

CANADA
PROVINCE OF QUEBEC
DISTRICT OF ABITIBI
DIVISION NUMBER: 12-Abitibi
COURT NUMBER: 615-11-001401-142
ESTATE NUMBER: 33-1909014

SUPERIOUR COURT
Commercial Division

**IN THE MATTER OF THE PROPOSAL
OF:**

AURBEC MINES INC., a legal person, duly incorporated according to law, having its head office and principal place of business at 1495, 4e Rue, Val-d'Or, Quebec, J9P 6X1

Insolvent person

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
(**Jean-François Nadon**, CPA, CA, CIRP, designated person) having a place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec, H3B 4T9

Trustee

**REPORT OF THE TRUSTEE ON THE MONITORING OF THE INSOLVENT PERSON'S
BUSINESS AND FINANCIAL AFFAIRS
(Subparagraph 50.4(7)(b)(ii) and Subsection 50.4(9) of the BIA)**

I, the undersigned, Jean-François Nadon, CPA, CA, CIRP, with the firm of Samson Bélair/Deloitte & Touche Inc., Trustee acting *in re*: the notice of intention to make a proposal (“**NOI**”) of Aurbec Mines Inc. (“**Aurbec**”), the insolvent person, am hereby reporting my principal observations regarding the insolvent person's business and financial affairs to the Court pursuant to subparagraph 50.4(7)(b)(ii) of the *Bankruptcy and Insolvency Act* (“**BIA**”).

1. The above-mentioned insolvent person filed a NOI on September 8, 2014.
2. In preparing this first report (“**First Report**”), the Trustee has relied upon unaudited financial information, Aurbec's records and its discussion with the management of Aurbec (the “**Management**”). While the Trustee has analyzed the information, he has not performed an audit or otherwise verified such information.
3. Aurbec is a company operating in the exploration, development and operation of gold mining sites located in Quebec. The Sleeping Giant gold mining site (“**Sleeping Giant**”) is presently in a reduced operational mode; as for the Vezza gold mining site (“**Vezza**”), it is presently not being operated by Aurbec.

4. Matters addressed in this First Report:
 - a. Trustee's activities since September 8, 2014;
 - b. Aurbec's activities from September 8 to October 8, 2014;
 - c. Aurbec's application for a 45-day extension of the stay proceedings;
 - d. Trustee's recommendation.

TRUSTEE'S ACTIVITIES

5. On September 11, 2014, the Trustee sent a copy of the NOI to all of the insolvent person's known creditors.
6. The forecast cash flow statement was prepared for the period from September 15 to December 14, 2014, and was submitted to the Official Receiver on September 17, 2014, together with the report by the insolvent person and the Trustee's report, pursuant to Subsection 50.4(2) of the BIA.
7. The Trustee has sent the NOI, by regular mail, to all known creditors.
8. The Trustee has performed a weekly review of the actual receipts and disbursements.
9. Since the filing of the NOI, the Trustee has held weekly conference calls with Management and FBC Holdings S.à.r.l., controlled by Cyrus Capital Partners L.P. (collectively "**Cyrus**"), the main secured lender, which holds security on all the assets of Aurbec and has a first ranking on all assets except for Vezza.

AURBEC'S ACTIVITIES

10. Since June 2014, Management, with the assistance of Clarus Securities Inc. ("**Clarus**"), has been actively searching for a potential investor. At the time of the NOI, approximately four potential investors had signed confidentiality agreements and had been granted access to a virtual data room containing additional financial and operational information. Since the filing of the NOI, three additional investors have signed confidentiality agreements with Aurbec. Management continues to entertain discussions with potential investors.
11. As mentioned previously, Vezza is not currently operating and Management has yet to conclude on a short-term strategy regarding the future of this site. Discussions with the creditors holding a first-ranking security on Vezza may be held in the coming weeks depending on the strategy put forward by Management.
12. Aurbec's employees are currently processing the final mine out at Sleeping Giant. The mill clean-out has been initiated last week and could be completed in the first weeks of November 2014. Aurbec is currently assessing its alternatives, with the cooperation of the secured lender, on the ongoing care and maintenance operations that could be required for Sleeping Giant once the mill clean-out process is completed.

13. Management has initiated a process for the disposal of non-significant redundant assets. All disposals will be done in agreement with the secured lenders and with court approval should disposal proceeds exceed \$100K.
14. The actual results for the two-week period ended September 28, 2014 are presented in Appendix A.
15. Total receipts for Aurbec were \$1.1M, representing a favorable variance of approximately \$168K which is mainly explained by additional gold ounces processed and sold out of Sleeping Giant.
16. Total disbursements were \$549K, representing an unfavorable variance of \$158K which is mainly explained by an additional reimbursable deposit for an amount of \$117K required by Hydro-Québec, a pre-filing payment of approximately \$37K for the benefit of Cyanco, the only cyanide supplier in the region, and a reimbursable deposit of approximately \$13K for the benefit of Agence de sécurité Mirado, a company providing security services to Aurbec, that requested a half-month advance to cover its services. Most of these unfavorable variances are due to timing.
17. As mentioned previously, Management and Cyrus have been in regular communications regarding the operations of Aurbec. Since the filing of the NOI, with the support of Cyrus, pre-filing payments totaling approximately \$74K were made to some of Aurbec's creditors:
 - a. Raymond Chabot Grant Thornton (\$10K): Its services were required to complete tax documentation and a government claim that could generate over \$2.6M for Aurbec.
 - b. Cyanco (\$37K): As mentioned previously, Aurbec proceeded with a pre-filing payment to Cyanco. There is no other cyanide supplier in the region. To avoid jeopardizing the mine out process of Sleeping Giant, Aurbec concluded that it did not have any other option than to go ahead with the payment to Cyanco.
 - c. Employee vacations and other benefits (\$27K): Aurbec proceeded with the payment of vacations and other benefits owed to employees that were laid off at the date of the NOI.

EXTENSION OF THE STAY PROCEEDINGS

18. The insolvent person signified its intention to the Trustee to file a first motion for a 45-day extension of the stay proceedings to make a proposal to its creditors pursuant to Subsection 50.4(9) of the BIA, the whole as it appears in the court file.

TRUSTEE'S RECOMMENDATION

19. The Trustee is of the opinion that the reasons invoked in the motion presented by the insolvent person for a 45-day extension of the stay proceedings are reasonable.
20. The Trustee is of the opinion, based on the grounds alleged in the motion for an extension of the stay proceedings, that:

- a. It is in the creditors' best interest for an extension of the stay proceedings to be granted in order to allow Aurbec more time to make a viable proposal to its creditors;
- b. Aurbec has acted – and is continuing to act – in good faith and with due diligence;
- c. Creditors will not suffer losses as compared to the situation at the time that the NOI was filed.

DATED AT MONTREAL on this 6th day of October, 2014.

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
Trustee acting *in re*: the proposal of
AURBEC MINES INC.



Jean-François Nadon, CPA, CA, CIRP

Trustee's Report on the State of the Insolvent Person's Business and Financial Affairs

APPENDIX A

Aurbec Mines Inc.
Statement of receipts and disbursements
For the period from September 15 to 28, 2014

	2-week period ended September 28, 2014		
	Budget	Actual	Variance
	(\$)	(\$)	(\$)
Receipts			
Metal Sales	676,500	843,933	167,433
Other inflows	<u>236,277</u>	<u>237,427</u>	<u>1,150</u>
	912,777	1,081,360	168,583
Disbursements			
Salaries	294,182	282,129	12,053
Energy	-	116,386	(116,386)
Maintenance	12,748	-	12,748
Mining and milling costs	59,536	87,386	(27,850)
Environment	14,064	12,774	1,290
Office and administration costs	3	7,322	(7,319)
Insurance	-	-	-
Professional fees	-	-	-
Exploration costs	-	402	(402)
Site administration costs	1,994	42,898	(40,904)
Transfers to Maudore Minerals Ltd.	<u>8,415</u>	<u>-</u>	<u>8,415</u>
	<u>390,942</u>	<u>549,297</u>	<u>(158,355)</u>
Projected bank balance variation	521,835	532,063	10,228
Bank balance - beginning	<u>541,276</u>	<u>551,126</u>	<u>9,850</u>
Bank balance - ending	<u><u>1,063,111</u></u>	<u><u>1,083,189</u></u>	<u><u>20,078</u></u>