

G. Powroznik Group Inc.

In the Matter of the Proposal of Pumptown Quarry Inc.

**Trustee's Report on the Proposal
June 12, 2009**

Submitted to: The Creditors of Pumptown Quarry Inc.
 The Official Receiver
 of the Office of the Superintendent of Bankruptcy

Submitted by: G. Powroznik Group Inc., Trustee

In the Matter of the Proposal of Pumptown Quarry Inc.

TRUSTEE'S REPORT ON THE PROPOSAL

TABLE OF CONTENTS

	Page
Background	1
Summary of Proposal	1
Financial Position and Causes of Difficulties	2
Identification and Evaluation of Assets	3
Conduct of the Debtor	4
Creditors' Claims	5
Previous Business Dealings with the Debtor	5
Informal Meetings with Major Creditors	6
Remuneration of Trustee	6
Other	6
Statement of Estimated Realization	6
Recommendations	8
Restrictions and Qualifications	9

A. Background

Pan Pacific Aggregates Plc (“PPA”) a company registered in England and Wales, acquired all the shares of Pumptown Quarry Inc. (“the Company”) on June 11, 2008 from Columbia National Investments Ltd (“CNI”). At the time of the acquisition the quarry was operational.

In August 2008, the City of Abbotsford restricted quarry truck access on the bridge that serviced the only access road to the Company’s quarry. As a result, all quarry production was ceased and the quarry has and will remain closed until a replacement bridge or by-pass road is constructed. This has resulted in the Company being unable to generate revenue since August 2008.

Since acquisition, the Company has been served with two Statement of Claims filed in the Supreme Court of British Columbia relating to equipment leases. The first Statement of Claim was received from HSBC Bank Canada (“HSBC”) for an amount which was initially stated at \$13,255,000 was subsequently amended to \$1,652,688. The second Statement of Claim was received from Caterpillar Financial Services Limited (“CFSL”) for \$429,716 before realization of security.

PPA, through its Canadian subsidiary Pan Pacific Aggregates Ltd. (“Pan Pacific”), has funded the losses incurred by the Company and intends to provide the funding to support the Proposal to the creditors of the Company as outlined in this Report on the Proposal.

The Company has suffered significant losses and will continue to do so until it can regain quarry truck access and commence operations. At this time, the Company has the choice to either make a proposal to its creditors or be assigned into bankruptcy as it has become insolvent. The Company’s Director is of the opinion that a proposal is the best and most equitable solution to its creditors in light of the current circumstances. A description of the facts and conditions surrounding the Company’s Proposal, along with the recommendation of the Trustee, is contained below.

B. Summary of Proposal

The Proposal presented to unsecured creditors (“Creditors”) of the Company provides:

- Creditors with unsecured provable claims of less than or equal to \$500, payment of 100% of their proved claims;
- Creditors with unsecured provable claims of greater than \$500, payment of 9.554% of their proved claims;
- Preferred creditors and employees are to be paid in full, and the Administrative Fees and Expenses of the Proposal shall be made in priority to all creditor claims; and
- Secured claims and Related Party claims are excluded under the Proposal.

The Company's objective is to pay the proven claims of the creditors as soon as possible after the Proposal is approved by the creditors and by the Court. It is hoped all creditors will be paid by August 31, 2009.

C. Financial Position and Cause of Difficulties

The estimated financial position (at book value) of the Company as at 31 May, 2009 was as follows:

Pumptown Quarry Inc	(Unaudited)
CDN \$	Book Value
Assets	
Cash	5,800
Reclamation Mines Deposit	28,000
Blasting product inventory	11,524
Rock inventory (non trade)	40,500
Rock inventory (trade)	<u>174,250</u>
Total current assets	<u>260,074</u>
Equipment	47,859
Land at acquisition price	761,980
Development costs	<u>175,136</u>
Total fixed and non-current assets	<u>984,975</u>
Total assets	<u>1,245,049</u>
Liabilities	
Trade payables	306,521
HSBC Bank Canada	1,652,688
Caterpillar Financial Services Limited	<u>234,000</u>
	<u>2,193,209</u>
Due to related companies	<u>960,414</u>
Total unsecured creditors	<u>3,153,623</u>
Mortgage on Quarry property	<u>1,624,000</u>
Total liabilities	<u>4,777,623</u>
Equity	<u>(3,532,574)</u>
Total liabilities and equity	<u>1,245,049</u>

Notes to estimated financial position:

1. The estimated financial position of the Company is stated as at May 31, 2009. Readers of this report should note certain amounts presented above will not reconcile with the Company's Statement of Affairs which was completed using financial data as at June 10, 2009, the date of filing the Proposal with the Official Receiver.
2. The quarry property is located at 40251 Quadling Road, Abbotsford, B.C., and is secured by way of a mortgage to Realty Investment Corporation ("Realty") in the amount of \$1,600,000 (plus accrued interest), registered as a first charge.
3. Realty also holds a first charge security interest in Pumptown's equipment, inventory and accounts receivable.
4. Approval to re-start the quarry is contingent upon the City of Abbotsford approval to build and construct either a new replacement bridge or by-pass road. Although the engineering department of the City of Abbotsford is reviewing by-pass road plans submitted by a third party with a quarry in the area, the plan has yet to be presented and approved by the City of Abbotsford.

D. Identification and Evaluation of Assets

The following is an evaluation of the assets owned by the Company.

- **Reclamation Mines Deposit**
The Ministry of Finance holds \$28k on deposit as security for mining permit #Q-7-086. The amount on deposit is for reclamation work which has not been completed on the quarry site as the quarry is under development.
- **Blasting product inventory**
The blasting product includes Cap Mag Detonators, Powder Mags and bags of ORCA AMEX with a total book value of \$11,524. It is estimated that a third party would pay \$10,000 on an "as is, where is" basis sale.
- **Rock inventory (non trade)**
Unprocessed rock has been used to form a ramp at the quarry site. As the materials include rock and wood from clearing the site it is estimated that this would have a value of \$15,000.
- **Rock inventory (trade)**
There is approximately 27,750 tonnes of 10 types of crushed and shot blast rock on the quarry floor which could be sold to a third party. The amount of material was determined by management based on a site evaluation. It is

estimated that this material would sell for approximately \$5 per tonne before cost of selling and yield approximately \$125,000.

- **Equipment**
The tools and equipment includes used office equipment, first aid supplies, scales, fuel tanks, welding material, spare parts, and fire equipment with a net book value of \$47,859. It is assume that this equipment would sell for approximately 50% of the net book value, or \$25,000.
- **Land and development costs**
The Company's property at 40251 Quadling Road in Abbotsford, B.C. is secured to Realty by way of a first mortgage charge. The property was appraised by Grover, Elliott and Co. Ltd on 27 May, 2009 for a land value of \$1,550,000. It is estimated that there would be approximately \$100,000 in realization costs associated with a sale.

E. Conduct of the Debtor

Since the closure of the quarry in August 2008, costs incurred have related to winding down and putting the operations on hold, servicing of mortgage interest payments, and retaining two members of staff to maintain the office and security of the quarry and explosive storage site. Generally, all of the ongoing costs have been paid in the normal course of business. These expenditures have been funded through intercompany loans from Pan Pacific which total \$996,414 as at June 10, 2009.

We have reviewed bank transactions leading up to the date of the Proposal to determine what payments had been made before the filing. We have determined the Company made payments of the following nature in the proceeding weeks and months before filing the Proposal:

- wages and benefits of two employees;
- phone charges and other incidentals for working out of an office space and attempting to facilitate the "wind down" of the Company's operations once the quarry truck access was restricted;
- mortgage interest payments;
- banking fees; and
- statutory remittances to the Receiver General to clear up source deduction accounts and other CRA matters.

As of the date of this report, we have found no evidence that funds were transferred out of the Company in an inappropriate manner. We have seen no evidence of distributions to the Company's shareholders or to any Directors out of the normal course of business or any other preference payments since the date of acquisition, June 11, 2008. The current Director, Thomas Masney, was appointed in June 2009 after the resignation of the Company's then sole director.

The funds required to support the Proposal are intended to be made to Pumptown from Pan Pacific and are set out in the three month cash-flow statement filed with the Proposal on June 10, 2009.

F. Creditors' Claims

Secured Creditor

We have obtained security documents relating to the Realty Investments Corp. mortgage and have obtained an independent legal opinion on the validity of the security under the mortgage. The legal opinion has confirmed Realty's security is valid and has been properly registered against the Company's property. To the best of our knowledge there are no other secured creditors.

Related Parties

There are approximately \$998,414 in liabilities to related parties recorded on the Company's Statement of Affairs. Related party amounts are excluded under the terms of the Proposal. These liabilities relate largely to the funding provided to the Company to maintain its existing operations. We have not seen any evidence of any preference payments to related parties to date.

Other matters

We expect to receive proofs of claim in response to our mailing to creditors on June 12. We will provide an update on claims at the meeting of creditors on June 24, 2009.

G. Previous Business Dealings with the Debtor

The Trustee wishes to disclose a following previous business dealing with Thomas Masney:

- Thomas Masney worked part time in a contractor/consultant role during November 2008 through February 2009 with G-Force Advisors Inc., a sister company to G. Powroznik Group Inc., on a restructuring assignment. After satisfactory completion of the assignment, the consulting agreement between G-Force Advisors Inc. and Thomas Masney was terminated effective March 1, 2009. Mr. Masney has been paid in full for his work as a consultant and he has no on-going relationship with G-Force Advisors Inc. or its related companies.

The Trustee had no involvement with the Company prior to being approached by Mr. Masney to consider the options for Pumptown Quarry Inc., including a Proposal under BIA.

H. Informal Meetings with Major Creditors

We held discussions with HSBC and its lawyers regarding the terms of this Proposal just prior to its filing to confirm their support for it. We also confirmed that Pan Pacific has placed into the HSBC's lawyer's trust account \$150,000 to support an agreement with HSBC to support the Proposal and to settle its account for that level of payment. In effect these funds represent a significant amount of the total funds required to settle the creditor claims under the terms of the Proposal. This compromise was the basis for determining the amount to offer other large creditors of the Company in the Proposal. We expect to talk to other creditors before the June 24, 2009 meeting of creditors to gauge their level of support.

I. Remuneration of Trustee

The remuneration of the Trustee is estimated to be in the range of \$20,000 to \$30,000 for this engagement. The fee estimate encompasses the following work:

- Trustee's initial assessment of the debtor;
- Examination of the debtor's property;
- Performance of procedures to consider the reasonableness of the debtor's cash-flow statement;
- Preparation of the Trustee's report including visiting the debtor's property and office in Abbotsford, B.C.;
- Attendance at the meeting of creditors; and
- Performance of other duties as required.

Our fees will be based on the hours actually incurred by each staff member of the Engagement Team and the normal hourly rate for that individual.

On June 4, 2009, we received a \$20,000 retainer from Pan Pacific to cover our fees relating to our advisory work and the work required to act as Trustee under the Proposal.

J. Other

As of the date of writing this report, we believe all significant facts that may have bearing on the creditors' decision making process in voting on the Proposal have been disclosed in the report. If additional significant information comes to light in the period between the writing of this report and the meeting of creditors, we will disclose this information at the meeting.

K. Statement of Estimated Realization to Unsecured Creditors

This section should be read in conjunction with Section D above.

Based on the assets available and the estimated realization on those assets, the following is a summary of a potential distribution to unsecured creditors if the

Proposal is unsuccessful and the Company as a result is deemed to be in bankruptcy effective June 10, 2009.

We have presented a “baseline” and “best case” scenario for consideration. The “baseline” scenario uses net realization values as outlined in Section D above. The “best case” scenario assumes inventory and equipment can be liquidated for 100% of book cost. The latter scenario is highly unlikely although it is presented for illustrative purposes. We estimate it would take approximately six months to realize upon the assets of the Company.

	Baseline realization	Best case realization
Property	1,550,000	1,550,000
Equipment	25,000	47,859
Inventory (all)	150,000	226,274
Reclamation mines deposit	Nil	28,000
Cash on hand	<u>2,427</u>	<u>2,427</u>
Subtotal assets	1,727,427	1,854,560
<i>Less:</i>		
Portion to satisfy security	(1,624,000) <i>note 1</i>	(1,624,000) <i>note 1</i>
Interest on mortgage	(128,000) <i>note 2</i>	(128,000) <i>note 2</i>
Administration/realization fees	(100,000) <i>note 3</i>	(100,000) <i>note 3</i>
Remaining for unsecured	Nil	2,560
Total unsecured claims	<u>3,151,772</u> <i>note 4</i>	<u>3,151,772</u> <i>note 4</i>
Resulting dividend	<u>nil%</u>	<u>0.08%</u>

The dividend provided under the Proposal is 9.554% which is considerably higher than both scenarios presented above.

Notes to the above:

- 1- Although the property value is \$1,550,000, Realty holds general security over the equipment and inventory on site. Therefore, some of the additional assets would be disposed of to recover Realty’s secured loans.
- 2- The Realty mortgage carries interest at 16% of the \$1,600,000 principal balance outstanding. In a six month realization period, an additional \$128,000 of interest would accrue.
- 3- If the Proposal fails, the secured creditor would incur realization costs estimated at \$100,000 to secure, market, and sell the property and other assets over the estimated six month time frame noted above.
- 4- The Company’s Statement of Affairs discloses the total claims of unsecured creditors as \$3,151,772.

L. Recommendations (subject to further Trustee review and site visit)

The Trustee's analysis supports the Company's position that the Proposal represents a better outcome to creditors than if the Company were to be placed into bankruptcy either by voluntary assignment by the Company or by being 'deemed' bankrupt if the Proposal is not accepted and completed.

Until a bypass road or replacement bridge is constructed and the Company can recommence operations at the quarry, the Company is solely dependent on funding from affiliated companies and it has no trade receipts to fund obligations as they come due.

Under the Proposal, creditors, subject to the levy payable to the Superintendent of Bankruptcy, with proven claims \leq \$500 will receive 100% and creditors with proven claims $>$ \$500 will receive 9.554% of proved claims. In a bankruptcy scenario, the Company's secured creditor would liquidate the property (estimated value of \$1,550,000) and some of the inventory and equipment in order to satisfy the mortgage obligation of \$1,624,000. There would be very limited assets, if any, remaining in the bankrupt estate for realization and distribution to the unsecured creditors. As outlined in Section K above, the potential distribution to unsecured creditors under a bankruptcy scenario would be negligible due to the time and costs associated with liquidating the Company's assets including a significant interest cost on the Company's mortgage. The Proposal represents a more advantageous option for the Company's creditors.

In order for the Proposal to be accepted, a resolution must be passed by a simple majority of creditors holding two thirds of the value of total proved unsecured creditors' claims. In order to vote on the Proposal, claims must be submitted and proven before the time of the creditors meeting on June 24, 2009.

If the Proposal is not accepted, Pumptown Quarry Inc. will be deemed to have made an assignment into bankruptcy effective June 10, 2009 and G. Powroznik Group Inc. would become the Trustee in Bankruptcy.

RESTRICTIONS AND QUALIFICATIONS

This report on the Proposal of Pumptown Quarry Inc. (“the Company”) summarizes the Trustee’s findings and conclusions from its review of the Company’s records and other information received, and from its investigations since beginning discussions with the Company about the options available to deal with its insolvency. It is subject to change based on subsequent findings or receipt of additional information which will be reported at the First Meeting of Creditors.

In conducting our research and preparing our report, we obtained certain information and representations from the Director and from third parties. Information, data and documentation received was presumed to be reliable and, except as expressly noted in our report, was not verified. We will continue to review all information that becomes available including feedback we obtain from the creditors. We are pleased to answer any questions you may have.