

IN THE MATTER OF THE PROPOSAL OF  
EASTCOAL INC.

OF THE CITY OF VANCOUVER  
IN THE PROVINCE OF BRITISH COLUMBIA

**PROPOSAL TO CREDITORS**

EastCoal Inc. (“**EastCoal**” or the “**Company**”), being insolvent, hereby submits the following Proposal pursuant to the provisions of Part III Division I of the *Bankruptcy and Insolvency Act*.

All defined terms and expressions as used in this Proposal appear in Section 2.0 below.

**1.0 PURPOSE AND EFFECT OF PROPOSAL**

1.1 General Intent of Proposal

This Proposal is designed to allow the Company to complete a transaction that, on completion, will result in Creditors recovering more than would be recovered in the event of an immediate liquidation and distribution of the Company’s assets. The Company has determined that amounts owing to its Creditors exceed the value of its assets. The result is that no claim against the Company will be fully satisfied on a liquidation of its assets.

On January 16, 2014, the Court approved sales of substantially all of the Company’s assets to arm’s length purchasers. The Proposal, if approved by the Creditors, will allow the Company to capitalize on its status as a publicly listed entity to raise additional funds for distribution to its creditors, in particular by pursuing a transaction under which Salida, together with a group of investors, will subscribe for a majority of the Company’s shares in exchange for additional funds that will be used, in part, to make this Proposal to Creditors.

1.2 Overview of Proposal

The general outline of the Proposal is as follows:

- (a) The Company has entered into Share Subscription Agreements (the “**SSAs**”) with Salida on the one hand and a group of investors on the other hand, and such SSAs are conditional on (among other things) approval from the Creditors and the Court of this Proposal, under which it will acquire approximately a 95% equity stake in EastCoal on payment of an amount not less than \$700,000 (the “**Sale Proceeds**”);

- (b) The claim of the Company's sole secured creditor shall be extended for an additional 12 months, subject to a right of conversion on any subsequent equity raise carried out by the Company;
- (c) Further, \$450,000 from the Sale Proceeds shall be paid to the Trustee and form an Unsecured Cash Pool for distribution to the remaining Creditors;
- (d) Crown Claims, if any, will be paid in accordance with the requirements of the BIA;
- (e) Claims of Preferred Creditors, if any, will be paid from the Unsecured Cash Pool; and
- (f) Claims of Unsecured Creditors will be paid on a pro rata basis from the balance of the Unsecured Cash Pool.

### 1.3 Persons Affected

The Proposal applies to every Creditor, whether or not the Creditor has proven a claim against the Company under the Proposal for the purpose of receiving a payment under the Proposal pursuant to the provisions of section 3.0.

## 2.0 INTERPRETATION

### 2.1 Definitions

In this Proposal, the following terms are defined:

- (a) "**Affected Creditors**" means the holders of Crown Claims, the Secured Creditors, the Preferred Creditors and Unsecured Creditors.
- (b) "**BIA**" means the *Bankruptcy and Insolvency Act* (Canada), as amended from time to time.
- (c) "**Business Day**" means any day other than a Saturday, Sunday or statutory holiday in British Columbia.
- (d) "**Claims**" means any indebtedness, liability, action, cause of action, suit, debt due, account, bond, covenant, contract, counterclaim, demand, claim, right and obligation of any nature whatsoever of the Company or their successors and assigns or their respective directors, to any person, whether liquidated, unliquidated, fixed, contingent, matured, legal, equitable, secured, unsecured, present, future, known or unknown, and whether by guarantee, surety or otherwise, in any way, and whether in whole or in part, incurred or arising or relating to the period prior to or existing on the Claims Date, and including any claim arising from a breach or termination, occurring prior to the Effective Date, of any contract entered into prior to the Claims Date, together with all Claims in respect of the costs of remedying any environmental condition or damage affecting real property whether the condition or the damage occurred or existed before or after the Claims Date.

- (e) **"Claims Date"** means the date of the Notice of Intention to File a Proposal, being November 5, 2013.
- (f) **"Company"** or **"EastCoal"** means EastCoal Inc.
- (g) **"Court"** means the Supreme Court of British Columbia, Judicial District of Vancouver.
- (h) **"Creditor"** means any person having a Claim.
- (i) **"Creditors' Meeting"** means the meeting of Creditors called pursuant to the BIA for the purpose of considering and voting on the Proposal.
- (j) **"Crown Claims"** means Claims of Her Majesty in Right of Canada or a province that are described in section 60(1.1) of the BIA.
- (k) **"Effective Date"** means the date on which the Order of the Court approving this Proposal becomes final and may no longer be appealed.
- (l) **"Inspectors"** means the inspectors appointed pursuant to Section 56 of the BIA.
- (m) **"Preferred Creditors"** means any Creditor entitled to receive payment of any amount owed to it in priority to other Unsecured Creditors as provided for in Section 136 of the BIA.
- (n) **"PPR"** means the British Columbia Personal Property Registry.
- (o) **"Proposal"** means this proposal made pursuant to the provisions of Part III, Division I of the BIA, as filed on April 10, 2014, and as amended or supplemented from time to time.
- (p) **"Proven Claim"** means a Claim which has been accepted by the Trustee, or by subsequent Order of the Court, as to the proper amount owing to a Creditor under this Proposal.
- (q) **"Released Parties"** means each and every present and former director of the Company, and their respective successors and assigns.
- (r) **"Salida"** means a group of investors led by Salida Capital International Ltd. who account for an aggregate of at least \$300,000 of the Sale Proceeds and which are party to certain of the SSAs.
- (s) **"Secured Creditors"** means those Creditors holding perfected security interests against the assets of the Company.
- (t) **"SSAs"** means the various conditional Share Subscription Agreements among EastCoal on the one hand and Salida and the group of investors on the other hand, each accepted by EastCoal and dated April 10, 2014, the form of which is attached hereto as Schedule "A".
- (u) **"Trustee"** means Deloitte Restructuring Inc., the Trustee acting under the Proposal.

- (v) **“Unsecured Cash Pool”** means a fund of \$450,000, to be held by the Trustee for distribution to the Preferred Creditors and the Unsecured Creditors in accordance with the terms of this Proposal.
- (w) **“Unsecured Creditors”** means those creditors with Claims, except for those Claims that:
  - (i) have been finally and conclusively disallowed pursuant to the provisions of the BIA by the Trustee, or the Court (as may be applicable);
  - (ii) may be contingent or unliquidated and found by the Trustee, or the Court (as may be applicable) not to be provable;
  - (iii) are Crown Claims;
  - (iv) are Claims of Preferred Creditors; or
  - (v) are Claims of Secured Creditors.

## 2.2 Section References

In this Proposal, a reference to a section, clause or paragraph shall, unless otherwise stated, refer to a section, clause or paragraph of the Proposal.

## 2.3 Interpretation Not Affected By Headings

The division of the Proposal into sections, clauses and paragraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of the Proposal.

## 2.4 Date For Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

## **3.0 PROPOSAL TO CREDITORS**

### 3.1 Secured Claims

The Claims of Secured Creditors shall be modified as follows:

- (a) The Claims of Secured Creditors shall be payable by the Company 12 months after the Effective Date;
- (b) Notwithstanding this proposal process, interest shall continue to accrue on the Claims of Secured Creditors in accordance with their terms from the Claims Date up to the date of payment;
- (c) The Claims of Secured Creditors shall continue to be secured by any security currently held by such Creditor; and

- (d) If, at any time while a Secured Creditor's Claim is outstanding, the Company consummates:
- (i) a fundraising through the issuance of securities of the Company; or
  - (ii) a merger, acquisition, share exchange, plan of arrangement, amalgamation or any other transaction or series of transactions in which the shareholders of the Company immediately prior to the transaction or series of transactions do not own a majority of the outstanding shares and a majority of the voting power of the surviving entity or entities after the transaction or series of transactions; or
  - (iii) a sale, lease, exclusive license or other disposition of all or substantially all of the Company assets or business or any of the Company's material subsidiary's assets or business (for securities of the Company); or
  - (iv) an acquisition, lease, exclusive license or other acquisition of assets by the Company or any material subsidiary of the Company (for securities of the Company),

(each, a "**Transaction**") the Secured Creditor shall have the right to convert any or all of its Claim into additional securities at the same rate provided for in the Transaction.

Following the Effective Date, the Company and any of the Secured Creditors may, if mutually agreed upon in writing, enter into new agreements reflecting the foregoing arrangement.

EastCoal is aware of one Claim to a Secured Creditor, which Creditor is owed approximately \$232,153.42.

### 3.2 Crown Claims

Not later than six months following the Court's approval of the Proposal, the Company shall pay in full all Crown Claims, as required by section 60(1.1) of the BIA.

During the term of the Proposal, the Company will remit all required income tax, employee source deductions, and GST/HST installments directly to Canada Revenue Agency and file the required GST returns on time, with payment of any balance due made on filing. Without limitation to the foregoing, during the term of the Proposal, the Company shall pay all amounts required to be paid pursuant to section 60(1.2) of the BIA.

EastCoal is not aware of any outstanding Crown Claims.

### 3.3 Preferred Claims

The Claims of all Preferred Creditors, if any, shall be paid in full, without interest or penalty, and subject to the Superintendent of Bankruptcy's levy, in priority to all claims of the Unsecured Creditors.

Without limiting the foregoing, the Company shall pay immediately after the Effective Date, or sooner at its option, all amounts required to be paid to employees by section 60(1.3) of the BIA.

EastCoal is not aware of any outstanding Claims to Preferred Creditors.

### 3.4 Unsecured Claims

The Company estimates that the Claims of Unsecured Creditors will total approximately \$3,000,000.

Unsecured Creditors will receive funds from a cash pool of \$450,000 on a pro rata basis on account of their respective Claims.

Based on the estimated amount of the Claims of Unsecured Creditors, each Unsecured Creditor will receive approximately \$0.15 per dollar of Claim. If the amounts of Claims of Preferred Creditors or Claims of Unsecured Creditors are greater than estimated, the amount received per dollar of Claim by each Unsecured Creditor will be reduced.

Payments to the Unsecured Creditors shall be without interest or penalty and subject to deduction of the BIA Section 147 levy payable to the Superintendent of Bankruptcy, which levy is calculated as follows:

- (a) 5% on the amount up to \$1,000,000;
- (b) 1.25% on the amount over \$1,000,000 and up to \$2,000,000; and
- (c) 0.25% on the amount over \$2,000,000.

### 3.5 Timing and Payment

Following the Effective date, and upon satisfaction of all conditions to this Proposal and the SSAs, the following transactions, actions and events will be consummated:

- (a) The transaction contemplated by the SSAs shall complete;
- (b) The Company shall pay the Unsecured Cash Pool to the Trustee within 10 business days of completion of the share subscription transactions under the SSAs; and
- (c) The Trustee shall make the payments from the Unsecured Cash Pool to the Affected Creditors in accordance with this Proposal as soon as reasonably practicable following receipt of the Unsecured Cash Pool, less such reserves as the Trustee shall deem necessary or appropriate, and the balance shall be paid in such number of installments as the Trustee shall deem appropriate.

Notwithstanding the foregoing, the Company shall pay the Unsecured Cash Pool to the Trustee on or before June 30, 2014.

### 3.6 Effect of Payment

Upon the Trustee making the payments from the Unsecured Cash Pool to the Affected Creditors in accordance with this Proposal, the Company, its successors and assigns, and its directors shall be deemed to have satisfied in full the terms of the Proposal.

#### **4.0 PROOF OF CLAIMS**

##### **4.1 Claims Process**

In order to be eligible to vote at the Creditors' Meeting each Creditor shall file a Proof of Claim with the Trustee in accordance with the applicable provisions of the BIA and thereafter the Trustee shall administer the claims in accordance with the provisions of section 135 of the BIA.

Forthwith after the Creditors' Meeting, the Trustee shall give notice (the "**Notice**") pursuant to section 149 of the BIA, by registered mail, to every Person with a Claim that the Trustee has notice or knowledge of, but whose claim has not been filed or proved.

In order to receive a distribution from the Unsecured Cash Pool, a Creditor must submit a Proof of Claim prior to the time the Trustee distributes funds in accordance with the Proposal.

##### **4.2 Claims Bar**

Any Person who does not prove his Claim within thirty (30) days of the mailing of the Notice, shall forever be barred from making a claim in this Proposal or sharing in any dividend hereunder, subject to any exceptions set out in sections 149(2), (3) and (4) of the BIA, regardless of whether such Person was sent a Notice or whether such Person received such Notice.

#### **5.0 TRUSTEE, MONITORING AND ADMINISTRATIVE COSTS**

5.1 The Trustee is acting in its capacity as Trustee and not in its personal capacity and no officer, director, employee or agent of the Trustee shall incur any obligations or liabilities in connection with the Proposal or in connection with the business or liabilities of the Company.

5.2 The fees for the Trustee's services will be based on time spent by the Trustee and the various members of its staff at their respective billing rates plus any direct out of pocket expenses incurred. The Court will tax the Trustee's fees and disbursements. The Trustee will be entitled to take regular interim fees upon creditor, inspector, or Court approval.

5.3 The Company shall pay, in priority to all amounts to be distributed to Creditors under the Proposal, all amounts required to be paid by sub-section 60(1) of the Act. Without limiting the generality of the foregoing, the Trustee's fees, expenses and legal costs arising out of this Proposal and under the Act shall be paid by the Company. If the Company is declared to be in default under the Proposal, the Trustee's fees and costs will rank first in priority in relation to the Preferred Creditors and the Unsecured Creditors.

5.4 The Trustee shall be indemnified in full by the Company for all personal liability arising from fulfilling any duties or exercising any powers or duties conferred upon them by this Proposal or under the BIA, except for any wilful misconduct or gross negligence.

## **6.0 INSPECTORS**

At the Creditors' Meeting, the Affected Creditors will be entitled to appoint one or more, but not exceeding five, Inspectors, whose powers shall be as follows:

- (a) advising the Trustee in respect of such matters as may be referred to the Inspectors by the Trustee;
- (b) advising the Trustee concerning any dispute that may arise as to the validity of the Claims of Affected Creditors under this Proposal;
- (c) exercising all powers given to the Inspectors of a bankrupt estate appointed pursuant to the provisions of the BIA; and
- (d) altering or extending the time for payments to be made pursuant to this Proposal, but not the total amount paid.

## **7.0 RELEASE OF DIRECTORS**

Upon the Effective Date, the Released Parties shall be released and discharged by all Affected Creditors from all Claims which any Affected Creditor may have or have been entitled to assert against any of the Released Parties for which they would be by law liable in their capacity as directors for the payment of such Claims, provided that nothing herein shall release or discharge any of the Released Parties from any Claims that are set out in section 50(14) of the BIA.

## **8.0 CONSENTS, WAIVERS AND AGREEMENTS**

On the Effective Date, all Affected Creditors shall be deemed to have consented and agreed to all of the provisions of the Proposal in its entirety. Each Affected Creditor will be deemed to have waived any default by the Company in any provision, express or implied or in any agreement existing between the Affected Creditor and the Company that occurred on or prior to the Effective Date. Each Affected Creditor will be deemed to have agreed that, to the extent there is any conflict between the provisions of any such agreement and the provisions of the Proposal, the provisions of the Proposal take precedence and priority and the provisions of any such agreement are amended accordingly.

## **9.0 MISCELLANEOUS**

### **9.1 Paramountcy**

From and after the Effective Date, any conflict between the covenants, warranties, representations, terms, conditions or obligations, expressed or implied, of any contract, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, by-laws of the Company, lease or other agreement, whether written or oral, and any and all amendments or supplements thereto existing between any third party and the Company as at the Effective Date will be

deemed to be governed by the terms, conditions and provisions of the Proposal, which shall take precedence and priority.

#### 9.2 Binding Effect

The provisions of the Proposal will be binding on the Affected Creditors, the Company, and their respective heirs, executors, administrators, personal and legal representatives, successors, and assigns, on the Effective Date.

#### 9.3 Annulment of Proposal

If the Proposal is annulled by an Order of the Court, all payments on account of Claims made pursuant to the terms of the Proposal will reduce the Claims of the Affected Creditors.

#### 9.4 Modification of Proposal

The Company reserves the right to file any modification of or amendment to the Proposal by way of supplementary proposal or proposals lodged with the Trustee at any time prior to the conducting of votes upon the Proposal by the Creditors at the Creditors' Meetings convened by the Company for that purpose, in which case any such supplementary proposal or proposals shall, for all purposes, be and be deemed to be a part of and incorporated into the Proposal.

#### 9.5 Conditions on Proposal Implementation

The implementation of the Proposal by the Company shall be conditional upon:

- (a) all applicable judicial consents, Orders and approvals required or desirable for the completion of the transactions contemplated by this Proposal or any aspect thereof having first been obtained or received;
- (b) without limiting the generality of the foregoing, an Order from the Court:
  - (i) confirming and approving the transactions contemplated by the SSAs; and
  - (ii) if required to maintain the Company's status as a publicly listed company, that 69.6(2) of the BIA does not apply in respect of any action, suit or proceeding that may be taken by the TSX Venture Exchange Inc. or the NEX Board as a result of the transactions contemplated by this proposal or the SSAs; and
- (c) the sanction and approval of the Proposal by the Court in accordance with the provisions of the BIA.

#### 9.6 Report of the Trustee

The filing of the Proposal will be accompanied by the report of the Trustee pursuant to the Act.

#### 9.7 Completion of the Trustee's Duties

Upon the Trustee making the final distribution to the Creditors pursuant to section 3.6, the terms of this Proposal shall be deemed to be fully performed and the Trustee shall provide a certificate to the

Company and to the Official Receiver pursuant to Section 65.3 of the BIA and the Trustee shall be entitled to be discharged.

The Company hereby makes this Proposal to its Creditors as evidenced by its execution hereof below.

Dated at Vancouver, British Columbia, this 10<sup>th</sup> day of April, 2014.

**EASTCOAL INC.**

Per:



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Abraham Jonker, Director

SCHEDULE "A"

Form of Share Subscription Agreement

**EASTCOAL INC. SUBSCRIPTION AGREEMENT (Canada and Non-U.S. Only)**

**Date:** \_\_\_\_\_, 2014

**To:** **The Board of Directors of EastCoal Inc. (the "Corporation")**

The undersigned (hereinafter referred to as the "**Subscriber**") hereby irrevocably subscribes for and agrees to purchase \_\_\_\_\_ Common shares in the capital of the Corporation (the "**Shares**") set forth below, for the aggregate subscription price of \$\_\_\_\_\_ (the "**Aggregate Subscription Price**"), representing a subscription price of \$0.005 per Share, upon and subject to the terms and conditions set forth in "Terms and Conditions of Subscription for Shares of EastCoal Inc." attached hereto as Schedule A (together with this face page, page 2 and the Appendix hereto attaching the proposal to the creditors in substantially final form (the "**Proposal**") of the Corporation to be submitted to creditors of the Corporation pursuant to the provisions of Part III Division I of the *Bankruptcy and Insolvency Act* (Canada), the "**Subscription Agreement**").

_____ (Name of Subscriber - please print)
By: _____ (Authorized Signature)
_____ (Official Capacity or Title - please print)
_____ (If Subscriber is not a natural person, please print name of individual whose signature appears above.)
_____ (Subscriber's Address, including province)
_____ (Telephone Number)                      (E-Mail Address)
_____ (Signature of Witness, if Subscriber is an individual)
_____ (Print name of Witness)

<u>Disclosed Beneficial Principal Information:</u> <b>If the Subscriber is signing as agent for a principal, complete the following (a "Disclosed Beneficial Principal"):</b>
_____ (Name of Disclosed Beneficial Principal)
_____ (Disclosed Beneficial Principal's Address)
_____ (Disclosed Beneficial Principal's Telephone Number)
_____ (Disclosed Beneficial Principal's E-Mail Address)

**By executing this Subscription Agreement, you are consenting to the collection, use and disclosure of personal information in the manner described in the privacy notices in paragraphs 16 and 17 of this Subscription Agreement.**

<b>Register the Shares (if different from above):</b>
(Name)
(Account reference, if applicable)
(Address)

<b>Deliver the Shares (if different from above):</b>
(Name)
(Account reference, if applicable)
(Address)

**ACCEPTANCE:** The Corporation hereby accepts the subscription as set forth above on the terms and conditions contained in this Subscription Agreement.

**DATED** the \_\_\_\_\_ day of \_\_\_\_\_, 2014.

**EASTCOAL INC.**

By: \_\_\_\_\_  
Authorized Signatory

## SCHEDULE A

### TERMS AND CONDITIONS OF SUBSCRIPTION FOR COMMON SHARES OF EASTCOAL INC.

#### Terms of the Offering

1. The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that this subscription is subject to rejection or allotment by the Corporation in whole or in part and that the Corporation may close the Offering (as defined herein) in one or more closings in its sole discretion. If this subscription is rejected by the Corporation, this subscription and all unused monies tendered therewith shall be returned forthwith to the Subscriber, without interest or deduction.
2. The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that upon acceptance by the Corporation of this Subscription Agreement, this Subscription Agreement will constitute a binding obligation of the Subscriber (including, if applicable, each person on whose behalf the Subscriber is contracting) subject to the terms and conditions contained herein.
3. The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that:
  - (a) the Shares subscribed for by it hereunder will be subject to, among other things, the requisite approval of the Proposal by creditors of the Corporation and the requisite approval by the Court of the Proposal, and it will form part of a larger issuance and sale by the Corporation of up to \_\_\_\_\_ Shares at an issue price of \$0.005 per Share or such greater number of Shares as may be determined by the Corporation (the "**Offering**"); and
  - (b) the Offering is subject to a minimum subscription of \$700,000.
4. In this Subscription Agreement all references to dollar amounts are to Canadian dollars, unless otherwise indicated.

#### Representations, Warranties and Covenants by Subscriber

5. The Subscriber (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting hereunder) represents, warrants and covenants to the Corporation and its counsel (and acknowledges that the Corporation its counsel, are relying thereon) both at the date hereof and at the Closing Time (as defined herein) that:
  - (a) it has been independently advised as to the restrictions with respect to trading in the Shares imposed by applicable securities legislation in the jurisdiction in which it resides or to which it is otherwise subject, it confirms that no representation (written or oral) has been made to it by or on behalf of the Corporation with respect thereto, it acknowledges that it is aware of the characteristics of the Shares, the risks relating to an investment therein and of the fact that it will not be able to resell the Shares except in accordance with limited exemptions under applicable securities legislation and regulatory policy until the expiration of the applicable restricted period and compliance with the other requirements of applicable law;
  - (b) it agrees that the certificates representing the Shares shall bear the following legend indicating that the resale of such securities is restricted and it further acknowledges that it should consult its own legal counsel in its jurisdiction of residence or to which it is otherwise subject for full particulars of applicable resale restrictions and that it is the Subscriber's responsibility to comply with such restrictions before selling the Shares:

“WITHOUT PRIOR WRITTEN APPROVAL OF TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO OR FOR THE BENEFIT OF A CANADIAN RESIDENT UNTIL [INSERT DATE FOUR MONTHS AND A DAY FROM THE CLOSING DATE].”

- (c) the Shares shall not be resold until after the expiry of the applicable "hold" or "restricted" period attaching to such Shares under applicable securities laws unless sold pursuant to an exemption under all applicable securities laws, and neither the Corporation nor any transfer agent of the Corporation will register any transfers of such Shares not made in compliance with such restrictions on resale;
- (d) it has not received or been provided with, nor has it requested, nor does it have any need to receive, any offering memorandum, prospectus, sales or advertising literature, or any other document describing or purporting to describe the business and affairs of the Corporation which has been prepared for delivery to, and review by, prospective purchasers in order to assist it in making an investment decision in respect of the Shares and that the decision to enter into the Subscription Agreement and purchase the Shares has not been based upon any verbal or written representation as to fact or otherwise made by or on behalf of the Corporation except as set forth herein;
- (e) it has not become aware of nor has it purchased the Shares as a result of any advertisement in printed media of general and regular paid circulation (or other printed public media), radio, television or telecommunications or other form of advertisement (including electronic display such as the Internet) with respect to the Corporation or the distribution of the Shares;
- (f) it is purchasing the Shares as principal for its own account, not for the benefit of any other person, for investment only and not with a view to the resale or distribution of all or any of the Shares, it is resident in or otherwise subject to applicable securities laws of the jurisdiction set out as the "Subscriber's Address" on the face page hereof and is purchasing the Shares pursuant to the "Business Combination and Reorganization" exemption from the prospectus requirement pursuant to section 2.11 of National Instrument – *Prospectus and Registration Exemptions* ("**NI 45-106**");
- (g) if it is not purchasing the Shares as a principal, it is duly authorized to enter into this Subscription Agreement and to execute and deliver all documentation in connection with the purchase on behalf of each beneficial purchaser for whom it is acting, each of whom is purchasing as principal for its own account, not for the benefit of any other person, for investment only and not with a view to the resale or distribution of all or any of the Shares, it acknowledges that the Corporation is required by law to disclose to certain regulatory authorities the identity of each beneficial purchaser of Shares for whom it may be acting, it and each beneficial purchaser is resident in or otherwise subject to the jurisdiction set out as the "Subscriber's Address" and "Disclosed Beneficial Principal's Address", respectively, on the face page hereof, and each beneficial purchaser complies with subparagraph 4(g) hereof by virtue of its place of residence or by virtue of the securities laws of such place being applicable to the Subscriber or it is acting as agent for one or more Disclosed Beneficial Principals, each of such principals is purchasing as principal for its own account, not for the benefit of any other person, for investment only, and not with a view to the resale or distribution of all or any of the Shares, and each of such principals complies with subparagraph 4(g) hereof as are applicable to it;
- (h) it (and any beneficial purchaser for whom it is acting) acknowledges that:
  - i) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Shares;
  - ii) there is no government or other insurance covering the Shares;

- iii) it has been offered the opportunity to ask questions and receive answers concerning the terms and conditions of the Offering and to obtain any information the undersigned deems necessary to verify the accuracy of any information regarding the Corporation;
  - iv) there are risks associated with the purchase of the Shares, which securities are a speculative investment that involves a high degree of risk of loss of the Subscriber's entire investment;
  - v) there are restrictions on the Subscriber's ability to resell the Shares and it is the responsibility of the Subscriber to find out what those restrictions are and to comply with them before selling the Shares;
  - vi) the Corporation may complete additional financings in the future in order to develop the proposed business of the Corporation and to fund its ongoing development. There is no assurance that such financings will be available and if available, on reasonable terms. Any such future financings may have a dilutive effect on existing securityholders, including the Subscriber. If such future financings are not available, the Corporation may be unable to fund its ongoing development and the lack of capital resources may result in the failure of its business venture;
  - vii) it is capable of assessing the proposed investment as a result of the Subscriber's financial experience or as a result of advice received from a registered person other than the Corporation or any affiliates thereof;
  - viii) it acknowledges and agrees that if any of the Shares subscribed for are required, pursuant to applicable securities laws or the rules of any stock exchange on which the Shares may be listed, to be placed in escrow or otherwise dealt with in order to obtain the listing of the Shares on such exchange, it will enter into such escrow and other agreements as may be required in connection therewith; and
  - ix) the Corporation has advised the Subscriber that the Corporation is relying on an exemption from the requirements to provide the Subscriber with a prospectus and to sell securities through a person or company registered to sell securities under the *Securities Act* (British Columbia) and other applicable securities laws and, as a consequence of acquiring Shares pursuant to such exemption, certain protections, rights and remedies provided by the *Securities Act* (British Columbia) and other applicable securities laws, including statutory rights of rescission or damages, will not be available to the Subscriber;
- (i) it confirms that neither the Corporation nor any of its directors, officers, employees or representatives have made any representations (oral or written) to the Subscriber:
- (i) that any person will resell or repurchase the Shares;
  - (ii) that any person will refund the purchase price of the Shares;
  - (iii) as to the future price or value of the Shares; or
  - (iv) that the Shares will be listed and posted for trading on a stock exchange or that application has been made to list and post the Shares for trading on a stock exchange;
- (j) it is aware that the Shares have not been and will not be registered under the United States Securities Act of 1933, as amended ("**U.S. Securities Act**"), or the securities laws of any state of the United States, and that the Shares may not be offered or sold, directly or indirectly, without registration under the U.S. Securities Act and applicable state securities

laws (or compliance with the requirements of an exemption or exclusion from such registration requirements);

- (k) the offer of the Shares was not received on behalf of a subscriber in the United States, and the person making the order to purchase the Shares and executing and delivering this Subscription Agreement on behalf of the Subscriber was not in the United States when the order was placed and this Subscription Agreement was executed and delivered;
- (l) it undertakes and agrees that it will not offer or sell the Shares, except in accordance with the provisions of applicable securities legislation, regulations, rules, policies and orders and stock exchange rules, including, without limitation, any applicable provisions of the U.S. Securities Act and applicable state securities laws;
- (m) if the Subscriber is a corporation, partnership, unincorporated association or other entity, it has been duly incorporated or created, it is valid and subsisting under the laws of its jurisdiction of incorporation or creation, it has the legal capacity to enter into and be bound by this Subscription Agreement and all necessary approvals of directors, shareholders or otherwise in respect of its entering into this Subscription Agreement have been given and obtained;
- (n) if the Subscriber is an individual, it is of the full age of majority and is legally competent to execute this Subscription Agreement and take all action pursuant hereto;
- (o) this Subscription Agreement has been duly and validly authorized, executed and delivered by, and constitutes a legal, valid, binding and enforceable obligation of the Subscriber;
- (p) in the case of a subscription by it for Shares acting as agent for a disclosed principal, it is duly authorized to enter into, execute and deliver this Subscription Agreement and all other necessary documentation in connection with such subscription on behalf of such principal and this Subscription Agreement has been duly authorized, executed and delivered by or on behalf of, and constitutes a legal, valid, binding and enforceable agreement of, such principal which is purchasing for its own account, not for the benefit of any other person and not with a view to resale or distribution of any of the Shares;
- (q) it has such knowledge and experience in financial and business affairs as to be capable of evaluating the merits and risks of its investment and is able to bear the economic risk of loss of its investment or, where it is not purchasing as principal, each beneficial purchaser is able to bear the economic risk of loss of its investment;
- (r) other than the representations and warranties contained herein, it has not relied upon any verbal or written representation as to fact or otherwise made by or on behalf of the Corporation or otherwise, and agrees that the Corporation and the Corporation's counsel assume no responsibility or liability of any nature whatsoever for the accuracy, adequacy or completeness of any other available information or as to whether all information concerning the Corporation required to be disclosed by the Corporation has been generally disclosed and acknowledges that no person in the employment of, or acting as agent of, the Corporation has any authority to make any representation or warranty in respect of the Corporation and any such statements made by any such person are given or made without liability or responsibility and the Subscriber hereby releases the Corporation and the Corporation's directors, officers, employees, agents, advisors and shareholders from any claims that may arise in respect of such statements;
- (s) it confirms that no representation has been made to it with respect to the future value or price of the Shares or that the Shares will be listed on any particular stock exchange or that application has been or will be made for such listing;

- (t) it acknowledges that the Corporation's counsel are acting as counsel to the Corporation and not as counsel to the Subscriber;
- (u) it understands, acknowledges and is aware that the Shares are being offered for sale only on a "private placement" basis and that the sale and delivery of the Shares is conditional upon such sale being exempt from the requirements under applicable securities legislation as to the filing of a prospectus or delivery of an offering memorandum or upon the issuance of such orders, consents or approvals as may be required to permit such sale without the requirement of filing a prospectus or delivering an offering memorandum and, as a consequence: (i) it is restricted from using most of the civil remedies available under securities legislation; (ii) it may not receive information that would otherwise be required to be provided to it under securities legislation; and (iii) the Corporation is relieved from certain obligations that would otherwise apply under securities legislation;
- (v) if required by applicable securities legislation, regulations, rules, instruments, policies or orders or by any securities commission, stock exchange or other regulatory authority, the Subscriber will execute, deliver, file and otherwise assist the Corporation in filing, such reports, undertakings and other documents with respect to the issue of the Shares;
- (w) the entering into of this Subscription Agreement and the completion of the transactions contemplated hereby by the Subscriber do not and will not result in a violation of any of the terms or provisions of any law applicable to the Subscriber, and if the Subscriber is not a natural person, any of the Subscriber's constating documents, or any agreement to which the Subscriber is a party or by which it is bound;
- (x) it acknowledges that it has been encouraged, and has had the opportunity, to obtain independent legal, tax and investment advice with respect to the Corporation's status both before and after the completion of the Offering and its subscription for the Shares and accordingly, has had the opportunity to acquire an understanding of the meanings of all terms contained herein relevant to the Subscriber for purposes of giving representations, warranties and covenants under this Subscription Agreement; and
- (y) it has been independently advised as to or acknowledges that it is aware of the potential tax consequences to the Subscriber with respect to the acquisition of the Shares, and confirms that no representation has been made to it by or on behalf of the Corporation with respect thereto; and
- (z) it acknowledges and agrees with the terms set out in the Proposal and the actions to be taken by the Corporation pursuant to paragraph 13 of this Subscription Agreement.

## **Closing**

6. The Subscriber agrees to deliver to the Corporation: (a) this duly completed and executed Subscription Agreement, including the face page and page 2; (b) such other reports, undertakings and other documents as the Corporation may request; and (c) a certified cheque or bank draft payable to "EastCoal Inc." for the Aggregate Subscription Price or payments of the same amount in such other manner as is acceptable to the Corporation. If this subscription is rejected by the Corporation, this subscription and all unused monies tendered therewith shall be returned forthwith to the Subscriber, without interest or deduction.
7. The sale of the Shares and the closing of the Offering shall be conditional upon the following conditions being satisfied or waived (if applicable) in accordance with the terms of this Subscription Agreement:
  - (a) the Corporation having accepted this Subscription Agreement;
  - (b) the payment by the Subscriber of the Aggregate Subscription Price in the manner prescribed in this Subscription Agreement;

- (c) the irrevocable subscriptions for a minimum of \$700,000 shall have been received by the Corporation in connection with the Offering;
- (d) the completion of the consolidated audited accounts of the Corporation for the year ended December 31, 2013 prepared in accordance with the requisite auditing standard; and
- (e) and the grant of an order of the Court in a form reasonably acceptable to the Corporation approving of the transaction(s) and restraining the NEX Board and the TSX Venture Exchange from enforcing the NEX rules which would otherwise be applicable to the transaction(s) against the Corporation following the completion of the Offering,

(collectively, the "**Conditions**").

- 8. The Conditions contained in paragraphs 7(c) and (d) are for the mutual benefit of the Corporation and the Subscriber and either party may, at any time, waive such Conditions by notice to the other party. The Conditions contained in paragraphs 7(a), (b) and (e) are for the sole benefit of the Corporation and are not capable of being waived by the Subscriber.
- 9. If any of the Conditions is not satisfied or waived (if applicable) by 12:00 p.m. (Vancouver time) on June 30, 2014, each of the Corporation and the Subscriber's further rights and obligations under this Subscription Agreement shall immediately terminate and the subscription amount received by the Corporation from the Subscriber will be promptly returned to it without interest or deduction.
- 10. If all the Conditions have been satisfied or waived (if applicable), the sale of the Shares pursuant to this Subscription Agreement will be completed at the offices of Dentons Canada LLP, the Corporation's counsel, in Vancouver, British Columbia at such time as the Corporation may determine (the "**Closing Time**") or such other date or dates as the Corporation may determine (the "**Closing Date**"). At the applicable Closing Time, Corporation shall deliver to the Subscriber evidence of the issuance of a certificate representing the Shares registered pursuant to the registration instructions on page 2 of this Subscription Agreement and such other documentation as may be required.
- 11. The Corporation shall be entitled to rely on delivery of a facsimile or other electronic copy of executed subscriptions, and acceptance by the Corporation of such facsimile or other electronic subscriptions shall be legally effective to create a valid and binding agreement between the Subscriber and the Corporation in accordance with the terms hereof. In addition, this Subscription Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

### **Representations, Warranties and Covenants by the Corporation**

- 12. The Corporation is a corporation incorporated, organized and existing under the laws of British Columbia. The Corporation has the corporate power and capacity to enter into this Agreement and to issue the Shares. The issuance of the Shares to Subscriber has been duly authorized by all necessary corporate action on the part of the Corporation. In consideration of payment of the Aggregate Subscription Price, the Shares will be issued to Subscriber as fully paid and non-assessable shares of the Corporation.
- 13. The Corporation will:
  - (a) at or prior to the Closing Time, take all reasonable and appropriate steps, and shall ensure that the Corporation's existing issued share capital is consolidated on a ratio of 10:1;
  - (b) at or prior to the Closing Time, take all reasonable and appropriate steps to terminate the Corporation's existing employment and consultancy contracts in existence as at the date of this Subscription Agreement with all remaining employees employed by the Corporation and all remaining consultants retained by the Corporation;

- (c) as soon as reasonably practicable following the Closing Time, take all reasonable and appropriate steps to ensure that the board of the Corporation as it is constituted as at the date of this Subscription Agreement is retained and take all reasonable and appropriate steps to have Hendrik Dietrichsen appointed as Company Secretary on market standard terms and conditions to be agreed between Mr. Dietrichsen and the Corporation and appointed to the board as a non-executive director subject, in each case, to the approval of the NEX board of the TSX Venture Exchange and the filing by Mr. Dietrichsen of a personal information form or such other information as may be required by the NEX board of the TSX Venture Exchange;
- (d) following the Closing Time and at all material times thereafter ensure that a market standard policy of directors' and officers' liability insurance is maintained with an aggregate coverage limit of no less than \$25,000,000 per annum and for a period of no less than 1 year following the Closing Time; and
- (e) at the Closing Time pay to the Trustee such portion of the proceeds of the Offering as set out in the Proposal for distribution to unsecured creditors.

### General

14. Throughout this Subscription Agreement, if the Subscriber is contracting on behalf of another person or persons, all representations, warranties, covenants, acknowledgements, confirmations and statements made by the Subscriber hereunder shall be true with respect to such person or persons on whose behalf the Subscriber is contracting as if such representations, warranties, covenants, acknowledgements, confirmations or statements were made directly by such person or persons.
15. The Subscriber agrees (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that the representations, warranties and covenants of the Subscriber herein will be true and correct both as of the execution of this Subscription Agreement and as of the Closing Time and will survive the completion of the issuance of the Shares. The representations, warranties and covenants of the Subscriber herein are made with the intent that they be relied upon by the Corporation and its counsel in determining the eligibility of a purchaser of Shares and the Subscriber agrees to indemnify and hold harmless the Corporation and its affiliates, shareholders, directors, officers, partners, employees and agents (including its counsel), from and against all losses, claims, costs, expenses and damages or liabilities whatsoever which any of them may suffer or incur which are caused or arise from a breach thereof. The Subscriber undertakes to immediately notify the Corporation at **EastCoal Inc., care of Dentons Canada LLP, 20<sup>th</sup> Floor, 250 Howe Street, Vancouver, British Columbia, V6C 3R8, Attention: Michael Stephens** of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing Time.
16. The Subscriber acknowledges that this Subscription Agreement hereto require the Subscriber to provide certain personal information to the Corporation. Such information is being collected by the Corporation for the purposes of completing the Offering, which includes, without limitation, determining the Subscriber's eligibility to purchase the Shares under applicable securities legislation, preparing and registering certificates representing the Shares to be issued to the Subscriber and completing filings required by any stock exchange or securities regulatory authority. The Subscriber's personal information may be disclosed by the Corporation to: (a) stock exchanges or securities regulatory authorities; (b) the Corporation's registrar and transfer agent; (c) Canada Revenue Agency; and (d) any of the other parties involved in the Offering, including legal counsel, and may be included in record books in connection with the Offering. By executing this Subscription Agreement, the Subscriber is deemed to be consenting to the foregoing collection, use and disclosure of the Subscriber's personal information. The Subscriber also consents to: (i) the filing of copies or originals of any of the Subscriber's documents described in paragraph 4 hereof as may be required to be filed with any stock exchange or securities regulatory authority in connection with the transactions contemplated hereby; and (ii) the collection, use and disclosure of personal information provided herein and other personal information provided by the Subscriber or collected by the Corporation as reasonably necessary in connection with the Subscriber's

subscription of Shares for the purposes of meeting legal, regulatory, self-regulatory, security and audit requirements of applicable laws.

17. The Subscriber represents and warrants that the funds representing the Aggregate Subscription Price which will be advanced by the Subscriber to the Corporation hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) (the "**PCMLTFA**") and the Subscriber acknowledges that the Corporation may in the future be required by law to disclose the Subscriber's name and other information relating to this Subscription Agreement and the Subscriber's subscription hereunder, on a confidential basis, pursuant to the PCMLTFA. To the best of its knowledge: (a) none of the subscription funds to be provided by the Subscriber (i) have been or will be derived from or related to any activity that is deemed criminal under the laws of Canada, the United States, or any other jurisdiction, or (ii) are being tendered on behalf of a person or entity who has not been identified to the Subscriber, and (b) it shall promptly notify the Corporation if the Subscriber discovers that any of such representations ceases to be true, and to provide the Corporation with appropriate information in connection therewith.
18. The obligations of the parties hereunder are subject to acceptance of the terms of the Offering by all required regulatory approvals.
19. The Subscriber acknowledges and agrees that all costs incurred by the Subscriber (including any fees and disbursements of any special counsel retained by the Subscriber) relating to the sale of the Shares to the Subscriber shall be borne by the Subscriber.
20. Time shall be of the essence hereof.
21. This Agreement is governed by, and shall be interpreted and enforced in accordance with the Laws of the province of British Columbia and the federal Laws of Canada applicable therein. The Subscriber, in its personal or corporate capacity and, if applicable, on behalf of each beneficial subscriber for whom it is acting, irrevocably attorns to the jurisdiction of the Province of British Columbia.
22. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by facsimile or other electronic form. Notices to the Subscriber shall be directed to the address listed on the face page and notices to the Corporation shall be directed to **EastCoal Inc., care of Dentons Canada LLP, 20<sup>th</sup> Floor, 250 Howe Street, Vancouver, British Columbia, V6C 3R8, Attention: Michael Stephens.**
23. This Subscription Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.
24. The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Subscriber and the Corporation and their respective heirs, executors, administrators, successors and assigns; provided that, except for the assignment by a Subscriber who is acting as nominee or agent for the beneficial owner and as otherwise herein provided, this Subscription Agreement shall not be assignable by the Subscriber without prior written consent of the Corporation.
25. The Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder, agrees that this subscription is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by the Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder.
26. Neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.
27. The invalidity, illegality or unenforceability of any provision of this Subscription Agreement shall not affect the validity, legality or enforceability of any other provision hereof.

28. The headings used in this Subscription Agreement have been inserted for convenience of reference only and shall not affect the meaning or interpretation of this Subscription Agreement or any provision hereof.
29. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.

*[Remainder of this page intentionally left blank]*

**APPENDIX**

**Form of Proposal to Creditors**

**[See attached]**