

Court File No. _____

**CLINE MINING CORPORATION,
NEW ELK COAL COMPANY LLC
AND NORTH CENTRAL ENERGY
COMPANY**

**PRE-FILING REPORT TO THE COURT SUBMITTED BY FTI
CONSULTING CANADA INC., IN ITS CAPACITY AS PROPOSED
MONITOR**

December 2, 2014



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

PRE-FILING REPORT OF FTI CONSULTING CANADA INC.,
in its capacity as proposed Monitor of the Applicants

December 2, 2014

INTRODUCTION

1. FTI Consulting Canada Inc. ("**FTI**" or the "**Proposed Monitor**") understands that Cline Mining Corporation ("**Cline**"), New Elk Coal Company LLC ("**New Elk**") and North Central Energy Company ("**North Central**") (collectively, the "**Applicants**") intend to make an application seeking certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for:

- A. an initial order (the "**Initial Order**") granting, *inter alia*, a stay of proceedings until December 31, 2014, and appointing FTI as Monitor (the "**Monitor**");

- B. an order (the “**Claims Procedure Order**”) establishing a process for the identification and determination of claims against the Applicants and their present and former directors and officers; and
 - C. an order (the “**Meeting Order**”) authorizing the Applicants to file a plan of compromise and arrangement (the “**Plan**”) and to convene a meeting of their affected creditors to consider and vote on the Plan.
2. The proceedings to be commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.

PURPOSE

3. The purpose of this report (the “**Pre-filing Report**”) of the Proposed Monitor is to provide this Honourable Court with the following:
- A. FTI’s qualifications to act as Monitor (if appointed);
 - B. an overview of the Applicants and their current situation;
 - C. information regarding the proposed stay of proceedings;
 - D. a summary of the activities that FTI has been involved in to date with respect to the business and affairs of the Applicants;

- E. FTT's comments regarding the proposed Administration Charge and Directors' Charge;
- F. information regarding the Support Agreement (as defined herein) between Cline and Marret Asset Management Inc. ("**Marret**");
- G. FTT's comments regarding the proposed Claims Procedure Order and the proposed Meeting Order;
- H. information regarding the intended application for recognition of the CCAA Proceedings as "Foreign Main Proceedings" under Chapter 15 of the United States *Bankruptcy Code* ("**Chapter 15**");
- I. FTT's comments on the Applicants' cash management system;
- J. FTT's comments regarding the proposed payment of certain pre-filing amounts;
- K. FTT's comments regarding the Applicants' consolidated 13 week cash flow projections of their receipts and disbursements to March 1, 2015 (the "**Cash Flow Forecast**") and the reasonableness thereof, in accordance with section 23(1)(b) of the CCAA; and

L. the Proposed Monitor's conclusions and recommendations.

TERMS OF REFERENCE

4. In preparing this report, FTI has relied upon audited and unaudited financial information of the Applicants, the Applicants' books and records (where appropriate), certain financial information prepared by the Applicants and discussions with various parties, including the Applicants' management and counsel to the Applicants (collectively, the "**Information**").

5. Except as described in this Report:
 - A. FTI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook; and

 - B. FTI has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.

6. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
7. FTI has prepared this Pre-filing Report in connection with the motion described in the Applicants' Notice of Application returnable December 3, 2014. This Pre-Filing Report should not be relied on for other purposes.
8. Unless otherwise stated, all monetary amounts contained in this Pre-Filing Report are expressed in Canadian dollars. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the affidavit of Matthew Goldfarb (the "**Goldfarb Affidavit**") sworn December 2, 2014 and filed in support of the Applicants' application for certain relief under the CCAA. This Pre-Filing Report should be read in conjunction with the Goldfarb Affidavit as certain information contained in the Goldfarb Affidavit has not been included herein in order to avoid unnecessary duplication.

A. FTI'S QUALIFICATIONS TO ACT AS MONITOR

9. Paul Bishop, the individual within FTI who will have primary carriage of this matter, is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.

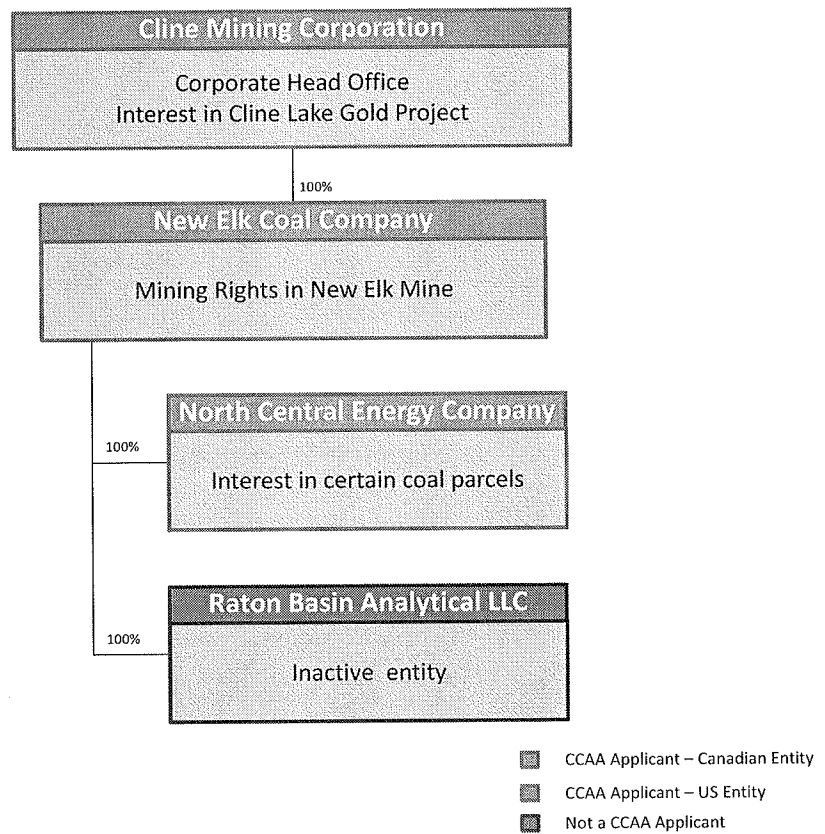
10. Neither FTI, nor any of its representatives, has been, at any time in the two preceding years:
 - A. a director, officer or employee of any Applicant;
 - B. related to any Applicant or to any director or officer of any Applicant; or
 - C. the auditor, accountant or legal counsel, or a partner or an employee of the auditor, accountant or legal counsel, of any Applicants.
11. FTI has consented to act as Monitor should this Honourable Court grant the Applicants' request to commence the CCAA Proceedings. A copy of FTI's consent to act as Monitor is attached hereto as Appendix "A".

B. OVERVIEW OF THE APPLICANTS AND THEIR CURRENT SITUATION

12. This overview of select background information relating to the Applicants is presented to provide context for, and to facilitate an understanding of, the issues addressed in this Pre-filing Report. This overview is based on FTI's review of the Information, discussions with management and information contained in the Goldfarb Affidavit. Please refer to the Goldfarb Affidavit for more detailed background information relating to the Applicants.

The Applicants

13. The Applicants, together 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. A simplified corporate structure of the Cline Group is presented in the chart below:



14. Cline is incorporated in British Columbia and its head office is located in Toronto, Ontario. Cline's shares were previously listed on the Toronto Stock Exchange until Cline voluntarily delisted its shares on June 21, 2013.
15. The Cline Group has interests in resource properties in Canada, the United States and Madagascar, most of which remain in the developmental stage. However, the New Elk metallurgical coal mine, located in Colorado (the "New Elk Mine"), became operational in December 2010. As of the date of this Pre-Filing Report, and for reasons more particularly described in the Goldfarb affidavit, the New Elk Mine is currently on a care and maintenance program.
16. Cline owns an interest in a gold exploration property located near Wawa, Ontario, known as the Cline Lake Gold Project, which is currently in the exploration stage. As more particularly described in the Goldfarb Affidavit, Cline also owns minority interests in other properties and entities.
17. New Elk is a wholly owned subsidiary of Cline and is a limited liability company incorporated pursuant to the laws of the State of Colorado. New Elk holds mining rights in the New Elk Mine. The lands on which the New Elk Mine is situated are owned and controlled by a number of parties.

18. North Central is a wholly owned subsidiary of New Elk and is incorporated pursuant to the laws of the State of Colorado. North Central holds a fee simple interest in certain coal parcels on which the New Elk Mine is situated.

19. Raton Basin, a wholly owned subsidiary of New Elk that is incorporated pursuant to the laws of the State of Colorado, is not an Applicant in these proceedings. The Proposed Monitor is advised by the Applicants' Chief Restructuring Officer and Chief Executive Officer, Matthew Goldarb (the "CRO"), that Raton Basin is inactive and has no material assets or liabilities.

Employees

20. The Monitor understands that the Cline Group currently directly employs 19 people. The officers of the Cline Group are engaged as independent consultants. None of the Cline Group's personnel are unionized.

21. The workforces are presently reduced as a result of the temporary production halt at the New Elk Mine. Contractors and consultants are also hired from time to time to work on specific properties for administrative, accounting, legal and other services as required.

Events Leading up to the Applicants' Current Situation

22. The Proposed Monitor is advised by the CRO that certain events and occurrences have led to the Applicants' current situation, including, *inter alia*:
- A. the New Elk Mine, which is the Cline Group's only revenue-capable asset at the present time, 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;
 - B. in July 2012, the Cline Group largely suspended mining operations at the New Elk Mine to reduce costs and minimize losses;
 - C. 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;
 - D. the Applicants undertook a comprehensive sale process (the "**Sale Process**"), with the assistance of Moelis & Company LLC ("**Moelis**"), in respect of the Cline Group in the spring and summer of 2014.

Despite their efforts, neither the Applicants nor Moelis received any indications of interest;

- E. Cline is currently 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**”), each of which are guaranteed by both New Elk and North Central;
- F. total obligations of \$110,173,897 (the “**Debt**”), including principal and interest, are owed in respect of the Secured Notes as of December 1, 2014;
- G. Computershare (the “**Trustee**”) acts as trustee for both the 2011 Notes and 2013 Notes;
- H. the Secured Notes matured on June 15, 2014. In connection therewith, several forbearance agreements were entered into between the Trustee and Cline, New Elk and North Central. Such forbearance agreements expired on November 28, 2014 and have not been extended;
- I. on December 2, 2014, Marret confirmed that the Secured Noteholders had given instructions to the Trustee to accelerate the Secured Notes.

Accordingly, the Trustee will be in a position to enforce on the security over the 2011 Notes and the 2013 Notes in the near term;

J. Marret manages and exercises sole discretion and control on behalf of all noteholders (the “**Secured Noteholders**”) relating to the Secured Notes and all of the Secured Notes are held by beneficial owners whose investments are managed by Marret; and

K. Marret supports a proposed recapitalization of the Applicants (the “**Recapitalization**”), which would be implemented pursuant to a plan of compromise and arrangement under the CCAA that is recognized in the U.S. under Chapter 15.

23. The Monitor is advised by counsel to Marret that the Secured Noteholders are in the process of executing a unanimous resolution whereby the Trustee will be relieved of any obligation to take any further actions in these CCAA Proceedings in respect of the Secured Notes and the indentures governing the Secured Notes, and Marret will be authorized and empowered to take all such actions in these CCAA Proceedings. Paragraph 38 of the proposed form of Initial Order includes a provision giving effect to this. The Monitor is advised by counsel to Marret that Marret is willing and able to assume and perform all such obligations. In addition, the Monitor understands that the Trustee is aware of the contemplated

unanimous resolution of the Secured Noteholders and has been served with the application materials associated with these CCAA Proceedings.

24. The Applicants are facing an impending liquidity crisis as Cline is immediately required to repay \$110,173,897 in respect of the Secured Notes and does not have the ability to repay such amounts.
25. The Applicants' business, affairs, financial performance and position, as well as the causes of their insolvency, are more particularly described in the Goldfarb Affidavit and are therefore not repeated herein.

C. STAY OF PROCEEDINGS

26. The Applicants' stated objectives for the CCAA Proceedings and the stay of proceedings are to permit them to pursue the Recapitalization with a view to maximizing value for the benefit of stakeholders. The Applicants believe that without the benefit of CCAA protection there could be significant erosion in the value of the Cline Group that could result in the loss of tax attributes and various exploration, mining and environmental permits. On this basis, the Proposed Monitor supports the Applicants' request for a stay of proceedings.

D. ACTIVITIES OF THE PROPOSED MONITOR

27. Cline retained FTI as a financial advisor on April 9, 2014. FTI was retained in order to assist with the preparation of cash flow forecasts, to evaluate and assess restructuring alternatives available to the Applicants, and to assist the Applicants with their preparation for filing under the CCAA. For the purpose of this mandate, FTI has been involved in numerous activities, including, *inter alia*:

- A. participating in numerous meetings and discussions with senior management of the Applicants and the Applicants' legal advisors in connection with the Applicants' business and financial affairs generally and in connection with the preparation of the Cash Flow Forecast;
- B. participating in numerous meetings and discussions with the Applicants and counsel to the Applicants in connection with the proposed forms of Initial Order, Claims Procedure Order and Meeting Order;
- C. engaging legal counsel, who also participated in certain of the above-noted meetings and discussions;
- D. reviewing and considering various documentation in connection with the CCAA Proceedings; and

E. preparing this Pre-Filing Report.

28. If this Honourable Court approves the appointment of FTI as Monitor, FTI will comment in a future report on, *inter alia*:

A. the Secured Notes and the validity, enforceability and perfection of the security granted by the Applicants in connection therewith; and

B. the development of the Plan and the Alternate Plan (as defined herein), and the terms and conditions contained therein, which will be included in the statutory report to the Court on the Plan pursuant to the terms of the CCAA at the appropriate time.

E. COURT-ORDERED CHARGES

29. The proposed form of Initial Order provides for a charge on the Applicants' Property in an amount not to exceed \$350,000 (the "**Administration Charge**") to secure the fees and disbursements incurred in connection with services rendered by counsel to the Applicants, the Monitor (if appointed), the Monitor's counsel, the Chief Restructuring Officer of the Applicants and counsel to Marret both before and after the commencement of the CCAA Proceeding.

30. The Monitor understands that Cline maintains an insurance policy in respect of the potential liability of directors and officers of the Applicants (as described in the Goldfarb Affidavit) (the “**D&O Insurance Policy**”). In addition, the proposed form of Initial Order authorizes the Applicants to have up to \$50,000 deposited with AIG Insurance Company of Canada for the purpose of obtaining a directors and officers run-off insurance policy, and we are advised by counsel to Marret that Marret does not oppose such authorization. However, the Monitor understands that the D&O Insurance Policy contains several exclusions and limitations to the coverage provided by such policies, and as such, there is a potential for there to be insufficient coverage in respect of the potential directors’ liabilities for which the directors and/or officers may be found to be responsible.
31. Accordingly, the proposed form of Initial Order also provides for a charge on the Applicants’ Property in an amount not to exceed \$500,000 (the “**Directors’ Charge**”) to protect the directors and officers against obligations and liabilities that they may incur as directors and officers of the Applicants after the commencement of the CCAA Proceeding, except to the extent that the obligation or liability is incurred as a result of the director’s or officer’s gross negligence or wilful misconduct. The benefit of the Directors’ Charge will only be available to the extent that an applicable liability is not covered under any directors’ and officers’ insurance policy, or to the extent that such coverage is insufficient.

32. The Directors' Charge will rank subsequent to the Administration Charge. The effect of the proposed Court-ordered charges in relation to each other is the following ranking:
- i. First - Administrative Charge to a maximum of \$350,000; and
 - ii. Second - Directors' Charge to a maximum of \$500,000 (collectively, the "Charges").
33. The proposed Initial Order provides that the Charges will rank ahead of the existing security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise in favour of any Person, except for any security interests listed on Schedule "A" to the Initial Order.
34. FTI has worked with the Applicants to determine the proposed quantum of the Charges. Accordingly, FTI believes that the above-noted Charges and rankings are required and reasonable in the circumstances of the CCAA Proceedings in order to preserve going concern operations of the Applicants and maintain their enterprise value. Therefore, FTI supports the granting and the proposed ranking of the Charges.

F. SUPPORT AGREEMENT

35. FTI is advised by the Applicants that Marret, acting on behalf of the beneficial owners of the Secured Notes, supports the Recapitalization pursuant to a Support Agreement (the "**Support Agreement**") dated December 2, 2014 between Cline and Marret (on behalf of the Secured Noteholders) which, *inter alia*:

- A. sets forth the principal terms of the proposed Recapitalization;
- B. provides that Marret will vote (or cause to be voted) all of the Secured Notes in favour of the approval, consent, ratification and adoption of the Recapitalization and the Plan; and
- C. provides that Marret will 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 Cline.

36. Marret may terminate the Support Agreement in certain circumstances, including, *inter alia*:

- A. if Cline has not obtained an initial CCAA order prior to December 31, 2014;
- B. if the CCAA Proceedings are terminated; or

C. if a stay of proceedings under the CCAA ceases to be in effect with respect to Cline.

37. In addition, Marret and Cline are each permitted to terminate the Support Agreement at any time by providing the other party with ten days' written notice.

G. CLAIMS PROCEDURE ORDER AND MEETING ORDER

Claims Procedure Order

38. In order to complete the Recapitalization in a timely manner, the Applicants are seeking to proceed immediately with a Claims Procedure whereby the Applicants can identify and determine all affected claims against the Applicants and their current and former directors and officers.

39. The proposed Claims Procedure Order provides that the aggregate of all amounts owing by Cline under the Secured Notes and the guarantees executed by New Elk and North Central in respect of the Secured Notes (including, in each case, principal and accrued interest thereon) up to the Filing Date (the "**Secured Noteholders Allowed Claim**") shall be determined by the Applicants, with the consent of Marret. As more particularly described in the Goldfarb Affidavit, the Applicants are of the view that the amounts owing under the

Secured Notes exceed the current realizable value of the Cline Business (as defined in the Goldfarb Affidavit). For the purposes of the Claims Procedure Order, the Meetings Order and the Plan, the Secured Noteholders Allowed Claim will be allowed for both voting and distribution purposes against the Applicants as follows:

A. a portion of the Secured Noteholders Allowed Claim to be agreed to by the Applicants and Marret will be allowed as an Affected Secured Claim (as defined in the Claims Procedure Order) against the Applicants (collectively the "**Secured Noteholders Allowed Secured Claim**"); and

B. a portion of the Secured Noteholders Allowed Claim to be agreed to by the Applicants and Marret will be allowed as an Affected Unsecured Claim (as defined in the Claims Procedure Order) against the Applicants (collectively the "**Secured Noteholders Allowed Unsecured Claim**").

40. Given the presently depressed prices of metallurgical coal, the existing market for coal-related assets and the failure to receive any indications of interest for the Cline Group pursuant to the Sales Process, it appears that the amount of obligations in respect of the Secured Notes exceeds the realizable value of the

assets of the Cline Group at the present time. If this Honourable Court approves the appointment of FTI as Monitor, FTI will provide additional information in this regard in its report commenting on the Plan or any Alternate Plan, as the case may be.

41. As set forth in the Term Sheet (attached to Schedule "A" of the Support Agreement) and the Plan, the Applicants and Marret have agreed to set the Secured Noteholders Allowed Unsecured Claim at \$17,500,000 and the Secured Noteholders Allowed Secured Claim at \$92,673,897. FTI (if appointed as Monitor) is not required under the Claims Procedure Order to determine the quantum of the Secured Noteholders Allowed Secured Claim and the Secured Noteholders Allowed Unsecured Claim and FTI has not been involved in any discussion in respect thereof.
42. In addition to the claims process described above in respect of the Secured Noteholders, the proposed Claims Procedure Order also provides for (a) a process for the delivery by the Monitor of Notices of Claims to Known Creditors; (b) a process for Unknown Creditors to file Proofs of Claim with the Monitor; and (c) a process for the acceptance, revision or dispute, in whole or in part, by the Monitor of Claims of Known Creditors and Unknown Creditors for the purposes of voting and/or distribution under the Plan.

Meeting Order

43. The Applicants are also seeking the proposed Meeting Order authorizing and directing the Applicants to file the Plan with this Honourable Court and to convene meetings of their affected creditors to vote on a resolution to approve the Plan and any amendments thereto.

44. The proposed Meeting Order provides that the Applicants will be authorized to hold meetings of three separate classes (the “**Voting Classes**”) for the purposes of considering and voting on a resolution to approve the Plan. The three Voting Classes are:
 - A. the “Secured Noteholder Class”, being the class of Secured Noteholders in respect of the Secured Noteholders Allowed Claim;

 - B. the “Affected Unsecured Creditors Class”, being the class of holders of Affected Unsecured Claims (as defined in the Claims Procedure Order, which includes, *inter alia*, the Secured Noteholders Allowed Unsecured Claim). 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 deemed to vote in favour of the Plan (unless they indicate otherwise and in fact vote against the Plan) and who will be paid in cash in full for their Affected Unsecured Claims; and

C. the “WARN Act Plaintiffs Class”, being the class of plaintiffs in the class action lawsuit that was filed against Cline and New Elk alleging that they violated the U.S. federal *Worker Adjustment and Retraining Notification Act* (the “**WARN Act Class Action**”), and all others who are alleged in the WARN Act Class Action to be similarly situated and any other person who asserts a claim against one or more of the Applicants pursuant to the *Worker Adjustment and Retraining Notification Act*.

45. The Meeting Order provides that the Applicants will be authorized to hold separate meetings for each of the Voting Classes. In addition, the Meeting Order provides that 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.

46. If this Honourable Court approves the appointment of FTI as Monitor, FTI will (a) provide an update to this Honourable Court in a further report regarding the receipt of Voting Claims in the WARN Act Plaintiffs Class, if any, and any amended Plan in respect thereof and (b) report on the impact, if any, of the votes cast in respect of the Secured Noteholders Allowed Unsecured Claim on the vote of the Affected Unsecured Creditor Class.
47. As previously indicated, Marret will be assuming and performing all of the Trustee's obligations in these CCAA Proceedings. Accordingly, the Meeting Order provides that Marret will have primary responsibility for soliciting the votes of the beneficial Secured Noteholders in accordance with its usual practice of dealing with such noteholders, as opposed to the Trustee. The Monitor is advised by counsel to Marret that Marret is willing and able to assume and perform such obligations in accordance with the timeline set out in the proposed Meeting Order.
48. The Meeting Order also provides that:
- A. if the Plan is not accepted by the required majority of the Affected Unsecured Creditors Class or the WARN Act Plaintiffs Class; or
 - B. if the Applicants determine, in their discretion, that the Plan may not be accepted by either of the Affected Unsecured Creditors Class or the

WARN Act Plaintiffs Class, or is otherwise unlikely to succeed for any reason whatsoever,

then without further order of the Court, the Applicants will be permitted to file an amended and restated plan (the “**Alternate 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 to proceed with the Unsecured Creditors Meeting or the WARN Act Plaintiffs Meeting.

49. Further details regarding the Alternate Plan are set out in the Goldfarb Affidavit. The principal effect of the Alternate Plan is that (a) 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 obligations of the Secured Noteholders under the Secured Notes; and (b) all unsecured claims and all WARN Act Claims will receive no distributions or consideration of any kind.
50. The Meeting Order further provides that if the Alternate Plan is pursued, the Secured Noteholders Meeting and the Sanction Hearing may proceed on the originally scheduled dates set forth in the Meeting Order with the consent of the

Monitor, and that the Monitor may rely on voting information and proxies received from or on behalf of the Secured Noteholders in respect of the Plan, without the Applicants or the Monitor being required to distribute the Alternate Plan and solicit votes on the Alternate Plan to all beneficial Secured Noteholders in the manner described in the Meeting order. If the Alternate Plan is pursued, the Monitor will consider, *inter alia*, the impact of any shortened or absent service in connection with determining whether to consent to proceeding with the originally scheduled dates set forth in the Meeting Order for the Secured Noteholders Meeting and the Sanction Hearing. In this regard, the Monitor reiterates it is advised that Marret manages and exercises sole discretion and control on behalf of all Secured Noteholders relating to the Secured Notes and that all of the Secured Notes are held by beneficial owners whose investments are managed by Marret.

51. If this Honourable Court approves the appointment of FTI as Monitor, FTI will comment further on the Alternate Plan, if necessary.

Timing of the Claims Procedure Order and Meeting Order

52. If this Honourable Court grants the Initial Order, the Applicants will bring a motion immediately thereafter seeking the Claims Procedure Order and Meeting Order in order to stabilize their financial situation and proceed with the

Recapitalization as efficiently and expeditiously as possible. The Proposed Monitor is of the view that seeking such relief at this stage is reasonable in the circumstances given that:

- A. each of the proposed Claims Procedure Order and Meeting 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 on a date to be set by the Court (FTI understands that the Applicants intend to propose December 18, 2014 for the Comeback hearing); and
- B. the proposed Claims Bar Date is January 13, 2014 in order to take into account the potential impact of the holiday season, thereby providing Affected Secured Creditors and Affected Unsecured Creditors with a period of over 40 days to consider their respective claims.

H. CHAPTER 15 PROCEEDINGS

- 53. 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.

54. Accordingly, the Applicants are requesting that the proposed Initial Order provide that FTI (if appointed Monitor) be authorized, as the foreign representative of the Applicants, to, if deemed advisable by the Monitor and the Applicants, apply for recognition of the CCAA Proceedings and act as the foreign representative of the CCAA Proceedings in any proceedings in the United States pursuant to Chapter 15.
55. The Proposed Monitor is of the view that its appointment as foreign representative of the Applicants in proceedings under Chapter 15 will allow FTI to better review and report on the status of restructuring initiatives outside of Canada and to assist the Applicants in preserving value for the benefit of the Applicants and their stakeholders.
56. FTI has reviewed the circumstances of the Applicants, including the facts set out in paragraphs 43 to 48 of the Goldfarb Affidavit, and agrees with the conclusion that the centre of main interests of the Applicants is Ontario, Canada.
57. FTI is willing to act as foreign representative of the Applicants in proceedings under Chapter 15.

I. THE APPLICANTS' CASH MANAGEMENT SYSTEM

58. Cline operates a centralized cash management system (the "**Cash Management System**") pursuant to which Cline approves the expenditures of all members of the Cline Group, advances funds for all expenditures by the Cline Group, 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. The Cash Management System is further described in the Goldfarb Affidavit.
59. The Applicants have advised the Proposed Monitor that the Cash Management System is critical to the orderly management of the Applicants' business and affairs. The Applicants are seeking to continue to utilize the Cash Management System post-filing (or, if necessary, replace it with another substantially similar cash management system).
60. Establishing new bank accounts and cash management systems is time consuming and can be costly. Accordingly, the Proposed Monitor supports this request.

J. PAYMENT OF PRE-FILING AMOUNTS

61. The proposed form of Initial Order grants the Applicants the authority to pay certain specified expenses whether incurred prior to, or after, the commencement of the CCAA Proceeding with the consent of the Monitor. FTI has reviewed the Applicants' accounts payable and believes that authorizing the Applicants to pay certain pre-filing amounts in accordance with existing payment practices as specified in the proposed form of Initial Order, along with the oversight of FTI (if appointed as Monitor), is reasonable in the circumstances of the CCAA Proceeding.

K. APPLICANTS' CASH FLOW FORECAST

Cash Flow Projections

62. The Applicants, with the assistance of the Proposed Monitor, have prepared the consolidated 13-week Cash Flow Forecast. A copy of the Cash Flow Forecast and a report containing the prescribed representations of the Applicants regarding the preparation of the Cash Flow Forecast are appended to the Goldfarb Affidavit.
63. As of December 1, 2014 the Applicants had \$8.8 million cash on hand. The Applicants currently do not have any revenue generating assets, as the New Elk

Mine is under a care and maintenance program. However, the Applicants forecast that cash on hand will be sufficient to fund the CCAA Proceedings for the period of December 1, 2014 through to March 1, 2015.

64. The Cash Flow Forecast, together with the Applicants' management's report on the cash-flow statement as required by section 10(2)(b) of the CCAA, are attached as Exhibit "D" to the Goldfarb Affidavit. The Cash Flow Forecast shows a negative cash flow of approximately \$3.2 million for the period from December 1, 2014 to March 5, 2015 and is summarized below:

(CAD in millions)	13-Week
	total
Cash Flow from Operations	
Receipts	0.1
Operating Disbursements	(2.0)
Operating Cash Flows	(2.0)
Restructuring/ Non-Recurring Disbursements	(1.2)
Projected Net Cash Flow	(3.2)
Beginning Cash Balance	8.8
Ending Cash Balance	5.7

65. It is anticipated that the Applicants' projected liquidity requirements through to March 1, 2015 will be met by the Applicants' cash on hand. As Monitor, FTI would continue to monitor the Applicants' cash flow situation and report to this Honourable Court accordingly.

Proposed Monitor's Report on the Reasonableness of the Cash Flow Projections

66. Section 23(1)(b) of the CCAA states that the Monitor shall: *“review the company’s cash-flow statement as to its reasonableness and file a report with the court on the monitor’s findings.”*

67. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports as follows:

- A. the Cash Flow Forecast has been prepared by the management of the Applicants for the purpose described in Note 1 on the face of the Cash Flow Forecast using the Probable and Hypothetical Assumptions set out in Notes 2 to 4 of the Cash Flow Forecast;
- B. the Proposed Monitor’s review consisted of inquiries and discussions related to information supplied by certain of the management and employees of the Applicants. Since Hypothetical Assumptions need not be supported, the Proposed Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor has also reviewed the support provided by management of the Applicants for the Probable

Assumptions, and the preparation and presentation of the Cash Flow Forecast;

C. based on this review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:

- i. the Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Forecast;
- ii. as of the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the Hypothetical Assumptions; or
- iii. the Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions;

D. since the Cash Flow Forecast is based on assumptions regarding future events, actual results may vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any

financial information presented in this report, or relied upon by the Proposed Monitor in preparing this report; and

- E. the Cash Flow Forecast has been prepared solely for the purpose described in Note 1 on the face of the Cash Flow Forecast and readers are cautioned that it may not be appropriate for other purposes.

L. RECOMMENDATIONS AND CONCLUSIONS

- 68. The Applicants are insolvent, Cline is in default of the Secured Notes and the Applicants are unable to pay the amounts due thereunder.
- 69. The Sale Process did not result in any expressions of interest in the Applicants or their property and, accordingly, did not provide for any viable alternatives to the Recapitalization.
- 70. The CCAA Proceeding would provide the Applicants with the opportunity to continue as a going concern for the continued benefit of their various stakeholders.
- 71. Based on the foregoing, the Proposed Monitor respectfully recommends that this Honourable Court grant the following orders that are being sought by the Applicant:

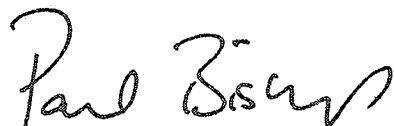
- A. the proposed Initial Order;
- B. the proposed Claims Procedure Order; and
- C. the proposed Meeting Order.

72. The Proposed Monitor is of the view that such relief is necessary, reasonable and justified. The Proposed Monitor is also of the view that granting the relief requested will provide the Applicants the best opportunity to undertake a restructuring under the CCAA Proceedings, thereby preserving value for the benefit of the Applicants' stakeholders.

All of which is respectfully submitted this 2nd day of December, 2014.

FTI Consulting Canada Inc.,
in its capacity as the Proposed Monitor of Cline Mining Corporation, New Elk Coal
Company LLC and North Central Energy Company

Per

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive, flowing style.

Paul Bishop
Managing Director

APPENDIX "A"

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**

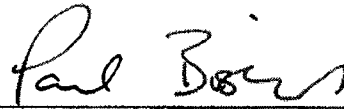
MONITOR'S CONSENT

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

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 (the "Applicant")

Court File No: _____

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

PRE-FILING REPORT OF THE PROPOSED MONITOR

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