as at May 31, 2014 (May 31, 2013 - \$50,001) with respect to consulting fees and related expenses.
- iii) Receivables include \$Nil (November 30, 2013 - \$9,455) due from officers and directors with respect to consulting fees advances.

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended May 31, 2014
(Expressed in Canadian Dollars)
(Unaudited)

205

13. RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES (Continued)

A summary of remuneration of directors and senior management of the Company, is as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2014	2013	2014	2013
Remuneration of senior management	\$ 88,274	\$360,951	\$217,104	\$681,839
Remuneration of directors	24,551	126,345	49,101	215,465
Total	\$112,825	\$487,296	\$266,205	\$897,304

14. SHARE CAPITAL

Authorized – Unlimited common shares without par value:

	Number of Shares	Amount
Balance as at November 30, 2013 and May 31, 2014	209,144,977	\$ 226,992,609

15. STOCK OPTIONS

During the year ended November 30, 2013, all outstanding options expired after eligible option plan members left the Company. There are no stock options outstanding as at May 31, 2014.

15. WARRANTS

The number of share purchase warrants represents the number of shares that may be acquired on the exercise of the outstanding warrants. As at November 30, 2013 and May 31, 2014, the following broker warrants were outstanding:

Expiry Date	Number of Warrants	Number of Warrant Shares	Fair Value of Warrants	Weighted Average Exercise Price
May 14, 2015	10,000,000	10,000,000	\$ 10,825,065	\$ 0.09
January 11, 2016	1,400,000	1,400,000	53,200	0.09
	11,400,000	11,400,000	\$ 10,878,265	\$ 0.09

17. COMMITMENTS AND CONTINGENCIES

- i) Under the terms of an occupancy lease agreement expiring August 1, 2015, the Company is required to make monthly payments for office space amounting to \$10,365. During the year ended November 30, 2013, the Company finalized a sublease for that office space with monthly occupancy fee reimbursement.
- ii) In November 2013, the Company entered into a second short-term occupancy lease agreement until March 31, 2014. On April 1st, 2014, the occupancy lease was renewed with required monthly fee increased to approximately \$6,000 that will be extended automatically until brought to an end by notice from either party to the agreement.
- iii) With respect to the New Elk Coal Property, the Company is obligated to remit perpetual annual land lease, railroad lease, and royalty payments of US\$504,207 (\$546,661) and annual water lease payments of US\$155,000 (\$168,051).

16. COMMITMENTS AND CONTINGENCIES (Continued)

- iv) In order to keep its mineral properties in good standing, the Company is required to make perpetual annual payments of approximately \$60,000 to the government of Madagascar for permit fees.

On July 15th, 2014, the Company entered into an agreement to transfer 75% of its ownership interest in its wholly-owned subsidiary, IOCM, to Indian Pacific Resources ("IPR"). According to this agreement, and during the development stage, IPR is solely responsible for all costs relating to permit fees and licenses.

- v) The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject to clean up costs and liability for toxic or hazardous substances which may exist on or under any of its properties, or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement (including increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees).

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

A reclamation deposit was provided by the Company in the amount of \$50,000 with respect to the work permits issued by the Government of B.C. and representing the estimated liabilities for restoration and completion of B.C. projects. The reclamation deposit has been accounted within the final settlement of the Company's compensation claim against the Government of B.C. as the restoration work related to each project for which the Company was issued work permits has been completed.

The Lodgepole, Sage Creek and Cabin Creek Coal Mine properties were written off in a prior year due to the revocation of the Company's coal mining Licenses (Titles) by the Government of B.C. At the request of the British Columbia government, the Company filed a claim for compensation.

The Company received total of \$9.8 million as compensation on April 17, 2014 and the use of the proceeds is subject to the terms of the Company's forbearance agreements.

- vi) Under the terms of the acquisition of the New Elk Property assets, the Company maintains environmental remediation bonds. See Note 12.
- vii) As at May 31, 2014, the outstanding principal balance on the loans for New Elk's construction equipment is US\$695,047 (\$753,570) (November 30, 2013 - US\$910,607; \$967,065). Under the terms of these loans, the Company is obligated to remit monthly payments of US\$31,132 (\$33,754), which commenced in March 2012 for a period of 48 months.
- viii) A Statement of Claim was filed against Cline for costs and damages of approximately US\$558,000 on August 8, 2013. The plaintiff is the former Executive Vice President and Chief Operating Officer of the Company who was terminated for cause on June 21, 2013. The Company has subsequently filed a Statement of Defence and will rigorously defend its position.

The outcome of this lawsuit is not determinable at this time, and as a result, a total of \$484,924 has been accrued as at May 31, 2014 (November 30, 2013 - \$484,924).

17. COMMITMENTS AND CONTINGENCIES (Continued)

- ix) A Statement of Claim under civil procedure Rule 76 was filed for cost and damages, on August 31, 2013. The plaintiff provided certain legal services to the Company which the Company alleges were not approved and were consequently overcharged. A total of \$64,985 has been accrued relating to the Statement of Claim. The Company has filed a Statement of Defence and will rigorously defend its position.
- x) On March 27, 2014, the Company was able to achieve a termination of the agreement with the Port of Corpus Christi Authority of Texas. The agreement originally provided New Elk with a long-term lease of 18 acres of land for a coal storage area, adjacent to the shipping channel and proximate to the bulk coal ship-loader. At the date of settlement, an aggregate US\$1,164,615 (\$1,262,676) of accounts payable and accrued liabilities related to this agreement.

Under the terms of the lease termination agreement, the amount owing with respect to the property lease was settled with a US\$150,000 (\$165,480) termination fee paid to the Port of Corpus Christi and no further payments are required with respect to the agreement.

- xi) A class action lawsuit was filed against the Company on February 1, 2013. The plaintiffs' allege that New Elk violated the Worker Adjustment and Retraining Notification Act ("WARN Act") by failing to provide the plaintiffs and other similarly situated employees at least sixty (60) days advance written notice of the layoffs.

In the Complaint, the plaintiffs request that the class be certified by the Court and seek a judgment for "unpaid wages, salary, commissions, bonuses, accrued holiday pay, accrued vacation pay, pension and 401(k) contributions and other ERISA benefits, for sixty (60) days, that would have been covered and paid under the then-applicable employee benefits plans," together with interest, attorneys' fees and costs. (The Employee Retirement Income Security Act was enacted by the 93rd United States Congress on September 2, 1974 ("ERISA") to protect pension and benefit plan recipients and beneficiaries).

On April 5, 2013, NECC filed its Answer to the Complaint denying the plaintiffs' allegations that NECC violated the WARN Act. On October 3, 2013, the plaintiffs filed an Amended Complaint that, among other things, added Cline as a defendant in the lawsuit. On October 17, 2013, NECC filed its Answer to the Amended Complaint and on October 29, 2013, Cline filed its Answer to the Amended Complaint. NECC and Cline denied the allegations in the Amended Complaint pertaining to the applicability of the WARN Act to them. The Court has ordered that discovery in this matter be bifurcated. The discovery cut-off for Phase I was March 17, 2014.

Following the Phase I discovery cut-off, each of the defendants in the case filed motions for summary judgement requesting that the Court find that they are not subject to the WARN Act and have no obligations whatsoever to the named plaintiffs or other individuals covered by plaintiffs' lawsuit. The outcome of this lawsuit is not determinable at this time and as a result, no amounts had been accrued as at May 31, 2014.

CLINE MINING CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended May 31, 2014
(Expressed in Canadian Dollars)
(Unaudited)

208

18. SEGMENTED INFORMATION

The Company operates in one segment and has one head office segment - the exploration, development and mining of mineral properties, which are located in Canada and the United States of America. Identifiable assets are as follows:

May 31, 2014	Canada		USA		Total
Mineral interest	\$	1	\$	135,271,700	\$ 135,271,701
Corporate and other assets		10,293,728		12,107,076	22,400,804
Total assets	\$	10,293,729	\$	147,378,776	\$ 157,672,505
Gain for the period	\$	3,195,296	\$	1,331,085	\$ 4,526,381

November 30, 2013	Canada		USA		Total
Mineral interest	\$	1	\$	133,364,786	\$ 133,364,787
Corporate and other assets		3,509,756		9,746,975	13,256,731
Total assets	\$	3,509,757	\$	143,111,760	\$ 146,621,518
Loss for the year	\$	(30,153,934)	\$	(169,517,293)	\$ (199,671,227)

19. SUBSEQUENT EVENTS

- (i) Upon the instructions of the Bondholders, the Trustee has agreed to forbear from demanding repayment of the amounts owing under the Trust Indenture. On December 15, 2013, the Company was unable to make the semi-annual interest payments in the amount of approximately US\$3.3 million on its US secured bonds and of approximately \$552,000 on its convertible bonds due to the Company's financial situation. The principal reason for the Company's financial difficulties are the current economic and market conditions, which have resulted in lower demand for production from the mine, which is the only revenue generating asset the Company has.

The Company consequently entered into a series of forbearance agreements with Computershare Trust Company of Canada (the "Trustee") and Marret Asset Management Inc. ("Marret") under the 10% senior secured bond trust indenture dated December 13, 2011, and the 10% senior secured convertible bond trust indenture dated July 8, 2013.

Pursuant to the terms of the forbearance agreements, which originally expired January 16th and subsequently were extended several times, most recently to June 30th, the forbearance agreements have been extended further until the earlier of (i) August 29, 2014 and (ii) the occurrence of a Forbearance Termination Event.

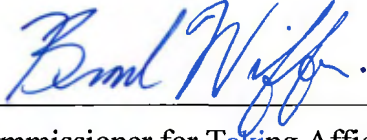
- (ii) Subsequently, the Company announced that it failed to make scheduled principal and interest payments due in respect of its US\$65.5 million 10% senior secured bonds and its CDN\$12.3 million 10% senior secured convertible bonds which matured on June 15, 2014 due to continuing financial constraints and unfavorable market conditions. The Company was notified by the holders of the Secured Notes of their agreement to treat the above-referenced payment defaults as part of the existing forbearance agreements which are set to expire on or before August 29, 2014 as the Company continues to assess financing options aimed at maximizing the long-term value of its assets.
- (iii) Subsequent to the quarter-end, the Company entered into an agreement to transfer 75% of its ownership interest in IOCM, its wholly-owned subsidiary, to Indian Pacific Resources, as referenced in Note 17 above.

Exhibit “C”

THIS IS EXHIBIT "C"

TO THE AFFIDAVIT OF MATTHEW GOLDFARB

SWORN BEFORE ME ON THE 2ND DAY OF DECEMBER, 2014.

A handwritten signature in blue ink, appearing to read "Bernd Wiff", is written over a horizontal line.

Commissioner for Taking Affidavits

SEARCH SUMMARY WITH RESPECT TO CLINE MINING CORPORATION

I. BRITISH COLUMBIA

1. PERSONAL PROPERTY SECURITY ACT (British Columbia)

Secured Party(ies)	Debtor(s)	Registration Number (Registration Period)	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
1. Computershare Trust Company of Canada	Cline Mining Corporation	Regn No.: 486683G Regn Date: Dec. 6, 2011 Expiry Date: Dec. 6, 2018 (including renewal)	<u>General Collateral:</u> All of the debtor's present and after acquired personal property and an uncrystallized floating charge on land Special Info: Trust Indenture	<u>Amended on Jul. 4, 2013 by 437549H</u> Amendment to change the address of the secured party <u>Renewed on Jul. 4, 2013 by 437556H</u> 2 years (included in expiry date) <u>Amended on Dec. 20, 2013 by 720254H</u> Amendment to change the address of the debtor
2. Marret Asset Management Inc.	Cline Mining Corporation	Regn No.: 437575H Regn Date: Jul. 4, 2013 Expiry Date: Jul. 4, 2018	<u>General Collateral:</u> All of the debtor's present and after acquired personal property and an uncrystallized floating charge on land	<u>Amended on Dec. 20, 2013 by 720255H</u> Amendment to change the address of the debtor
3. Computershare Trust Company of Canada	Cline Mining Corporation	Regn No.: 437564H Regn Date: Jul. 4, 2013 Expiry Date: Jul. 4, 2018	<u>General Collateral:</u> All of the debtor's present and after acquired personal property and an uncrystallized floating charge on land Special Info: Trust Indenture	<u>Amended on Dec. 20, 2013 by 720256H</u> Amendment to change the address of the debtor
4. Marret Asset Management Inc.	Cline Mining Corporation	Regn No.: 437572H Regn Date: Jul. 4, 2013 Expiry Date: Jul. 4, 2018	<u>General Collateral:</u> All of the debtor's present and after acquired personal property and an uncrystallized floating charge on land	<u>Amended on Dec. 20, 2013 by 720259H</u> Amendment to change the address of the debtor

II. ONTARIO

1. PERSONAL PROPERTY SECURITY ACT (Ontario)

Secured Party(ies)	Debtor(s)	Reference File No. & Registration Number (Registration Period)	Collateral Classification	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
1. Computershare Trust Company of Canada	Cline Mining Corporation	688310541 – 20130704 0954 1862 9060 (5 years)	Inventory, Equipment, Accounts, Other, Motor Vehicles		Amended by <u>20131220 0915 1862 1926</u> Amendment to change the address of the debtor
2. Marret Asset Management Inc.	Cline Mining Corporation	688310577 – 20130704 0956 1862 9061 (5 years)	Inventory, Equipment, Accounts, Other, Motor Vehicles		Amended by <u>20131220 0915 1862 1925</u> Amendment to change the address of the debtor
3. Marret Asset Management Inc.	Cline Mining Corporation	688310604 – 20130704 0958 1862 9062 (5 years)	Inventory, Equipment, Accounts, Other, Motor Vehicles		Amended by <u>20131220 0915 1862 1927</u> Amendment to change the address of the debtor
4. Bank of Montreal/Banque de Montreal	Cline Mining Corporation	675927639 – 20120130 1837 1532 2055 (5 years)	Accounts, Other		
5. Computershare Trust Company of Canada	Cline Mining Corporation	674883324 – 20111206 1651 1862 5964 (5 years)	Inventory, Equipment, Accounts, Other, Motor Vehicles		Renewed by <u>20130704 0950 1862 9057</u> 2 years Amended by <u>20130704 0952 1862 9058</u> Amendment to change address of secured party Amended by <u>20131220 0914 1862 1924</u> Amendment to change the address of the debtor

III. U.S. REGISTRATIONS

Jurisdiction/ Search/ Currency	Secured Party(ies)	Debtor(s)	Registration Number/Date	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
Recorder of Deeds, District of Columbia					
Secretary of State, Colorado					
State of Colorado Secretary of State UCC Search 11/07/13	Clear				
State of Colorado Federal Tax Lien Search 11/07/13	Clear				
Las Animas County, Colorado					
Las Animas County, Colorado Fixture Filings Search 11/04/13	Clear				
Las Animas County, Colorado Federal Tax Lien Search 11/04/13	Clear				
Las Animas County, Colorado State Tax Lien Search 11/04/13	Clear				
Las Animas County, Colorado Judgment Lien Search 11/04/13	Clear				
Secretary of State, Kansas					
State of Kansas Secretary of State UCC Search 11/05/13	Clear				211

Jurisdiction/ Search/ Currency	Secured Party(ies)	Debtor(s)	Registration Number/Date	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
State of Kansas Federal Tax Lien Search 11/05/13	Clear				
Secretary of State, Texas					
State of Texas Secretary of State UCC Search 11/07/13	Clear				
State of Texas Federal Tax Lien Search 11/07/13	Clear				

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SEARCH SUMMARY WITH RESPECT TO NEW ELK COAL COMPANY LLC

I. U.S. Registrations

Jurisdiction/ Search/ Currency	Secured Party(ies)	Debtor(s)	Registration Number/Date	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
Secretary of State, Colorado					
State of Colorado Secretary of State UCC Search	1. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 2010F070368 Reg. Date: Sep. 27, 2010 Exp. Date: Sep. 27, 2015	One 2008 Komatsu GD655-3EO motor grader, SN 51669, with all attachments & accessories. One 2010 Komatsu WA350-6 wheel loader, SN 66173, with all attachments & accessories. One 2010 Komatsu WA500-6 wheel loader, SN 55610, with all attachments & accessories	Amended on Dec. 11, 2012 by <u>20122076499</u> Amendment to assign the registration from "Power Motive Corporation" to "Komatsu Financial Limited Partnership" and to restate the general collateral description
	2. Computershare Trust Company of Canada, as Trustee	New Elk Coal Company LLC	Reg. No.: 2011F063172 Reg. Date: Dec. 12, 2011 Exp. Date: Dec. 12, 2016	All assets of debtor, whether now owned or hereafter acquired CO Secretary of State: Debtor: New Elk Coal Company LLC; BC # 0354944; 2011 Trust Indenture	Amended on Jul. 3, 2013 by <u>20132059054</u> Amendment to change the address of the secured party
	3. Applied Industrial Technologies, Inc.	New Elk Coal Company, LLC	Reg. No.: 2012F002747 Reg. Date: Jan. 13, 2012 Exp. Date: Jan. 13, 2017	Purchase Money Security Interest in and to all consignee's now held or hereafter acquired equipment consigned or shipped to consignee by or on behalf of consignor or others and under any product name, including all additions and accessions thereto and substitutions therefor and products thereof. Equipment will be located at address referenced above.	
	4. <i>Komatsu Financial Limited Partnership</i> Assignee: Power Motive Corporation	New Elk Coal Company LLC	Reg. No.: 2012F012966 Reg. Date: Mar. 5, 2012 Exp. Date: Mar. 5, 2017	One 2011 Komatsu PC350LC-8 excavator, SN A10292, with all attachments & accessories	Terminated on May 8, 2014 by <u>20142043158</u> Komatsu Financial Limited Partnership appears to have terminated this registration but Power Motive Corporation appears to still be a secured party

Jurisdiction/ Search/ Currency	Secured Party(ies)	Debtor(s)	Registration Number/Date	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
	5. Caterpillar Global Mining Virginia LLC	New Elk Coal Co LLC (<i>sic</i>)	Reg. No.: 20122061314 Reg. Date: Oct. 19, 2012 Exp. Date: Oct. 19, 2017	CO-0-35295201 – 46888198 <i>(*there are a number of invoices attached to this filing which appear to detail the collateral secured - please see invoices for details)</i>	
	6. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 20132010774 Reg. Date: Feb. 5, 2013 Exp. Date: Feb. 5, 2018	One (1) Komatsu D85PX-15E0 Crawler Dozer, S/N# 11716. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof CO-47147407	
	7. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 20132011002 Reg. Date: Feb. 5, 2013 Exp. Date: Feb. 5, 2018	One (1) Komatsu D155AX-6 Crawler Dozer, S/N# 81206. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof CO-47148145	
	8. Computershare Trust Company of Canada, as trustee	New Elk Coal Company LLC	Reg. No.: 20132059064 Reg. Date: Jul. 3, 2013 Exp. Date: Jul. 3, 2018	All assets of Debtor, whether now owned or hereafter acquired To be filed with the Colorado Secretary of State: BCHRO reference 0354944; 2013 Trust Indenture	
	9. Marret Asset Management Inc.	New Elk Coal Company LLC	Reg. No.: 20132059068 Reg. Date: Jul. 3, 2013 Exp. Date: Jul. 3, 2018	All assets of Debtor, whether now owned or hereafter acquired To be filed with the Colorado Secretary of State: BCHRO reference 0354944; 2011 Trust Indenture	
	10. Marret Asset Management Inc.	New Elk Coal Company LLC	Reg. No.: 20132059073 Reg. Date: Jul. 3, 2013 Exp. Date: Jul. 3, 2018	All assets of Debtor, whether now owned or hereafter acquired To be filed with the Colorado Secretary of State: BCHRO reference 0354944; 2013 Trust Indenture	214

Jurisdiction/ Search/ Currency	Secured Party(ies)	Debtor(s)	Registration Number/Date	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
Secretary of State, Kansas					
State of Kansas Secretary of State UCC Search	1. Applied Industrial Technologies, Inc.	New Elk Coal Company, LLC	Reg. No.: 98991194 Reg. Date: Jan. 13, 2012 Exp. Date: Jan. 13, 2017	Purchase Money Security Interest in and to all Consignee's now held or hereafter acquired equipment consigned or shipped to Consignee by or on behalf of Consignor pursuant to that certain Consignment Agreement between the parties and as amended from time to time, whether manufactured by Consignor or others and under any product name, including all additions and accessions thereto and substitutions therefor and products thereof. Equipment will be located at address referenced above.	
	2. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 71129329 Reg. Date: Apr. 9, 2012 Exp. Date: Apr. 9, 2017	One (1) Komatsu GD655-3E0 motor grader, S/N# 51669. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof	
	3. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 71129386 Reg. Date: Apr. 9, 2012 Exp. Date: Apr. 9, 2017	One (1) Komatsu HM350-2 articulated truck, S/N# A11045. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof	
	4. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 71129394 Reg. Date: Apr. 9, 2012 Exp. Date: Apr. 9, 2017	One (1) Komatsu HM350-2 articulated truck, S/N# A11052. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof	
	5. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 71129402 Reg. Date: Apr. 9, 2012 Exp. Date: Apr. 9, 2017	One (1) Komatsu WA500-6 wheel loader, S/N# 55610. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof	
	6. Komatsu Financial Limited Partnership	New Elk Coal Company LLC	Reg. No.: 71129410 Reg. Date: Apr. 9, 2012 Exp. Date: Apr. 9, 2017	One (1) Komatsu WA380-6 wheel loader, S/N# 66173. Complete with all present attachments, accessories, replacement parts, additions and all proceeds thereof.	215

SEARCH SUMMARIES WITH RESPECT TO NORTH CENTRAL ENERGY COMPANY

I. U.S. REGISTRATIONS

Jurisdiction/ Search/ Currency	Secured Party(ies)	Debtor(s)	Registration Number/Date	General Collateral Description	Amendments/Assignments Discharges/Renewals Transfers/Subordinations
Secretary of State, Colorado					
State of Colorado Secretary of State UCC Search	1. Computershare Trust Company of Canada, as Trustee	North Central Energy Company	Reg. No.: 2011F063171 Reg. Date: Dec. 12, 2011 Exp. Date: Dec. 12, 2016	All assets of debtor, whether now owned or hereafter acquired CO Secretary of State: Debtor: North Central Energy Company: BC #0354944; 2011 Trust Indenture	Amended on Jul. 3, 2013 by <u>20132059047</u> Amendment to change the address of the secured party
	2. Computershare Trust Company of Canada, as trustee	North Central Energy Company	Reg. No.: 20132059066 Reg. Date: Jul. 3, 2013 Exp. Date: Jul. 3, 2018	All assets of Debtor, whether now owned or hereafter acquired To be filed with the Colorado Secretary of State: BCHRO reference 0354944; 2013 Trust Indenture	
	3. Marret Asset Management Inc.	North Central Energy Company	Reg. No.: 20132059070 Reg. Date: Jul. 3, 2013 Exp. Date: Jul. 3, 2018	All assets of Debtor, whether now owned or hereafter acquired To be filed with the Colorado Secretary of State: BCHRO reference 0354944; 2011 Trust Indenture	
	4. Marret Asset Management Inc.	North Central Energy Company	Reg. No.: 20132059071 Reg. Date: Jul. 3, 2013 Exp. Date: Jul. 3, 2018	All assets of Debtor, whether now owned or hereafter acquired To be filed with the Colorado Secretary of State: BCHRO reference 0354944; 2013 Trust Indenture	

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Exhibit “D”

THIS IS EXHIBIT "D"
TO THE AFFIDAVIT OF MATTHEW GOLDFARB
SWORN BEFORE ME ON THE 2ND DAY OF DECEMBER, 2014.

A handwritten signature in blue ink, appearing to read "Brad Wilfong", written over a horizontal blue line.

Commissioner for Taking Affidavits

REPORT RE: THE PREPARATION OF THE CASH FLOW STATEMENT**(paragraph 10.2(b) of the CCAA)**

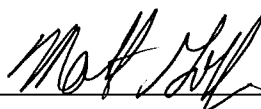
In connection with the Application by Cline Mining Corporation, New Elk Coal Company LLC, and North Central Energy Company (the "**Applicants**") for the commencement of proceedings under the CCAA, the management of the Applicants has prepared the attached cash flow forecast (the "**Projections**") and the assumptions on which the cash flow forecast is based.

The hypothetical assumptions are reasonable and consistent with the purpose of the Projections described in Note 1, and the probable assumptions are suitably supported and consistent with the plans of the Applicants and provide a reasonable basis for the Projections. All such assumptions are disclosed in Notes 2 to 4.

Since the Projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The Projections have been prepared solely for the purpose described in Note 1, using the probable and hypothetical assumptions set out in Notes 2 to 4. Consequently, readers are cautioned that the Projections may not be appropriate for other purposes.

Dated at Toronto this 2nd day of December, 2014.



Matthew Goldfarb
Chief Restructuring Officer,
Acting Chief Executive Officer
Cline Mining Corporation

Cline Mining Corporation.

APPLICANTS 13-WEEK CASH FLOW FORECAST

(CAD in thousands)

Week Ending Forecast Week	7-Dec-14 1	14-Dec-14 2	21-Dec-14 3	28-Dec-14 4	4-Jan-15 5	11-Jan-15 6	18-Jan-15 7	25-Jan-15 8	1-Feb-15 9	8-Feb-15 10	15-Feb-15 11	22-Feb-15 12	1-Mar-15 13	13-Week Total
Cash Flow from Operations														
Receipts								56.0						56.0
Operating Disbursements	(310.1)	(127.9)	(24.3)	(322.7)	(104.6)	(137.5)	(39.7)	(354.5)	(108.5)	(121.8)	(39.1)	(117.9)	(200.6)	(2,019.2)
Operating Cash Flows	(310.1)	(127.9)	(24.3)	(322.7)	(104.6)	(137.5)	(39.7)	(308.5)	(108.5)	(121.8)	(39.1)	(117.9)	(200.6)	(1,963.2)
Restructuring/ Non-Recurring Disbursements	(379.4)	(177.6)	(109.8)	(72.8)	(48.8)	(55.0)	(43.7)	(43.7)	(61.7)	(52.2)	(52.2)	(52.2)	(70.2)	(1,219.5)
Projected Net Cash Flow	(689.4)	(305.5)	(134.1)	(395.6)	(153.4)	(192.5)	(83.4)	(352.2)	(170.2)	(174.1)	(91.3)	(170.1)	(270.8)	(3,182.7)
Beginning Cash Balance	8,844.3	8,154.9	7,849.4	7,715.3	7,319.7	7,166.3	6,973.9	6,890.4	6,538.2	6,368.0	6,193.9	6,102.6	5,932.5	8,844.3
Ending Cash Balance	8,154.9	7,849.4	7,715.3	7,319.7	7,166.3	6,973.9	6,890.4	6,538.2	6,368.0	6,193.9	6,102.6	5,932.5	5,661.6	5,661.6

Notes:


- [1] The purpose of this cash flow forecast is to determine the liquidity requirements of the Applicants during the forecast period.
- [2] The Applicants operations at the New Elk Mine are currently under care and maintenance. Anticipated Receipts are the result of anticipated HST refunds.
- [3] Forecast Operating Disbursement assumptions are based on existing Accounts Payable, vendor payment terms, payroll funding dates, board of director fee arrangements and terms of property leases, among others.
- [4] Restructuring/Non-Recurring Disbursements include professional fees associated with the CCAA Proceedings, the Applicants' restructuring efforts, and certain non-recurring tax liabilities. Professional fee disbursement assumptions are based on budgeted time and expenses for the various legal and financial advisors expected to participate in the CCAA Proceedings.

Exhibit ‘E’

THIS IS EXHIBIT "E"

TO THE AFFIDAVIT OF MATTHEW GOLDFARB

SWORN BEFORE ME ON THE 2ND DAY OF DECEMBER, 2014.



Commissioner for Taking Affidavits

SUPPORT AGREEMENT

This support agreement (the "**Support Agreement**"), dated as of December 2, 2014, sets out the agreement among Cline Mining Corporation (the "**Company**") and Marret Asset Management Inc. on behalf of the Secured Noteholders (as defined below) (in such capacity, and not in its own capacity, "**Marret**"), being the holder of, and/or investment advisor or manager having sole investment discretion with respect to, all of the 10% senior secured notes issued by the Company pursuant to an indenture dated December 13, 2011, as amended (the "**2011 Notes**") and the 10% senior secured notes issued by the Company pursuant to an indenture dated July 8, 2013, as amended (the "**2013 Notes**" and, together with the 2011 Notes, the "**Secured Notes**"), regarding a proposed restructuring and recapitalization of the Company, New Elk Coal Company LLC and North Central Energy Company (the "**Recapitalization**") as described on the term sheet attached hereto as Schedule "A" (the "**Term Sheet**").

The Recapitalization is to be implemented pursuant to a plan of compromise and arrangement under the *Companies' Creditors Arrangement Act* (the "**CCAA**") and is to be recognized in the United States in proceedings under Chapter 15, Title 11 of the United States Code (the "**Chapter 15 Proceedings**"). The CCAA plan of compromise and arrangement to be filed by the Company in accordance with the Term Sheet is referred to herein as the "**Plan**" and, for greater certainty, any reference to the "Plan" in this Support Agreement includes any Alternate Plan (as such term is defined in the Term Sheet). Holders of the Secured Notes over which Marret Asset Management Inc. (in its own capacity) exercises control and discretion are referred to herein as "**Secured Noteholders**". The Company and the Secured Noteholders are each referred to herein as a "**Party**" and collectively the "**Parties**".

1. Term Sheet

The Term Sheet is incorporated herein and made a part of this Support Agreement.

2. Representations and Warranties of Marret

Marret hereby represents and warrants to the Company (and Marret acknowledges that the Company is relying upon such representations and warranties) that:

- (a) it is a sophisticated party with sufficient knowledge and experience to evaluate properly the terms and conditions of this Support Agreement; it has conducted its own analysis and made its own decision to enter into this Support Agreement and has obtained such independent advice in this regard as it deemed appropriate, and it has not relied in such analysis or decision on any person other than its own independent advisors;
- (b) this Support Agreement has been duly executed and delivered by it, and, assuming the due authorization, execution and delivery by the Company, this Support Agreement constitutes the legal, valid and binding obligation of the Secured Noteholders, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;

- (c) none of the Secured Noteholders have deposited any of the Secured Notes or Debt into a voting trust, or granted (or permitted to be granted) any proxies or powers of attorney or attorney in fact, or entered into a voting agreement, understanding or arrangement, with respect to the voting of the Secured Notes or Debt where such trust, grant, agreement, understanding or arrangement would in any manner restrict the ability of such Secured Noteholders or Marret to comply with their obligations under this Support Agreement; and
- (d) each of the Secured Noteholders is an “accredited investor”, as such term is defined in National Instrument 45-106 – *Prospectus and Registration Exemptions* of the Canadian Securities Administrators (“**NI 45-106**”) and none of the Secured Noteholders were created or used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of “accredited investor” in NI 45-106.

3. Representations of Marret Asset Management Inc. (in its own capacity)

Marret Asset Management Inc. (in its own capacity) hereby represents and warrants to the Company (and acknowledges that the Company is relying upon such representations and warranties) that:

- (a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all necessary power and authority to execute and deliver this Support Agreement, including the power and authority to bind the Secured Noteholders to the terms of this Support Agreement;
- (b) funds for which it has sole discretionary authority to manage or administer investments are the beneficial holders of the Secured Notes in the principal amount set forth on Marret’s signature page to this Support Agreement, which Secured Notes constitute all of the issued and outstanding Secured Notes;
- (c) it has the authority to vote or direct the voting of all amounts owing in respect of the Secured Notes (the “**Debt**”).

4. Representations and Warranties of the Company

The Company hereby represents and warrants to Marret (and the Company acknowledges that Marret is relying upon such representations and warranties) that:

- (a) it is a sophisticated party with sufficient knowledge and experience to evaluate properly the terms and conditions of this Support Agreement; it has conducted its own analysis and made its own decision to enter into this Support Agreement and has obtained such independent advice in this regard as it deemed appropriate, and it has not relied in such analysis or decision on any person other than its own independent advisors;
- (b) this Support Agreement has been duly executed and delivered by it, and, assuming the due authorization, execution and delivery by Marret, this Support

Agreement constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity; and

- (c) it is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all necessary power and authority to execute and deliver this Support Agreement and to consummate the transactions contemplated hereby, subject to (i) the approval of the Plan and the Recapitalization by the requisite majorities of any affected creditors that have the right to vote on the Plan and the Recapitalization; (ii) the approval of the Plan by the court (the “**Court**”) having jurisdiction over CCAA proceedings in respect of the Company (the “**CCAA Proceedings**”); (iii) the issuance of all orders in the Chapter 15 Proceedings necessary to give force and effect in the United States to the Plan, the Recapitalization and any orders of the Court related thereto; and (iv) the satisfaction of any other legal, statutory or regulatory preconditions to the consummation of the Plan and the Recapitalization.

5. Covenants and Consents of Marret

- (a) Marret consents and agrees to the terms of this Support Agreement and the Term Sheet.
- (b) Marret agrees that until the termination of this Support Agreement it shall, and it shall cause the Secured Noteholders, to do and comply with the following on and subject to the terms hereof:
 - (i) vote (or cause to be voted) all of the Secured Notes and Debt in favour of the approval, consent, ratification and adoption of the Recapitalization and the Plan;
 - (ii) support the approval of the Recapitalization and the Plan as promptly as practicable by the Court;
 - (iii) not propose, file, solicit, vote for or otherwise support any alternative offer, restructuring, liquidation, workout or plan of compromise or arrangement or reorganization of or for the Company or its subsidiaries, including any proceeding under the CCAA or otherwise, that is inconsistent with the Recapitalization and the Plan, except with the prior written consent of the Company;
 - (iv) subject to section 6(d), support (i) the initial CCAA application and motions for a Claims Procedure Order and a Meetings Order to be filed by the Company in the CCAA Proceedings and any initial applications or motions filed by the Company or the foreign representative in the Chapter 15 Proceedings, provided in each case that Marret shall have approved the contents of such applications and motions in advance; and (ii) any future applications or motions filed by the Company in the CCAA Proceedings

or by the Company or the foreign representative in the Chapter 15 Proceedings provided that such applications or motions do not adversely affect the interests of Marret or the Secured Noteholders;

- (v) not enforce or take any action or initiate any proceeding to enforce the payment of any of the Debt without the prior written consent of the Company;
- (vi) forbear from exercising, or directing the indenture trustees in respect of the Secured Notes to exercise, any default-related rights, remedies, powers or privileges, or from instituting any enforcement actions or collection actions with respect to any obligations under the applicable indentures without the prior written consent of the Company;
- (vii) not take any action, directly or indirectly, that is materially inconsistent with, or is intended or is likely to hinder, interfere with the consummation of, the Recapitalization or the Plan;
- (viii) not deposit any of the Secured Notes or Debt into a voting trust, or grant (or permit to be granted) any proxies or powers of attorney or attorney in fact, or enter into a voting agreement, understanding or arrangement, with respect to the voting of the Secured Notes or Debt if such trust, grant, agreement, understanding or arrangement would in any manner restrict the ability of Marret to comply with its obligations under this Support Agreement; and
- (ix) execute any and all documents and perform any and all commercially reasonable acts required by this Support Agreement to satisfy all of its obligations hereunder including any consent, approval or waiver requested by the Company, acting reasonably.

6. Covenants and Consents of the Company

- (a) The Company consents and agrees to the terms of this Support Agreement and the Term Sheet.
- (b) The Company agrees to file an application for an order of the Court commencing the CCAA Proceedings on a date to be agreed by the Company and Marret and, if the CCAA Proceedings have been commenced, to file a Plan with the Court on terms consistent with the Term Sheet and acceptable to Marret.
- (c) The Company agrees that until the termination of this Support Agreement it shall pursue and use commercially reasonable efforts to complete the Recapitalization and the Plan on and subject to the terms hereof.
- (d) The Company shall provide draft copies of all motions or applications and other documents the Company intends to file with the Court in the CCAA Proceedings to Davies Ward Phillips & Vineberg LLP (“**Marret Legal Counsel**”) at least

three business days prior to the date when the Company intends to file such document (or as soon as possible in exigent circumstances where it is not reasonably practicable to provide copies three business days in advance).

- (e) The Company shall keep Marret and Marret Legal Counsel reasonably informed regarding any material discussions with any Person with respect to any potential restructuring or sale alternatives other than the Recapitalization and shall consult with Marret and Marret Legal Counsel in good faith as to whether it is appropriate in the circumstances for a representative of Marret and/or Marret Legal Counsel (subject to confidentiality restrictions) to participate in such material discussions.

7. Negotiation of Documents

- (a) The Parties shall cooperate with each other and shall coordinate their activities (to the extent practicable) in respect of (i) settling the terms of the Plan in a manner that reflects the Term Sheet or as may otherwise be agreed by the Company and Marret, (ii) the timely satisfaction of conditions with respect to the effectiveness of the Recapitalization and the Plan, (iii) all matters concerning the implementation of the Recapitalization and the Plan, and (iv) the pursuit and support of the Recapitalization and the Plan. Furthermore, subject to the terms hereof, each of the Parties shall take such actions as may be reasonably necessary to carry out the purposes and intent of this Support Agreement.
- (b) Each Party hereby covenants and agrees (i) to cooperate and negotiate in good faith, and consistent with this Support Agreement (including the Term Sheet), the definitive documents implementing, achieving and relating to the Recapitalization and the Plan, all ancillary documents relating thereto, and any orders of the Court relating thereto, and (ii) to execute (to the extent they are a party thereto) and otherwise support such documents.

8. Information and Access

Subject to confidentiality agreements acceptable to the Company being in place and subject to the terms of such confidentiality agreements, the Company shall provide to Marret on a timely basis: (a) any and all information, documents, materials, and access reasonably requested by Marret or Marret Legal Counsel, and (b) any and all other information which might reasonably be expected to be of material interest to them in relation to this Support Agreement, the Recapitalization or the Plan.

9. Termination

- (a) This Support Agreement may be terminated by Marret:
 - (i) if the Company materially breaches any of its obligations, covenants, representations or warranties under this Support Agreement or any other agreement with Marret directly related to the Recapitalization, provided that if such obligation, covenant, representation or warranty is curable, it

remains uncured for five (5) business days after receipt by the Company of written notice thereof;

- (ii) if the Company has not obtained an initial CCAA order from the Court prior to December 31, 2014, if the CCAA Proceedings are terminated or the CCAA stay of proceedings ceases to be in effect with respect to the Company, unless Marret has provided its prior consent to any of the foregoing circumstances; or
 - (iii) at any time in its sole discretion by providing ten (10) days' prior written notice to the Company.
- (b) This Support Agreement may be terminated by the Company:
- (i) if Marret materially breaches any of its obligations, covenants, representations or warranties under this Support Agreement or any other agreement between Marret and the Company directly related to the Recapitalization; provided that if such obligation, covenant, representation or warranty is curable, it remains uncured for five (5) business days after receipt by Marret of written notice thereof; or
 - (ii) at any time in its sole discretion by providing ten (10) days' prior written notice to Marret.
- (c) This Support Agreement may be terminated by either Party upon written notice to the other Party following the issuance of any preliminary or final decision, order or decree by a governmental entity, the making of an application to any governmental entity, or the commencement of an action or investigation by any governmental entity, in consequence of or in connection with the Recapitalization or the Plan, which restrains, impedes or prohibits the Recapitalization or the Plan.
- (d) This Support Agreement may be terminated at any time by mutual written consent of the Company and Marret.
- (e) This Support Agreement shall terminate automatically upon the implementation of the Plan.
- (f) This Support Agreement, upon its termination, shall be of no further force and effect and each Party hereto shall be automatically and simultaneously released from its commitments, undertakings, and agreements under or related to this Support Agreement. Notwithstanding the foregoing, each Party shall be responsible and shall remain liable for any breach of this Support Agreement by such Party occurring prior to the termination of this Support Agreement.
- (g) Notwithstanding the termination of this Support Agreement pursuant to this Section 9, the agreements and obligations of the Parties in 12(f) through 12(k) shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

10. Confidentiality

The Parties agree that they are permitted to publicly disclose the existence, content, terms and factual details of this Support Agreement, including, without limitation, in press releases and court materials produced in connection with the Recapitalization and the Plan.

11. Further Assurances

Each Party shall do all such things in its control, take all such actions as are commercially reasonable, deliver to the other Party such further information and documents and execute and deliver to the other Party such further instruments and agreements as the other Party shall reasonably request to consummate or confirm the transactions provided for in this Support Agreement, to accomplish the purpose of this Support Agreement or to assure to the other Party the benefits of this Support Agreement.

12. Miscellaneous

- (a) The headings in this Support Agreement are for reference only and shall not affect the meaning or interpretation of this Support Agreement.
- (b) Unless the context otherwise requires, words importing the singular shall include the plural and vice versa and words importing any gender shall include all genders.
- (c) This Support Agreement (including the Term Sheet) constitutes the entire agreement and supersedes all prior agreements and understandings, both oral and written, among the Parties with respect to the subject matter hereof including any other recapitalization or restructuring matters.
- (d) This Support Agreement may be modified, amended or supplemented as to any matter by a writing signed by the Company and Marret.
- (e) Any provision of this Support Agreement may be waived if, and only if, such waiver is in writing and signed by the Party against whom the waiver is to be effective. No failure or delay by any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise.
- (f) This Support Agreement shall be governed by, construed and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein (excluding any conflict of laws rule or principle which might refer such construction to the laws of another jurisdiction) and all actions or proceedings arising out of or relating to this Support Agreement shall be heard and determined exclusively in the courts of the Province of Ontario.
- (g) Unless expressly stated otherwise herein, this Support Agreement is intended to solely bind and inure to the benefit of the Parties and their respective successors,

permitted assigns, heirs, executors, administrators and representatives. No other person or entity shall be a third party beneficiary hereof.

- (h) No Party may assign, delegate or otherwise transfer any of its rights, interests or obligations under this Support Agreement without the prior written consent of the other Party hereto.
- (i) All notices, requests, consents and other communications hereunder to any Party shall be deemed to be sufficient if contained in a written instrument delivered in person or sent by internationally-recognized overnight courier or email. All notices required or permitted hereunder shall be deemed effectively given: (i) upon personal delivery to the Party to be notified, (ii) when sent by email if sent during normal business hours of the recipient, if not, then on the next business day of the recipient; or (iii) one business day after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All deliveries required or permitted hereunder shall be deemed effectively made: (i) upon personal delivery to the Party receiving the delivery; (ii) one business day after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt; or (iii) upon receipt of delivery in accordance with instructions given by the Party receiving the delivery. Any Party may change the address to which notice should be given to such Party by providing written notice to the other Parties hereto of such change. The address, facsimile and email for each of the Parties shall be as follows:

- (i) If to the Company at:

Cline Mining Corporation
161 Bay Street, 26th Floor
Toronto, Ontario
M5J 2S1

Attention: Matthew Goldfarb, Chief Restructuring Officer
Email: mgoldfarb@clinemining.com

With a required copy (which shall not be deemed notice) to:

Goodmans LLP
333 Bay Street, Suite 3400
Toronto, Ontario
M5H 2S7

Attention: Robert J. Chadwick & Logan Willis
Email: rchadwick@goodmans.ca / lwillis@goodmans.ca

(ii) If to Marret:

Marret Asset Management Inc.
200 King St. W., Suite 1902
Toronto, Ontario
M5H 3T4

Attention: Dorothea Mell
Email: dmell@marret.com

With a required copy (which shall not be deemed notice) to:

Davies Ward Phillips & Vineberg LLP
155 Wellington St. W., 40th Floor
Toronto, Ontario
M5V 3J7

Attention: Jay A. Swartz
Email: jswartz@dwpv.com

- (j) If any term, provision, covenant or restriction of this Support Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions, including terms, covenants and restrictions, of this Support Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated and the parties shall negotiate in good faith to modify this Support Agreement to preserve each party's anticipated benefits under this Support Agreement.
- (k) This Support Agreement may be executed by facsimile or other electronic means and in one or more counterparts, all of which shall be considered one and the same agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the undersigned has caused this Support Agreement to be duly executed and delivered by its proper and duly authorized officer as of the date first written above.

CLINE MINING CORPORATION

Per: _____

Name: Matthew Goldfarb

Title: Chief Restructuring Officer and Acting
Chief Executive Officer

I have the authority to bind the corporation.

**MARRET ASSET MANAGEMENT INC. (on behalf of
the Secured Noteholders)**

Per: _____

Name: Dorothea Mell

Title: Vice President

I have the authority to bind the corporation.

**Aggregate principal amount of Secured Notes over which
Marret Asset Management Inc. exercises control and
discretion:**

2011 Notes \$71,381,900

2013 Notes \$12,340,998

IN WITNESS WHEREOF, each of the undersigned has caused this Support Agreement to be duly executed and delivered by its proper and duly authorized officer as of the date first written above.

CLINE MINING CORPORATION

Per: _____

Name: Matthew Goldfarb

Title: Chief Restructuring Officer and Acting
Chief Executive Officer

I have the authority to bind the corporation.

**MARRET ASSET MANAGEMENT INC. (on behalf of
the Secured Noteholders)**

Per: _____

Name: Dorothea Mell

Title: Vice President

I have the authority to bind the corporation.

Aggregate principal amount of Secured Notes over which Marret Asset Management Inc. exercises control and discretion:	
2011 Notes	\$71,381,900
2013 Notes	\$12,340,998

SCHEDULE A
TERM SHEET

6386320

CLINE MINING CORPORATION
NON-BINDING RESTRUCTURING PROPOSAL
DECEMBER 2, 2014

*The proposal outlined below is put forward on a non-binding, without prejudice basis solely for the purpose of discussions between Cline Mining Corporation (“**Cline**”) and Marret Asset Management Inc. (“**Marret**”) regarding a proposed consensual restructuring of Cline, New Elk Coal Company LLC (“**New Elk**”) and North Central Energy Company (“**North Central**” and, collectively with Cline and New Elk, the “**Cline Group**”). This proposal is intended for discussion purposes only and does not represent an offer or commitment to proceed with or consummate any transaction. The information provided in this Non-Binding Restructuring Proposal is for the confidential use of the Cline Group and Marret, and may not, without the prior written consent of Cline, be disclosed to any other party other than Marret’s employees, lawyers and financial advisors with a need to know such information.*

I. OVERVIEW OF THE RESTRUCTURING PROPOSAL

General Overview

The Cline Group will be restructured pursuant to the *Companies’ Creditors Arrangement Act* (the “**CCAA**”), with the restructuring to be recognized in the United States pursuant to proceedings under Chapter 15 of the United States Code (“**Chapter 15**”).

Cline, New Elk and North Central will be the applicants (the “**Applicants**”) in the CCAA proceedings.¹ The Applicants will file a consolidated plan of compromise or arrangement (the “**Plan**”).

The Plan will provide that all claims against the Applicants held by the beneficial holders (the “**Secured Noteholders**”) of the 10% senior secured notes issued by Cline pursuant to the indenture dated December 13, 2011, as amended, and the 10% senior secured notes issued by Cline pursuant to the indenture dated July 8, 2013, as amended (together, the “**Secured Notes**”), will be compromised in exchange for 100% of the equity in the restructured Cline (the “**New Cline Common Shares**”) and new indebtedness in favour of the Secured Noteholders evidenced by a credit agreement with a term of seven years in the principal amount of \$55,000,0000, bearing interest at a fixed rate of 0.01% per annum plus an additional variable interest component that commences only upon the Applicants’ achieving certain consolidated annual operating revenues, as described further below (the “**New Secured Debt**”).

¹ The Secured Notes issued by Cline are guaranteed by New Elk and North Central.

The Plan will provide that unsecured claims against the Applicants, including the WARN Act Claims (as defined below), will be compromised in exchange for certain unsecured, non-interest-bearing entitlements to receive future cash consideration (as described below). The portion of the Secured Noteholders' claim that is unsecured by reference to the current value of the Applicants and their assets, property and business (the "**Secured Noteholders Deficiency Claim**") will be treated as unsecured claims for purposes of the Plan. Any claims of Marret other than claims in respect of the Secured Notes (the "**Marret Deficiency Claim**") will be treated as unsecured claims for voting and distribution purposes. Certain unsecured creditors with claims against the Applicants of \$10,000 or less will be paid in full and will be deemed to vote in favour of the Plan.

Existing equity interests in Cline will be extinguished for no consideration. Existing equity interests in other members of the Cline Group will remain unchanged, such that New Elk will continue to be a wholly-owned subsidiary of Cline and North Central will continue to be a wholly-owned subsidiary of New Elk.

II. THE PLAN

Applicants	Cline, New Elk and North Central
Consolidated Plan	The Plan will be filed on a consolidated basis and will address the combined claims against the Applicants.
Classes of Creditors	There will be three classes of affected creditors under the Plan: <ol style="list-style-type: none">1. Secured Noteholders Class2. Unsecured Creditors Class3. WARN Act Plaintiffs Class
Unaffected Claims	Certain claims will remain unaffected by the Plan (the " Unaffected Claims "), including: <ol style="list-style-type: none">1. Claims in respect of certain super-priority CCAA charges, including an Administration Charge and a Directors & Officers Charge (as described below).2. Claims covered by insurance;3. Certain prior-ranking secured claims of equipment lessors; and4. Certain claims that are not permitted to be compromised under the CCAA.

A. Secured Noteholders Class²

Composition of Class The Secured Noteholders Class will consist of the Secured Noteholders in respect of that portion of their claim that is secured (the “**Secured Noteholders Secured Claim**”). The amount of the Secured Noteholders Secured Claim will consist of the all amounts owed to the Secured Noteholders less the Secured Noteholders Deficiency Claim.

The Secured Noteholders Deficiency Claim and the Marret Deficiency Claim will not be included in the Secured Noteholders Class.

Consideration The Secured Noteholders Secured Claim will be compromised, released and discharged as against the Applicants upon implementation of the Plan (the “**Implementation Date**”). In consideration, Secured Noteholders will receive their *pro rata* share of:

- (a) the New Cline Common Shares representing 100% of the equity in Cline; and
- (b) the New Secured Debt in the aggregate principal amount of \$55,000,000.

New Secured Debt The New Secured Debt will have the following material terms:

- Cline is the borrower and New Elk and North Central are the guarantors of the New Secured Debt.
- 7-year term.
- Interest equal to the aggregate of:
 - (i). base interest at a rate of 0.01% per annum payable annually; and
 - (ii). additional interest payable quarterly equal to 5% of the consolidated operating revenues of the Applicants for the preceding fiscal quarter, provided that such additional interest shall only be applicable if the consolidated operating revenues of the Applicants exceed \$1.25 million in such preceding fiscal quarter, and provided further that such additional interest shall not exceed 11.99% per annum of the principal amount of the New Secured Debt in any year.
- The New Secured Debt will be governed by (i) the New Credit Agreement between the Applicants and Marret (as administrative and collateral agent for the Secured Noteholders) and (ii) guarantees of the New Secured Debt executed by New Elk and North Central, in each case in form and in content satisfactory to the Applicants and Marret.

² This assumes that the Secured Noteholders are the only secured creditors affected by the Plan (i.e. all other secured creditors, consisting of equipment lessors with prior-ranking claims, will be unaffected by the Plan).

- The New Credit Agreement will contain a prepayment premium equal to 10% of the aggregate principal amount of the New Secured Debt, payable if the New Secured Debt is repaid or accelerated at any time prior to its stated maturity.
- Other than as set out herein or as may be agreed by the Applicants and Marret in writing, the material financial terms of the Credit Agreement are to be substantially similar to the terms of the trust indenture in respect of the 2011 Notes.
- The New Secured Debt will be secured by a first-ranking security interest in all or substantially all of the assets and property of Cline, New Elk and North Central.
- Each of the Secured Noteholders will be entitled to its Secured Noteholder's Share of the New Secured Debt, as described in the Plan.
- Marret Asset Management Inc. will act as the administrative and collateral agent in respect of the New Secured Debt and the corresponding security on behalf of the Secured Noteholders.

Other Secured Creditors

The Applicants have a limited number of prior-ranking secured creditors that have leased equipment to the Applicants or financed the purchase of equipment by the Applicants on a secured basis ("**Secured Equipment Creditors**"). At the option of the Applicants, such secured claims will (a) continue against the Applicants following the restructuring or (b) be extinguished by the Applicants returning the relevant equipment to the applicable Secured Equipment Creditor (with any deficiency being treated as an Unsecured Claim). Secured Equipment Creditors will not be affected by the Plan in respect of their secured claims and will not vote or receive distributions under the Plan in respect of their secured claims (provided that they will be treated as Unsecured Creditors with respect to any deficiency claims).

B. Unsecured Creditors Class

Composition of Class The Unsecured Creditors Class will consist of all holders (the "**Unsecured Creditors**") of allowed unsecured claims against the Applicants (the "**Unsecured Claims**"), including the Secured Noteholders in respect of their Secured Noteholders Deficiency Claim, Marret in respect of its Marret Deficiency Claim and any Secured Equipment Creditors in respect of their deficiency claims, but excluding any unsecured creditor in respect of a WARN Act Claim (as defined below). For purposes of the Plan, the Secured Noteholders Deficiency Claim will be set at \$17,500,000.

Consideration All claims of affected Unsecured Creditors will be compromised, released and discharged as against the Applicants on the Implementation Date. In consideration, Unsecured Creditors that are not Convenience Class Creditors (as defined below) will receive an unsecured, subordinated,

non-interest-bearing entitlement to receive \$225,000 on the date that is eight (8) years following the implementation of the Plan (the “**Unsecured Plan Entitlement**”), and each individual affected Unsecured Creditor with a proven claim will be entitled to receive its *pro rata* share of the Unsecured Plan Entitlement. Notwithstanding anything to the contrary herein, the Secured Noteholders and Marret will waive any entitlement to the proceeds of the Unsecured Plan Entitlement and all such proceeds shall be distributed to the other Unsecured Creditors on a *pro rata* basis.

Convenience Class Creditors

All Unsecured Creditors with Unsecured Claims of up to \$10,000 will, instead of receiving their *pro rata* share of the Unsecured Plan Entitlement, be paid in cash for the full value of their Unsecured Claims, and such creditors shall be deemed to vote in favour of the Plan (such creditors being the “**Convenience Class Creditors**”). The Applicants presently estimate that there will be approximately 66 Convenience Class Creditors to whom aggregate cash consideration of approximately \$193,000 will be paid.

C. WARN Act Plaintiffs Class

Composition of Class

The WARN Act Plaintiffs Class will consist of all persons asserting contingent claims against the Applicants in respect of alleged violations by the Applicants of the *Worker Adjustment and Retraining Notification Act* (the “**WARN Act Claims**”).

Consideration

All WARN Act Claims will be compromised, released and discharged upon the Implementation Date. In consideration, persons holding WARN Act Claims will receive an unsecured, subordinated, non-interest-bearing entitlement to receive \$100,000 on the date that is eight (8) years following the Plan Implementation Date (the “**WARN Act Plan Entitlement**”) or such other consideration as may be agreed by the Applicants and Marret, and each individual with a proven WARN Act Claim will be entitled to its *pro rata* share of the WARN Act Plan Entitlement or such other consideration.

Amendments to WARN Act Plaintiffs Class

The Applicants will have the right to amend the Plan to treat the WARN Act Claims as Unaffected Claims or to combine the WARN Act Plaintiffs Class with the Unsecured Creditors Class, in each case with the consent of Marret.

D. Unaffected Claims

Treatment

Unaffected Claims will not be comprised pursuant to the Plan and will continue against the Applicants following completion of the restructuring.

E. D&O Claims

Treatment

Subject to Court approval, all claims against the present and former

officers or directors of the Applicants will be compromised and released (other than any such claims that are not permitted to be released under the CCAA).

F. Equity Claims

Treatment Existing equity interests in Cline will be cancelled for no consideration and Cline will be delisted and converted to a private corporation. The shares of New Elk and North Central will not be affected.

III. OTHER ASPECTS OF THE PLAN AND THE RESTRUCTURING

Monitor FTI Consulting Canada Inc. to be appointed as Monitor and to serve as foreign representative in the Chapter 15 proceedings.

Plan Approval In order for the Plan to be effective:

- (a) the Plan must be approved by a majority in number and two-thirds in value of the creditors voting in each class of creditors;
- (b) the Plan must be approved by the Court as being “fair and reasonable”;
- (c) all orders needed to recognize and give effect to the Plan in the United States must have been issued by the U.S. court in the Chapter 15 proceedings; and
- (d) all transactions contemplated in the Plan must be completed to the satisfaction of the Applicants.

Alternate Plan The Applicants will retain the right to amend, modify or withdraw the Plan at any time. The Plan will provide that, if the Plan is not approved by the required majorities of both the Unsecured Creditors Class and the WARN Act Plaintiffs Class, or the Applicants determine, in their discretion, that the Plan will not be approved by the required majorities of one or both of such classes, the Applicants are permitted to withdraw the Plan and file an amended and restated plan (the “**Alternate Plan**”) without further order of the Court. The Alternate Plan would provide that, *inter alia*:

- (a) all Unsecured Claims and WARN Act Claims
 - i. are treated as Unaffected Claims,
 - ii. are not entitled to be voted at any meeting in respect of the Alternate Plan, and
 - iii. receive no distributions or consideration of any kind whatsoever under the Alternate Plan;
- (b) the only affected creditors under the Alternate Plan are the Secured Noteholders;

- (c) the only voting class under the Alternate Plan is the Secured Noteholders Class;
- (d) the New Cline Common Shares, the entitlements to the New Secured Debt, the Unsecured Plan Entitlement and the WARN Act Plan Entitlement will not be distributed under the Alternate Plan; and
- (e) all assets of the Applicants will be transferred to an entity designated by the Secured Noteholders in exchange for a release of the Secured Noteholders Secured Claim.

Board of Directors

On the Implementation Date, a new board of directors acceptable to Cline and Marret will be appointed.

Super-priority Court-Ordered Charges

Administration Charge of \$350,000 to secure fees payable to the Monitor and the CRO and counsel to the Monitor, the Applicants and Marret.

Directors & Officers Charge of \$500,000 to secure indemnities given by the Applicants to their directors and officers for any liabilities incurred during the CCAA and Chapter 15 proceedings.

Anticipated Timing

Concurrently with the CCAA filing and the issuance of the initial CCAA Order, the Applicants will seek Court Orders:

- (a) approving a claims process to identify claims against the Applicants (the “**Claims Process Order**”); and
- (b) authorizing the Applicants to file the Plan and to hold meetings of their affected creditors to vote on the Plan (the “**Meetings Order**”).

If the Claims Process Order and the Meetings Order are not obtained at such time, the Applicants will seek such Orders within approximately 30 days of the issuance of the initial CCAA Order.

The Applicants will seek to complete the Claims Process approximately 30-45 days (with unresolved claims being reserved and addressed at a later date), and to hold the Meetings approximately 5 days after the conclusion of the Claims Process. If the Plan is approved by the requisite majorities of creditors, the Applicants intend to seek an Order sanctioning the Plan (the “**Sanction Order**”) within approximately seven days of the approval by creditors.

The Chapter 15 proceedings will be commenced as soon as possible following the issuance of the initial CCAA Order, and Chapter 15 recognition orders will be sought as soon as possible following the issuance of any Orders by the Ontario Court.

The closing of the transactions contemplated in the Plan is to occur as soon as possible following the issuance of the Sanction Order and any Orders required in the Chapter 15 proceedings to give effect to the approval of the Plan in the United States.

This anticipated timing is subject to change for a variety of reasons, including as a result of any objections to the restructuring that may arise in the CCAA or Chapter 15 proceedings.

6375538

Exhibit ‘F’

THIS IS EXHIBIT "F"

TO THE AFFIDAVIT OF MATTHEW GOLDFARB

SWORN BEFORE ME ON THE 3RD DAY OF DECEMBER, 2014.

A handwritten signature in blue ink, appearing to read "Brad Wilfr.", written over a horizontal line.

Commissioner for Taking Affidavits

Court File No. _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

AND

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
CLINE MINING CORPORATION, NEW ELK COAL COMPANY LLC AND
NORTH CENTRAL ENERGY COMPANY**

APPLICANTS

**PLAN OF COMPROMISE AND ARRANGEMENT
pursuant to the *Companies' Creditors Arrangement Act*
concerning, affecting and involving**

**CLINE MINING CORPORATION,
NEW ELK COAL COMPANY LLC and
NORTH CENTRAL ENERGY COMPANY**

December 3, 2014

TABLE OF CONTENTS

ARTICLE 1 INTERPRETATION.....	1
1.1 Definitions.....	1
1.2 Certain Rules of Interpretation.....	15
1.3 Successors and Assigns.....	16
1.4 Governing Law	16
1.5 Schedules	16
 ARTICLE 2 PURPOSE AND EFFECT OF THE PLAN.....	 17
2.1 Purpose.....	17
2.2 Persons Affected	17
2.3 Persons Not Affected	17
 ARTICLE 3 CLASSIFICATION AND TREATMENT OF CREDITORS AND RELATED MATTERS.....	 17
3.1 Claims Procedure	17
3.2 Classification of Creditors	18
3.3 Creditors' Meetings	18
3.4 Treatment of Affected Claims	18
3.5 Unaffected Claims	19
3.6 Disputed Distribution Claims	20
3.7 Director/Officer Claims	21
3.8 Extinguishment of Claims.....	21
3.9 Guarantees and Similar Covenants	21
3.10 Set-Off	21
 ARTICLE 4 PROVISIONS REGARDING DISTRIBUTIONS AND PAYMENTS	 22
4.1 Distributions of New Cline Common Shares and New Secured Debt.....	22
4.2 Distribution Mechanics with respect to the Unsecured Plan Entitlement.....	22
4.3 Distribution Mechanics with respect to Convenience Claims	23
4.4 Distribution Mechanics with respect to the WARN Act Plan Entitlement.....	23
4.5 Modifications to Distribution Mechanics	24
4.6 Cancellation of Certificates and Notes	24
4.7 Currency.....	24
4.8 Interest	25
4.9 Allocation of Distributions	25
4.10 Treatment of Undeliverable Distributions	25
4.11 Withholding Rights.....	25
4.12 Fractional Interests.....	26
4.13 Calculations.....	26
 ARTICLE 5 RECAPITALIZATION	 26
5.1 Corporate Actions	26
5.2 Issuance of Plan Consideration.....	26
5.3 Sequence of Plan Implementation Date Transactions	27
5.4 Issuances Free and Clear.....	29
5.5 Stated Capital	29

ARTICLE 6 PROCEDURE FOR DISTRIBUTIONS REGARDING DISPUTED DISTRIBUTION CLAIMS	29
6.1 No Distribution Pending Allowance.....	29
6.2 Disputed Distribution Claims	29
ARTICLE 7 RELEASES	31
7.1 Plan Releases	31
7.2 Limitation on Insured Claims	32
7.3 Injunctions.....	32
ARTICLE 8 COURT SANCTION.....	33
8.1 Application for Sanction Order.....	33
8.2 Sanction Order	33
ARTICLE 9 CONDITIONS PRECEDENT AND IMPLEMENTATION.....	35
9.1 Conditions Precedent to Implementation of the Plan	35
9.2 Monitor’s Certificate.....	36
ARTICLE 10 GENERAL	37
10.1 Binding Effect.....	37
10.2 Waiver of Defaults.....	37
10.3 Deeming Provisions	37
10.4 Non-Consummation.....	38
10.5 Modification of the Plan	38
10.6 Marret and the Secured Noteholders.....	39
10.7 Paramountcy	39
10.8 Severability of Plan Provisions.....	40
10.9 Responsibilities of the Monitor.....	40
10.10 Different Capacities	40
10.11 Notices	40
10.12 Further Assurances.....	42

PLAN OF COMPROMISE AND ARRANGEMENT

WHEREAS Cline Mining Corporation (“**Cline**”), New Elk Coal Company LLC (“**New Elk**”) and North Central Energy Company (“**North Central**” and together with Cline and New Elk, the “**Applicants**”) are debtor companies under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”);

AND WHEREAS the Applicants have obtained an order (as may be amended, restated or varied from time to time, the “**Initial Order**”) of the Ontario Superior Court of Justice (the “**Court**”) under the CCAA (the date of such Initial Order being the “**Filing Date**”);

AND WHEREAS Marret Asset Management Inc. (“**Marret**”) exercises sole investment discretion and control over all of the beneficial holders of (i) the \$71,381,900 million aggregate principal amount of 10% senior secured notes due June 15, 2014 issued by Cline pursuant to the indenture dated December 13, 2011, as amended (the “**2011 Notes**”) and (ii) the \$12,340,998 aggregate principal amount of 10% senior secured notes due June 15, 2014 issued by Cline pursuant to the indenture dated July 8, 2013, as amended (the “**2013 Notes**”, and collectively with the 2011 Notes, the “**Secured Notes**”);

AND WHEREAS the Applicants have developed a recapitalization transaction (the “**Recapitalization**”) as set forth herein, and Marret (on behalf of all of the beneficial holders of the Secured Notes) has agreed to support the terms of the Recapitalization;

AND WHEREAS the Applicants file this consolidated plan of compromise and arrangement with the Court pursuant to the CCAA and hereby propose and present the plan of compromise and arrangement to the Secured Noteholders Class, the Affected Unsecured Creditors Class and the WARN Act Plaintiffs Class (each as defined below) under and pursuant to the CCAA.

ARTICLE 1 INTERPRETATION

1.1 Definitions

In the Plan, unless otherwise stated or unless the subject matter or context otherwise requires:

“**2011 Indenture**” means the note indenture dated December 13, 2011 that was entered into between Cline, Marret and the 2011 Trustee in connection with the issuance of the 2011 Notes, as amended from time to time.

“**2011 Noteholders**” means the holders of the 2011 Notes, and “**2011 Noteholder**” means any one of them.

“**2011 Trustee**” means the Indenture Trustee, Computershare Trust Company of Canada, specifically in its capacity as trustee in respect of the 2011 Secured Notes under the 2011 Indenture.

- 2 -

“2013 Indenture” means the note indenture dated July 8, 2013 that was entered into between Cline, Marret and the 2013 Trustee in connection with the issuance of the 2013 Notes, as amended from time to time.

“2013 Noteholders” means the holders of the 2013 Notes, and **“2013 Noteholder”** means any one of them.

“2013 Trustee” means the Indenture Trustee, Computershare Trust Company of Canada, specifically in its capacity as trustee in respect of the 2013 Secured Notes under the 2013 Indenture.

“Affected Claim” means any Claim that is not an Unaffected Claim, and, for greater certainty, includes any Secured Noteholder Claim, Affected Unsecured Claim, WARN Act Claim and Equity Claim.

“Affected Creditor” means any Creditor with an Affected Claim, but only with respect to and to the extent of such Affected Claim.

“Affected Unsecured Claims” means all Claims against one or more of the Applicants that are not secured by a valid security interest over assets or property of the Applicants and that are not (i) Unaffected Claims, (ii) the Claims comprising the Secured Noteholders Allowed Secured Claim, (iii) WARN Act Claims or (iv) Equity Claims; and, for greater certainty, the Affected Unsecured Claims shall include the Secured Noteholders Allowed Unsecured Claim, the Marret Unsecured Claim and any portion of any other Affected Claim that is secured but in respect of which there is a deficiency in the realizable value of the security held in respect of such Claim relative to the amount of such Claim.

“Affected Unsecured Creditor” means any holder of an Affected Unsecured Claim, but only with respect to and to the extent of such Affected Unsecured Claim.

“Affected Unsecured Creditors Class” means the class of Affected Unsecured Creditors entitled to vote on the Plan at the Unsecured Creditors Meeting in accordance with the terms of the Meetings Order.

“Agreed Number” means, with respect to the New Cline Common Shares, that number of New Cline Common Shares to be issued on the Plan Implementation Date pursuant to the Plan as agreed to by the Applicants, the Monitor and Marret (on behalf of the Secured Noteholders).

“Allowed” means, with respect to a Claim, any Claim or any portion thereof that has been finally allowed as a Distribution Claim (as defined in the Claims Procedure Order) for purposes of receiving distributions under the Plan in accordance with the Claims Procedure Order or a Final Order of the Court.

“Applicable Law” means any law, statute, order, decree, judgment, rule regulation, ordinance or other pronouncement having the effect of law whether in Canada, the United States or any other country, or any domestic or foreign state, county, province, city or other political subdivision of any Governmental Entity.

“Articles” means the articles and/or the notice of articles of Cline, as applicable.

- 3 -

“**Assessments**” has the meaning ascribed thereto in the Claims Procedure Order.

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended.

“**Business Day**” means a day, other than Saturday, Sunday or a statutory holiday, on which banks are generally open for business in Toronto, Ontario and New York, New York.

“**Canadian Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**CCAA**” has the meaning ascribed thereto in the recitals.

“**CCAA Proceeding**” means the proceeding commenced by the Applicants pursuant to the CCAA.

“**CDS**” means CDS Clearing and Depository Services Inc. or any successor thereof.

“**CDS Participants**” means CDS participant holders of the 2011 Notes and the 2013 Notes.

“**Chapter 15**” means Chapter 15, Title 11 of the United States Code.

“**Chapter 15 Proceeding**” means the proceeding to be commenced by the foreign representative of the Applicants pursuant to Chapter 15.

“**Charges**” means the Administration Charge and the Directors’ Charge, each as defined in the Initial Order.

“**Claim**” means:

- (a) any right or claim of any Person against any of the Applicants, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind whatsoever of any such Applicant in existence on the Filing Date, and costs payable in respect thereof to and including the Filing Date, whether or not such right or claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known, or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including any Assessment and any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation is based in whole or in part on facts which existed prior to the Filing Date and any other claims that would have been claims provable in bankruptcy had such Applicant become bankrupt on the Filing Date, including for greater certainty any Equity Claim and any claim against any of the Applicants for indemnification by any Director or Officer in respect of a Director/Officer Claim (but excluding any such claim for indemnification that is covered by the Directors’ Charge (as defined in the Initial Order)); and

- 4 -

- (b) any right or claim of any Person against any of the Applicants in connection with any indebtedness, liability or obligation of any kind whatsoever owed by any such Applicant to such Person arising out of the restructuring, disclaimer, resiliation, termination or breach by such Applicant on or after the Filing Date of any contract, lease or other agreement whether written or oral and includes any other right or claim that is to be treated as a Restructuring Period Claim under the Plan,

provided that, for greater certainty, the definition of “Claim” herein shall not include any Director/Officer Claim.

“**Claims Bar Date**” has the meaning ascribed thereto in the Claims Procedure Order.

“**Claims Procedure Order**” means the Order under the CCAA establishing a claims procedure in respect of the Applicants, as same may be further amended, restated or varied from time to time.

“**Cline Common Shares**” means the common shares in the capital of Cline designated as Common Shares in the Notice of Articles of Cline.

“**Cline Companies**” means Cline, New Elk, North Central Energy Company, Raton Basin Analytical, LLC.

“**Company Advisors**” means Goodmans LLP, Moelis & Company and Aab & Botts, LLC.

“**Consolidation Ratio**” means, with respect to the Cline Common Shares, the ratio by which Cline Common Shares outstanding on the Plan Implementation Date at the relevant time (including, for the avoidance of doubt, any Cline Common Shares that are Existing Cline Shares and any Cline Common Shares that are New Cline Common Shares issued pursuant to the Plan) are consolidated pursuant to the Plan, as agreed by the Applicants, the Monitor and Marret (on behalf of the Secured Noteholders).

“**Convenience Claim**” means any Affected Unsecured Claim that is not more than \$10,000, provided that (i) no Claims of the Secured Noteholders shall constitute Convenience Claims; (ii) Creditors shall not be entitled to divide a Claim for the purpose of qualifying such Claim as a Convenience Claim; (iii) no Restructuring Period Claim referred to in section 3.5(d)(i) shall constitute a Convenience Claim, and (iv) for greater certainty, none of the WARN Act Claims shall constitute Convenience Claims.

“**Convenience Creditor**” means an Affected Unsecured Creditor having a Convenience Claim.

“**Court**” has the meaning ascribed thereto in the recitals.

“**Creditor**” means any Person having a Claim, but only with respect to and to the extent of such Claim, including the transferee or assignee of a transferred Claim that is recognized as a Creditor in accordance with the Claims Procedure Order or a trustee, executor, liquidator, receiver, receiver and manager, or other Person acting on behalf of or through such Person.

“**Directors**” means all current and former directors (or their estates) of the Applicants, in such capacity, and “**Director**” means any one of them.

- 5 -

“Director/Officer Claim” means any right or claim of any Person against one or more of the Directors and/or Officers howsoever arising, whether or not such right or claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known, or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, including any right of contribution or indemnity, for which any Director or Officer is alleged to be, by statute or otherwise by law or equity, liable to pay in his or her capacity as a Director or Officer.

“Disputed Distribution Claim” means an Affected Unsecured Claim or a WARN Act Claim (including a contingent Affected Unsecured Claim or WARN Act Claim that crystallizes upon the occurrence of an event or events occurring after the Filing Date) or such portion thereof that has not been Allowed, which is validly disputed for distribution purposes in accordance with the Claims Procedure Order and that remains subject to adjudication for distribution purposes in accordance with the Claims Procedure Order.

“Disputed Distribution Claims Reserve” means the reserve, if any, to be established by Cline, which shall be comprised of the following:

- (a) in respect of Affected Unsecured Claims that are Disputed Distribution Claims and are not Convenience Claims, an amount reserved on the Unsecured Plan Entitlement Date equal to the Unsecured Plan Entitlement Proceeds that would have been paid in respect of such Disputed Distribution Claims on the Unsecured Plan Entitlement Date if such Disputed Distribution Claims had been Allowed Claims as of the Promissory Note Maturity Date
- (b) in respect of Affected Unsecured Claims that are Disputed Distribution Claims and that are Convenience Claims, an amount reserved on the Plan Implementation Date equal to the amount that would have been paid in respect of such Disputed Distribution Claims on the Plan Implementation Date if such Disputed Distribution Claims had been Allowed Claims as of the Plan Implementation Date, and
- (c) in respect of WARN Act Claims that are Disputed Distribution Claims, an amount reserved on the WARN Act Plan Entitlement Date equal to the WARN Act Plan Entitlement Proceeds that would have been paid in respect of such Disputed Distribution Claims on the WARN Act Plan Entitlement Date if such Disputed Distribution Claims had been Allowed Claims as of the WARN Act Plan Entitlement Date.

“Distribution Date” means the date or dates from time to time set in accordance with the provisions of the Plan to effect distributions in respect of the Allowed Claims, excluding the Initial Distribution Date, and (i) in the case of distributions of Unsecured Plan Entitlement Proceeds, means the Unsecured Plan Entitlement Date or such later date from time to time established in accordance with the provisions of the Plan if any Affected Unsecured Claim is a Disputed Distribution Claim on the Unsecured Plan Entitlement Date; and (ii) in the case of

- 6 -

distributions of WARN Act Plan Entitlement Proceeds, means the WARN Act Plan Entitlement Date or such later date from time to time established in accordance with the provisions of the Plan if any WARN Act Claim is a Disputed Distribution Claim on the WARN Act Plan Entitlement Date.

“**Effective Time**” means 12:01 a.m. (Toronto time) on the Plan Implementation Date or such other time on such date as the Applicants may determine.

“**Employee Priority Claims**” means the following Claims of Employees and former employees of the Applicants:

- (a) Claims equal to the amounts that such Employees and former employees would have been entitled to receive under paragraph 136(1)(d) of the *Bankruptcy and Insolvency Act* (Canada) if the applicable Applicant had become bankrupt on the Filing Date; and
- (b) Claims for wages, salaries, commissions or compensation for services rendered by such Employees and former employees after the Filing Date and on or before the Plan Implementation Date together with, in the case of travelling salespersons, disbursements properly incurred by them in and about the Applicants’ business during the same period.

“**Employees**” means any and all (a) employees of the Applicants who are actively at work (including full-time, part-time or temporary employees) and (b) employees of the Applicants who are on approved leaves of absence (including maternity leave, parental leave, short-term disability leave, workers’ compensation and other statutory leaves), and who have not tendered notice of resignation as of the Filing Date, in each case.

“**Encumbrance**” means any charge, mortgage, lien, pledge, claim, restriction, hypothec, adverse interest, security interest or other encumbrance whether created or arising by agreement, statute or otherwise at law, attaching to property, interests or rights and shall be construed in the widest possible terms and principles known under the law applicable to such property, interests or rights and whether or not they constitute specific or floating charges as those terms are understood under the laws of the Province of Ontario.

“**Equity Claim**” means a Claim that meets the definition of “equity claim” in section 2(1) of the CCAA.

“**Equity Claimants**” means any Person with an Equity Claim or holding an Equity Interest, but only in such capacity, and for greater certainty includes the Existing Cline Shareholders in their capacity as such.

“**Equity Interests**” has the meaning ascribed thereto in section 2(1) of the CCAA and, for greater certainty, includes the Existing Cline Shares, the Existing New Elk Units, the Existing North Central Shares, the Existing Options and any other interest in or entitlement to shares or units in the capital of the Applicants but, for greater certainty, does not include the New Cline Common Shares issued on the Plan Implementation Date in accordance with the Plan.

- 7 -

“Existing Cline Shareholder” means any Person who holds, is entitled to or has any rights in or to the Existing Cline Shares or any shares in the authorized capital of Cline immediately prior to the Effective Time, but only in such capacity, and for greater certainty does not include any Person that is issued New Cline Common Shares on the Plan Implementation Date.

“Existing Cline Shares” means all shares in the capital of Cline that are issued and outstanding immediately prior to the Effective Time.

“Existing New Elk Units” means all units in the capital of New Elk that are issued and outstanding immediately prior to the Effective Time.

“Existing North Central Shares” means all shares in the capital of North Central that are issued and outstanding immediately prior to the Effective Time.

“Existing Options” means any options, warrants (including the Warrants), conversion privileges, puts, calls, subscriptions, exchangeable securities, or other rights, entitlements, agreements, arrangements or commitments (pre-emptive, contingent or otherwise) obligating any of the Applicants to issue, acquire or sell shares or units in the capital of the Applicants or to purchase any shares, units, securities, options or warrants, or any securities or obligations of any kind convertible into or exchangeable for shares or units in the capital of the Applicants, in each case that are existing or issued and outstanding immediately prior to the Effective Time, including any options to acquire shares, units or other equity securities of the Applicants issued under the Stock Option Plans, any warrants exercisable for common shares, units or other equity securities of the Applicants (including the Warrants), any put rights exercisable against the Applicants in respect of any shares, units, options, warrants or other securities, and any rights, entitlements or other claims of any kind to receive any other form of consideration in respect of any prior or future exercise of any of the foregoing.

“Filing Date” has the meaning ascribed thereto in the recitals.

“Final Order” means any order, ruling or judgment of the Court, or any other court of competent jurisdiction, (i) that is in full force and effect; (ii) that has not been reversed, modified or vacated and is not subject to any stay and (iii) in respect of which all applicable appeal periods have expired and any appeals therefrom have been finally disposed of, leaving such order, ruling or judgment wholly operable.

“Fractional Interests” has the meaning given in section 4.12 hereof.

“Government Priority Claims” means all Claims of Governmental Entities against any of the Applicants in respect of amounts that are outstanding and that are of a kind that could be subject to a demand under:

- (a) subsections 224(1.2) of the Canadian Tax Act;
- (b) any provision of the Canada Pension Plan or the *Employment Insurance Act* (Canada) that refers to subsection 224(1.2) of the Canadian Tax Act and provides for the collection of a contribution, as defined in the Canada Pension Plan, or employee’s premium or employer’s premium as defined in the *Employment*

- 8 -

Insurance Act (Canada), or a premium under Part VII. I of that Act, and of any related interest, penalties or other amounts; or

- (c) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the Canadian Tax Act, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:
- (i) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the Canadian Tax Act; or
 - (ii) is of the same nature as a contribution under the Canada Pension Plan if the province is a “province providing a comprehensive pension plan” as defined in subsection 3(1) of the Canada Pension Plan and the provincial legislation establishes a “provincial pension plan” as defined in that subsection.

“**Governmental Entity**” means any government, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, board, tribunal or dispute settlement panel or other law, rule or regulation-making organization or entity: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory or state or any other geographic or political subdivision of any of them; or (b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power.

“**Indentures**” means, collectively, the 2011 Indenture and the 2013 Indenture.

“**Indenture Trustee**” means Computershare Trust Company of Canada, as trustee in respect of the Secured Notes under the Indentures.

“**Individual Unsecured Plan Entitlement**” means, with respect to each Affected Unsecured Creditor with an Allowed Affected Unsecured Claim that is not a Convenience Creditor and that is not a Secured Noteholder, its entitlement to receive its respective individual portion of the Unsecured Plan Entitlement Proceeds payable on the Unsecured Plan Entitlement Date, the quantum of which entitlement shall be calculated as follows at the relevant time:

- (A) the Allowed Affected Unsecured Claim of such Affected Unsecured Creditor

divided by

- (B) the total amount of all Allowed Affected Unsecured Claims and Disputed Distribution Claims of Affected Unsecured Creditors less the Secured Noteholders Allowed Unsecured Claim less the Marret Unsecured Claim less the amount of all Convenience Claims

multiplied by

- (C) \$225,000.

- 9 -

“Individual WARN Act Plan Entitlement” means with respect to each WARN Act Plaintiff with an Allowed WARN Act Claim, its entitlement to receive its individual WARN Act Plaintiff’s Pro-Rata Share of the WARN Act Plan Entitlement Proceeds payable on the WARN Act Plan Entitlement Date.

“Information Statement” means the information statement to be distributed by the Applicants concerning the Plan, the Meetings and the hearing in respect of the Sanction Order, as contemplated in the Meetings Order.

“Initial Distribution Date” means a date no more than two (2) Business Days after the Plan Implementation Date or such other date as the Applicants and the Monitor may agree.

“Initial Order” has the meaning ascribed thereto in the recitals.

“Insurance Policy” means any insurance policy maintained by any of the Applicants pursuant to which any of the Applicants or any Director or Officer is insured.

“Insured Claim” means all or that portion of a Claim arising from a cause of action for which the applicable insurer or a court of competent jurisdiction has definitively and unconditionally confirmed that the applicable Applicant is insured under an Insurance Policy, to the extent that such Claim, or portion thereof, is so insured.

“Intercompany Claim” means any Claim by any Applicant against another Applicant.

“Marret” has the meaning ascribed to it in the recitals.

“Marret Unsecured Claim” means all Claims of Marret, in its individual corporate capacity and not on behalf of the Secured Noteholders, against one or more of the Applicants, if any, including any secured Claims of Marret, in such capacity, in respect of which there is a deficiency in the realizable value of the security held by Marret relative to the amount of such secured Claim.

“Material” means a fact, circumstance, change, effect, matter, action, condition, event, occurrence or development that, individually or in the aggregate, is, or would reasonably be expected to be, material to the business, affairs, results of operations or financial condition of the Applicants (taken as a whole).

“Meeting Date” means the date on which the Meetings are held in accordance with the Meetings Order.

“Meetings” means, collectively, the Secured Noteholders Meeting, the Unsecured Creditors Meeting and the WARN Act Plaintiffs Meeting.

“Meetings Order” means the Order under the CCAA that, among other things, sets the date for the Meetings, as same may be amended, restated or varied from time to time.

“Monitor” means FTI Consulting Canada Inc., as Court-appointed Monitor of the Applicants in the CCAA Proceeding.

- 10 -

“**Monitor’s Website**” means <http://cfcanada.fticonsulting.com/cline>

“**New Cline Common Shares**” means the new Cline Common Shares to be issued pursuant to section 5.2(1) hereof.

“**New Credit Agreement**” means the credit agreement in respect of the New Secured Debt dated as of the Plan Implementation Date among Cline, as borrower, New Elk and North Central, as guarantors, and the New Secured Debt Agent.

“**New Secured Debt**” means the new secured indebtedness of Cline, which is to be guaranteed by New Elk and North Central, to be established on the Plan Implementation Date pursuant to section 5.2(2) hereof, the terms of which shall be consistent with the summary of terms set forth in Schedule “A” and which shall be governed by the New Credit Agreement.

“**New Secured Debt Agent**” means Marret Asset Management Inc., in its capacity as administrative and collateral agent under the New Credit Agreement.

“**Noteholder Advisors**” means Davies Ward Phillips & Vineberg LLP.

“**Notice of Claim**” has the meaning ascribed thereto in the Claims Procedure Order.

“**Officers**” means all current and former officers (or their estates) of the Applicants, in such capacity, and “**Officer**” means any one of them.

“**Order**” means any order of the Court made in connection with the CCAA Proceeding and any order of the U.S. Court made in connection with the Chapter 15 Proceeding.

“**Person**” means any individual, firm, corporation, limited or unlimited liability company, general or limited partnership, association, trust, unincorporated organization, joint venture, government or any agency, officer or instrumentality thereof or any other entity.

“**Plan**” means the Plan of Compromise and Arrangement filed by the Applicants pursuant to the CCAA, as it may be amended, supplemented or restated from time to time in accordance with the terms hereof.

“**Plan Implementation Date**” means the Business Day on which the Plan becomes effective, which shall be the Business Day on which, pursuant to section 9.2, the Applicants and Marret (on behalf of the Secured Noteholders) or their respective counsel deliver written notice to the Monitor (or its counsel) that the conditions set out in section 9.1 have been satisfied or waived in accordance with the terms hereof.

“**Post-Filing Trade Payables**” means trade payables that were incurred by any of the Applicants (a) after the Filing Date but before the Plan Implementation Date; and (b) in compliance with the Initial Order and other Orders issued in connection with the CCAA Proceeding and the Chapter 15 Proceeding.

“**Prior Ranking Secured Claims**” means Allowed Claims existing on both the Filing Date and the Plan Implementation Date, other than Government Priority Claims, Employee Priority Claims, and Claims secured by the Charges, that (a) are secured by a valid, perfected and

- 11 -

enforceable security interest in, mortgage, encumbrance or charge over, lien against or other similar interest in, any of the assets that any of the Applicants owns or to which any of the Applicants is entitled, but only to the extent of the realizable value of the property subject to such security; and (b) would have ranked senior in priority to the Secured Noteholders Allowed Secured Claim if the Applicants had become bankrupt on the Filing Date, but only to the extent that it would have ranked senior in priority, including any Allowed Claims relating to the security registrations listed on Schedule "A" to the Initial Order, which, for greater certainty, includes the registration in favour of Bank of Montreal/Banque de Montreal listed thereon, to the extent that such Claims satisfy the terms of this definition.

"Proof of Claim" has the meaning ascribed thereto in the Claims Procedure Order.

"Recapitalization" means the transactions contemplated by the Plan.

"Released Claims" has the meaning ascribed thereto in section 7.1.

"Released Director/Officer Claim" means any Director/Officer Claim that is released pursuant to section 7.1.

"Released Party" and **"Released Parties"** have the meaning ascribed thereto in section 7.1.

"Restructuring Period Claim" has the meaning ascribed thereto in the Claims Procedure Order.

"Required Majorities" means with respect to each Voting Class, a majority in number of Affected Creditors representing at least two thirds in value of the Voting Claims of Affected Creditors, in each case who are entitled to vote at the Meetings in accordance with the Meetings Order and who are present and voting in person or by proxy on the resolution approving the Plan at the applicable Meeting.

"Sanction Order" means the Order of the Court sanctioning and approving the Plan.

"Secured Noteholders" means the holders of the Secured Notes, and **"Secured Noteholder"** means any one of them.

"Secured Noteholders Allowed Claim" has the meaning ascribed thereto in the Claims Procedure Order, and the aggregate amount of such Claim is \$110,173,897.

"Secured Noteholders Allowed Secured Claim" has the meaning ascribed thereto in the Claims Procedure Order, and, for the purpose of voting at the Secured Noteholders Meeting and receiving distributions under the Plan, the aggregate amount of such Claims is \$92,673,897.

"Secured Noteholders Allowed Unsecured Claim" has the meaning ascribed thereto in the Claims Procedure Order, and, for the purpose of voting at the Unsecured Creditors Meeting, the aggregate amount of such Claims is \$17,500,000.

"Secured Noteholders Class" means the class of Secured Noteholders collectively holding the Secured Noteholders Allowed Secured Claim entitled to vote on this Plan at the Secured Noteholders Meeting in accordance with the terms of the Meetings Order.

- 12 -

“**Secured Noteholders Meeting**” means the meeting of the Secured Noteholders Class to be held on the Meeting Date for the purpose of considering and voting on the Plan pursuant to the CCAA and includes any adjournment, postponement or other rescheduling of such meeting in accordance with the Meetings Order.

“**Secured Noteholder’s Share**” means, with respect to each Secured Noteholder, either: (i) the principal amount of Secured Notes held by such Secured Noteholder as at the Filing Date divided by the total aggregate principal amount of all Secured Notes as at the Filing Date; or (ii) such other proportionate share as may be agreed by the Applicants, Marret (on behalf of the Secured Noteholders) and the Monitor and as confirmed by Marret (on behalf of the Secured Noteholders) to the Indenture Trustee in writing.

“**Secured Note Obligations**” means all obligations, liabilities and indebtedness of the Applicants or any of the Cline Companies (whether as guarantor, surety or otherwise) to the Indenture Trustee, the Secured Noteholders and/or Marret (whether on behalf of the Secured Noteholders or in its individual corporate capacity) under, arising out of or in connection with the Secured Notes, the Indentures or the guarantees granted in connection with any of the foregoing as well as any other agreements or documents relating thereto as at the Plan Implementation Date.

“**Secured Notes**” has the meaning ascribed thereto in the recitals.

“**Stock Option Plans**” means any options plans, stock-based compensation plans or other obligations of any of the Applicants in respect of shares, options or warrants for equity in any of the Cline Companies, in each case as such plans or other obligations may be amended, restated or varied from time to time in accordance with the terms thereof.

“**Tax**” or “**Taxes**” means any and all federal, provincial, state, municipal, local, Canadian, U.S. and foreign taxes, assessments, reassessments and other governmental charges, duties, impositions and liabilities including for greater certainty taxes based upon or measured by reference to income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, value-added, excise, withholding, business, franchising, property, development, occupancy, employer health, payroll, employment, health, social services, education and social security taxes, all surtaxes, all customs duties and import and export taxes, all licence, franchise and registration fees and all employment insurance, health insurance and federal, provincial, state, municipal, local, Canadian, U.S., foreign and other government pension plan premiums or contributions, together with all interest, penalties, fines and additions with respect to such amounts.

“**Taxing Authorities**” means any one of Her Majesty the Queen, Her Majesty the Queen in right of Canada, Her Majesty the Queen in right of any province or territory of Canada, the Canada Revenue Agency, any similar revenue or taxing authority of Canada and each and every province or territory of Canada and any political subdivision thereof, the United States Internal Revenue Service, any similar revenue or taxing authority of the United States and each and every state of the United States, and any Canadian, American or other government, regulatory authority, government department, agency, commission, bureau, minister, court, tribunal or body or regulation making entity exercising taxing authority or power, and “**Taxing Authority**” means any one of the Taxing Authorities.

- 13 -

“Unaffected Claim” means any:

- (a) Claim secured by any of the Charges;
- (b) Insured Claim;
- (c) Intercompany Claim;
- (d) Post-Filing Trade Payable;
- (e) Unaffected Secured Claim;
- (f) Claim by an Unaffected Trade Creditor arising from an Unaffected Trade Claim;
- (g) Claim that is not permitted to be compromised pursuant to section 19(2) of the CCAA;
- (h) Employee Priority Claims; and
- (i) Government Priority Claims.

“Unaffected Creditor” means a Creditor who has an Unaffected Claim, but only in respect of and to the extent of such Unaffected Claim.

“Unaffected Secured Claims” means: (i) the Prior Ranking Secured Claims; and (ii) all other Claims against one or more of the Applicants that (a) are secured by a valid security interest over assets or property of the Applicants and (b) the Applicants have identified to the Monitor in writing prior to the Plan Implementation Date as Unaffected Claims under the Plan.

“Unaffected Trade Claim” means an Allowed Claim of an Unaffected Trade Creditor that (i) is not a Post-Filing Trade Payable, (ii) arises out of or in connection with any contract, license, lease, agreement, obligation, arrangement or document with any of the Applicants related to the business of the Applicants and (iii) the Applicants have identified to the Monitor in writing prior to the Plan Implementation Date as an Unaffected Claim.

“Unaffected Trade Creditor” means any Person that has been designated by the Applicants, with the consent of the Monitor, as a critical supplier in accordance with the Initial Order.

“Undeliverable Distribution” has the meaning ascribed thereto in section 4.10 hereof.

“Unsecured Creditors Meeting” means a meeting of Affected Unsecured Creditors to be held on the Meeting Date called for the purpose of considering and voting on the Plan pursuant to the CCAA, and includes any adjournment, postponement or other rescheduling of such meeting in accordance with the Meetings Order.

“Unsecured Plan Entitlement” means an unsecured, non-interest-bearing entitlement of the Affected Unsecured Creditors, other than Convenience Creditors, with Allowed Affected Unsecured Claims to receive \$225,000 in cash (collectively, and not individually) from Cline on the date that is eight years from the Plan Implementation Date, which entitlement shall be

- 14 -

subordinated to all present and future secured indebtedness and obligations of Cline and may be paid by Cline at any time without penalty.

“Unsecured Plan Entitlement Date” means the earlier of the date that is eight years following the Plan Implementation Date and the date on which the Unsecured Plan Entitlement is paid by Cline.

“Unsecured Plan Entitlement Proceeds” means the amounts payable to the beneficiaries of the Unsecured Plan Entitlement on the Unsecured Plan Entitlement Date.

“U.S. Court” means the United States Bankruptcy Court for the District of Colorado.

“Voting Claims” means any Claim or portion thereof that has been finally allowed as a Voting Claim (as defined in the Claims Procedure Order) for purposes of voting at a Meeting in accordance with the Claims Procedure Order or a Final Order of the Court.

“Voting Classes” means the Secured Noteholders Class, the Affected Unsecured Creditors Class and the WARN Act Plaintiffs Class.

“WARN Act” means the U.S. federal Worker Adjustment and Retraining Notification Act of 1988 (29 U.S.C. §§ 2101 – 2109).

“WARN Act Claim” means any Claim against any of the Applicants advanced by the WARN Act Plaintiffs in the WARN Act Class Action and any other Claims of individuals similarly situated to the WARN Act Plaintiffs that may be asserted against any of the Applicants pursuant to the WARN Act.

“WARN Act Class Action” means the class action lawsuit filed against Cline and New Elk by the WARN Act Plaintiffs in the United States District Court for the District of Colorado, Case Number 1:13-CV-00277, as amended.

“WARN Act Plaintiffs” means the plaintiffs in the WARN Act Class Action and all others who are alleged in the WARN Act Class Action to be similarly situated, and any other individual who is similarly situated to the plaintiffs in the WARN Act Class Action who asserts Claims against any of the Applicants pursuant to the WARN Act.

“WARN Act Plaintiffs Class” means the class of WARN Act Plaintiffs entitled to vote on the Plan at the WARN Act Plaintiffs Meeting in accordance with the terms of the Meetings Order.

“WARN Act Plaintiffs Meeting” means a meeting of WARN Act Plaintiffs Class to be held on the Meeting Date called for the purpose of considering and voting on the Plan pursuant to the CCAA, and includes any adjournment, postponement or other rescheduling of such meeting in accordance with the Meetings Order.

“WARN Act Plaintiff’s Pro-Rata Share” means, at the relevant time, with respect to each WARN Act Plaintiff, (x) the Allowed WARN Act Claim of such WARN Act Plaintiff divided by (y) the total amount of all Allowed WARN Act Claims and Disputed Distribution Claims of WARN Act Plaintiffs.

- 15 -

“WARN Act Plan Entitlement” means the unsecured, non-interest-bearing entitlement of the WARN Act Plaintiffs with Allowed WARN Act Claims to receive \$100,000 in cash (collectively, and not individually) from Cline on the date that is eight years from the Plan Implementation Date, which entitlement shall be subordinated to all present and future secured indebtedness and obligations of Cline and may be paid by Cline at any time without penalty.

“WARN Act Plan Entitlement Date” means the earlier of the date that is eight years following the Plan Implementation Date and the date on which the WARN Act Plan Entitlement is paid by Cline.

“WARN Act Plan Entitlement Proceeds” means the amounts payable to the beneficiaries of the WARN Act Plan Entitlement on the WARN Act Plan Entitlement Date.

“Warrants” means all warrants, options, rights or entitlements for the purchase of Cline Common Shares that are issued and outstanding immediately prior to the Effective Time.

1.2 Certain Rules of Interpretation

For the purposes of the Plan:

- (a) any reference in the Plan to a contract, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions;
- (b) any reference in the Plan to an Order or an existing document or exhibit filed or to be filed means such Order, document or exhibit as it may have been or may be amended, modified, or supplemented;
- (c) unless otherwise specified, all references to currency are in Canadian dollars;
- (d) the division of the Plan into “articles” and “sections” and the insertion of a table of contents are for convenience of reference only and do not affect the construction or interpretation of the Plan, nor are the descriptive headings of “articles” and “sections” intended as complete or accurate descriptions of the content thereof;
- (e) the use of words in the singular or plural, or with a particular gender, including a definition, shall not limit the scope or exclude the application of any provision of the Plan or a schedule hereto to such Person (or Persons) or circumstances as the context otherwise permits;
- (f) the words “includes” and “including” and similar terms of inclusion shall not, unless expressly modified by the words “only” or “solely”, be construed as terms of limitation, but rather shall mean “includes but is not limited to” and “including but not limited to”, so that references to included matters shall be regarded as illustrative without being either characterizing or exhaustive;

- 16 -

- (g) unless otherwise specified, all references to time herein and in any document issued pursuant hereto mean local time in Toronto, Ontario and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. (Toronto time) on such Business Day;
- (h) unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next succeeding Business Day if the last day of the period is not a Business Day;
- (i) unless otherwise provided, any reference to a statute or other enactment of parliament or a legislature includes all regulations made thereunder, all amendments to or re-enactments of such statute or regulations in force from time to time, and, if applicable, any statute or regulation that supplements or supersedes such statute or regulation; and
- (j) references to a specified “article” or “section” shall, unless something in the subject matter or context is inconsistent therewith, be construed as references to that specified article or section of the Plan, whereas the terms “the Plan”, “hereof”, “herein”, “hereto”, “hereunder” and similar expressions shall be deemed to refer generally to the Plan and not to any particular “article”, “section” or other portion of the Plan and include any documents supplemental hereto.

1.3 Successors and Assigns

The Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person or party directly or directly named or referred to in or subject to Plan.

1.4 Governing Law

The Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. All questions as to the interpretation of or application of the Plan and all proceedings taken in connection with the Plan and its provisions shall be subject to the jurisdiction of the Court, provided that the Chapter 15 Proceeding shall be subject to the jurisdiction of the U.S. Court.

1.5 Schedules

The following are the Schedules to the Plan, which are incorporated by reference into the Plan and form a part of it:

- Schedule “A” New Secured Debt – Summary of Terms
- Schedule “B” Alternate Plan – Summary of Terms

- 17 -

ARTICLE 2 PURPOSE AND EFFECT OF THE PLAN

2.1 Purpose

The purpose of the Plan is:

- (a) to implement a recapitalization of the Applicants;
- (b) to provide for a settlement of, and consideration for, all Allowed Affected Claims;
- (c) to effect a release and discharge of all Affected Claims and Released Claims; and
- (d) to ensure the continuation of the Applicants,

in the expectation that the Persons who have a valid economic interest in the Applicants will derive a greater benefit from the implementation of the Plan than they would derive from a bankruptcy of the Applicants.

2.2 Persons Affected

The Plan provides for a full and final release and discharge of the Affected Claims and Released Claims, a settlement of, and consideration for, all Allowed Affected Claims and a recapitalization of the Applicants. The Plan will become effective at the Effective Time in accordance with its terms and in the sequence set forth in section 5.3 and shall be binding on and enure to the benefit of the Applicants, the Affected Creditors, the Released Parties and all other Persons directly or indirectly named or referred to in or subject to Plan.

2.3 Persons Not Affected

The Plan does not affect the Unaffected Creditors, subject to the express provisions hereof providing for the treatment of Insured Claims and the unsecured deficiency portion of Unaffected Secured Claims. Nothing in the Plan shall affect the Applicants' rights and defences, both legal and equitable, with respect to any Unaffected Claims including all rights with respect to legal and equitable defences or entitlements to set-offs or recoupments against such Unaffected Claims.

ARTICLE 3 CLASSIFICATION AND TREATMENT OF CREDITORS AND RELATED MATTERS

3.1 Claims Procedure

The procedure for determining the validity and quantum of the Affected Claims for voting and distribution purposes under the Plan shall be governed by the Claims Procedure Order, the Meetings Order, the CCAA, the Plan and any further Order of the Court.

3.2 Classification of Creditors

In accordance with the Meetings Order and subject to section 10.5(d) hereof, the classes of creditors for the purposes of considering and voting on the Plan will be (i) the Secured Noteholders Class, (ii) the Affected Unsecured Creditors Class and (iii) the WARN Act Plaintiffs Class. For greater certainty, Equity Claimants shall constitute a separate class but shall not be entitled to attend the Meetings, vote on the Plan or receive any distributions under or in respect of the Plan.

3.3 Creditors' Meetings

The Meetings shall be held in accordance with the Meetings Order and any further Order of the Court. The only Persons entitled to attend and vote at the Meetings are those specified in the Meetings Order.

3.4 Treatment of Affected Claims

An Affected Claim shall receive distributions as set forth below only to the extent that such Claim is an Allowed Affected Claim and has not been paid, released, or otherwise satisfied prior to the Plan Implementation Date.

(1) Secured Noteholders Class

In accordance with the steps and sequence set forth in section 5.3, under the supervision of the Monitor, and in full and final satisfaction of the Secured Noteholders Allowed Secured Claim, each Secured Noteholder will receive its Secured Noteholder's Share of the following consideration on the Plan Implementation Date:

- (a) the New Cline Common Shares issued on the Plan Implementation Date; and
- (b) the New Secured Debt.

The Claims comprising the Secured Noteholders Allowed Claim and the Secured Note Obligations shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date. For greater certainty, the Secured Noteholders Allowed Unsecured Claim, the Marret Unsecured Claim and any portion of any other Affected Claim that is validly secured but in respect of which there is a deficiency in the realizable value of the security held in respect of such Claim, shall be deemed to be and shall be treated as Allowed Affected Unsecured Claims notwithstanding that they are secured by a valid security interest over the assets or property of the Applicants.

(2) Affected Unsecured Creditors Class

In accordance with the steps and sequence set forth in section 5.3, under the supervision of the Monitor, and in full and final satisfaction of all Affected Unsecured Claims, each Affected Unsecured Creditor with an Allowed Affected Unsecured Claim will receive the following consideration:

- 19 -

- (a) with respect to Affected Unsecured Creditors with Allowed Affected Unsecured Claims that are not Convenience Creditors, each such Affected Unsecured Creditor shall become entitled on the Plan Implementation Date to its Individual Unsecured Plan Entitlement (which, for greater certainty, shall not be payable until the Unsecured Plan Entitlement Date); and
- (b) with respect to Convenience Creditors with Allowed Affected Unsecured Claims, each such Convenience Creditor shall receive a cash payment on the Plan Implementation Date equal to the lesser of (i) \$10,000; and (ii) the amount of its Allowed Affected Unsecured Claim.

The Secured Noteholders and Marret (on behalf of the Secured Noteholders and in its individual corporate capacity) hereby waive, and shall not receive, any distributions in respect of the Secured Noteholders Allowed Unsecured Claim and the Marret Unsecured Claim, respectively. All Affected Unsecured Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date.

(3) WARN Act Plaintiffs Class

In accordance with the steps and sequence set forth in section 5.3, under the supervision of the Monitor, and in full and final satisfaction of all WARN Act Claims, each WARN Act Plaintiff with an Allowed WARN Act Claim shall become entitled on the Plan Implementation Date to its Individual WARN Act Plan Entitlement (which, for greater certainty, shall not be payable until the WARN Act Plan Entitlement Date). All WARN Act Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date.

(4) Equity Claimants

Equity Claimants shall not receive any distributions or other consideration under the Plan or otherwise recover anything in respect of their Equity Claims or Equity Interests and shall not be entitled to attend or vote on the Plan at the Meetings. On the Plan Implementation Date, in accordance with the steps and sequences set out in section 5.3, all Equity Interests shall be cancelled and extinguished and all Equity Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred, provided that, notwithstanding anything to the contrary herein: (i) the Existing New Elk Units shall not be cancelled or extinguished and shall remain outstanding and shall remain solely owned by Cline following completion of the steps and sequences set out in section 5.3; and (ii) the Existing North Central Units shall not be cancelled or extinguished and shall remain outstanding and shall remain solely owned by New Elk following completion of the steps and sequences set out in section 5.3.

3.5 Unaffected Claims

- (a) Unaffected Claims shall not be compromised, released, discharged, cancelled or barred by the Plan.

- 20 -

- (b) Unaffected Creditors will not receive any consideration or distributions under the Plan in respect of their Unaffected Claims, and they shall not be entitled to vote on the Plan at the Meetings in respect of their Unaffected Claims.
- (c) Notwithstanding anything to the contrary herein, Insured Claims shall not be compromised, released, discharged, cancelled or barred by the Plan, provided that from and after the Plan Implementation Date, any Person having an Insured Claim shall be irrevocably limited to recovery in respect of such Insured Claim solely from the proceeds of the applicable Insurance Policies, and Persons with any Insured Claims shall have no right to, and shall not, directly or indirectly, make any claim or seek any recoveries from any Person, including any of the Applicants, any of the Cline Companies or any Released Party, other than enforcing such Person's rights to be paid by the applicable insurer(s) from the proceeds of the applicable Insurance Policies. This section 3.5(c) may be relied upon and raised or pled by any of the Applicants, any of the Cline Companies or any Released Party in defence or estoppel of or to enjoin any claim, action or proceeding brought in contravention of this section. Nothing in the Plan shall prejudice, compromise, release or otherwise affect any right or defence of any insurer in respect of an Insurance Policy or any insured in respect of an Insured Claim.
- (d) Notwithstanding anything to the contrary herein, in the case of Unaffected Secured Claims, at the election of the Applicants:
 - (i) the Applicants may satisfy any Unaffected Secured Claims by returning the applicable property of the Applicants that is secured as collateral for such Claims, in which case the Unaffected Secured Claim shall be deemed to be fully satisfied, provided that if the applicable Unaffected Secured Creditor asserts that there is a deficiency in the value of the applicable collateral relative the value of the Unaffected Secured Claim, such Creditor shall be permitted to file such unsecured deficiency Claim as a Restructuring Period Claim prior to the Restructuring Period Claims Bar Date (as defined in the Claims Procedure Order) in accordance with the Claims Procedure Order, and such unsecured deficiency Claim shall be treated as an Affected Unsecured Claim for the purpose of this Plan, the Meetings Order and all related matters; and
 - (ii) if the Applicants do not elect to satisfy an Unaffected Secured Claim in the manner described in section 3.5(d)(i), then such Unaffected Secured Claim shall continue unaffected as against the applicable Applicants following the Plan Implementation Date.

3.6 Disputed Distribution Claims

Any Affected Creditor with a Disputed Distribution Claim shall not be entitled to receive any distribution hereunder with respect to such Disputed Distribution Claim unless and until such Claim becomes an Allowed Affected Claim. A Disputed Distribution Claim shall be resolved in the manner set out in the Claims Procedure Order. Distributions pursuant to section 3.4 shall be

- 21 -

made in respect of any Disputed Distribution Claim that is finally determined to be an Allowed Affected Claim in accordance with the Claims Procedure Order.

3.7 Director/Officer Claims

All Released Director/Officer Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred without consideration on the Plan Implementation Date. Any Director/Officer Claim that is not a Released Director/Officer Claim will not be compromised, released, discharged, cancelled and barred. For greater certainty, any Claim of a Director or Officer against the Applicants for indemnification or contribution in respect of any Director/Officer Claim that is not otherwise covered by the Directors' Charge shall be treated for all purposes under the Plan as an Affected Unsecured Claim.

3.8 Extinguishment of Claims

On the Plan Implementation Date, in accordance with the terms and in the sequence set forth in section 5.3 and in accordance with the provisions of the Sanction Order, the treatment of Affected Claims and all Released Claims, in each case as set forth herein, shall be final and binding on the Applicants, all Affected Creditors and any Person having a Released Claim (and their respective heirs, executors, administrators, legal personal representatives, successors and assigns), and all Affected Claims and all Released Claims shall be fully, finally, irrevocably and forever released, discharged, cancelled and barred, and the Applicants and the Released Parties shall thereupon have no further obligation whatsoever in respect of the Affected Claims or the Released Claims; *provided that* nothing herein releases the Applicants or any other Person from their obligations to make distributions in the manner and to the extent provided for in the Plan and *provided further* that such discharge and release of the Applicants shall be without prejudice to the right of a Creditor in respect of a Disputed Distribution Claim to prove such Disputed Distribution Claim in accordance with the Claims Procedure Order so that such Disputed Distribution Claim may become an Allowed Claim entitled to receive consideration under section 3.4 hereof.

3.9 Guarantees and Similar Covenants

No Person who has a Claim under any guarantee, surety, indemnity or similar covenant in respect of any Claim that is compromised and released under the Plan or who has any right to claim over in respect of or to be subrogated to the rights of any Person in respect of a Claim that is compromised under the Plan shall be entitled to any greater rights than the Person whose Claim is compromised under the Plan.

3.10 Set-Off

The law of set-off applies to all Claims.

ARTICLE 4
PROVISIONS REGARDING DISTRIBUTIONS AND PAYMENTS

4.1 Distributions of New Cline Common Shares and New Secured Debt

- (a) Upon receipt of and in accordance with written instructions from the Monitor, the Indenture Trustee shall instruct CDS to, and CDS shall, block any further trading in the Secured Notes effective as of the close of business on the Business Day immediately prior to the Plan Implementation Date, all in accordance with the customary procedures of CDS.
- (b) The distribution mechanics with respect to the New Cline Common Shares and the Secured Noteholders' respective entitlements to the New Secured Debt in accordance with section 3.4(1) shall be agreed by the Applicants, Marret (on behalf of the Secured Noteholders) and the Monitor in writing, in consultation with the Indenture Trustee, if applicable, prior to the Plan Implementation Date. If it is deemed necessary by any of the Applicants, the Monitor or Marret (on behalf of the Secured Noteholders), any such party shall be entitled to seek an Order of the Court, in the Sanction Order or otherwise, providing advice and directions with respect to such distribution mechanics.
- (c) Except as may be otherwise agreed in writing by the Applicants and the Monitor, the Applicants and the Monitor shall have no liability or obligation in respect of deliveries of consideration issued under this Plan: (i) from Marret to any Secured Noteholder; (ii) from CDS, or its nominee, to CDS Participants, if applicable; (iii) from CDS Participants to beneficial holders of the Secured Notes, if applicable; or (iv) from the Indenture Trustee to beneficial holders of the Secured Notes, if applicable.

4.2 Distribution Mechanics with respect to the Unsecured Plan Entitlement

- (a) Each Affected Unsecured Creditor with an Allowed Affected Unsecured Claim, other than the Secured Noteholders and the Convenience Creditors, shall become entitled to its Individual Unsecured Plan Entitlement on the Plan Implementation Date without any further steps or actions by the Applicants, such Affected Unsecured Creditor or any other Person.
- (b) From and after the Plan Implementation Date, and until all Unsecured Plan Entitlement Proceeds have been distributed in accordance with the Plan, Cline shall maintain a register of the Individual Unsecured Plan Entitlements as well as the address and notice information set forth on each applicable Affected Unsecured Creditor's Notice of Claim or Proof of Claim. Any applicable Affected Unsecured Creditor whose address or notice information changes shall be solely responsible for notifying Cline of such change. Cline shall also record on the register the aggregate amount of any applicable Disputed Distribution Claims. Within ten (10) Business Days following the Plan Implementation Date, the Applicants shall notify each Affected Unsecured Creditor with an Allowed

- 23 -

Affected Unsecured Claim of such Affected Unsecured Creditor's Individual Unsecured Plan Entitlement as at the Plan Implementation Date.

- (c) On the Unsecured Plan Entitlement Date, Cline shall calculate the amount of the Unsecured Plan Entitlement Proceeds to be paid to each applicable Affected Unsecured Creditor with an Allowed Unsecured Claim. Cline shall also calculate the amount of the Unsecured Plan Entitlement Proceeds that are not to be distributed as a result of Disputed Distribution Claims that remain outstanding, if any. Cline shall then distribute the applicable amount by way of cheque sent by prepaid ordinary mail to each Affected Unsecured Creditor with an Allowed Affected Unsecured Claim (other than the Secured Noteholders and the Convenience Creditors who, for greater certainty, shall have no Individual Unsecured Plan Entitlement). With respect to any portion of the Unsecured Plan Entitlement Proceeds that are reserved in respect of Disputed Distribution Claims, Cline shall segregate such amounts to and hold such amounts in the Disputed Distribution Claims Reserve.

4.3 Distribution Mechanics with respect to Convenience Claims

On the Plan Implementation Date, under the supervision of the Monitor, Cline shall pay each Convenience Creditor with an Allowed Convenience Claim the amount that is required to be paid to each such Creditor under this Plan by way of cheque sent by prepaid ordinary mail to the address set forth on such Convenience Creditor's Notice of Claim or Proof of Claim. Under the supervision of the Monitor, Cline shall also calculate the aggregate amount of Convenience Claims that are Disputed Distribution Claims on the Plain Implementation Date and shall segregate such amounts and hold such amounts in the Disputed Distribution Claims Reserve.

4.4 Distribution Mechanics with respect to the WARN Act Plan Entitlement

- (a) Each WARN Act Plaintiff with an Allowed WARN Act Claim shall become entitled to its Individual WARN Act Plan Entitlement on the Plan Implementation Date without any further steps or actions by the Applicants, such WARN Act Plaintiffs or any other Person.
- (b) From and after the Plan Implementation Date, and until all WARN Act Plan Entitlement Proceeds have been distributed in accordance with the Plan, Cline shall maintain a register of the Individual WARN Act Plan Entitlements as well as the address and notice information set forth on each applicable WARN Act Plaintiff's Proof of Claim. Any applicable WARN Act Plaintiff whose address or notice information changes shall be solely responsible for notifying Cline of such change. Cline shall also record on the register the aggregate amount of any applicable Disputed Distribution Claims. Within ten (10) Business Days following the Plan Implementation Date, the Applicants shall notify each WARN Act Plaintiff with an Allowed WARN Act Claim of such WARN Act Plaintiff's WARN Act Plan Entitlement as at the Plan Implementation Date.

- 24 -

- (c) On the WARN Act Plan Entitlement Date, Cline shall calculate the amount of the WARN Act Plan Entitlement Proceeds to be paid to each applicable WARN Act Plaintiff with an Allowed WARN Act Claim. Cline shall also calculate the amount of the WARN Act Plan Entitlement Proceeds that are not to be distributed as a result of Disputed Distribution Claims that remain outstanding, if any. Cline shall then distribute the applicable amount by way of cheque sent by prepaid ordinary mail to each WARN Act Plaintiff with an Allowed WARN Act Claim. With respect to any portion of the WARN Act Plan Entitlement Proceeds that are reserved in respect of Disputed Distribution Claims, Cline shall segregate such amounts to and hold such amounts in the Disputed Distribution Claims Reserve.

4.5 Modifications to Distribution Mechanics

Subject to the consent of the Monitor, the Applicants shall be entitled to make such additions and modifications to the process for making distributions pursuant to the Plan (including the process for delivering and/or registering the New Cline Common Shares and/or the Secured Noteholders' respective entitlements to the New Secured Debt) as the Applicants deem necessary or desirable in order to achieve the proper distribution and allocation of consideration to be distributed pursuant to the Plan, and such additions or modifications shall not require an amendment to the Plan or any further Order of the Court.

4.6 Cancellation of Certificates and Notes

Following completion of the steps in the sequence set forth in section 5.3, all debentures, notes (including the Secured Notes), certificates, agreements, invoices and other instruments evidencing Affected Claims, Secured Note Obligations or Equity Interests (other than the Existing New Elk Units owned by Cline and the North Central Shares owned by New Elk, which are unaffected by the Plan and which shall remain outstanding) will not entitle any holder thereof to any compensation or participation other than as expressly provided for in the Plan and will be cancelled and will be null and void. Notwithstanding the foregoing, if and to the extent the Indenture Trustee is required to transfer consideration issued pursuant to this Plan to the Secured Noteholders, then the Indentures shall remain in effect solely for the purpose of and to the extent necessary to: (i) allow the Indenture Trustee to make such distributions to the Secured Noteholders on the Initial Distribution Date and each subsequent Distribution Date (if applicable); and (ii) maintain all of the protections the Indenture Trustee enjoys pursuant to the Indentures, including its lien rights with respect to any distributions under the Plan, until all distributions are made to the Secured Noteholders hereunder. For greater certainty, any and all obligations of the Applicants and the Cline Companies (as guarantor, surety or otherwise) under and with respect to the Secured Notes and the Indentures, including the Secured Note Obligations, shall be extinguished on the Plan Implementation Date and shall not continue beyond the Plan Implementation Date.

4.7 Currency

Unless specifically provided for in the Plan or the Sanction Order, all monetary amounts referred to in the Plan shall be denominated in Canadian dollars and, for the purposes of distributions under the Plan, Claims shall be denominated in Canadian dollars and all payments and distributions provided for in the Plan shall be made in Canadian dollars. Any Claims

- 25 -

denominated in a foreign currency shall be converted to Canadian dollars at the Bank of Canada noon exchange rate in effect at the Filing Date.

4.8 Interest

Interest shall not accrue or be paid on Affected Claims on or after the Filing Date, and no holder of an Affected Claim shall be entitled to interest accruing on or after the Filing Date.

4.9 Allocation of Distributions

All distributions made to Creditors pursuant to the Plan shall be allocated first towards the repayment of the principal amount in respect of such Creditor's Claim and second, if any, towards the repayment of all accrued but unpaid interest in respect of such Creditor's Claim.

4.10 Treatment of Undeliverable Distributions

If any Creditor's distribution under this Article 4 is returned as undeliverable (an "**Undeliverable Distribution**"), no further distributions to such Creditor shall be made unless and until the Applicant is notified by such Creditor of such Creditor's current address, at which time all such distributions shall be made to such Creditor. All claims for Undeliverable Distributions must be made on or before the date that is six months following the final Distribution Date, after which date any entitlement with respect to such Undeliverable Distribution shall be forever discharged and forever barred, without any compensation therefor, notwithstanding any federal, state or provincial laws to the contrary, at which time any such Undeliverable Distributions shall be returned to Cline. Nothing contained in the Plan shall require the Applicant to attempt to locate any Person to whom a distribution is payable. No interest is payable in respect of an Undeliverable Distribution. Unless otherwise expressly agreed by the Monitor and the Applicants in writing, any distribution under the Plan on account of the Secured Notes shall be deemed made when delivered to Marret, CDS, the CDS Participants or the Indenture Trustee, as applicable.

4.11 Withholding Rights

The Applicants, the Monitor and, to the extent CDS or the Indenture Trustee are required to transfer consideration to Secured Noteholders pursuant to this Plan, then CDS and the Indenture Trustee, shall be entitled to deduct and withhold from any consideration payable to any Person such amounts as the Applicants, the Monitor, CDS or the Indenture Trustee, as applicable, are required to deduct and withhold with respect to such payment under the Canadian Tax Act, or other Applicable Laws, or entitled to withhold under section 116 of the Canadian Tax Act or corresponding provision of provincial or territorial law. To the extent that amounts are so withheld or deducted, such withheld or deducted amounts shall be treated for all purposes hereof as having been paid to the Person in respect of which such withholding was made, provided that such amounts are actually remitted to the appropriate Taxing Authority. The Applicants, the Monitor CDS and/or the Indenture Trustee, as applicable, are hereby authorized to sell or otherwise dispose of such portion of any such consideration in their possession as is necessary to provide sufficient funds to the Applicants, the Monitor, CDS and/or the Indenture Trustee, as applicable, to enable them to comply with such deduction or withholding requirement or entitlement, and the Applicants, the Monitor, CDS and/or the Indenture Trustee, as applicable,

- 26 -

shall notify the Person thereof and remit to such Person any unapplied balance of the net proceeds of such sale.

4.12 Fractional Interests

No fractional interests of New Cline Common Shares (“**Fractional Interests**”) will be issued under the Plan. Recipients of New Cline Common Shares will have their entitlements adjusted downwards to the nearest whole number of New Cline Common Shares to eliminate any such Fractional Interests and no compensation will be given for any Fractional Interests.

4.13 Calculations

All amounts of consideration to be received hereunder will be calculated to the nearest cent (\$0.01). All calculations and determination made by the Monitor and/or the Applicants and agreed to by the Monitor for the purposes of and in accordance with the Plan, including, without limitation, the allocation of consideration, shall be conclusive, final and binding upon the Affected Creditors and the Applicants.

ARTICLE 5 RECAPITALIZATION

5.1 Corporate Actions

The adoption, execution, delivery, implementation and consummation of all matters contemplated under the Plan involving corporate actions of the Applicants will occur and be effective as of the Plan Implementation Date, and shall be deemed to be authorized and approved under the Plan and by the Court, where applicable, as part of the Sanction Order, in all respects and for all purposes without any requirement of further action by shareholders, directors or officers of the Applicants. All necessary approvals to take actions shall be deemed to have been obtained from the directors, officers or the shareholders of the Applicants, as applicable, including the deemed passing by any class of shareholders of any resolution or special resolution and any shareholders’ agreement or agreement between a shareholder and another Person limiting in any way the right to vote shares held by such shareholder or shareholders with respect to any of the steps contemplated by the Plan shall be deemed to have no force or effect.

5.2 Issuance of Plan Consideration

(1) New Cline Common Shares

On the Plan Implementation Date, in the sequence set forth in section 5.3 and under the supervision of the Monitor, Cline shall issue the Agreed Number of New Cline Common Shares, and such New Cline Common Shares shall be allocated and distributed in the manner set forth in the Plan.

(2) New Secured Debt

On the Plan Implementation Date, in the sequence set forth in section 5.3 and under the supervision of the Monitor, (i) the New Credit Agreement shall become effective in accordance with its terms and the Applicants shall become bound to satisfy their obligations thereunder and

- 27 -

(ii) the entitlements to the New Secured Debt shall be allocated among the Secured Noteholders in the manner and in the amounts set forth in the Plan.

(3) Unsecured Plan Entitlement

On the Plan Implementation Date, in the sequence set forth in section 5.3 and under the supervision of the Monitor, the Unsecured Plan Entitlements shall become effective and the Individual Unsecured Plan Entitlements shall be allocated in the manner and in the amounts set forth in the Plan.

(4) Convenience Claim Payments

On the Plan Implementation Date, in the sequence set forth in section 5.3 and under the supervision of the Monitor, Cline shall pay the applicable amounts to the Convenience Creditors with Allowed Convenience Claims and reserve the applicable amounts into the Disputed Claims Reserve in respect of Convenience Creditors with Disputed Distribution Claims, in each case in the manner and in the amounts set forth in the Plan.

(5) WARN Act Plan Entitlement

On the Plan Implementation Date, in the sequence set forth in section 5.3 and under the supervision of the Monitor, the WARN Act Plan Entitlement shall become effective and the Individual WARN Act Plan Entitlements shall be allocated in the manner and in the amounts set forth in the Plan.

5.3 Sequence of Plan Implementation Date Transactions

The following steps and compromises and releases to be effected in the implementation of the Plan shall occur, and be deemed to have occurred in the following order in five minute increments (unless otherwise noted), without any further act or formality on the Plan Implementation Date beginning at the Effective Time:

- (a) all Existing Options shall be cancelled and terminated without any liability, payment or other compensation in respect thereof;
- (b) the Stock Option Plans shall be terminated;
- (c) Cline shall issue to each Secured Noteholder its Secured Noteholder's Share of the New Cline Common Shares and the Applicants shall become bound to satisfy their obligations in respect of the New Secured Debt, all in accordance with section 3.4(1), in full consideration for the irrevocable, final and full compromise and satisfaction of the Secured Noteholders Allowed Claim and all Secured Noteholder Obligations;
- (d) simultaneously with step 5.3(c), and in accordance with sections 3.4(2) and 5.2(4), Cline shall pay to each Convenience Creditor with an Allowed Affected Unsecured Claim the amount in cash that it is entitled to receive pursuant to section 3.4(2)(b) in full consideration for the irrevocable, final and full

- 28 -

compromise and satisfaction of such Convenience Creditor's Affected Unsecured Claim;

- (e) simultaneously with step 5.3(c), Cline shall reserve the applicable amount of cash in respect of Convenience Claims that are Disputed Distribution Claims and shall hold such cash in the Disputed Distribution Claims Reserve;
- (f) simultaneously with step 5.3(c), and in accordance with sections 3.4(2) and 5.2(3), each Affected Unsecured Creditor with an Allowed Affected Unsecured Claim that is not a Convenience Creditor or a Secured Noteholder shall become entitled to its Individual Unsecured Plan Entitlement (as it may be adjusted based on the final determination of Disputed Distribution Claims in the manner set forth herein) in full consideration for the irrevocable, final and full compromise and satisfaction of such Affected Unsecured Creditor's Affected Unsecured Claim;
- (g) simultaneously with step 5.3(c), and in accordance with sections 3.4(3) and 5.2(5), each WARN Act Plaintiff with an Allowed WARN Act Claim shall become entitled to its Individual WARN Act Plan Entitlement (as it may be adjusted based on the final determination of Disputed Distribution Claims in the manner set forth herein) in full consideration for the irrevocable, final and full compromise and satisfaction of such WARN Act Claim;
- (h) the Articles shall be altered to, among other things, (i) consolidate the issued and outstanding Cline Common Shares (including, for the avoidance of doubt, Cline Common Shares that are Existing Cline Shares and New Cline Common Shares issued pursuant to Section 5.3(c)) on the basis of the Consolidation Ratio; and (ii) provide for such additional changes to the rights and conditions attached to the Cline Common Shares as may be agreed to by the Applicants, the Monitor and Marret (on behalf of the Secured Noteholders);
- (i) any fractional Cline Common Shares held by any holder of Cline Common Shares immediately following the consolidation of the Cline Common Shares referred to in section 5.3(h) shall be cancelled without any liability, payment or other compensation in respect thereof, and the Articles shall be altered as necessary to achieve such cancellation;
- (j) all Equity Interests (for greater certainty, not including any Cline Common Shares that remain issued and outstanding immediately following the cancellation of fractional interests in section 5.3(i)) shall be cancelled and extinguished without any liability, payment or other compensation in respect thereof and all Equity Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred without any liability, payment or other compensation in respect thereof, provided that, notwithstanding anything to the contrary herein, the Existing New Elk Units shall not be cancelled or extinguished and shall remain outstanding and solely owned by Cline and the Existing North Central Shares shall not be cancelled or extinguished and shall remain outstanding and solely owned by New Elk;

- 29 -

- (k) Cline shall pay in cash all fees and expenses incurred by the Indenture Trustee, including its reasonable legal fees, in connection with the performance of its duties under the Indentures and the Plan;
- (l) subject only to section 4.6 hereof, all of the Secured Notes, the Indentures and all Secured Note Obligations shall be deemed to be fully, finally, irrevocably and forever compromised, released, discharged cancelled and barred;
- (m) all Affected Claims remaining after the step referred to in section 5.3(l) shall be fully, finally, irrevocably and forever compromised, released, discharged cancelled and barred without any liability, payment or other compensation in respect thereof; and
- (n) the releases set forth in Article 7 shall become effective.

The steps described in sub-sections (h) and (i) of this section 5.3 will be implemented pursuant to section 6(2) of the CCAA and shall constitute a valid alteration of the Articles pursuant to a court order under the BCBCA.

5.4 Issuances Free and Clear

Any issuance of any securities or other consideration pursuant to the Plan will be free and clear of any Encumbrances.

5.5 Stated Capital

The aggregate stated capital for purposes of the BCBCA for the New Cline Common Shares issued pursuant to the Plan will be as determined by the new board of directors of Cline appointed pursuant to the Sanction Order.

ARTICLE 6 PROCEDURE FOR DISTRIBUTIONS REGARDING DISPUTED DISTRIBUTION CLAIMS

6.1 No Distribution Pending Allowance

An Affected Creditor holding a Disputed Distribution Claim will not be entitled to receive a distribution under the Plan in respect of such Disputed Distribution Claim or any portion thereof unless and until, and then only to the extent that, such Disputed Distribution Claim becomes an Allowed Claim.

6.2 Disputed Distribution Claims

- (a) On the Plan Implementation Date, under the supervision of the Monitor, an amount equal to each Disputed Distribution Claim of the Convenience Creditors shall be reserved and held by Cline, in the Disputed Distribution Claims Reserve, for the benefit of the Convenience Creditors with Allowed Convenience Claims, pending the final determination of the Disputed Distribution Claim in accordance with the Claims Procedure Order and the Plan.

- 30 -

- (b) On the Unsecured Plan Entitlement Date, distributions of Unsecured Plan Entitlement Proceeds in relation to a Disputed Distribution Claim of any Affected Unsecured Creditor (other than Convenience Creditors and Secured Noteholders) in existence at the Unsecured Plan Entitlement Date will be reserved and held by Cline, in the Disputed Distribution Claims Reserve, for the benefit of the Affected Unsecured Creditors (other than Convenience Creditors and Secured Noteholders) with Allowed Affected Unsecured Claims until the final determination of the Disputed Distribution Claim in accordance with the Claims Procedure Order and the Plan.
- (c) On the WARN Act Plan Entitlement Date, distributions of WARN Act Plan Entitlement Proceeds in relation to a Disputed Distribution Claim of WARN Act Plaintiff in existence at the Unsecured Plan Entitlement Date will be reserved and held by Cline, in the Disputed Distribution Claims Reserve, for the benefit of the WARN Act Plaintiffs with Allowed WARN Act Claims until the final determination of the Disputed Distribution Claim in accordance with the Claims Procedure Order and the Plan.
- (d) To the extent that any Disputed Distribution Claim becomes an Allowed Affected Unsecured Claim in accordance with the Claims Procedure and it is a Convenience Claim, Cline shall distribute (on the next Distribution Date), under the supervision of the Monitor, the applicable amount of such Allowed Claim to the holder of such Allowed Claim in accordance with section 3.4(2)(b) hereof from the Disputed Distribution Claims Reserve.
- (e) To the extent that any Disputed Distribution Claim becomes an Allowed Affected Unsecured Claim in accordance with the Claims Procedure Order and it is not a Convenience Claim or the Claim of a Secured Noteholder, the applicable Affected Unsecured Creditor shall become entitled to its applicable Individual Unsecured Plan Entitlement, and if this occurs after the Unsecured Plan Entitlement Date, Cline shall distribute (on the next Distribution Date) to the holder of such Allowed Claim an amount from the Disputed Distribution Claims Reserve equal to the applicable Affected Unsecured Creditor's Individual Unsecured Plan Entitlement.
- (f) To the extent that any Disputed Distribution Claim becomes an Allowed WARN Act Claim in accordance with the Claims Procedure Order, the applicable WARN Act Plaintiff shall become entitled to its Individual WARN Act Plan Entitlement, and if this occurs after the WARN Act Plan Entitlement Date, Cline shall distribute (on the next Distribution Date) to the holder of such Allowed Claim an amount from the Disputed Distribution Claims Reserve equal to the applicable WARN Act Plaintiff's Individual WARN Act Plan Entitlement.
- (g) At any applicable time, Cline shall be permitted, with the consent of the Monitor, to release and retain for itself any amounts in the Disputed Distribution Claims Reserve that were reserved to pay Convenience Claims that have been definitively not been Allowed in accordance with the Claims Procedure Order.

- 31 -

- (h) Prior to any Distribution Date and under the supervision of the Monitor, Cline shall re-calculate the Individual Unsecured Plan Entitlements and the Individual WARN Act Plan Entitlements of the Affected Unsecured Creditors (other than Convenience Creditors and Secured Noteholders) and WARN Act Plaintiffs having Distribution Claims, in each case to reflect any applicable Disputed Distribution Claims that were definitively not Allowed, and such Creditors shall become entitled to their re-calculated Individual Unsecured Plan Entitlements and the Individual WARN Act Plan Entitlements, as applicable. If this occurs after the Unsecured Plan Entitlement Date or the WARN Act Plan Entitlement Date, as applicable, Cline shall (on the next Distribution Date) distribute to such Creditors the applicable amounts from the Disputed Distribution Claims Reserve as are necessary to give effect to their re-calculated Individual Unsecured Plan Entitlements and the Individual WARN Act Plan Entitlements, as applicable.
- (i) On the date that all Disputed Distribution Claims have been finally resolved in accordance with the Claims Procedure Order, Cline shall, with the consent of the Monitor, release all remaining cash, if any, from the Disputed Distribution Claims Reserve and shall be entitled to retain such cash.

ARTICLE 7 RELEASES

7.1 Plan Releases

On the Plan Implementation Date, in accordance with the sequence set forth in section 5.3, (i) the Applicants, the Applicants' employees and contractors, the Directors and Officers, the Cline Companies and (ii) the Monitor, the Monitor's counsel, the Indenture Trustee, Marret (on behalf of the Secured Noteholders and in its individual corporate capacity), the Secured Noteholders, the Company Advisors, the Noteholder Advisors and each and every present and former shareholder, affiliate, subsidiary, director, officer, member, partner, employee, auditor, financial advisor, legal counsel and agent of any of the foregoing Persons (each of the Persons named in (i) or (ii) of this section 7.1, in their capacity as such, being herein referred to individually as a "**Released Party**" and all referred to collectively as "**Released Parties**") shall be released and discharged from any and all demands, claims, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, orders, including for injunctive relief or specific performance and compliance orders, expenses, executions, Encumbrances and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature, including claims for contribution or indemnity which any Creditor or other Person may be entitled to assert, whether known or unknown, matured or unmatured, direct, indirect or derivative, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act, omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing or other occurrence existing or taking place on or prior to the later of the Plan Implementation Date and the date on which actions are taken to implement the Plan, that constitute or are in any way relating to, arising out of or in connection with any Claims, any Director/Officer Claims and any indemnification obligations with respect thereto, the Secured Notes and related guarantees, the Indentures, the Secured Note Obligations, the Equity Interests, the Stock Option Plans, the New Cline Common Shares, the New Secured Debt, the New Credit Agreement, the Unsecured Plan Entitlement, the WARN Act Plan Entitlement, any payments to Convenience Creditors, the

business and affairs of the Applicants whenever or however conducted, the administration and/or management of the Applicants, the Recapitalization, the Plan, the CCAA Proceeding, the Chapter 15 Proceeding or any document, instrument, matter or transaction involving any of the Applicants or the Cline Companies taking place in connection with the Recapitalization or the Plan (referred to collectively as the “**Released Claims**”), and all Released Claims shall be deemed to be fully, finally, irrevocably and forever waived, discharged, released, cancelled and barred as against the Released Parties, all to the fullest extent permitted by Applicable Law; provided that nothing herein will waive, discharge, release, cancel or bar (x) the right to enforce the Applicants’ obligations under the Plan, (y) the Applicants from or in respect of any Unaffected Claim or any Claim that is not permitted to be released pursuant to section 19(2) of the CCAA, or (z) any Director or Officer from any Director/Officer Claim that is not permitted to be released pursuant to section 5.1(2) of the CCAA.

7.2 Limitation on Insured Claims

Notwithstanding anything to the contrary in section 7.1, Insured Claims shall not be compromised, released, discharged, cancelled or barred by the Plan, provided that from and after the Plan Implementation Date, any Person having an Insured Claim shall be irrevocably limited to recovery in respect of such Insured Claim solely from the proceeds of the applicable Insurance Policies, and Persons with an Insured Claim shall have no right to, and shall not, directly or indirectly, make any claim or seek any recoveries in respect thereof from the Applicants, any of the Cline Companies, any Director or Officer or any other Released Party, other than enforcing such Person's rights to be paid by the applicable insurer(s) from the proceeds of the applicable Insurance Policies.

7.3 Injunctions

All Persons are permanently and forever barred, estopped, stayed and enjoined, on and after the Effective Time, with respect to any and all Released Claims, from (i) commencing, conducting or continuing in any manner, directly or indirectly, any action, suits, demands or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against any of the Released Parties; (ii) enforcing, levying, attaching, collecting or otherwise recovering or enforcing by any manner or means, directly or indirectly, any judgment, award, decree or order against any of the Released Parties or their property; (iii) creating, perfecting, asserting or otherwise enforcing, directly or indirectly, any lien or encumbrance of any kind against the Released Parties or their property; or (iv) taking any actions to interfere with the implementation or consummation of the Plan; provided, however, that the foregoing shall not apply to the enforcement of any obligations under the Plan. For greater certainty, the provisions of this section 7.3 shall apply to Insured Claims in the same manner as Released Claims, except to the extent that the rights of such Persons to enforce such Insured Claims against an insurer in respect of an Insurance Policy are expressly preserved pursuant to section 3.5(c) and/or section 7.2, and provided further that, notwithstanding the restrictions on making a claim that are set forth in sections 3.5(c) and 7.2, any claimant in respect of an Insured Claim that was duly filed with the Monitor by the Claims Bar Date shall be permitted to file a statement of claim in respect thereof to the extent necessary solely for the purpose of preserving such claimant’s ability to pursue such Insured Claim against an insurer in respect of an Insurance Policy in the manner authorized pursuant to section 3.5(c) and/or section 7.2.

ARTICLE 8 COURT SANCTION

8.1 Application for Sanction Order

If the Required Majorities of the Affected Creditors in each Voting Class approve the Plan, the Applicants shall apply for the Sanction Order on or before the date set for the hearing of the Sanction Order or such later date as the Court may set.

8.2 Sanction Order

The Applicants shall seek a Sanction Order that, among other things:

- (a) declares that (i) the Plan has been approved by the Required Majorities of Affected Creditors in each Voting Class in conformity with the CCAA; (ii) the activities of the Applicants have been in reasonable compliance with the provisions of the CCAA and the Orders of the Court made in this CCAA Proceeding in all respects; (iii) the Court is satisfied that the Applicants have not done or purported to do anything that is not authorized by the CCAA; and (iv) the Plan and the transactions contemplated thereby are fair and reasonable;
- (b) declares that as of the Effective Time, the Plan and all associated steps, compromises, transactions, arrangements, releases and reorganizations effected thereby are approved pursuant to section 6 of the CCAA, binding and effective as herein set out upon and with respect to the Applicants, all Affected Creditors, the Directors and Officers, any Person with a Director/Officer Claim, the Released Parties and all other Persons named or referred to in or subject to Plan;
- (c) declares that the steps to be taken and the compromises and releases to be effective on the Plan Implementation Date are deemed to occur and be effected in the sequential order contemplated by section 5.3 on the Plan Implementation Date, beginning at the Effective Time;
- (d) declare that the releases effected by this Plan shall be approved and declared to be binding and effective as of the Plan Implementation Date upon all Affected Creditors and all other Persons affected by this Plan and shall enure to the benefit of such Persons;
- (e) declares that, subject to performance by the Applicants of their obligations under the Plan and except as provided in the Plan, all obligations, agreements or leases to which any of the Applicants or Cline Companies is a party on the Plan Implementation Date shall be and remain in full force and effect, unamended, as at the Plan Implementation Date and no party to any such obligation or agreement shall on or following the Plan Implementation Date, accelerate, terminate, refuse to renew, rescind, refuse to perform or otherwise disclaim or resiliate its obligations thereunder, or enforce or exercise (or purport to enforce or exercise)

- 34 -

any right or remedy under or in respect of any such obligation or agreement, by reason:

- (i) of any event which occurred prior to, and not continuing after, the Plan Implementation Date, or which is or continues to be suspended or waived under the Plan, which would have entitled such party to enforce those rights or remedies;
- (ii) that the Applicants have sought or obtained relief or have taken steps as part of the Plan or under the CCAA or Chapter 15;
- (iii) of any default or event of default arising as a result of the financial condition or insolvency of the Applicants;
- (iv) of the effect upon the Applicants of the completion of any of the transactions contemplated by the Plan; or
- (v) of any compromises, settlements, restructurings, recapitalizations or reorganizations effected pursuant to the Plan,

and declares that no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any non-competition agreement or obligation, provided that such agreement shall terminate or expire in accordance with the terms thereof or as otherwise agreed by the Applicants and the applicable Persons;

- (f) authorizes the Monitor to perform its functions and fulfil its obligations under the Plan to facilitate the implementation of the Plan;
- (g) subject to payment of any amounts secured thereby, declares that each of the Charges shall be terminated, discharged and released upon a filing of the Monitor of a certificate confirming the termination of the CCAA Proceedings;
- (h) provides advice and directions with respect to the distribution mechanics in respect of the New Cline Common Shares and the Secured Noteholders' respective entitlements to the New Secured Debt, as both are referred to in section 4.1(b);
- (i) declares that the Applicants and the Monitor may apply to the Court for advice and direction in respect of any matters arising from or under the Plan; and
- (j) declares the Persons to be appointed to the boards of directors of the Applicants on the Plan Implementation Date shall be the Persons named on a certificate to be filed with the Court by the Applicants prior to the Plan Implementation Date, provided that such certificate and the Persons listed thereon shall be subject to the prior consent of Marret (on behalf of the Secured Noteholders).

ARTICLE 9
CONDITIONS PRECEDENT AND IMPLEMENTATION

9.1 Conditions Precedent to Implementation of the Plan

The implementation of the Plan shall be conditional upon satisfaction of the following conditions prior to or at the Effective Time, each of which is for the benefit of the Applicants and may be waived only by the Applicants, provided that the conditions in paragraphs (a), (b) and (c) of this section 9.1 shall also be for the benefit of Marret (on behalf of the Secured Noteholders) and may be waived only by the mutual agreement of both the Applicants and Marret:

- (a) all definitive agreements in respect of the Recapitalization and the new (or amended) Articles, by-laws and other constating documents, and all definitive legal documentation in connection with all of the foregoing shall be in a form satisfactory to the Applicants and Marret (on behalf of the Secured Noteholders);
- (b) the New Credit Agreement governing the New Secured Debt, together with all guarantees and security agreements contemplated thereunder, shall have been entered into and become effective, subject only to the implementation of the Plan, and all required filings related to the security as contemplated in the security agreements shall have been made;
- (c) the terms of the New Cline Common Shares and the New Credit Agreement shall be satisfactory to the Applicants and Marret (on behalf of the Secured Noteholders);
- (d) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, no application shall have been made to any Governmental Entity, and no action or investigation shall have been announced, threatened or commenced by any Governmental Entity, in consequence of or in connection with the Recapitalization or the Plan that restrains, impedes or prohibits (or if granted could reasonably be expected to restrain, impede or inhibit), the Recapitalization or the Plan or any part thereof or requires or purports to require a variation of the Recapitalization or the Plan;
- (e) the Plan shall have been approved by the Required Majorities of each Voting Class;
- (f) all orders made and judgments rendered by any competent court of law, and all rulings and decrees of any competent regulatory body, agent or official in relation to the CCAA Proceeding, the Chapter 15 Proceeding, the Recapitalization or the Plan shall be satisfactory to the Applicants, including all court orders made in relation to the Recapitalization, and without limiting the generality of the foregoing:
 - (i) the Sanction Order shall have been made on terms acceptable to the Applicants, and it shall have become a Final Order;

- 36 -

- (ii) the Sanction Order shall have been recognized and deemed binding and enforceable in the United States pursuant to an Order of the US Court in the Chapter 15 Proceeding on terms acceptable to the Applicants, and such Order shall have become a Final Order; and
- (iii) any other Order deemed necessary by the Applicants for the purpose of implementing the Recapitalization shall have been made on terms acceptable to the Applicants, and any such Order shall have become a Final Order;
- (g) all material agreements, consents and other documents relating to the Recapitalization and the Plan shall be in form and in content satisfactory to the Applicants;
- (h) any and all court-imposed charges on any assets, property or undertaking of the Applicants shall have been discharged as at the Effective Time on terms acceptable to the Applicants, acting reasonably;
- (i) all Material filings under Applicable Laws shall have been made and any Material regulatory consents or approvals that are required in connection with the Recapitalization shall have been obtained and, in the case of waiting or suspensory periods, such waiting or suspensory periods shall have expired or been terminated;
- (j) all securities of the Applicants, when issued and delivered, shall be duly authorized, validly issued and fully paid and non-assessable and the issuance thereof shall be exempt from all prospectus and registration requirements of Applicable Laws;
- (k) all necessary filings in respect of the alteration of the Articles shall have been made on terms providing that they will become effective in accordance with and at the times of section 5.3(h) and 5.3(i); and
- (l) all fees and expenses owing to the Company Advisors and the Noteholder Advisors as of the Plan Implementation Date shall have been paid, and the Applicants shall be satisfied that adequate provision has been made for any fees and expenses due or accruing due to the Company Advisors and the Noteholder Advisors from and after the Plan Implementation Date.

9.2 Monitor's Certificate

Upon delivery of written notice from the Company Advisors (on behalf of the Applicants) of the satisfaction or waiver of the conditions set out in section 9.1, the Monitor shall forthwith deliver to the Company Advisors a certificate stating that the Plan Implementation Date has occurred and that the Plan is effective in accordance with its terms and the terms of the Sanction Order. As soon as practicable following the Plan Implementation Date, the Monitor shall file such certificate with the Court and with the US Court.

- 37 -

ARTICLE 10 GENERAL

10.1 Binding Effect

The Plan will become effective on the Plan Implementation Date. On the Plan Implementation Date:

- (a) the treatment of Affected Claims and Released Claims under the Plan shall be final and binding for all purposes and shall be binding upon and enure to the benefit of the Applicants, all Affected Creditors, any Person having a Released Claim and all other Persons directly or indirectly named or referred to in or subject to Plan and their respective heirs, executors, administrators and other legal representatives, successors and assigns;
- (b) all Affected Claims shall be forever discharged and released;
- (c) all Released Claims shall be forever discharged and released;
- (d) each Affected Creditor, each Person holding a Released Claim and each of the Existing Shareholders shall be deemed to have consented and agreed to all of the provisions of the Plan, in its entirety; and
- (e) each Affected Creditor and each Person holding a Released Claim shall be deemed to have executed and delivered to the Applicants and to the Released Parties, as applicable, all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Plan in its entirety.

10.2 Waiver of Defaults

From and after the Plan Implementation Date, all Persons shall be deemed to have waived any and all defaults of the Applicants then existing or previously committed by any of the Applicants, or caused by any of the Applicants, by any of the provisions in the Plan or steps or transactions contemplated in the Plan or the Recapitalization, or any non-compliance with any covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in any contract, instrument, credit document, indenture, note, lease, guarantee, agreement for sale or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Person and any of the Applicants, and any and all notices of default and demands for payment or any step or proceeding taken or commenced in connection therewith shall be deemed to have been rescinded and of no further force or effect, provided that nothing shall be deemed to excuse the Applicants from performing their obligations under the Plan or be a waiver of defaults by any of the Applicants under the Plan and the related documents.

10.3 Deeming Provisions

In the Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

10.4 Non-Consummation

The Applicants reserve the right to revoke or withdraw the Plan at any time prior to the Plan Implementation Date. If the Applicants revoke or withdraw the Plan, or if the Sanction Order is not issued or if the Plan Implementation Date does not occur, (a) the Plan shall be null and void in all respects, (b) any settlement or compromise embodied in the Plan and any document or agreement executed pursuant to the Plan shall be deemed null and void, and (c) nothing contained in the Plan, and no acts taken in preparation for consummation of the Plan, shall (i) constitute or be deemed to constitute a waiver or release of any Claims by or against any of the Applicants or any other Person; (ii) prejudice in any manner the rights of the Applicants or any other Person in any further proceedings involving any of the Applicants; or (iii) constitute an admission of any sort by any of the Applicants or any other Person.

10.5 Modification of the Plan

- (a) The Applicants reserve the right, at any time and from time to time, to amend, restate, modify and/or supplement the Plan, provided that any such amendment, restatement, modification or supplement must be contained in a written document and (i) if made prior to or at the Meetings, communicated to the Affected Creditors prior to or at the Meetings; and (ii) if made following the Meetings, approved by the Court following notice to the Affected Creditors.
- (b) Notwithstanding section 10.5(a), any amendment, restatement, modification or supplement may be made by the Applicants with the consent of the Monitor and Marret (on behalf of the Secured Noteholders), without further Court Order or approval, provided that it concerns a matter which, in the opinion of the Applicants, acting reasonably, is of an administrative nature required to better give effect to the implementation of the Plan and the Sanction Order or to cure any errors, omissions or ambiguities and is not materially adverse to the financial or economic interests of the Affected Creditors.
- (c) Any amended, restated, modified or supplementary plan or plans of compromise or arrangement filed with the Court and, if required by this section, approved by the Court, shall, for all purposes, be and be deemed to constitute the Plan.
- (d) Notwithstanding anything to the contrary herein or in the Plan, if the requisite quorum is not present at the WARN Act Plaintiffs Meeting or if it is determined in accordance with the Claims Procedure Order that there are no Voting Claims in the WARN Act Plaintiffs Class, the Applicants shall be entitled, but not required, to amend the Plan without further Order of the Court to combine the WARN Act Plaintiffs Class with the Affected Unsecured Creditors Class on such terms as may be set forth in such amended Plan (including on the basis that the WARN Act Plan Entitlement shall not be payable under the Plan), in which case the Applicants shall have no further obligation to hold the WARN Act Plaintiffs Meeting or otherwise seek a vote of the WARN Act Plaintiffs Class with respect to the resolution to approve the Plan or any other matter.

- 39 -

- (e) Without limiting the generality of anything in this section 10.5, if (i) the Plan is not approved by the Required Majorities of the Affected Unsecured Creditors Class, or (ii) the Applicants determine, in their discretion, that the Plan may not be approved by the Required Majorities of the Affected Unsecured Creditors Class, then the Applicants are permitted, without any further Order, to file an amended and restated Plan (the “**Alternate Plan**”) with the attributes described on Schedule B to the Plan and to proceed with a meeting of the Secured Noteholders Class for the purpose of considering and voting on the resolution to approve the Alternate Plan, in which case the Applicants and the Monitor will have no obligation whatsoever to proceed with the Unsecured Creditors Meeting or the WARN Act Plaintiff’s Meeting.
- (f) Notwithstanding the references herein to the New Credit Agreement and the New Secured Debt Agent, the Applicants and Marret, with the consent of the Monitor, shall be entitled to modify the form and structure of the New Secured Debt and the manner in which the New Secured Debt is held by the Secured Noteholders to allow such debt to be issued as secured notes or in such other form as may be agreed by the Applicants and Marret with the consent of the Monitor, provided that such modifications do not affect the material economic attributes of the New Secured Debt. In the event of the foregoing, no formal amendment to the Plan (or the Alternate Plan, as applicable) shall be required and the steps and provisions of this Plan (and any Alternate Plan) pertaining to the New Secured Debt shall be read so as to give effect to such modified form and structure of the New Secured Debt.

10.6 Marret and the Secured Noteholders

For the purposes of the Plan, so long as Marret exercises sole investment discretion and control over the all of the Secured Noteholders, then the Applicants, the Company Advisors, the Monitor, the Indenture Trustee, CDS and all other interested parties with respect to the Plan shall be entitled to rely on confirmation from Marret or the Noteholder Advisors that the Secured Noteholders have agreed to, waived, consented to or approved a particular matter, even if such confirmation would otherwise require the action or agreement of the Indenture Trustee.

10.7 Paramountcy

From and after the Effective Time on the Plan Implementation Date, any conflict between:

- (a) the Plan or any Order in the CCAA Proceeding or the Chapter 15 Proceeding; and
- (b) the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of any contract, mortgage, security agreement, indenture, trust indenture, note, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral and any and all amendments or supplements thereto existing between one or more of the Affected Creditors and the Applicants as at the Plan Implementation Date or the notice of articles, articles or bylaws of the Applicants at the Plan Implementation Date;

- 40 -

will be deemed to be governed by the terms, conditions and provisions of the Plan and the applicable Order, which shall take precedence and priority, provided that any settlement agreement executed by the Applicants and any Person asserting a Claim or a Director/Officer Claim that was entered into from and after the Filing Date shall be read and interpreted in a manner that assumes such settlement agreement is intended to operate congruously with, and not in conflict with, the Plan.

10.8 Severability of Plan Provisions

If, prior to the Sanction Date, any term or provision of the Plan is held by the Court to be invalid, void or unenforceable, the Court, at the request of the Applicants and with the consent of the Monitor, shall have the power to either (a) sever such term or provision from the balance of the Plan and provide the Applicants with the option to proceed with the implementation of the balance of the Plan, (b) alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted; or (c) withdraw the Plan. Provided that the Applicants proceed with the implementation of the Plan, then notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation.

10.9 Responsibilities of the Monitor

FTI Consulting Canada Inc. is acting in its capacity as Monitor in the CCAA Proceeding and as foreign representative in the Chapter 15 Proceeding with respect to the Applicants, the CCAA Proceedings and this Plan and not in its personal or corporate capacity, and will not be responsible or liable for any obligations of the Applicants under the Plan or otherwise.

10.10 Different Capacities

Persons who are affected by the Plan may be affected in more than one capacity. Unless expressly provided to the contrary herein, a Person will be entitled to participate hereunder in each such capacity. Any action taken by a Person in one capacity will not affect such Person in any other capacity, unless expressly agreed by the Applicants and the Person in writing or unless its Claims overlap or are otherwise duplicative.

10.11 Notices

Any notice or other communication to be delivered hereunder must be in writing and reference the Plan and may, subject as hereinafter provided, be made or given by personal delivery, ordinary mail or by facsimile or email addressed to the respective parties as follows:

- 41 -

If to the Applicants:

c/o Cline Mining Corporation
161 Bay Street
26th Floor
Toronto, Ontario, Canada
M5J 2S1

Attention: Matthew Goldfarb
Fax: (416) 572-2094
Email: mgoldfarb@clinemining.com

with a copy to:

Goodmans LLP
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, Ontario M5H 2S7

Attention: Robert Chadwick / Logan Willis
Fax: (416) 979-1234
Email: rchadwick@goodmans.ca / lwillis@goodmans.ca

If to Marret or the Secured Noteholders:

Marret Asset Management Inc.
200 King Street West, Suite 1902
Toronto, Ontario M5H 3T4

Attention: Dorothea Mell
Fax: (647) 439-6471
Email: dmell@marret.com

with a copy to:

Davies Ward Phillips & Vineberg LLP
155 Wellington Street West
Toronto, Ontario M5V 3J7

Attention: Jay A. Swartz
Fax: (416) 863-5520
Email: jswartz@dwpv.com

- 42 -

If to an Affected Creditor (other than Marret or the Secured Noteholders), to the mailing address, facsimile address or email address provided on such Affected Creditor's Notice of Claim or Proof of Claim;

If to the Monitor:

FTI Consulting Canada Inc.

TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Pamela Luthra
Fax: (416) 649-8101
Email cline@fticonsulting.com

with a copy to:

Osler, Hoskin & Harcourt LLP
100 King Street West,
Toronto, Ontario M5X 1B8

Attention: Marc Wasserman / Michael De Lellis
Fax: 416.862.6666
Email: mwasserman@osler.com / mdelellis@osler.com,

or to such other address as any party may from time to time notify the others in accordance with this section. Any such communication so given or made shall be deemed to have been given or made and to have been received on the day of delivery if delivered, or on the day of faxing or sending by other means of recorded electronic communication, provided that such day in either event is a Business Day and the communication is so delivered, faxed or sent before 5:00 p.m. (Toronto time) on such day; otherwise, such communication shall be deemed to have been given and made and to have been received on the next following Business Day.

10.12 Further Assurances

Each of the Persons directly or indirectly named or referred to in or subject to Plan will execute and deliver all such documents and instruments and do all such acts and things as may be necessary or desirable to carry out the full intent and meaning of the Plan and to give effect to the transactions contemplated herein.

DATED as of the 3rd day of December, 2014.

SCHEDULE A

SUMMARY OF TERMS OF NEW SECURED DEBT

- \$55,000,000 aggregate principal amount.
- Cline is the borrower and New Elk and North Central are the guarantors of the New Secured Debt.
- 7-year term.
- Interest equal to the aggregate of:
 - (i). base interest at a rate of 0.01% per annum payable annually; and
 - (ii). additional interest payable quarterly equal to 5% of the consolidated operating revenues of the Applicants for the preceding fiscal quarter, provided that such additional interest shall only be applicable if the consolidated operating revenues of the Applicants exceed \$1.25 million in such preceding fiscal quarter, and provided further that such additional interest shall not exceed 11.99% per annum of the principal amount of the New Secured Debt in any year.
- Subject to 10.5(f) of the Plan, the New Secured Debt will be governed by (i) the New Credit Agreement between the Applicants and Marret (as administrative and collateral agent for the Secured Noteholders) and (ii) guarantees of the New Secured Debt executed by New Elk and North Central, in each case in form and in content satisfactory to the Applicants and Marret.
- The New Credit Agreement will contain a prepayment premium equal to 10% of the aggregate principal amount of the New Secured Debt, payable if the New Secured Debt is repaid or accelerated at any time prior to its stated maturity.
- Other than as set out herein or as may be agreed by the Applicants and Marret in writing, the material financial terms of the Credit Agreement are to be substantially similar to the terms of the trust indenture in respect of the 2011 Notes.
- The New Secured Debt will be secured by a first-ranking security interest in all or substantially all of the assets and property of Cline, New Elk and North Central.
- Each of the Secured Noteholders will be entitled to its Secured Noteholder's Share of the New Secured Debt, as described in the Plan.
- Marret Asset Management Inc. will act as the administrative and collateral agent in respect of the New Secured Debt and the corresponding security on behalf of the Secured Noteholders.

SCHEDULE B**ALTERNATE PLAN – SUMMARY OF TERMS**

- All unsecured Claims and all WARN Act Claims:
 - (i). are treated as Unaffected Claims;
 - (ii). are not entitled to vote or attend any creditors' meeting in respect of the Alternate Plan, including the Meeting of Secured Noteholders Class;
 - (iii). receive no distributions or consideration of any kind whatsoever under the Alternate Plan.
- The only Affected Creditors under the Alternate Plan are the Secured Noteholders.
- The only Voting Class under the Alternate Plan is the Secured Noteholders Class.
- The New Cline Common Shares, the New Secured Debt, the Unsecured Plan Entitlement, the payments to Convenience Creditors and the WARN Act Plan Entitlement will not be distributed or established or become payable under the Alternate Plan.
- The Alternate Plan would provide that all assets and property of the Applicants will be transferred to an entity designated by the Secured Noteholders and/or Marret (on behalf of the Secured Noteholders), free and clear of all claims and encumbrances, in exchange for the cancellation of the Secured Notes and a release of all Secured Noteholder Obligations.

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT
OF CLINE MINING CORPORATION, NEW ELK COMPANY LLC AND NORTH
CENTRAL ENERGY COMPANY**

Court File No: _____

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE-
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**AFFIDAVIT OF MATTHEW GOLDFARB
(Sworn December 2, 2014)**

GOODMANS LLP
Barristers & Solicitors
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Robert J. Chadwick LSUC#: 35165K
Logan Willis LSUC #:53894K
Bradley Wiffen LSUC #64279L

Tel: (416) 979-2211
Fax: (416) 979-1234

Lawyers for the Applicants

TAB 5

Court File No. _____

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT
OF CLINE MINING CORPORATION, NEW ELK COAL COMPANY LLC AND
NORTH CENTRAL ENERGY COMPANY

MONITOR'S CONSENT

FTI Consulting Canada Inc. hereby consents to act as Court-appointed monitor of Cline Mining Corporation, New Elk Coal Company LLC and North Central Energy Company in respect of these proceedings.

Dated: December 2nd, 2014

FTI Consulting Canada Inc.

Per: _____



Name: Paul Bishop

Title: Senior Managing Director

IN THE MATTER OF THE COMPANIES' CREDITORS' ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT OF CLINE MINING CORPORATION, NEW ELK COAL COMPANY LLC AND NORTH CENTRAL ENERGY COMPANY

Court File No: _____

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE-
COMMERCIAL LIST**

Proceeding commenced at Toronto

APPLICATION RECORD
(Returnable December 3, 2014)

GOODMANS. LLP

Barristers & Solicitors
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Robert J. Chadwick: LSUC#: 35165K
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Lawyers for the Applicants