

**THE SECURITIES ACT** ) **Order No. 5652**  
)  
**Section 20(1) and Section 148** ) **March 26, 2008**

**McWATTERS MINING INC.**

**WHEREAS**

(A) CFT Capital Inc. ("CFT Capital) has applied to The Manitoba Securities Commission (the "Commission") for an order pursuant to subsections 20(1) and 148(1) of *The Securities Act*, C.C.S.M. c.50 R.S.M. 1988, c.S50 (as amended) (the "Act") partially revoking Commission Order No. 4575 dated September 23, 2004 and Commission Order No. 4588 dated October 8, 2004 (collectively, the "Manitoba Cease Trade Order") in connection with a reorganization of the capital of McWatters under the terms of an arrangement under Sections 49 and 123.107 of the *Companies Act*, R.S.Q. c-38 (the "Québec Companies Act") and certain other related transactions.

(B) CFT Capital has represented to the Commission that:

1. McWatters was incorporated under Part IA of the Québec Companies Act on November 15, 1994, and was formerly engaged in the business of mining and gold production.
2. McWatters is a reporting issuer or its equivalent in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.
3. McWatters is not a reporting issuer or its equivalent in any other jurisdiction in Canada.
4. The securities of McWatters are currently subject to the Manitoba Cease Trade Order.
5. The Manitoba Cease Trade Order was made as a result of the failure of McWatters to file its annual financial statements for the year ended December 31, 2003. McWatters has not since that time prepared and filed any annual or interim financial statements.
6. The securities of McWatters are also currently subject to cease trade orders in British Columbia, Alberta, Ontario and Québec (collectively with the Manitoba Cease Trade Orders, the "Cease Trade Orders"), as detailed below:
  - (a) in British Columbia, a cease trade order dated September 22, 2004, under Section 164 of the *Securities Act*, R.S.B.C. 1996, c. 418;
  - (b) in Alberta, a cease trade order dated November 19, 2004, under Section 198 of the *Securities Act*, R.S.A. 2000, c. S-4;

(c) in Ontario, (i) a cease trade order dated July 29, 2004, under paragraph 2 of Subsection 127(1) and Subsection 127(5) of the *Securities Act*, R.S.O. 1990, c. S.5, as extended on August 10, 2004, and (ii) a management cease trade order dated May 26, 2004, under paragraph 2 of Subsection 127(1) and Subsection 127(5) of the *Securities Act*, R.S.O. 1990, c. S.5, as extended on June 8, 2004; and

(d) in Québec, cease trade orders respectively by virtue of the decision of the *Autorité des Marchés Financiers* ("AMF") number 2004-MC-2629 dated August 9, 2004 and the AMF decision number 2004-MC-1823 dated June 7, 2004.

7. Applications were also made with the securities regulatory authorities of British Columbia, Alberta, Ontario and Québec for a partial revocation of the above mentioned cease trade orders in connection with the Proposed Transactions (as defined below). The proposed trades contemplated in the Application will occur in all jurisdictions where security holders of McWatters reside.

8. The authorized capital of McWatters consists of an unlimited number of common shares (the "Common Shares"), of which 560,652,194 Common Shares are currently outstanding.

9. McWatters also has outstanding senior gold-linked (unsecured) convertible debentures due January 1, 2012 ("Gold-Linked Convertible Debentures"), which were created and issued in connection with the plan of compromise and arrangement and reorganization of the indebtedness and liabilities and share capital of McWatters dated as of December 11, 2001 under the *Companies' Creditors Arrangement Act* (Canada) and the Québec Companies Act, which was approved by the creditors and the shareholders of McWatters as of January 23, 2002 and ratified by the Court on January 28, 2002.

10. The Common Shares were formerly listed on The Toronto Stock Exchange (the "TSX") under the symbol "MWA" and the Gold-Linked Convertible Debentures were formerly listed on the TSX under the symbol "MWA.DB".

11. On or about January 15, 2004, McWatters filed with the Superior Court of Québec (the "Court") a notice of intention to file a proposal pursuant to Subsection 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-2 (the "BIA") in file number 615-11-000777047. Raymond Chabot Inc. ("Raymond Chabot") was appointed as trustee. A proposal was submitted to the creditors of McWatters on or about June 22, 2004 and such proposal was accepted by the creditors of McWatters and subsequently approved by the Court on July 9, 2004.

12. According to the list of creditors of McWatters prepared by Raymond Chabot (the "List of Creditors"), (i) the aggregate of all amounts owed by McWatters to its creditors, as per the books and records of McWatters, is equal to \$34,305,283.22, and (ii) the aggregate amount of all claims filed with Raymond Chabot as trustee by creditors of McWatters (the "Creditors") is equal to \$30,578,809.91.

13. According to the confirmation received from Raymond Chabot as to the assets of McWatters (the "Confirmation of Assets"), McWatters does not have any assets of substantial value. The

remaining value, if any, in McWatters, lies in its tax attributes which, based on the information made available to CFT Capital, consist of approximately \$140,000,000 of unused non-capital losses, capital losses, cumulative Canadian exploration expenses, cumulative Canadian development expenses and other income tax attributes (the "Income Tax Attributes"). However, the Income Tax Attributes are non transferable, and in the case of the largest component thereof, the non-capital losses, may only be used by McWatters within prescribed time periods and would only have value to the extent that McWatters has income which, given the debts and potential environmental liabilities of McWatters, is not likely to arise except through the Proposed Transactions.

14. Financial Solutions Inc. ("FSI") was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, on December 1, 1998, and is a privately held corporation specializing in structuring financial transactions and consulting. Robert Friesen is the sole director of FSI and 822792 Alberta Ltd. ("822792") is the sole shareholder of FSI.

15. CFT Capital was incorporated under the *Business Corporations Act*, R.S.B.C. 2002, c. 57, on September 28, 2006. CFT Capital is a privately held corporation which was incorporated for the purpose of effecting the transactions described herein. Robert Friesen is the sole director of CFT Capital. 822792 is the principal shareholder of CFT Capital and controls CFT Capital.

16. 822792 was incorporated under the laws of Alberta on March 17, 1999. Robert Friesen is the sole director of 822792 and all outstanding shares in the share capital of 822792 are owned directly and/or indirectly by Robert Friesen and members of his family.

17. On November 27, 2006, Fasken Martineau Dumoulin LLP, on behalf of CFT Capital, submitted to Raymond Chabot, in its capacity as trustee to the proposal of McWatters, an offer in relation to the Proposed Transactions, which offer was accepted by Raymond Chabot on December 1, 2006, and by Investissement Québec on November 30, 2006.

18. International Royalty Corporation ("IRC") was incorporated under the *Business Corporations Act*, R.S.Y. 2002, c. 20, on May 7, 2003 and was continued under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, on November 12, 2004. The common shares of IRC are listed on the TSX under the symbol "IRC" and since October 18, 2006, on The American Stock Exchange under the symbol "ROY". IRC was incorporated for the purpose of acquiring and creating natural resources royalties with a specific emphasis on mineral royalties. IRC is a reporting issuer or its equivalent in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador and a foreign private issuer under applicable U.S. securities legislation.

### **Financing of the Proposed Transactions**

19. IRC and FSI have agreed to advance to CFT Capital, by way of loans and subject to certain conditions, respectively 80% and 20% of each of (i) the amount of \$1,000,000 required to be paid by CFT Capital to Raymond Chabot, for distribution to the Creditors, pursuant to the CFT Proposal, as contemplated in paragraph 23(a) below, (ii) the amount of \$200,000 required by CFT Capital in order to acquire New Common Shares as contemplated in paragraph 23(b)(v)

below, (iii) the amount of the reasonable costs and expenses to be incurred by CFT Capital in connection with its due diligence review of the affairs of McWatters, and (iv) the amount of certain other reasonable costs and expenses that may be incurred by CFT Capital in connection with the Arrangement and the CFT Proposal. A reasonable portion of the amount of \$200,000 mentioned in clause (ii) above will be set aside by McWatters for the purpose of remedying McWatters' default under securities legislation and seeking full revocation of the Cease Trade Orders, as contemplated in paragraph 32 below.

20. IRC and CFT Capital have agreed that CFT Capital will only have the obligation to repay the loans made to CFT Capital by IRC to the extent that McWatters acquires a business and derives sufficient cash flow from such business, in which case CFT Capital shall for each year following such acquisition have the obligation to use one-third of the cash flow that CFT Capital will have derived from its interest in McWatters during such year to repay the loans made to CFT Capital by IRC, until such loans are paid in full.

21. On March 18, 2008, Raymond Chabot was appointed by the Court as interim receiver of McWatters pursuant to Section 47.1 of the BIA with all powers necessary in order to complete the Proposed Transactions described in paragraph 23.

22. Raymond Chabot, in its capacity as interim receiver of McWatters, has obtained an interim order of the Court dated March 18, 2008 (the "Interim Order"), which contains declarations and directions with respect to the Arrangement described in paragraph 23(b) and with respect to the calling and the holding of a special meeting (the "Special Meeting") of the shareholders of McWatters to be held in accordance with the Interim Order to consider and, if deemed advisable, approve the Arrangement.

23. The proposed transactions (the "Proposed Transactions"), as presently intended, are the following:

(a) Raymond Chabot, in its capacity as interim receiver under the BIA, will submit to the Creditors of McWatters an amended proposal (the "CFT Proposal") whereby CFT Capital will pay to Raymond Chabot, for distribution to the Creditors, an aggregate amount of \$1,000,000. From the aforementioned aggregate amount of \$1,000,000, an amount of \$500,000 is intended to be paid to Investissement Québec and the remaining amount of \$500,000 is intended to be paid to the Creditors of McWatters other than Investissement Québec. In consideration thereof, the unsecured Creditors (excluding specifically Investissement Québec) will absolutely and irrevocably assign to CFT Capital all of the claims filed by them with Raymond Chabot as trustee to the proposal of McWatters (such claims excluding specifically any and all claims by Investissement Québec) (the "Unsecured Creditors' Claims"), including their claims in respect of the Gold-Linked Convertible Debentures currently outstanding (the "Debt Trades"). The CFT Proposal will be subject to and conditional upon certain conditions precedent, including the following:

(i) the approval of the CFT Proposal by the Creditors and, subsequently, by the Court; and

(ii) the completion of the Arrangement pursuant to Sections 49 and 123.107 of the Québec Companies Act, as further detailed herein, on terms and conditions and within delays acceptable to CFT Capital;

(b) At the Special Meeting, which will be called and held in accordance with the Interim Order, the shareholders of McWatters will be asked to consider and, if deemed advisable, approve an arrangement (the "Arrangement") under Sections 49 and 123.107 and following of the Québec Companies Act whereby, among other things:

(i) A new class of preferred shares of the share capital of McWatters will be created (the "Preferred Shares"). The following rights, privileges, conditions and restrictions will be attached to such Preferred Shares as a class:

(A) preferential cumulative dividend of \$200,000 per annum (in the aggregate) for each of the first, second and third year following the effectiveness of the Arrangement;

(B) preferential cumulative dividend of \$100,000 per annum (in the aggregate) for each of the fourth and fifth year following the effectiveness of the Arrangement;

(C) at the expiration of the fifth year following the effectiveness of the Arrangement, the Preferred Shares will become redeemable at the option of the holders thereof for a redemption amount of \$200,000 (in the aggregate), which redemption amount is intended to be equal to the stated capital and paid-up capital of the Preferred Shares; and

(D) the necessary reduction of the stated capital of McWatters will be effected to achieve the stated capital and paid-up capital referred to in 23(b)(i)C;

(ii) All outstanding Common Shares will be exchanged, on a one-for-one basis, for Preferred Shares of McWatters (the "Common Shares Exchange");

(iii) All outstanding options and other rights to acquire Common Shares will be extinguished;

(iv) A new class of common shares of McWatters will be created (the "New Common Shares"); and

(v) CFT Capital will subscribe for a number of New Common Shares representing 20% of the voting rights attached to the outstanding shares of the share capital of McWatters, for a subscription price of \$200,000 in the aggregate (the "Subscription Trade"). The proceeds from such subscription, in the amount of \$200,000, are intended to be used to cover for the legal and other costs and expenses to be incurred by McWatters in connection with its potential acquisition of a business as contemplated in paragraph 29 below and a reasonable portion of such proceeds is intended to be set aside by McWatters for the purpose of remedying McWatters default under securities legislation and seeking full revocation of the Cease Trade Orders, as contemplated in paragraph 32 below.

24. As part of the Arrangement, Robert Friesen, C.A., Douglas Proctor, C.A. and Ray W. Jenner, Chief Financial Officer and Secretary of IRC will be appointed as directors of McWatters.

25. An information circular (the "Circular") describing the Arrangement and soliciting proxies will be prepared and sent to the shareholders of McWatters by or on behalf of CFT Capital. Such Circular will contain all relevant information concerning the Arrangement and Proposed Transactions (including information as to the assets and liabilities of McWatters as confirmed by Raymond Chabot) and will be prepared in compliance with applicable securities legislation. Copies of the applicable Cease Trade Orders and copies of the partial revocation orders that will have been issued at the time of mailing of the Circular will be included in the Circular. CFT Capital will not obtain and provide to the securities regulatory authorities signed and dated acknowledgements from all participants in the proposed trades, which clearly state that the issuance of a partial revocation order does not guarantee the issuance of a full revocation order in the future. Instead, CFT Capital will clearly advise the shareholders of McWatters, in the Circular, that the issuance of a partial revocation order does not guarantee the issuance of a full revocation order in the future and that the Preferred Shares will remain subject to the Manitoba Cease Trade Order and other applicable Cease Trade Orders.

26. As the List of Creditors and the Confirmation of Assets show that the aggregate amount of existing liabilities of McWatters by far exceeds the value of its existing assets, shareholders value is presently non-existent for shareholders of McWatters and, to the knowledge of CFT Capital, no value can be expected to be realized by such shareholders in the future, except pursuant to the terms of the Preferred Shares if the Arrangement and other Proposed Transactions are completed and if McWatters is successful in acquiring an income producing business. The Proposed Transactions would provide the current shareholders of

McWatters the opportunity of receiving value for their Common Shares, up to \$1,000,000 in the aggregate.

27. If the Arrangement is approved by the shareholders of McWatters at the Special Meeting, it is expected that an application will be made to the Court by Raymond Chabot, in its capacity as interim receiver, for a final order (the "Final Order") approving the Arrangement.

28. Following completion of the Arrangement:

(a) CFT Capital will hold all outstanding New Common Shares of McWatters, representing collectively approximately 20% of the voting rights attached to the outstanding shares of the share capital of McWatters; and

(b) the current shareholders of McWatters will hold all outstanding Preferred Shares of McWatters, representing collectively approximately 80% of the voting rights attached to the outstanding shares of the share capital of McWatters.

29. If the Arrangement and other Proposed Transactions are completed, it is CFT Capital's intention to try to cause McWatters to acquire a business in exchange for New Common Shares and/or indebtedness of McWatters.

30. Even if the Arrangement and other Proposed Transactions are completed, there can be no assurance that McWatters will complete the acquisition of a business. Further, there can be no assurance that any business acquired by McWatters will generate sufficient cash flow to permit distributions of dividends in respect of the Preferred Shares and payment of the redemption amount thereof to holders of Preferred Shares. Accordingly, distributions of dividends in respect of the Preferred Shares and payment of the redemption amount thereof to holders of Preferred Shares, in accordance with the terms of the Preferred Shares, will be subject to and conditional upon the successful acquisition of a business by McWatters and upon such business generating sufficient cash flow to permit distributions of dividends in respect of the Preferred Shares and payment of the redemption amount thereof to holders of Preferred Shares.

31. The issuance of New Common Shares and/or indebtedness of McWatters pursuant to the acquisition of a business by McWatters as hereinabove contemplated would also require a partial revocation or a full revocation of the Cease Trade Orders. Unless a full revocation of the Cease Trade Orders is obtained, CFT Capital intends to apply to the Commission and to the securities regulatory authorities of British Columbia, Alberta, Ontario and Québec for decisions partially revoking the Cease Trade Orders in connection with the aforementioned issuances and acquisition of New Common Shares and/or

indebtedness of McWatters once the specific details of any such transaction are known.

32. CFT Capital has undertaken, subject to the successful completion of the Arrangement, to use its best efforts to cause McWatters (i)to file, following the successful completion of the Arrangement, applications to seek full revocation of the Cease Trade Orders, (ii)to remedy its default under securities legislation by filing audited annual financial statements and related annual MD&As for the three financial years preceding the financial year during which the applications to seek full revocation of the Cease Trade Orders are filed, and (iii)to set aside a reasonable portion of the proceeds of the Proposed Transactions for the purpose of remedying such McWatters' default under securities legislation.

33. CFT Capital will not be seeking a market for trading in McWatters' securities, as the market value of McWatters' public float will not exceed \$1,000,000 and at the expiration of the fifth year following the effectiveness of the Arrangement the public shareholders of McWatters will be entitled to redeem their Preferred Shares. The redemption of the Preferred Shares will constitute trading (the "Redemption Trades"), and a partial or full revocation of the Cease Trade Orders will be required to allow the Redemption Trades.

34. Notwithstanding that McWatters may ultimately go private, CFT Capital recognizes that public shareholders, as holders of Preferred Shares, will have an interest in the affairs of McWatters, and should receive financial and other continuous disclosure until McWatters goes private. Accordingly, CFT Capital undertakes to use commercially reasonable efforts to cause McWatters, until such time when all Preferred Shares have been redeemed:

(a) to prepare and deliver financial statements in accordance with the requirements of the Act

(b) to provide continuous disclosure to the public (e.g. press releases and material change reports); and

(c) to hold annual meetings of shareholders and deliver statutorily required meeting materials to shareholders.

35. CFT Capital understands that the Manitoba Cease Trade Order will remain in effect following the completion of the Proposed Transactions and that all securities of McWatters will remain subject to the Manitoba Cease Trade Order, except as otherwise provided herein.

(C) The Commission is of the opinion that it would not be prejudicial to the public interest to grant the order requested.

**IT IS ORDERED:**



**1. THAT**, pursuant to Subsections 20(1) and 148(1) of the Act, the Manitoba Cease Trade Order be and is hereby partially revoked solely to permit:

i) the Proposed Transactions described in paragraph 23 above;

ii) the Debt Trades;

iii) the Common Shares Exchange;

iv) the Subscription Trade; and

v) all acts in furtherance of the aforementioned trades (including the sending of the Circular and related documents to securityholders of McWatters and the completion by the transfer agent of McWatters of all procedures necessary in order to complete the Proposed Transactions).

**BY ORDER OF THE COMMISSION:**

**Deputy Director - Legal**