



INSOLVENCY CONSULTANTS & TRUSTEE IN BANKRUPTCY

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August 21, 2008

To the Proven Creditors of Tercon Mining PV Ltd.

Dear Sirs/Mesdames:

**Re: In the Matter of the Proposal of
Tercon Mining PV Ltd. (“Tercon PV”)**

Further to our letter dated October 25, 2007, we write to provide a further update on the status of our administration and potential dividends to the creditors for the above noted company.

We continue to be surprised at how long it's taking to resolve the disputed claims in the *Company Creditor Arrangement Act* (“CCAA”) proceedings of Falls Mountain Coal Inc. (“FMC”). The most recent Monitor's Report dated July 16, 2008 provides a good update of the status of the disputed claims litigation. The Monitor's reports can be accessed at <http://documentcentre.eycan.com/pages/main.aspx?SID=17>.

The status of the disputed claims as outlined in the Monitor's most recent report can be summarized as follows:

Marubeni Claim Litigation

Marubeni had a marketing contract (the “Contract”) with FMC that would have paid commissions to Marubeni over the life of the Willow Creek Mine based on the quantity of coal processed. The Contract was guaranteed by Pine Valley Coal Ltd.(“PVC”).

In June 2007 the Contract was terminated. Marubeni submitted a claim against FMC and PVM (as guarantor) in the approximate amount of \$8.6 million for commissions that would have been earned over the life of the mine. The Contract did not have any specific terms with respect to termination. The Monitor in the CCAA proceedings took the position that because the Contract did not have specific terms of termination that the Contract could be terminated on reasonable notice effectively reducing Marubeni's claim to approximately \$350,000.

An application for a determination of the Marubeni claim, and more particularly the right of termination on reasonable notice, was brought before the Honourable Court and the Court found no basis to infer a right to termination on reasonable notice.

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Counsel for FMC and PVM tried unsuccessfully to obtain leave to appeal this decision.

Given the significance of the Marubeni claim and the fact that Marubeni is asserting a claim against both FMC and PVM, resolution of the claim is critical to finalizing the Definitive Plan of Arrangement. Recognizing the importance of resolving this matter counsels for FMC, PVM and Marubeni have recently met and reached an agreement on July 11, 2008 on the distribution from the potential Plan of Arrangement. The agreement provides for distribution totalling up to \$3 million. We note that the agreement reached is still subject to Court approval as part of the Definitive Plan of Arrangement.

The proposed settlement of the Marubeni claim has resulted in discussions resuming amongst counsel and clients of the major parties to the CCAA proceedings towards developing a distribution profile to the creditors and other stakeholders that could form the basis of a Definitive Plan of Arrangement.

Intercompany Claim Litigation

PVM initially filed a claim against FMC in an amount exceeding \$40 million. This claim has since been reduced by PVM to an amount that is slightly higher than the amount allowed by The Monitor of approximately \$27.1 million of this claim. The difference relates to management fees and interest that has not been allowed as part of the Monitor's determination.

In addition to the litigation relating to the amount of PVM claim there is also a question as to whether or not PVM is entitled to share pro rata in any distribution to the creditors of FMC.

As a result of the recently negotiated proposed settlement of the Marubeni claim discussions have recommenced towards resolving the issues relating to the intercompany claim mentioned above.

Since our last report we have received an interim dividend of \$180,000 from FMC that resulted from a Goods and Service Tax refund received by FMC following Canada Revenue Agency audit. This amount is sufficient to allow us to issue a dividend to the preferred claims of Tercon PV totalling approximately \$157,000. We intend to issue this dividend shortly.

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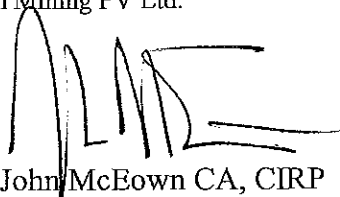
As previously reported the estimated dividend payable to the FMC general creditors is dependent on the outcome of the disputed claims mentioned above. Until the Monitor resolves the claim issues and a Definitive Plan of Arrangement in the CCAA proceedings is filed with the Court we are unable to provide a meaningful estimate of the dividend payable to the Tercon PV creditors.

Should you have any questions regarding the report, please contact us.

Yours very truly,

Boale, Wood & Company Ltd.

Trustee in the Proposal of
Tercon Mining PV Ltd.



Per: John McEown CA, CIRP
Chartered Insolvency & Restructuring Professional