

(ii) a claim by Nicholson & Associates Natural Resource Development Inc. for alleged non-payment of invoices in the amount of \$146,123.83 plus interest and costs; and

(iii) a confidential private arbitration relating to a historic joint venture.

Each of these litigation matters is ongoing and is subject to defences and counterclaims asserted, or to be asserted by Starfield. The parties to these matters have been served with the materials in support of the Company's application.

## V. COMPANY'S CASH FLOWS FOR PERIOD ENDING MAY 3, 2013

32. Starfield, with the assistance of the Trustee, has prepared consolidated cash flow projections of its receipts and disbursements for the 9-week period ending May 3, 2013 (the "**Cash Flow Projection**"). The Cash Flow Projection was filed with the Office of the Superintendent of Bankruptcy Canada on March 8, 2013. A copy of the Cash Flow Projection is attached hereto as **Appendix "D"**. The Trustee has reviewed the assumptions supporting the Cash Flow Projection and believes the assumptions to be reasonable. A copy of the Trustee's statement on the Cash Flow Projection is attached hereto as **Appendix "E"**.

33. As a result of its constrained liquidity position, the Company has suspended its exploration and development activities at the Projects. The Cash Flow Forecast assumes that the Company will continue to fund normal course obligations relating to the preservation and maintenance of the Projects in Canada and the U.S., such as claim maintenance fees and other required maintenance costs, during these BIA proceedings. The Trustee understands these costs were traditionally paid by Starfield through its Canadian accounts, and payment of these expenses going forward are necessary to preserve Starfield's interests in these properties during the proposed sales process.

34. As a result, based on the assumptions made by Starfield contained in the notes to the Cash Flow Projection, the Trustee believes that Starfield will have sufficient funds to meet its current obligations through to May 3, 2013.

## VI. PROPOSED SALES PROCESS

35. The Trustee understands that in June 2011, Starfield retained the services of Gryphon Partners Canada Inc. to assist the Company with raising additional capital, finding an investor to acquire control of the Company's outstanding shares, or a sale of all or substantially all of

the Company's assets. The Trustee understands that the Company did not receive any serious expressions of interest through that process.

36. In November 2012, the Company retained PwC to assist and advise the Company on strategic alternatives to maximize value of the Company and its assets, including but not limited to a sale of all or a material portion of the assets of Starfield. PwC, with the assistance of Starfield's management, undertook a sale and investment solicitation process ("SISP") in which it prepared an information memorandum detailing the sale or investment opportunity and canvassed over 125 potential buyers or investors beginning on November 20, 2012. Each prospect received a copy of the information memorandum and was solicited to sign a Confidentiality Agreement ("CA") and conduct further due diligence. A total of four confidentiality agreements were executed and two non-binding letters of interest ("LOIs") were received as at February 22, 2013. Neither of these LOIs has resulted in a binding offer as at the date of this First Report.
37. The Trustee believes that a brief continuation of the sale or investment solicitation process in these BIA proceedings will bring a sense of finality to the SISP and provide the highest likelihood of a transaction or series of transactions to maximize value for the Company's stakeholders. The Trustee proposes to aggressively re-market the Company's assets to third parties for an additional period of approximately 37 days as follows: 30 days for submission of a non-binding LOI and an additional 7 days for submission of a binding offer.
38. The proposed sales process (the "**Sales Process**") would provide a further means for testing the market, gauging interest in the Company and/or its assets and determining whether a transaction that would result in realizations greater than liquidation value is available. The Trustee will be fully involved in all aspects of the proposed Sales Process to ensure that the marketing process is fair and reasonable, and that prospective interested parties have the ability to make an offer for the Company and/or its assets. The proposed Sales Process contemplates that the Company is not required to accept the highest, best or any offer received.
39. The principal elements of the proposed Sales Process are as follows:
- (i) As soon as practical, after the Sales Process is approved by this Court, an information memorandum will be sent to a list of potentially interested parties by the Trustee, which list has been developed by the Trustee and the Company.
  - (ii) Once a confidentiality agreement has been signed by any interested parties, they will receive access to an electronic data room to conduct preliminary due

diligence. The electronic data room is being refreshed by the Company with assistance of the Trustee.

- (iii) After preliminary due diligence has been conducted, interested parties are required to submit non-binding LOIs to the Trustee by 12pm EST on April 12, 2013 (the "**LOI Deadline**"). A template agreement for a non-binding LOI will be available in the Company's electronic data room at least two weeks prior to the LOI Deadline.
- (iv) The acceptability of any LOI received is to be determined by the Company, in consultation with the Trustee.
- (v) If no satisfactory LOIs are received by the LOI Deadline, then the Company, in consultation with the Trustee, will consider whether to continue the Sales Process, and the Trustee will advise the Court accordingly.
- (vi) If satisfactory LOIs are received, a potential purchaser will be required to submit a binding asset purchase agreement ("**APA**") by 12PM EST on April 19, 2013. These APAs will then be reviewed by the Trustee and the Company.
- (vii) Management and the Trustee will provide their recommendation to Starfield's board of directors with respect to selecting offers to consummate a transaction, and the Trustee shall promptly notify all successful bidders.
- (viii) Once the terms and conditions of all recommended offers have been finalized, such offers will be submitted to this Court for approval. Closing of each transaction is anticipated to occur shortly thereafter.

40. The Trustee notes that while the proposed time-frame is condensed, the Trustee is of the view that the deadlines proposed in the Sales Process are reasonable given the Company's previous marketing efforts and its lack of liquidity.

41. The Trustee will report back to this Court if facts or circumstances require the Company or the Trustee to re-evaluate the time periods or the Sales Process based on facts or circumstances at that time. The Trustee will be assisted by PricewaterhouseCoopers Corporate Finance Group in the Sales Process.

## **VII. SUMMARY OF PROPOSED COURT-ORDERED CHARGES**

42. The Company proposes a charge in favour of its legal counsel, counsel to the directors of Starfield, the Trustee and the Trustee's legal counsel to assist in these NOI proceedings (the

"**Insolvency Professionals**") in an amount not to exceed \$100,000, charging all of the assets of the Company as security for the professional fees and disbursements incurred both before and after the Filing Date (the "**Administrative Charge**"). The Trustee understands that the Company is current in the payment of the Insolvency Professionals' invoices and, subject to an accrual relating to the preparation of the Company's application and this First Report, there are no material amounts presently owing by the Company to the Insolvency Professionals.

43. Starfield was only able to provide the Insolvency Professionals with minimal retainer fees for their services as the Company needs its available cash to fund its limited operations during these proceedings. Depending upon the timing of cash receipts and disbursements, cash may not be available to pay ongoing professional fees on a timely basis and hence the reason the Administrative Charge is being sought.
44. The Company believes it is critical to the success of its restructuring to have such a charge in place to ensure that its Insolvency Professionals are protected with respect to their fees and disbursements.
45. The Company further proposes a charge to indemnify its directors and officers by way of a Directors' and Officers' Charge (the "**D&O Charge**"), for liabilities incurred by the Company that result in post-filing claims against the directors and officers in their personal capacities.
46. The Company does maintain an insurance policy for its directors and officers and that the premiums for such policy have been paid monthly and paid in respect of the current month.
47. The amount of the D&O Charge is capped at \$100,000 and was estimated by the Company's board of directors and its legal advisors by taking the provisions of the insurance policy for its directors and officers. The D&O Charge is proposed to rank immediately subsequent to the Administrative Charge as against all assets of the Company.
48. The board of directors and its legal counsel is not aware of any material directors' and officers' charges or potential liabilities; however, for the purpose of a filing, they believe the \$100,000 affords them some protection for issues that may arise. The Company's directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified.
49. Furthermore, the Trustee has been advised that due to the potential for personal liability, the directors and officers of the Company are unwilling to continue their services and involvement in this restructuring without the protection of a small D&O Charge. As the

Company will require the participation of its directors and officers to effect a successful restructuring, the Trustee believes that the D&O Charge is required and reasonable in the circumstances.

50. The Trustee is of the view that the proposed Administrative Charge and the proposed D&O Charge (together the "**Court-Ordered Charges**") and rankings are required and reasonable in the circumstances of the BIA proceedings, in order to preserve the Company's operations and attempt to maintain an enterprise value and, accordingly, supports the granting and the proposed priority ranking of the Court-Ordered Charges. The Trustee understands that the Company does not have any secured creditors (excluding any purchase money security interests, specific equipment lessors and statutory encumbrances) and, therefore, no secured creditor would be affected by the proposed Court-Ordered Charges. Furthermore, all known creditors of the Company, including the 2010 Flow-Through Investors and the 2011 Flow-Through Investors, have received notice of these proceedings.

#### **VIII. PROPOSED RETENTION PAYMENTS**

51. The Company believes that incentives are required to ensure that the consultants Starfield currently has under contract, including the current CEO and the current CFO, are willing to continue their services with the Company in its current circumstances through to completion of the Sales Process.
52. The Company, in conjunction with the Trustee, has formulated and is seeking this Court's approval of the Retention Payments to the Company's four remaining consultants (the "**Key Employees**") in the aggregate amount of \$25,000 per month (the "**Aggregate Monthly Amount**") payable on the 15<sup>th</sup> of each month in respect of the current month, commencing March 15, 2013, on following terms:
- (i) the Aggregate Monthly Amount is to be distributed among the Key Employees in accordance with a memorandum of distribution to be approved by the board of directors of the Company, the Trustee and the Key Employees on or before the March 15, 2013;
  - (ii) to be entitled to receive his or her share of each Aggregate Monthly Amount a Key Employee must not have resigned or had his contract terminated for cause prior to the applicable payment date; and
  - (iii) Each Retention Payment is subject to the Company having sufficient available cash to pay the Aggregate Monthly Amount, and the Retention Payments shall

cease upon the Company making or being deemed to have made an assignment in bankruptcy.

53. The Company believes that absent the approval of the Retention Payments in favour of the Key Employees, they are likely to seek other employment opportunities. The departure of any of the Key Employees would undermine Starfield's restructuring efforts and could have an adverse impact on the success of the Company's proposed Sales Process.
54. Starfield's Board of Directors have reviewed and approved the proposed Retention Payments and the terms and conditions thereof.
55. Based on the foregoing, the Trustee is of the view that the proposed Retention Payments appears to be appropriate and reasonable in the circumstances, in order to preserve the Company's operations and maintain some enterprise value and, accordingly, supports the Company's request for approval of the Retention Payments.

## **IX. COMPANY'S REQUEST FOR AN EXTENSION**

56. The Company is seeking an extension to April 26, 2013 of the time to file a proposal to permit it and the Trustee to undertake the Sale Process described above. This represents a 20 day extension to the initial 30-day stay provided for in the BIA.
57. The Trustee supports the Company's request for an extension for the following reasons:
- (i) the Company is acting in good faith and with due diligence in taking steps to facilitate a sale of its operations;
  - (ii) it is the Trustee's view that an extension will not prejudice or adversely affect any group of creditors;
  - (iii) the Cash Flow Projection indicates that Starfield should have sufficient liquidity to continue to fund operations through the period ending April 26, 2013; and
  - (iv) at least 30 days will be required to establish whether there is any serious interest in acquiring the Company and/or its assets.
58. While it is too early to say whether a viable proposal will be presented by the Company to its creditors, the Trustee is of the view that the early request of the extension is appropriate given the circumstances, as it minimizes costs incurred in re-attending before this Court prior to April 7, 2013 solely for the purposes of seeking a short extension of the stay until the LOIs have been received and reviewed. Given that these LOIs are not due until April 12, 2012 (and the extension will have to be sought prior to that date), the current extension request more

properly reflects the timeframe by which the Trustee will be able to provide a meaningful update to this Court on the progress of the Sales Process.

## **X. RECOMMENDATION**

59. The Trustee recommends that this Court issue an Order approving the proposed Court-Ordered Charges, the proposed Sales Process to sell the Company or its assets, the proposed Retention Payments, and the Company's request for an Extension as this would be the best course of action available for all stakeholders for the following reasons:

- (i) the Company qualifies for and requires protection under the BIA due to its liquidity issues and precarious financial position;
- (ii) the proposed Court-Ordered Charges and rankings are required and reasonable in the circumstances of the BIA proceedings, in order to preserve the Company's operations and maintain an enterprise value;
- (iii) the retention of the Key Employees is critical to maintaining operations during these proceedings and the success of the proposed Sales Process; and
- (iv) the proposed Sales Process will preserve some value for the assets of Starfield, whereas, should bankruptcy ensue, an immediate liquidation of the Company would likely result in an immediate and substantial diminution in realizable value for all creditors.

Dated the 8th day of March, 2013.

**RESPECTFULLY SUBMITTED,**



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**Paul van Eyk, CA·CIRP, CA·IFA**  
Senior Vice-President

PricewaterhouseCoopers Inc.  
In its capacity as Proposal Trustee of  
Starfield Resources Inc.  
and not in its personal capacity



TAB 3A

## APPENDIX A



Industry Canada  
Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada  
Bureau du surintendant  
des faillites Canada

District of Ontario  
Division No. 09 - Toronto  
Court No. 31-1722720  
Estate No. 31-1722720

In the Matter of the Notice of Intention to make a  
proposal of:

Starfield Resources Inc.  
Insolvent Person

PRICEWATERHOUSECOOPERS INC.  
Trustee

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Date of the Notice of Intention: March 07, 2013

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CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL  
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act*.

Pursuant to subsection 69(1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: March 08, 2013, 08:36

E-Filed/Dépôt Electronique

Official Receiver

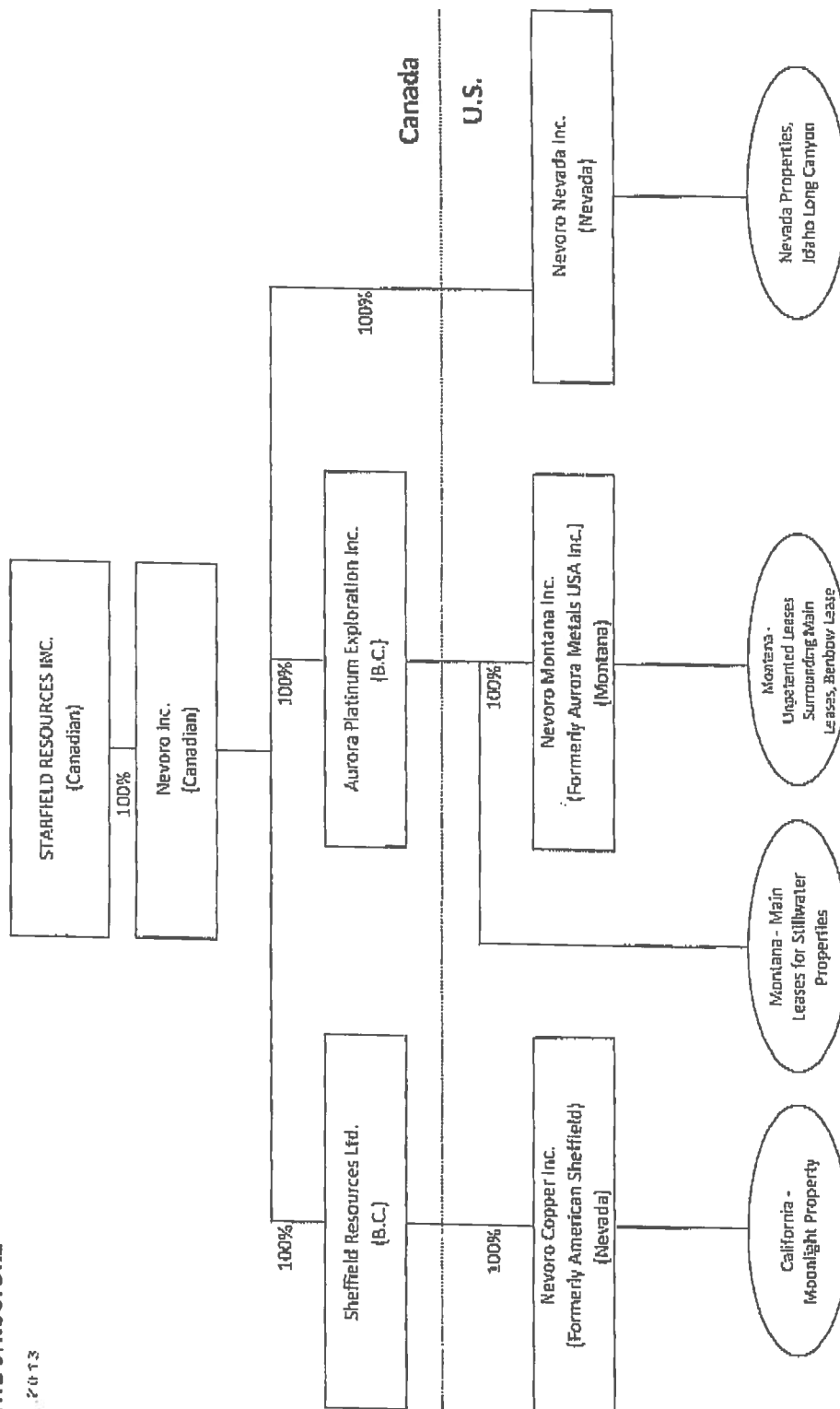
Canada

25 St. Clair Avenue East, 6th floor, Toronto, Ontario, Canada, M4T1M2, (877)376-9902

TAB 3B

## **APPENDIX B**

**STARFIELD RESOURCES INC.**  
**CORPORATE STRUCTURE**  
JANUARY 2013



TAB 3C

## APPENDIX C



IN THE MATTER OF THE NOTICE OF INTENTION  
TO MAKE A PROPOSAL OF  
Starfield Resources Inc.  
*Creditor List*

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Unsecured - Trade:

NAME:	AMOUNT:
Canada Revenue Agency	\$ 320,375.73
John E. Robins	12,500.00
KPMG LLP	73,541.53
Lawrence Barry	12,500.00
Major Drilling International Inc.	6,053.10
Matthew Mason	25,000.00
TSX Inc.	14,449.90
<b>TOTAL:</b>	<b>\$ 464,420.26</b>

Unsecured - Equity Claimants:

NAME:	AMOUNT:
Alan Grantham	Unknown
Canada Dominion Resources 2010 Limited Partnership	Unknown
CMP 2010 Resource Limited Partnership	Unknown
Cornelis Gysbers	Unknown
Daymond Loeb	Unknown
Discovery 2010 Flow-Through Limited Partnership	Unknown
Dwayne Swan	Unknown
Edward Kirk	Unknown
Greg Van Stavern	Unknown
Howard Winick	Unknown
Howard Winick	Unknown
James W. Gogan	Unknown
Joel Maser	Unknown
John R. Craig	Unknown
Justin Cohen	Unknown
Kabeer Bajg	Unknown
Kodjo M. Zankpe	Unknown
Maple Leaf Short Duration 2010 FT LP	Unknown
Maple Leaf Short Duration 2011 Flow Through LP	Unknown
Mark Faircloth	Unknown
Matrix Explore 2011 - I FT LP	Unknown
Michael Botetzayas	Unknown
Michael Hartnett	Unknown
Mineral Fields 2011 - II Super Flow Through LP	Unknown
Mineral Fields 2011 IV Super Flow Through LP	Unknown
Mineral Fields 2011 V Super Flow Through LP	Unknown
Pathway Mining 2010 Flow-Through LP	Unknown
Pathway Mining 2011 Super Flow Through LP	Unknown
Pathway Quebec Mining 2010 Flow-Through LP	Unknown
Paul Freedman	Unknown

IN THE MATTER OF THE NOTICE OF INTENTION  
TO MAKE A PROPOSAL OF  
Starfield Resources Inc.  
*Creditor List*

40

Philip S. Martin	Unknown
R.A. Bondy	Unknown
Richard Roussel	Unknown
Rimmer Mining Company Ltd.	Unknown
Ron Kimel	Unknown
Shand Holdings Ltd.	Unknown
Sheldon Inwetash	Unknown
Stone 2010 Flow Through L.P.	Unknown
Stone 2010 WCP Flow Through LP	Unknown
William & Dunya Botetzayas	Unknown
<u>TOTAL</u>	<u>Unknown</u>
 GRAND TOTAL	 <u><u>\$ 464,420.26</u></u>

TAB 3D

## APPENDIX D



TAB 3E

## APPENDIX E

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-1722720  
Estate No. 31-1722720

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## -- FORM 29 --

Trustee's Report on Cash-Flow Statement  
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the matter of the notice of intention to file a proposal of  
Starfield Resources Inc.  
of the City of Toronto, in the Province of Ontario

The attached statement of projected cash flow of Starfield Resources Inc., as of the 8th day of March, 2013, consisting of a weekly statement of projected cash flow for the period from March 4, 2013 to May 3, 2013, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Toronto in the Province of Ontario, this 8th day of March 2013.

PricewaterhouseCoopers Inc. - Trustee  
Per:

\_\_\_\_\_  
Paul van Eyk  
18 York Street, Suite 2600  
Toronto ON M5J 0B2  
Phone: (416) 863-1133 Fax: (416) 814-3219



Court File No. CV13-10034-00CL

IN THE MATTER OF THE BANKRUPTCY AND INSOLVENCY ACT, R.S.C. 1985, c. B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION OF STARFIELD RESOURCES INC., OF THE CITY OF TORONTO IN  
THE PROVINCE OF ONTARIO

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**[COMMERCIAL LIST]**

Proceedings commenced in Toronto

**APPLICATION RECORD**

**FASKEN MARTINEAU DuMOULIN LLP**  
333 Bay Street – Suite 2400  
Toronto, ON M5H 2T6

**Stuart Broitman (LSUC#: 43430D)**  
**R. Graham Phoenix (LSUC #52650N)**  
Tel: 416 366 8381  
Fax: 416 364 7813

**Solicitors for the Applicant, Starfield Resources Inc.**