



GWIL INDUSTRIES INC.

**Notice of Extraordinary General Meeting of Shareholders
to be held on November 30, 1999**

and

**Management Information Circular
Regarding a Proposed Arrangement
Between the Company and its Shareholders
and Involving
GII Acquisition Corp.**

October 27, 1999

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GWIL INDUSTRIES INC.

MANAGEMENT INFORMATION CIRCULAR

Certain capitalized terms used herein having the meanings ascribed to them in the Glossary.

This Circular is being furnished to the Shareholders in connection with the solicitation of proxies by the management of Gwil for use at the Meeting.

At the Meeting, the Shareholders will be asked to consider and, if deemed advisable, to approve the Arrangement between Gwil and the Shareholders and involving GII Acquisition pursuant to which, among other things, the outstanding Gwil Common Shares will, at the election of their holders, be either purchased by GII Acquisition or exchanged for Gwil Redeemable Preferred Shares and redeemed.

The Board of Directors has approved the Arrangement and recommends that the Minority Shareholders vote for the approval of the Arrangement.

Unless otherwise noted, all references to currency herein are to Canadian dollars.

The date of this Circular is October 27, 1999 and it is first being mailed to the Shareholders on or about October 29, 1999.

No person has been authorized to give any information or make any representation other than those contained in this Circular in connection with the matters disclosed herein and, if given or made, such information or representation must not be relied upon as having been authorized by Gwil, GII Acquisition or 593005. This Circular does not constitute an offer to sell or a solicitation of an offer to acquire any securities, nor does it constitute the solicitation of a proxy, in any jurisdiction to or from any person to whom it is not lawful to make such an offer or solicitation in such jurisdiction.

Notice to Non-Resident Persons

The solicitation and transaction contemplated herein are being effected in accordance with Canadian laws. Shareholders should be aware that requirements under such Canadian laws may differ from requirements under foreign laws.

See “Canadian Federal Income Tax Considerations on the Arrangement — Shareholders Not Resident in Canada” for information concerning certain tax consequences of the Arrangement.

SUMMARY

The following is a summary of certain information contained elsewhere in this Circular including the Appendices hereto. Certain capitalized words and terms used in this summary are defined in the Glossary. This summary is qualified in its entirety by the more detailed information and financial statements appearing or referred to elsewhere in this Circular or in the Appendices hereto. All references are to Canadian dollars unless otherwise indicated.

THE COMPANIES

Gwil

Gwil is a company incorporated under the BCCA. Gwil's principal business is renting mobile cranes to a wide range of industries including the construction, industrial plant maintenance and marine vessel loading industries. Gwil also operates a small testing laboratory and pilot scale wash plant serving the coal industry and provides management consulting services to other companies. The principal executive offices of Gwil are located at Suite 650, West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7. See "Gwil Industries Inc."

GII Acquisition

GII Acquisition is a company incorporated under the BCCA for the purpose of purchasing Gwil Common Shares under the Arrangement. The outstanding shares of GII Acquisition are held indirectly by the Management Shareholders through 593005. The principal executive offices of GII Acquisition are located at Suite 650, West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7. See "GII Acquisition Corp." and "593005 B.C. Ltd."

THE MEETING

Time and Place of Meeting

Gwil has called the Meeting to be held on November 30, 1999 at 9:00 a.m. (Vancouver time) in the Aspen Room, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia.

Purpose of Meeting

At the Meeting, the Shareholders will be asked to consider and, if thought advisable, to pass a special resolution approving the Arrangement. See "General Proxy Information" and "The Arrangement".

THE TRANSACTION

The Arrangement

The Arrangement will result in the privatization of Gwil. Under the terms of the Arrangement, among other things, each outstanding Gwil Common Share will, at the election of its holder, be either purchased by GII Acquisition for \$5.65 in cash or exchanged for one Gwil Redeemable Preferred Share and redeemed for \$5.00 in cash. The Gwil Common Shares held by the Management Shareholders will be retained by them and will not be affected by the Arrangement. Gwil Shareholders who validly exercise the Dissent Rights and comply with the Dissent Procedures will be entitled to be paid the fair value of their Gwil Common Shares as described under the heading "Dissent Rights". See "The Arrangement — Details of the Arrangement" and "Dissent Rights".

Special Committee

The Board of Directors appointed the Special Committee to review, consider and report to the Board of Directors on the terms of the proposed Arrangement. None of the members of the Special Committee is an employee or an insider, associate or affiliate (as those terms are defined in the *Securities Act* (British Columbia)) of Gwil or GII Acquisition or of any of their respective associates or affiliates (other than by reason of being a director of Gwil) or has held any such position during the previous five years.

The Special Committee undertook deliberate and full consideration of the Arrangement and retained Goepel McDermid, a major Canadian investment dealer, to prepare a formal independent valuation of the Gwil Common Shares and to provide an opinion as to fairness of the Arrangement, from a financial point of view, to the Minority Shareholders and to provide financial advice to the Special Committee.

Based upon the Valuation and Fairness Opinion and certain other considerations, the Special Committee concluded that the Arrangement is in the best interests of Gwil and is fair to the Minority Shareholders and recommended to the Board of Directors that the Board of Directors recommend that Minority Shareholders vote in favour of the Arrangement Resolution.

In arriving at its conclusions and formulating its recommendation, the Special Committee considered the matters set out under the heading “The Arrangement — Deliberations of the Special Committee”, including: (i) the Valuation and Fairness Opinion of Goepel McDermid; (ii) the procedures and approvals required and rights provided to protect the interests of the Minority Shareholders; and (iii) the ability for the Minority Shareholders to receive consideration for their Gwil Common Shares, for which there is currently a relatively illiquid market, representing a significant premium to the pre-announcement trading price of such shares.

See “The Arrangement — Special Committee”.

**Recommendation of the
Board of Directors**

The Board of Directors has determined that the Arrangement is in the best interests of Gwil and is fair to the Minority Shareholders and recommends that the Minority Shareholders approve the Arrangement. See “The Arrangement — Conclusion and Recommendation of the Board of Directors”.

Valuation and Fairness Opinion

Goepel McDermid was instructed by the Special Committee to prepare a valuation of the outstanding Gwil Common Shares and provide an opinion as to whether the Arrangement is fair, from a financial point of view, to the Minority Shareholders, in accordance with Policy 9.1 and Policy Q-27.

In its valuation, Goepel McDermid determined that the fair market value of the outstanding Gwil Common Shares, as at September 24, 1999, was in the range of \$5.35 to \$5.95 per share. Goepel McDermid also concluded in the Valuation and Fairness Opinion that, in its opinion, the Arrangement is fair, from a financial point of view, to the Minority Shareholders.

The full text of the Valuation and Fairness Opinion, which sets out a description of the assumptions made, factors considered and limitations on the review undertaken by Goepel McDermid, is attached as Appendix D to this Circular. Shareholders are urged to read the Valuation and Fairness Opinion carefully in its entirety. See “The Arrangement — Valuation and Fairness Opinion”.

Required Shareholder Approvals

Under the BCCA, the Arrangement must be approved by at least 75% of the votes cast by Shareholders in person or by proxy at the Meeting and by a simple majority of the votes cast by Shareholders, other than the Management Shareholders, in person or by proxy at the Meeting. In addition, under Policy 9.1 and Policy Q-27, the Arrangement must be approved by 66⅔% of the votes cast by the Minority Shareholders in person or by proxy at the Meeting.

The holders of certain of the outstanding Gwil Common Shares have agreed, or have indicated to Gwil that they intend, to vote the Gwil Common Shares held by them to approve the Arrangement.

See “General Proxy Information — Required Votes to Approve the Arrangement and Voting Intentions of Management and Certain Shareholders”.

Rights of Dissent

Pursuant to the terms of the Arrangement Agreement and the Interim Order, GII Acquisition and Gwil have granted the Dissent Rights to Shareholders who object to the Arrangement Resolution. See “Dissent Rights”.

Canadian Federal Income Tax Considerations

A Shareholder who receives cash in satisfaction of the purchase price of such holder’s Gwil Common Shares taken up by GII Acquisition pursuant to the Arrangement will be considered to have disposed of all such Gwil Common Shares for proceeds of disposition equal to the amount of cash received on such sale (\$5.65 per share). A Shareholder will realize a capital gain (or a capital loss) on such sale to the extent that the holder’s proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such holder’s Gwil Common Shares immediately before such sale.

A Shareholder exchanging a Gwil Common Share for a Gwil Redeemable Preferred Share pursuant to the Arrangement will be deemed, upon the redemption of the Gwil Redeemable Preferred Share, to have disposed of such share for proceeds of disposition in the amount generally equal to the paid-up capital of a Gwil Redeemable Preferred Share which should be equal to the paid-up capital of a Gwil Common Share, estimated by Gwil to be \$2.42. Resulting capital gains (or capital losses) will be treated as discussed above in connection with the sale of Gwil Common Shares for cash.

A holder of a Gwil Redeemable Preferred Share will also be deemed to have received a taxable dividend generally in the amount by which the amount received exceeds the paid-up capital of such Gwil Redeemable Preferred Share ($\$5.00 - \$2.42 = \$2.58$).

In the case of a Shareholder who is an individual resident in Canada, it is likely that the after-tax proceeds on a sale at \$5.65 per share will be greater than a redemption at \$5.00 per share. It is recommended that Shareholders consult their own tax advisors with respect to their own particular circumstances as to which alternative will provide the greatest after-tax proceeds.

A Shareholder who exercises the Dissent Right in respect of Gwil Common Shares in connection with the Arrangement will be deemed to have received a taxable dividend in the amount by which the amount received from Gwil exceeds the paid-up capital of such Gwil Common Shares and will have, for purposes of calculating a capital gain (or a capital loss), proceeds of disposition equal to the paid-up capital of the holder’s Gwil Common Shares (\$2.42 per share). See “Canadian Federal Income Tax Considerations On The Arrangement”.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF GWIL

Certain of the summary financial data presented below as at and for the three years in the period ended December 31, 1998 is derived from the audited consolidated financial statements of Gwil therefor and should be read in conjunction with such financial statements and the notes thereto included herein. Certain summary financial information as at and for the six months ended June 30, 1998 and 1999 is derived from the unaudited consolidated financial statements of Gwil therefor and should be read in conjunction with such financial statements and the notes thereto included herein. Such unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of Gwil's management, contain all adjustments necessary for the fair presentation of such information.

	Six Months Ended June 30, 1999		Years Ended December 31,		
	1999	1998	1998	1997 (1)	1996
	(unaudited)			(audited)	
	(in thousands of Canadian dollars)				
Consolidated Balance Sheet Data					
Cash and temporary investments	\$38,000	\$ 4,321	\$51,253	\$ 2,025	\$ 3,149
Other current assets	5,066	15,663	4,680	15,126	13,545
Capital assets	10,373	25,056	9,024	26,030	27,182
Other assets	1,704	4,839	3,380	4,979	5,057
Current liabilities	3,838	6,778	16,735	5,549	7,256
Long-term debt	266	1,421	1,114	1,821	1,857
Other liabilities	—	—	—	1,139	959
Future income taxes	3,302	7,825	3,302	6,909	6,386
Shareholders' equity	47,737	33,855	47,186	32,742	32,476
Consolidated Statement of Earnings and Retained Earnings Data					
Sales	\$ 2,854	\$ 3,929	\$ 7,443	\$ 7,206	\$53,465
Cost of sales	1,592	2,186	4,012	3,904	37,011
Expenses	587	1,679	2,259	3,517	14,780
(Loss) earnings from operations before gain on disposal of other assets	(260)	1,113	1,588	266	1,077
Gain on disposal of other assets	810	—	12,856	—	—
Earnings for the period	550	1,113	14,444	266	1,077

(1) Certain of the figures for the year ended December 31, 1997 have been restated to conform to the presentation for the year ended December 31, 1998.

GLOSSARY

Unless the context otherwise requires, the following terms shall have the respective meanings set out below when used in this Circular (other than the Appendices).

“Arrangement” means the arrangement under the provisions of section 252 of the BCCA on the terms and conditions set out in the Plan of Arrangement.

“Arrangement Agreement” means the arrangement agreement made as of October 21, 1999 among Gwil, GII Acquisition and 593005 attached as Appendix A to this Circular.

“Arrangement Resolution” means the special resolution of the Shareholders approving the Arrangement in the form set out in Appendix B to this Circular.

“BCCA” means the *Company Act* (British Columbia).

“Board of Directors” means the board of directors of Gwil Industries Inc.

“Canadian GAAP” means generally accepted accounting principles in Canada.

“Canadian Resident” means a resident of Canada for the purposes of the Canadian Tax Act.

“Canadian Tax Act” means the *Income Tax Act* (Canada).

“Court” means the Supreme Court of British Columbia.

“Depositary” means Montreal Trust Company of Canada.

“Dissent Procedures” means the dissent procedures described under the heading “Dissent Rights”.

“Dissent Rights” means the rights of holders of Gwil Common Shares to dissent with respect to the Arrangement pursuant to the terms of the Arrangement Agreement and the Interim Order in compliance with the Dissent Procedures.

“Dissenting Shareholder” means a Shareholder that has delivered a valid Notice of Dissent.

“Effective Date” means the date on which the Registrar accepts a certified copy of the Final Order for filing giving effect to the Arrangement.

“Final Order” means the order of the Court approving the Arrangement.

“593005” means 593005 B.C. Ltd., a company incorporated under the BCCA.

“GII Acquisition” means GII Acquisition Corp., a company incorporated under the BCCA and a wholly-owned subsidiary of 593005.

“Goepel McDermid” means Goepel McDermid Inc., the financial advisor to the Special Committee.

“Gwil” means Gwil Industries Inc., a company incorporated under the BCCA, and, where the context so requires, includes its subsidiaries.

“Gwil Redeemable Preferred Shares” means Preferred Shares in the capital of Gwil which are shares with a par value of \$10.00 each having attached thereto the special rights and restrictions set out in Part 19 of the Articles of Gwil and which will, as a result of the Arrangement, become shares without par value having attached thereto the special rights and restrictions set out in Exhibit 2 to the Plan of Arrangement.

“Gwil Common Shares” means the Common Shares without par value in the capital of Gwil.

“Interim Order” means the interim order of the Court (and any amendment thereto) providing for, among other things, the calling and holding of the Meeting.

“Letter of Transmittal” means the Letter of Transmittal and Election Form forwarded by Gwil to holders of Gwil Common Shares with this Circular or such other equivalent form of letter of transmittal and election form acceptable to GII Acquisition, acting reasonably.

“Management Shareholders” means, collectively, Hugh A. Magee and Merv G. Schweitzer, respectively the Chairman and Chief Executive Officer and the President and Chief Operating Officer of Gwil (and, in certain cases where the context so requires, includes the holding companies through which they own certain Gwil Common Shares).

“**Meeting**” means the extraordinary general meeting of the Shareholders (including any adjournments thereof) to be held for the purpose of considering and, if deemed advisable, approving the Arrangement in accordance with the Interim Order.

“**Meeting Date**” means November 30, 1999.

“**Minority Shareholders**” means Shareholders other than the Management Shareholders and the TD Bank.

“**ME**” means the Montreal Exchange.

“**Notice of Dissent**” means the written notice of a holder of Gwil Common Shares stating his intent to exercise his Dissent Right.

“**Plan of Arrangement**” means the plan of arrangement attached as Schedule A to the Arrangement Agreement, as amended, modified or supplemented from time to time in accordance with the Arrangement Agreement or pursuant to any order of the Court.

“**Policy 9.1**” means Policy Statement 9.1 of the Ontario Securities Commission.

“**Policy Q-27**” means Policy No. Q-27 of the Commission des valeurs mobilières du Québec.

“**Record Date**” means October 25, 1999, the record date for the Meeting.

“**Shareholders**” means holders of Gwil Common Shares.

“**Special Committee**” means the special committee of the Board of Directors, comprised of Chester A. Johnson (Chairman), Allan D. Laird, John H. Morrish and Gwyn Morgan, appointed in connection with the Arrangement.

“**TD Bank**” means The Toronto-Dominion Bank.

“**TSE**” means The Toronto Stock Exchange.

“**Valuation and Fairness Opinion**” means the valuation and fairness opinion of Goepel McDermid as to the valuation of the Gwil Common Shares and the fairness, from a financial point of view, of the Arrangement to the Minority Shareholders as described under the heading “The Arrangement — Valuation and Fairness Opinion”, a copy of which is attached as Appendix D to this Circular.

“**VSE**” means the Vancouver Stock Exchange.

GENERAL PROXY INFORMATION

Solicitation of Proxies

This Circular is furnished in connection with the solicitation of proxies by the management of Gwil for use at the Meeting to be held on November 30, 1999 at the time and place and for the purposes set out in the accompanying Notice of Extraordinary General Meeting. The solicitation will be made primarily by mail. Proxies may also be solicited personally or by telephone by representatives of Gwil at nominal cost. The total cost of such solicitation will be borne by Gwil. Gwil will, upon request, reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy materials to beneficial owners.

Appointment of Proxies

The two individuals named on the enclosed form of proxy are, respectively, the Chairman and Chief Executive Officer and the Corporate Secretary of Gwil. **A Shareholder has the right to appoint a person (who need not be a Shareholder) to attend and act for him and on his behalf at the Meeting other than the persons designated in the form of proxy and may exercise such right by inserting the name in full of the desired person in the blank space provided in the form of proxy and striking out the names now designated.**

To be effective, proxies must be received by Montreal Trust Company of Canada, 510 Burrard Street, Vancouver, British Columbia V6C 3B9, by 9:00 a.m. (Vancouver time) on November 29, 1999 or, in the event that the Meeting is adjourned, not less than 24 hours (excluding Saturdays, Sundays and holidays) preceding the time to which the Meeting is adjourned.

Revocation of Proxies

A Shareholder executing the enclosed form of proxy has the power to revoke it by an instrument in writing executed by the Shareholder or by his attorney authorized in writing or, where the Shareholder is a corporation, by a duly authorized officer or attorney of the corporation. The instrument of revocation must be deposited either at the

executive offices of Gwil at Suite 650, West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7 at any time up to and including the last business day preceding the date of the Meeting, or any adjournment thereof, or with the Chairman of such Meeting on the day of the Meeting, or any adjournment thereof, before any vote in respect of which the proxy is to be used shall have been taken. A proxy may also be revoked in any other manner permitted by law.

Voting of Proxies

The enclosed form of proxy confers discretionary authority upon the proxy nominee with respect to any amendments or variations to the matter identified in the Notice of Extraordinary General Meeting and any other matters which may properly come before the Meeting. As at the date of this Circular, management is not aware of any such amendments or variations, or of other matters to be presented for action at the Meeting.

If the instructions in a proxy given to management are certain, the Gwil Common Shares represented by the proxy will be voted in accordance with the instructions of the Shareholder. **If a choice is not specified, the Gwil Common Shares represented by a proxy given to management will be voted in favour of the approval of the Arrangement.**

Non-Registered Shareholders

Only registered Shareholders or the persons they appoint as their proxyholders are entitled to vote at the Meeting. However, in many cases, Gwil Common Shares beneficially owned by a person (a “Non-Registered Holder”) are registered either: (a) in the name of an intermediary (an “Intermediary”) that the Non-Registered Holder deals with in respect of the Gwil Common Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered registered retirement savings plans, registered retirement income funds, registered education savings plans and similar plans); or (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant. In accordance with the requirements of National Policy Statement No. 41 of the Canadian Securities Administrators, Gwil has distributed copies of the Notice of Extraordinary Meeting, this Circular, the Letter of Transmittal and Election Form and the form of proxy (collectively, the “Meeting Materials”) to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive Meeting Materials will be given one of the following forms of proxy.

1. Occasionally, Non-Registered Holders will be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise not completed. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Non-Registered Holder when submitting the proxy. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deliver it to Montreal Trust Company of Canada as described under the heading “— Appointment of Proxies”.
2. More typically, Non-Registered Holders will be given a form of proxy which is not signed by the Intermediary, and which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a “proxy authorization form”) which the Intermediary must follow. Typically, the Non-Registered Holder will also be given a page of instructions which contains a removable label containing a bar-code and other information. In order for the form of proxy to constitute a valid proxy authorization form, the Non-Registered Holder must remove the label from the instructions and affix it to the form of proxy, properly complete and sign the form of proxy and submit it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company.

In either case, the purpose of this procedure is to permit Non-Registered Holders to direct the voting of the Gwil Common Shares which they beneficially own. If a Non-Registered Holder receiving either form of proxy wishes to vote in person at the Meeting, the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder’s name in the blank space provided.

Non-Registered Holders should carefully follow the instructions of their Intermediary, including those regarding when and where the proxy or proxy authorization form is to be delivered.

Required Votes to Approve the Arrangement and Voting Intentions of Management and Certain Shareholders

Under the BCCA, the Arrangement Resolution must be approved by the affirmative vote of at least 75% of the votes cast thereon by Shareholders in person or by proxy at the Meeting and by the affirmative vote of a simple majority of the votes cast thereon by the Shareholders, other than the Management Shareholders, in person or by proxy at the Meeting. Any spoiled votes, illegible votes, defective votes and abstentions shall be considered not to be votes cast.

The TD Bank has agreed to vote the 2,315,000 Gwil Common Shares held by it (representing approximately 31.1% of the outstanding Gwil Common Shares), and the Management Shareholders have advised Gwil that they intend to vote the aggregate of 3,778,900 Gwil Common Shares held by them (representing approximately 50.7% of the outstanding Gwil Common Shares), in favour of the approval of the Arrangement. In addition, Peter Cundill & Associates (Bermuda) Ltd., which holds 517,200 Gwil Common Shares (representing approximately 6.9% of the outstanding Gwil Common Shares), has agreed to vote such shares in accordance with the recommendation of the Board of Directors.

To the knowledge of Gwil, the directors and officers of Gwil, other than the Management Shareholders, who hold Gwil Common Shares intend to exercise the votes attached to such shares to vote in favour the Arrangement.

Since the Arrangement is considered a “going private transaction” under Policy 9.1 and Policy Q-27, the Arrangement Resolution must also be approved by a 66^{2/3}% majority of the votes cast by the Minority Shareholders in person or by proxy at the Meeting. The votes cast at the Meeting by the TD Bank and the Management Shareholders will not be counted for the purpose of the “minority approval” requirements of Policy 9.1 and Policy Q-27.

See “The Arrangement — Background to the Arrangement”.

Voting Securities and Principal Holders Thereof

As at October 25, 1999, 7,446,797 Gwil Common Shares were outstanding, each carrying the right to one vote per share at a general meeting of the Shareholders.

Registered holders of the outstanding Gwil Common Shares at the close of business on October 25, 1999 will, at the Meeting, be entitled to vote on a show of hands and will, on a ballot, be entitled to one vote for each Gwil Common Share held on that date, provided such holder is present in person or by proxy.

The following table sets out information concerning the only persons known by Gwil as of October 25, 1999 to own beneficially, directly or indirectly, or exercise control or direction over Gwil Common Shares representing more than 10% of the number of Gwil Common Shares issued and outstanding.

<u>Name</u>	<u>Number of Gwil Common Shares</u>	<u>Percent of Gwil Common Shares Outstanding</u>
Hugh A. Magee	3,078,900 (1)	41.3%
Bantor Company	2,315,000 (2)	31.1%

(1) Beneficially owned directly and through H.A. Magee Holdings Ltd.

(2) Beneficially owned by the TD Bank.

The beneficial ownership of shares by the directors and officers of Gwil as a group (excluding the Management Shareholders) consists of 485,625 Gwil Common Shares, which represents approximately 6.5% of the number of Gwil Common Shares issued and outstanding.

THE ARRANGEMENT

General

At the Meeting, Shareholders will be asked to consider and, if thought advisable, to pass, with or without variation, the Arrangement Resolution, which is set out in Appendix B to this Circular.

Under the terms of the Arrangement, among other things, each outstanding Gwil Common Share will, at the election of its holder, be either purchased by GII Acquisition for \$5.65 in cash or exchanged for one Gwil Redeemable Preferred Share and redeemed for \$5.00 in cash. The Gwil Common Shares held by the Management Shareholders will be retained by them and will not be affected by the Arrangement. Gwil Shareholders who validly exercise the Dissent Rights and comply with the Dissent Procedures will be entitled to be paid the fair value of their Gwil Common Shares as described under the heading "Dissent Rights".

GII Acquisition was incorporated for the sole purpose of purchasing Gwil Common Shares under the Arrangement, has not carried on any business other than in relation to the Arrangement and has no material assets or liabilities.

Immediately after the completion of the Arrangement, the outstanding shares of Gwil will be held by GII Acquisition and the Management Shareholders and the outstanding shares of GII Acquisition will be held indirectly by the Management Shareholders through 593005. Current holders of Gwil Common Shares, other than the Management Shareholders, will have no ownership interest in Gwil.

Background to the Arrangement

In August 1998, Gwil sold its core business, the Plastics Division, and management of Gwil began assessing options to utilize the proceeds of the sale, including investment in new business ventures and the possible privatization of Gwil.

The structure of the shareholdings of Gwil was a primary consideration in the assessment process. Of the 7,446,797 Gwil Common Shares issued and outstanding, approximately 57.3% are held by the Management Shareholders and other directors and officers of Gwil, 31.1% are held by the TD Bank and the balance of 11.6% are held by minority shareholders of Gwil. Given the concentration of shareholdings and the relatively small market capitalization of Gwil, there has been little trading activity in the Gwil Common Shares for a number of years and, therefore, Shareholders have had limited liquidity for their holdings.

At a meeting of the Board of Directors held on May 12, 1999, Hugh A. Magee, the Chairman and Chief Executive Officer of Gwil, informed the Board of Directors that management of Gwil had completed the assessment process and had concluded that the privatization of Gwil was in the best interests of Gwil and the Shareholders. Mr. Magee also informed the Board of Directors that management had begun to consider various transactions by which Gwil could be privatized.

During the meeting, the Board of Directors appointed a Special Committee made up of independent directors of Gwil and directed the Special Committee to retain counsel and a valuator and to report to the Board of Directors regarding any privatization transaction that might be proposed. In furtherance of its appointment, the Special Committee engaged Goepel McDermid on June 10, 1999 to consider and commence a valuation of Gwil.

In discussions, the TD Bank indicated its preference to receive any proceeds from a privatization transaction by way of a redemption of shares and, on September 24, 1999, the TD Bank entered into an agreement with Gwil and GII Acquisition, a company indirectly owned by Mr. Magee and Merv G. Schweitzer, the President and Chief Operating Officer of Gwil. Under such agreement, the TD Bank agreed to vote the 2,315,000 Gwil Common Shares (representing approximately 31.1% of the outstanding Gwil Common Shares) owned by the TD Bank in favour of the Arrangement and to elect pursuant to the Arrangement to exchange its Gwil Common Shares for Gwil Redeemable Preferred Shares which will be redeemed for a consideration of \$5.00 each.

On September 27, 1999, GII Acquisition proposed the Arrangement to the Board of Directors by delivery of a letter of intent outlining the main features of the Arrangement. Based on the recommendation of the Special Committee after its review of the proposal, including discussions with its counsel and with Goepel McDermid, the Board of Directors accepted the letter of intent and, subject to subsequent approval of the Board of Directors after review of the Arrangement by the Special Committee, authorized Gwil to proceed with the Arrangement.

On October 26, 1999, Peter Cundill & Associates (Bermuda) Ltd. entered into an agreement with Gwil and GII Acquisition under which it agreed to vote in accordance with the recommendation of the Board of Directors the 517,200 Gwil Common Shares (representing approximately 6.9% of the outstanding Gwil Common Shares) owned by it.

Special Committee

General

On May 12, 1999, the Board of Directors appointed the Special Committee to review, consider and report to the Board of Directors on the terms of the proposed Arrangement. The Special Committee consists of Chester A. Johnson (Chairman), Allan D. Laird, John H. Morrish and Gwyn Morgan. None of the members of the Special Committee is an employee or an insider, associate or affiliate (as those terms are defined in the *Securities Act* (British Columbia)) of Gwil or GII Acquisition or of any of their respective associates or affiliates (other than by reason of being a director of Gwil) or held any such position during the previous five years. None of the members of the Special Committee will benefit from the Arrangement in a manner that is different from the Minority Shareholders or will have any material interest in Gwil or GII Acquisition. The Special Committee was authorized to engage such legal counsel, valuers and other advisors as it considered appropriate.

Engagement of Goepel McDermid

The Special Committee engaged Goepel McDermid to prepare a formal valuation of the Gwil Common Shares in accordance with Policy 9.1 and Policy Q-27, to provide an opinion as to whether the terms of the Arrangement are fair from a financial point of view to the Minority Shareholders and to provide financial advice to the Special Committee.

Goepel McDermid is a full service investment dealer with operations in all facets of corporate finance and in both institutional and retail brokerage services.

Gwil has agreed to pay Goepel McDermid a fee of \$100,000 for providing the Valuation and Fairness Opinion and related services, to reimburse Goepel McDermid for its reasonable out-of-pocket expenses and to indemnify Goepel McDermid in certain circumstances. The fee payable to Goepel McDermid does not depend on the conclusions reached in the Valuation and Fairness Opinion or the successful completion of the Arrangement.

Goepel McDermid is not an insider, associate or affiliate (as those terms are defined in the *Securities Act* (British Columbia)) of Gwil or GII Acquisition or any of their associates or affiliates and has not provided any financial advisory services or participated in financing involving Gwil, or any of its associates or affiliates, within the 24 months preceding the date on which it was first contacted regarding the Valuation and Fairness Opinion. There are no understandings or agreements between Goepel McDermid and Gwil or GII Acquisition or any of their associates or affiliates with respect to any future business dealings. Goepel McDermid may in the future, in the ordinary course of business, perform financial advisory or investment banking services for Gwil, GII Acquisition or 593005.

The Special Committee concluded that Goepel McDermid was a qualified and independent valuer, competent to provide the financial services required by the Special Committee.

See “— Valuation and Fairness Opinion”.

Deliberations of the Special Committee

The Special Committee undertook deliberate and full consideration of the Arrangement and obtained the advice of financial and legal advisors for such purpose. The Special Committee met as a committee five times in person or by telephone during the period from its constitution on May 12, 1999 to October 27, 1999, the date of its formal report to the Board of Directors. In addition, apart from meeting as a committee, members of the Special Committee spent time reviewing and considering relevant data and documents and discussing matters arising out of their review among themselves and with the advisors to the Special Committee.

The Special Committee retained Sangra, Moller as its special legal counsel to assist the Special Committee in carrying out its responsibilities and to provide the Special Committee with advice concerning its duties and the conduct of its affairs.

At various times throughout its deliberations, the Special Committee discussed with Goepel McDermid its activities in connection with the preparation of the Valuation and Fairness Opinion, including the results of due diligence meetings between Goepel McDermid and management of both Gwil and GII Acquisition, and matters relating to the review, analysis and adjustment by Goepel McDermid of internal Gwil plans and models and its review of agreements and other documents relating to Gwil's assets and liabilities. The Special Committee discussed in detail with Goepel McDermid the valuation methodologies, approaches and assumptions proposed to be used by Goepel McDermid in preparing the Valuation and Fairness Opinion. The Special Committee also conducted a detailed review of a draft of the Valuation and Fairness Opinion with representatives of Goepel McDermid, who answered questions from members of the Special Committee to their satisfaction. The Special Committee determined that the Valuation and Fairness Opinion had been properly prepared and was adequate to allow the Special Committee to form a judgment and recommendation on financial matters with respect to the terms of the Arrangement.

Goepel McDermid also addressed with the Special Committee the provisions of Policy 9.1 and Policy Q-27 which require a valuer to consider any distinctive material value that may accrue to the Management Shareholders as a result of the Arrangement that would not be available to an independent third party buyer, such as the earlier use of available tax losses, lower income taxes, reduced costs, increased revenues and higher utilization of the subject matter of the transaction. In this regard, the Special Committee requested Goepel McDermid to specifically consider, among other things, possible benefits of the Arrangement unique to the Management Shareholders.

On September 27, 1999, Goepel McDermid presented to the Special Committee certain preliminary results relating to its valuation work. In such presentation, Goepel McDermid advised the Special Committee of its preliminary conclusion of the range of values of the Gwil Common Shares and the fairness of the Arrangement, from a financial point of view, to the Minority Shareholders.

On October 27, 1999, the Special Committee met with Goepel McDermid and counsel for the Special Committee. Goepel McDermid presented the Valuation and Fairness Opinion to the Special Committee confirming its opinion that the value of the Gwil Common Shares is in the range of \$5.35 to \$5.95 per share and that the Arrangement is fair, from a financial point of view, to the Minority Shareholders. Subsequent to such meeting, the members of the Special Committee met to settle the recommendation of the Special Committee to the Board of Directors and, later that day, the Special Committee met with the Board of Directors.

Recommendation of the Special Committee

At its meeting with the Board of Directors on October 27, 1999, the Special Committee advised the Board of Directors that, in its view, the Arrangement is in the best interests of Gwil and is fair to the Minority Shareholders and recommended to the Board of Directors that Gwil submit the Arrangement to the Shareholders for approval and that the Board of Directors recommend approval of the Arrangement to the Minority Shareholders.

In arriving at its conclusion that the Arrangement is in the best interests of Gwil, the Special Committee considered the following factors, among others:

- (a) the fact that in August 1998, Gwil sold its core operating business;
- (b) the relative absence of liquidity in the public market for the Gwil Common Shares;
- (c) the appropriateness of Gwil remaining a public company in light of the significant shareholding of the Management Shareholders and the fact that Gwil has not made use of the capital markets to raise funds since the early 1970s; and
- (d) the advantages that would accrue to Gwil as a result of the Arrangement, including the elimination of costs associated with maintaining a public company.

In arriving at its conclusion that the Arrangement is fair to the Minority Shareholders, the Special Committee considered the following factors, among others:

- (a) the conclusions reached by Goepel McDermid in the Valuation and Fairness Opinion that the value of the Gwil Common Shares is in the range of \$5.35 to \$5.95 per share and that the Arrangement is fair, from a financial point of view, to the Minority Shareholders;
- (b) the opportunity afforded by the Arrangement for the Minority Shareholders to receive cash consideration for their investment representing a significant premium to the pre-announcement market price of Gwil

Common Shares without regard to the relative absence of liquidity in the public market for such shares and without payment of brokerage commissions;

- (c) the fact that the Arrangement must be approved both by the Court and by a 66⅔% affirmative vote of the Minority Shareholders; and
- (d) the fact that Minority Shareholders who object to the Arrangement are entitled to exercise the Dissent Rights.

The Special Committee evaluated all factors considered relevant by it in light of its knowledge of the business and operations of Gwil and of its business judgment. The Special Committee did not find it practicable to quantify or otherwise attempt to assign relative weights to the specific factors considered in its determination. The Special Committee placed particular emphasis on the Valuation and Fairness Opinion and on the opportunity provided by the Arrangement for the Minority Shareholders to obtain cash consideration for their Gwil Common Shares at a significant premium to the pre-announcement market price for Gwil Common Shares without regard to the relative absence of liquidity for such shares.

Valuation and Fairness Opinion

The following is a summary of the Valuation and Fairness Opinion. This summary does not purport to be a complete description of the conclusions set out in or analyses underlying the Valuation and Fairness Opinion. The preparation of a valuation and fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the applications of those methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Goepel McDermid did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Goepel McDermid's analyses should be considered as a whole and selecting portions of its analyses, without considering all of its analyses, may create an incomplete view of the process underlying the Valuation and Fairness Opinion.

The full text of the Valuation and Fairness Opinion, which sets out a description of the assumptions made, general procedures followed, factors considered, conclusions reached and limitations of the review undertaken by Goepel McDermid, is attached as Appendix D to this Circular and is incorporated herein by reference. The Valuation and Fairness Opinion was provided to the Special Committee for its use and benefit and is directed only to the valuation of the Gwil Common Shares and the fairness of the Arrangement, from a financial point of view, to the Minority Shareholders, does not address the merits of the underlying decision by Gwil to enter into the Arrangement and does not constitute a recommendation to any Shareholder as to how such Shareholder should vote on the Arrangement Resolution or any matter related thereto. Minority Shareholders are urged to read the Valuation and Fairness Opinion carefully in its entirety, especially with regard to the assumptions made and factors considered by Goepel McDermid. The summary of the Valuation and Fairness Opinion set out in this Circular is qualified in its entirety by reference to the full text thereof.

Goepel McDermid was instructed by the Special Committee to prepare a valuation of the Gwil Common Shares and an opinion as to the fairness of the Arrangement, from a financial point of view, to the Minority Shareholders, in accordance with Policy 9.1 and Policy Q-27.

In preparing its opinion Goepel McDermid has, among other things:

- (a) reviewed a draft of the Arrangement Agreement and the Plan of Arrangement;
- (b) reviewed a draft of this Circular;
- (c) reviewed certain other agreements pertaining to the business of Gwil;
- (d) reviewed certain publicly filed information concerning Gwil and information provided by Gwil;
- (e) examined certain financial information of Gwil;
- (f) conducted site due diligence reviews;
- (g) reviewed recent reported prices and trading activity of the Gwil Common Shares; and
- (h) held discussions with the senior management, auditors and legal counsel of Gwil.

Policy 9.1 and Policy Q-27 provide that, unless exempted, a company proposing to undertake a “going private transaction” is required to prepare a valuation of the affected securities and to provide to the holders of the affected securities a summary of such valuation. Goepel McDermid was retained on June 10, 1999 to perform a valuation of the Gwil Common Shares and to provide an opinion as to the fairness of the Arrangement, from a financial point of view, to the Minority Shareholders. Goepel McDermid is a full service investment dealer with operations in all facets of corporate finance and in both institutional and retail brokerage services. The Valuation and Fairness Opinion represents the opinion of Goepel McDermid and its form and content were approved for release by a committee of Goepel McDermid’s officers and directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

In connection with the preparation of the Valuation and Fairness Opinion, Goepel McDermid relied upon, and assumed the completeness, accuracy and fair presentation of, information obtained by Goepel McDermid from public sources and from the information provided to Goepel McDermid by Gwil and its agents and advisors. The Valuation and Fairness Opinion is conditional upon such completeness, accuracy and fair presentation. As well, Goepel McDermid relied upon certificates provided by certain senior officers of Gwil. Subject to the exercise of its professional judgment and except as expressly described in the Valuation and Fairness Opinion, Goepel McDermid did not attempt to verify independently the accuracy or completeness of any such information.

The Valuation and Fairness Opinion was rendered on the basis of securities markets, economic and general business and financial conditions prevailing as at September 24, 1999 and the conditions and prospects, financial and otherwise, of Gwil as they were reflected in the information reviewed by Goepel McDermid. In the analyses by Goepel McDermid and in connection with the preparation of the Valuation and Fairness Opinion, Goepel McDermid made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved with the Arrangement. The Valuation and Fairness Opinion is not intended to be and does not constitute a recommendation to any Shareholder as to how such Shareholder should vote in connection with the Arrangement.

Goepel McDermid believes that its analyses, as described in the Valuation and Fairness Opinion, must be considered as a whole and that to focus on specific portions of such analyses and of the factors considered, without considering all analyses and factors, could create an incomplete and misleading view of the processes underlying the Valuation and Fairness Opinion. Minority Shareholders are urged to read the Valuation and Fairness Opinion carefully and in its entirety.

Valuation Approach

Goepel McDermid determined that a liquidation approach was the most appropriate method to ascribe value to the Gwil Common Shares. Goepel McDermid selected a liquidation approach to value the Gwil Common Shares because, among other things, a liquidation approach yielded higher values for the Gwil Common Shares than a going concern approach. Under the liquidation approach, Goepel McDermid valued the assets and liabilities of Gwil using assumptions and valuation methodologies considered by it to be appropriate and consistent in the circumstances, as described in more detail below. Goepel McDermid assumed that the liquidation of Gwil’s assets and liabilities would be effected in an orderly manner over a 12-month period to maximize their value.

Valuation of Crane Division

In valuing the Crane Division, Goepel McDermid considered liquidation or break up valuation methodologies as well as several going concern valuation methodologies. In light of the Crane Division’s long-term history of profitability and prospects for future profitability, Goepel McDermid concluded that a liquidation approach to the valuation of the Crane Division was inappropriate.

Net Asset Value Approach. Under this approach, the value in continued use of each asset and liability is determined and the net amount which results from deducting the amount of adjusted liabilities from the amount of adjusted assets is referred to as net asset value. Based on the net asset value approach to valuing the Crane Division, Goepel McDermid valued the division, on an asset basis and including accounts receivable, at between \$10.4 million and \$12.2 million.

Comparable Transaction Analysis. Goepel McDermid reviewed the past three transactions involving the purchase or sale of a crane business to which Gwil has been a party in the last five years. Goepel McDermid

concluded that these transactions supported the conclusions reached under the other valuation analyses employed by Goepel McDermid.

Conclusions — Value of Crane Division

Based on the analysis and subject to the qualifications and limitations set out in the Valuation and Fairness Opinion, Goepel McDermid valued the Crane Division as at September 24 1999, on an asset basis and including accounts receivable, at between \$10.4 million and \$12.2 million.

Valuation of Coal Testing Division

In light of the Coal Testing Division's recent history of negative operating cash flow and its limited prospects for future profitability, Goepel McDermid determined that the most appropriate method for ascribing value to the assets of the Coal Testing Division was a liquidation approach. Goepel McDermid assumed an immediate liquidation of the Coal Testing Division. On the basis described in the Valuation and Fairness Opinion, Goepel McDermid estimated that a liquidation of the Coal Testing Division's assets would generate proceeds of between \$21,000 and \$31,000. Goepel McDermid estimated the costs associated with liquidating the Coal Testing Division to be in the range of \$465,000 to \$665,000.

Valuation of Management Consulting Services Business

On the basis described in the Valuation and Fairness Opinion, the only value which Goepel McDermid assigned to the existing management agreement pursuant to which Gwil provides management consulting services, was in respect of the after-tax cash flow likely to be generated under such agreement between September 24, 1999 and December 31, 1999, the expiry date of such agreement.

Valuation of Cash and Equivalents

Goepel McDermid valued the cash and equivalents in the amount of \$38.7 million at their stated book value as at August 31, 1999.

Valuation of Other Assets and Liabilities

As set out in the Valuation and Fairness Opinion, Goepel McDermid also ascribed value ranges to the other assets and liabilities of Gwil reflected on its balance sheet as at August 31, 1999. In most instances, these assets and liabilities were valued at or near their book value as at August 31, 1999. In addition, as set out in the Valuation and Fairness Opinion, Goepel McDermid made certain adjustments for certain liabilities of Gwil not reflected in the August 31, 1999 financial statements.

Liquidation Costs

In determining the value of the Gwil Common Shares, Goepel McDermid considered the costs associated with liquidating Gwil. These costs include, among other things, income taxes, employee severance costs, lease termination costs, and related management, accounting, legal, clean-up and shutdown costs. Goepel McDermid estimated these costs to be in the range of \$4.6 million to \$6.0 million.

Benefits to Management Shareholders

Goepel McDermid reviewed and considered whether any distinctive material value will accrue to the Management Shareholders through the acquisition of all of the Gwil Common Shares held by the Minority Shareholders as contemplated in the Arrangement. Goepel McDermid concluded that no material specific operational or financial benefits would accrue to the Management Shareholders other than if and to the extent that Shareholders elect to exchange their Gwil Common Shares for Gwil Redeemable Preferred Shares and receive a price of \$5.00 per share on redemption. However, Goepel McDermid made no adjustment to the valuation of the Gwil Common Shares in respect of such benefits because the nature and quantum of the consideration paid for the Gwil Common Shares does not of itself impact their value.

Valuation Conclusion

Goepel McDermid concluded that as at September 24, 1999 the fair market value of the Gwil Common Shares was in the range of \$39.8 million to \$44.3 million or approximately \$5.35 to \$5.95 per Gwil Common Share.

Fairness Opinion

In considering the fairness of the Arrangement to the Minority Shareholders from a financial point of view, Goepel McDermid considered that:

- (a) the price of \$5.65 per Gwil Common Share to be paid by GII Acquisition is at the mid-point of the range of fair market value of the Gwil Common Shares as determined by Goepel McDermid;
- (b) the price of \$5.65 per Gwil Common Share to be paid by GII Acquisition represents a 29.9% premium to the weighted average trading price for the Gwil Common Shares for the last 60 days prior to the public announcement of the Arrangement and a 36.0% premium to the weighted average trading price for the Gwil Common Shares for the last 120 days prior to the public announcement of the Arrangement; and
- (c) liquidity in the Gwil Common Shares is limited, there having been an average daily volume of approximately 90 Gwil Common Shares over the 12 months ended the day prior to the public announcement of the Arrangement.

Based on the foregoing, Goepel McDermid concluded that the Arrangement is fair from a financial point of view to the Minority Shareholders.

Conclusion and Recommendation of the Board of Directors

At its meeting on October 27, 1999, the Board of Directors reviewed the conclusions and recommendations of the Special Committee. The Board of Directors determined that, considering all the relevant factors, the Arrangement is in the best interests of Gwil and is fair to the Minority Shareholders. In reaching this determination, the Board of Directors relied on its knowledge of Gwil, the conclusions and recommendation of the Special Committee and the Valuation and Fairness Opinion.

Hugh A. Magee, the Chairman and Chief Executive Officer of Gwil, is also the Chairman and a director of each of GII Acquisition and 593005 and a significant shareholder of 593005. Merv G. Schweitzer, the President and Chief Operating Officer of Gwil, is also the President and a director of each of GII Acquisition and 593005 and a significant shareholder of 593005. Each of Messrs. Magee and Schweitzer fully disclosed his relationship with GII Acquisition and 593005 and abstained from voting at the meeting of the Board of Directors to approve the Arrangement and to recommend that Minority Shareholders approve the Arrangement Resolution. All members of the Board of Directors who were present and did not abstain from voting at the meeting of the Board of Directors voted in favour of the resolution approving the Arrangement.

The Board of Directors recommends that the Minority Shareholders vote in favour of the Arrangement Resolution.

Details of the Arrangement

The following description of the Arrangement and the Arrangement Agreement is qualified by reference to the full text of the Plan of Arrangement and the Arrangement Agreement, respectively. The Arrangement Agreement is attached as Appendix A to this Circular and the Plan of Arrangement is attached as Schedule A to the Arrangement Agreement.

Plan of Arrangement

The terms of the Arrangement are set out in the Plan of Arrangement contemplated by the Arrangement Agreement. Pursuant to the Plan of Arrangement, the following steps will occur and be deemed to occur in the following order at the effective time of the Arrangement:

- (a) the Memorandum of Gwil shall be and be deemed to be altered by changing the Gwil Redeemable Preferred Shares from shares with a par value of \$10.00 each to shares without par value;
- (b) the Articles of Gwil shall be and be deemed to be altered by varying the special rights and restrictions attached thereto to be in the form set out in Exhibit 2 to the Plan of Arrangement;

- (c) the Gwil Common Shares held by all holders other than:
 - (i) the Management Shareholders;
 - (ii) Dissenting Shareholders who comply with the Dissent Procedures and are ultimately entitled to be paid the fair value for their Gwil Common Shares; and
 - (iii) holders who have elected in a Letter of Transmittal which has been duly completed, executed and delivered to the Depositary (together with a certificate or certificates representing such shares) to receive Gwil Redeemable Preferred Shares in exchange for their Gwil Common Shares as provided in paragraph (d) below;

shall be and be deemed to be purchased by GII Acquisition for a price of \$5.65 per share in cash and each such holder shall thereupon be entitled to receive out of the funds held by the Depositary for such purpose an amount equal to the aggregate purchase price so payable to such holder and such amount shall, from and after such time, be and be deemed to be held by the Depositary in trust for such holder;

- (d) each issued and outstanding Gwil Common Share held by a holder who so elects in a Letter of Transmittal which has been duly completed, executed and delivered to the Depositary (together with a certificate or certificates representing such shares) shall be and be deemed to be exchanged for one Gwil Redeemable Preferred Share; and
- (e) each issued and outstanding Gwil Redeemable Preferred Share shall be and be deemed to be redeemed for a price of \$5.00 per share in cash and each holder of Gwil Redeemable Preferred Shares shall thereupon be entitled to receive out of the funds provided to the Depositary for such purpose an amount equal to the aggregate redemption price so payable to such holder and such amount shall, from and after such time, be and be deemed to be held by the Depositary in trust for such holder.

The issued and outstanding Gwil Common Shares held by the Management Shareholders will be retained by them and will not be affected by the Arrangement.

The Arrangement Agreement

The Arrangement Agreement provides for the Arrangement, on the terms set out in the Plan of Arrangement, and certain related matters. The Arrangement Agreement sets out, among other things, various covenants, representations and warranties of the parties, conditions to the obligations of the parties to complete the Arrangement and provisions for the termination of the Arrangement Agreement in certain circumstances.

Covenants of the Parties. Each of Gwil, GII Acquisition and 593005 has agreed to take certain actions required in connection with the completion of the Arrangement.

Gwil has agreed, among other things, to convene the Meeting, prepare and distribute to the Shareholders a management information circular in compliance with applicable law and containing a recommendation of the Board of Directors that the Minority Shareholders vote in favour of the Arrangement at the Meeting and, generally, conduct its business in the ordinary course until the completion of the Arrangement. Gwil has also agreed to deposit with the Depositary, on or before 5:00 p.m. (Vancouver time) on the Meeting Date, the aggregate funds required to be paid to the Shareholders as a result of the redemption by Gwil of the Gwil Redeemable Preferred Shares under the Arrangement and an irrevocable direction to the Depositary to make such required payments in accordance with the provisions of the Arrangement.

In addition to its general covenant to take all necessary actions to complete the transactions contemplated by the Arrangement Agreement, GII Acquisition has agreed to deposit with the Depositary, on or before 5:00 p.m. (Vancouver time) on the Meeting Date, the aggregate funds required to be paid to the Shareholders as a result of the purchase by GII Acquisition of Gwil Common Shares under the Arrangement and an irrevocable direction to the Depositary to make such required payments in accordance with the provisions of the Arrangement.

Representations and Warranties. The Arrangement Agreement contains various representations and warranties of 593005, GII Acquisition and Gwil relating to, among other things, the following matters (which representations and warranties are subject, in certain cases, to specified exceptions): the due incorporation and valid existence of the relevant party; the corporate power and capacity of the relevant party to carry on its business and to enter into and perform its obligations under the Arrangement Agreement; the enforceability of the Arrangement Agreement against the relevant party; and the share capital of the relevant party.

In addition, Gwil has made representations and warranties relating to the following additional matters (which representations and warranties are subject, in certain cases, to specified exceptions): its compliance with applicable laws and agreements to which it is subject; the accuracy of its financial statements and public disclosure documents; the absence of any material change in its business or financial condition; and the completeness of disclosure provided by it to GII Acquisition.

Conditions. The obligations of GII Acquisition and 593005 on the one hand and Gwil on the other hand to complete the Arrangement are subject to the fulfilment or waiver of the following conditions, among others: the delivery by Goepel McDermid of a favourable valuation and fairness opinion; the approval of the Arrangement by the Shareholders at the Meeting; the granting of the Final Order by the Court; the acceptance of a certified copy of the Final Order for filing by the Registrar of Companies under the BCCA; the absence of any material change in the business, operations or assets of the other party; and the receipt of all necessary consents and approvals required for the completion of the Arrangement.

In addition, the obligations of GII Acquisition and 593005 to complete the Arrangement are subject to the condition that the holders of an aggregate of not more than 5% of the outstanding Gwil Common Shares have validly exercised the Dissent Rights.

Termination. The Arrangement Agreement may be terminated prior to the Effective Date by the written agreement of all of the parties. In addition, the Arrangement Agreement will terminate if the Shareholders fail to approve the Arrangement at the Meeting, if the Court or any Court of Appeal definitively denies the granting of the Final Order or if the Arrangement is not completed by December 31, 1999.

Interests of Certain Persons in the Arrangement

Hugh A. Magee, the Chairman and Chief Executive Officer and a director of Gwil, beneficially holds 3,078,900 Gwil Common Shares representing approximately 41.3% of the outstanding Gwil Common Shares. Mr. Magee is also the Chairman of each of 593005 and GII Acquisition and holds 8,148 Common shares in the capital of 593005, representing approximately 81.5% of the outstanding Common shares of 593005. Mr. Magee owes \$600,000 to Gwil under the terms of a loan granted pursuant to Gwil's Stock Purchase Plan.

Merv G. Schweitzer, the President and Chief Operating Officer and a director of Gwil, holds 700,000 Gwil Common Shares, representing approximately 9.4% of the outstanding Gwil Common Shares. On October 20, 1999, Mr. Schweitzer exercised options granted to him in 1995 under Gwil's Stock Option Plan to purchase 150,000 Gwil Common Shares at a price of \$2.08 per share. Pursuant to Gwil's Stock Option Plan, Gwil loaned Mr. Schweitzer the aggregate exercise price of \$312,000 for the purchase of such shares. Mr. Schweitzer is also the President and a director of each of 593005 and GII Acquisition and holds 1,852 Common shares in the capital of 593005, representing approximately 18.5% of the outstanding Common shares of 593005.

See "Gwil Industries Inc. — Indebtedness of Directors, Executive Officers and Senior Officers".

Source of Funds

The aggregate amount payable by GII Acquisition in respect of the acquisition of Gwil Common Shares pursuant to the Arrangement is expected to be approximately \$7.7 million. The aggregate amount payable by Gwil in respect of the redemption of Gwil Redeemable Preferred Shares pursuant to the Arrangement is expected to be approximately \$11.6 million.

Pursuant to the Arrangement Agreement, GII Acquisition and Gwil have agreed to deposit with the Depositary the funds required to be paid in connection with the purchase by GII Acquisition of Gwil Common Shares and the redemption by Gwil of Gwil Redeemable Preferred Shares, respectively, under the Arrangement. See "— The Arrangement Agreement — Covenants of the Parties". Prior to the Meeting Date, GII Acquisition will make banking arrangements to borrow the funds required under the Arrangement Agreement. Gwil will utilize its own funds available from treasury for such purpose.

Procedure for Receipt of Consideration under the Arrangement

After the effective time of the Arrangement, certificates formerly representing Gwil Common Shares, other than those held by GII Acquisition and the Management Shareholders, will represent only the right to receive payment of the applicable amount in accordance with the Plan of Arrangement until the sixth anniversary of the

Effective Date, at which time they will cease to represent a claim of any nature, will be deemed to be surrendered to Gwil and will be cancelled.

As soon as practicable following the Effective Date, where a former Shareholder has delivered to the Depositary a duly completed and executed Letter of Transmittal and the certificate or certificates representing his Gwil Common Shares, GII Acquisition and Gwil will cause the Depositary to forward to such holder or make available for pick up by such holder a cheque representing the aggregate cash amount payable to such holder in accordance with the Plan of Arrangement. GII Acquisition will provide the Depositary with sufficient funds to enable the Depositary to make payment of the amounts payable to the Shareholders as a result of the purchase by GII Acquisition of Gwil Common Shares under the Arrangement. Gwil will provide the Depositary with sufficient funds to enable the Depositary to make payment of the amounts payable to the Shareholders as a result of the redemption by Gwil of the Gwil Redeemable Preferred Shares under the Arrangement.

If any former Shareholder fails to deliver to the Depositary for cancellation either the certificates formerly representing his Gwil Common Shares or a duly completed and executed Letter of Transmittal on or before the sixth anniversary of the Effective Date, such holder will be deemed to have donated and forfeited to Gwil the cash together with all accrued interest thereon, net of any applicable withholding or other taxes, held by the Depositary in trust for such holder.

Judicial Developments and Regulatory Matters

Prior to the adoption of Policy 9.1 and Policy Q-27, Canadian courts, in a few instances, granted preliminary injunctions to prohibit certain transactions involving going private transactions. Gwil and GII Acquisition have been advised that more recent legislative enactments and notices and judicial decisions indicate a willingness to permit going private transactions to proceed subject to compliance with procedures designed to ensure substantive fairness to minority shareholders.

The Arrangement is a “going private transaction” under Policy 9.1 and Policy Q-27 and, accordingly, is subject to the disclosure, valuation and minority approval requirements of, and the special committee review recommendations set out in, Policy 9.1 and Policy Q-27. Such requirements and recommendations are being followed in connection with the Arrangement. See “General Proxy Information — Required Votes to Approve the Arrangement and Voting Intentions of Management and Certain Shareholders”, “— Special Committee” and “— Valuation and Fairness Opinion”.

Court Approval of the Arrangement and Completion of the Transaction

An arrangement under the BCCA requires approval by the Court. Prior to the mailing of this Circular, Gwil obtained the Interim Order providing for the calling and holding of the Meeting and other procedural matters. A copy of the Interim Order and the Notice of Application for the Final Order is set out in Appendix C.

Subject to the requisite approval of the Arrangement by the Shareholders at the Meeting, the hearing in respect of the Final Order is scheduled to take place on December 1, 1999 at 9:45 a.m. (Vancouver time), or so soon thereafter as counsel may be heard, at the Courthouse, 800 Smithe Street, Vancouver, British Columbia. Any Shareholder who wishes to appear or be represented and to present evidence or arguments must serve and file a notice of appearance as set out in the Notice of Application for the Final Order and satisfy any other requirements of the Court. At the hearing of the motion in respect of the Final Order, the Court will consider, among other things, the fairness of the terms and conditions of the Arrangement. The Court may approve the Arrangement as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court deems fit.

Assuming the Final Order is granted and the other conditions to the completion of the Arrangement set out in the Arrangement Agreement are satisfied or waived, it is anticipated that immediately thereafter a certified copy of the Final Order will be filed with the Registrar under the BCCA to give effect to the Arrangement. It is presently anticipated that the Effective Date will occur on or about December 2, 1999.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS ON THE ARRANGEMENT

General

In the opinion of Felesky Flynn, special Canadian tax counsel to Gwil, the following summary fairly describes the principal Canadian federal income tax consequences currently applicable to Shareholders that dispose of Gwil Common Shares pursuant to the Arrangement.

This summary is based upon the current provisions of the Canadian Tax Act and the regulations thereunder, the Canada — United States Income Tax Convention (1980) (the “U.S. Convention”), counsel’s understanding of the current published administrative and assessing practices of Revenue Canada, Customs, Excise and Taxation (“Revenue Canada”), and the proposed amendments to the Canadian Tax Act and regulations publicly announced by the Minister of Finance prior to the date hereof (the “Proposed Amendments”), all of which are amended from time to time. This summary assumes that the Proposed Amendments will be enacted as proposed. This summary is not exhaustive of all possible Canadian federal income tax considerations and does not take into account or anticipate any other changes in law whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations.

This summary is not applicable to a Shareholder that is a “financial institution”, as defined in the Canadian Tax Act for purposes of the “mark-to-market rules”. Any such holders should consult with their own tax advisors with respect to the Arrangement.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Shareholder. ACCORDINGLY, SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES.

Shareholders Resident in Canada

The following summary is generally applicable to Shareholders that are residents of, or deemed to be resident of, Canada, deal at arm’s length with Gwil, and hold their Gwil Common Shares as capital property. Generally the Gwil Common Shares will be considered capital property to a holder thereof unless they are held in the course of carrying on a business of trading or dealing in securities or were acquired in a transaction or transactions considered to be an adventure in the nature of trade. Certain Shareholders whose Gwil Common Shares might not otherwise qualify as capital property may be entitled to obtain such qualification by making an irrevocable election permitted by subsection 39(4) of the Canadian Tax Act to have every “Canadian security” owned by such Shareholder in the taxation year of the election and all subsequent taxation years deemed to be capital property.

Sale of Gwil Common Shares for Cash to GII Acquisition

A Shareholder who receives cash in satisfaction of the purchase price of such holder’s Gwil Common Shares taken up by GII Acquisition pursuant to the Arrangement will be considered to have disposed of all such Gwil Common Shares for proceeds of disposition equal to the amount of cash received on such sale (\$5.65 per share). A Shareholder will realize a capital gain (or a capital loss) on such sale to the extent that the holder’s proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such holder’s Gwil Common Shares immediately before such sale.

A Shareholder who realizes a capital gain (or a capital loss) upon the sale of Gwil Common Shares for cash will be required to include in computing the holder’s income three-quarters of any such capital gain (a “taxable capital gain”) and generally will be entitled to deduct three-quarters of any such capital loss (an “allowable capital loss”) against taxable capital gains realized in the year of disposition and, subject to detailed rules in the Canadian Tax Act, any remaining allowable capital loss may generally be applied to reduce net taxable capital gains of the Shareholder in any of the three years preceding the year of disposition or in any year following the year of disposition.

Where the Shareholder is a corporation, partnership or trust, an allowable capital loss from the disposition of Gwil Common Shares may, in certain circumstances, be reduced by the amount of dividends, including deemed dividends, which have been received on the Gwil Common Shares.

A Shareholder that is throughout the relevant taxation year a “Canadian-controlled private corporation” (as defined in the Canadian Tax Act) may be liable to pay an additional refundable tax of 6½% on its “aggregate investment income” for the year, which is defined to include taxable capital gains (but not dividends or deemed dividends deductible in computing taxable income).

Capital gains realized by an individual may be subject to a minimum tax. The Canadian Tax Act provides that tax payable by individuals (other than certain trusts) is the greater of the tax otherwise determined and a minimum tax amount. **Shareholders should consult their own tax advisors with respect to the minimum tax provisions.**

Exchange of Gwil Common Shares for Gwil Redeemable Preferred Shares

A Shareholder exchanging a Gwil Common Share for a Gwil Redeemable Preferred Share pursuant to the Arrangement will be deemed to have an adjusted cost base in the Gwil Redeemable Preferred Share equal to the adjusted cost base of the Gwil Common Share. No gain or loss will arise.

Redemption of Gwil Redeemable Preferred Shares

Upon the redemption of a Gwil Redeemable Preferred Share, a holder of a Gwil Redeemable Preferred Share will be considered to have disposed of such share for proceeds of disposition in the amount generally equal to the paid-up capital of a Gwil Redeemable Preferred Share which should be equal to the paid-up capital of a Gwil Common Share, estimated by Gwil to be \$2.42. Resulting capital gains (or capital losses) will be treated as discussed above in connection with the sale of Gwil Common Shares for cash.

A holder of a Gwil Redeemable Preferred Share also will be deemed to have received a taxable dividend generally in the amount by which the amount received exceeds the paid-up capital of such Gwil Redeemable Preferred Share (\$5.00 – \$2.42 = \$2.58).

In respect of certain corporations, subsection 55(2) of the Canadian Tax Act provides that where a corporate holder of a Gwil Redeemable Preferred Share receives, or is deemed to have received, a dividend in specified circumstances, all or part of such dividend may be treated as a capital gain from the disposition of capital property. **Holders that are corporations should consult their own tax advisors for advice with respect to the potential application of this provision.**

In the case of a holder of a Gwil Redeemable Preferred Share who is an individual, the amount of a deemed dividend will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. In the case of a corporate holder of a Gwil Redeemable Preferred Share, dividends received or deemed to be received on the Gwil Redeemable Preferred Share will normally be deductible in computing its taxable income. A holder of a Gwil Redeemable Preferred Share that is a “private corporation” (as defined in the Canadian Tax Act), or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals, may be liable under Part IV of the Canadian Tax Act to pay a refundable tax of 33⅓% on dividends received or deemed to be received on the Gwil Redeemable Preferred Share to the extent that such dividends are deductible in computing the holder’s taxable income.

The Gwil Redeemable Preferred Shares are “taxable preferred shares” for the purposes of the Canadian Tax Act. Dividends deemed to be received on the Gwil Redeemable Preferred Shares as a result of the redemption should not be subject to the 10% tax under Part IV.1 of the Canadian Tax Act applicable to certain corporations.

The following example illustrates the different tax treatment of a sale of a Gwil Common Share to GII Acquisition and a redemption of a Gwil Redeemable Preferred Share, assuming for illustrative purposes that the adjusted cost base to the Shareholder of such share is \$2.00:

	<u>Sale</u>	<u>Redemption</u>
Cash Consideration	<u>\$5.65</u>	<u>\$5.00</u>
Amounts Reportable For Tax Purposes:		
Proceeds of Disposition for capital gain purposes	\$5.65	\$2.42(a)
Adjusted Cost Base (b)	<u>2.00</u>	<u>2.00</u>
Capital Gain (Capital Loss) (c)	<u>\$3.65</u>	<u>\$0.42</u>
Deemed Dividend (c)	<u>nil(d)</u>	<u>\$2.58(e)</u>

(a) Generally equal to the paid-up capital of the Gwil Redeemable Preferred Share.

(b) Assumed for illustrative purposes.

(c) These line items must be reported by the former Shareholder.

(d) There is no deemed dividend in the case of a sale of the Gwil Common Share to GII Acquisition.

(e) Generally equal to the difference between cash consideration and the paid-up capital of the Gwil Redeemable Preferred Share.

In the case of a Shareholder who is an individual resident in Canada, it is likely that the after-tax proceeds on a sale at \$5.65 per share will be greater than a redemption at \$5.00 per share. **It is recommended that Shareholders consult their own tax advisors with respect to their own particular circumstances as to which alternative will provide the greatest after-tax proceeds.**

Dissenting Shareholders

A Shareholder who exercises Dissent Rights in respect of the Gwil Common Shares in connection with the Arrangement will be deemed to have received a taxable dividend and will realize a capital gain (or capital loss) based on the consideration received from Gwil for the Gwil Common Shares. Such a Shareholder will be deemed to receive a taxable dividend equal to the amount by which the amount received by such holder as consideration from Gwil for the Gwil Common Shares (excluding any amounts awarded by a Court as interest) exceeds the paid-up capital attributable to such Gwil Common Shares. The paid-up capital of the Gwil Common Shares is estimated by Gwil to be \$2.42 per share. A Dissenting Shareholder also will be considered to dispose of the Gwil Common Share for proceeds of disposition generally equal to the paid-up capital of a Gwil Common Share. Resulting capital gains (or capital losses) and deemed dividends will be treated as discussed above. Interest awarded to a Shareholder by a Court would be included in the Shareholder's income for purposes of the Canadian Tax Act. Additional income tax considerations may be relevant to dissenting Shareholders who fail to perfect or withdraw their claims pursuant to the Dissent Rights. **Dissenting Shareholders should consult their own tax advisors.**

Shareholders Not Resident in Canada

The following summary is generally applicable to Shareholders who are not residents or deemed to be residents of Canada, who do not use or hold (or are not deemed to use or hold) Gwil Common Shares in carrying on a business in Canada, whose Gwil Common Shares are not "designated insurance property" for the purposes of the Canadian Tax Act, who deal at arm's length with GII Acquisition and Gwil, and who hold their Gwil Common Shares as capital property. Non-residents are not entitled to make the election permitted by subsection 39(4) of the Canadian Tax Act.

Non-resident Shareholders should consult their own tax advisors with respect to their own particular circumstances, including the foreign tax consequences of the Arrangement.

Sale of Gwil Common Shares by Non-Residents for Cash to GII Acquisition

Non-resident Shareholders will be subject to Canadian taxation in respect of capital gains on their Gwil Common Shares only if such shares constitute "taxable Canadian property" to them, and the transaction is not otherwise exempt from Canadian tax pursuant to the provisions of an applicable international tax convention. Since Gwil has advised that the Gwil Common Shares will remain listed on a prescribed stock exchange until after the Arrangement, the Gwil Common Shares will be "taxable Canadian property" to a particular non-resident Shareholder only if the non-resident Shareholder or persons with whom such Shareholder did not deal at arm's length, or any combination thereof, held, at any time within five years preceding the effective time of the Arrangement, shares or options to acquire shares representing 25 percent or more of the issued shares of any class of Gwil. However, if Gwil Common Shares were acquired by a Shareholder in exchange for property that was "taxable Canadian property" or in circumstances in which they were deemed to be "taxable Canadian property", such Gwil Common Shares will continue to be "taxable Canadian property".

If the Gwil Common Shares constitute "taxable Canadian property" to a particular non-resident Shareholder, any capital gain realized on the disposition may be exempt from Canadian tax under the provisions of an applicable international tax convention. In particular, a Shareholder resident in the United States who is entitled to the benefits of Article XIII of the U.S. Convention may be entitled to an exemption from Canadian income tax on any gain realized by that holder from a sale or exchange of that holder's Gwil Common Shares pursuant to the Arrangement if the value of the Gwil Common Shares is not derived principally from "real property situated in Canada", as defined in the U.S. Convention for this purpose. A non-resident's capital gain will be computed in the manner described above under "— Shareholders Resident in Canada".

Exchange of Gwil Common Shares by Non-Residents for Gwil Redeemable Preferred Shares

A non-resident's exchange of a Gwil Common Share for a Gwil Redeemable Preferred Share pursuant to the Arrangement will be treated in the manner described above under "— Shareholders Resident in Canada".

Redemption of Gwil Redeemable Preferred Shares of Non-Residents

On the redemption of a Gwil Redeemable Preferred Share, a non-resident holder of a Gwil Redeemable Preferred Share will be deemed to have received a taxable dividend in the same amount as, and to have disposed of a Gwil Redeemable Preferred Share for the same proceeds of disposition as, a resident of Canada, each computed as described under “— Shareholders Resident in Canada”.

A non-resident holder who is deemed to receive a dividend as a result of the redemption of the Gwil Redeemable Preferred Shares will be subject to Canadian non-resident withholding tax. The rate of withholding tax under the Canadian Tax Act on dividends is 25%. Such rate is subject to reduction under the provisions of any applicable international tax convention. Under the U.S. Convention, the rate of withholding tax on dividends is generally reduced to 15%.

A Gwil Redeemable Preferred Share will constitute “taxable Canadian property” to non-residents, as the Gwil Redeemable Preferred Share will not be listed on a prescribed stock exchange. A non-resident holder of a Gwil Redeemable Preferred Share will be subject to Canadian taxation on any capital gain from the disposition of the Gwil Redeemable Preferred Share, unless exempted under an applicable international tax convention. In particular, a Shareholder resident in the United States who is entitled to the benefits of Article XIII of the U.S. Convention may be entitled to an exemption from Canadian income tax on any gain realized by that holder from the redemption of that holder’s Gwil Redeemable Preferred Shares pursuant to the Arrangement if the value of the Gwil Redeemable Preferred Shares are not derived principally from “real property situated in Canada”, as defined in the U.S. Convention for this purpose.

On the redemption of the Gwil Redeemable Preferred Share, all non-residents will be required to follow certain notice and clearance certificate procedures set out in the Canadian Tax Act. Unless a non-resident Shareholder obtains a clearance certificate from Revenue Canada in advance of the redemption, Gwil will be obliged to withhold an amount equal to 33⅓% of the proceeds of disposition. Unless a clearance certificate is obtained within 30 days of the end of the month in which the disposition occurs, Gwil will be required to remit such amount to Revenue Canada. If Gwil withholds and remits tax, the non-resident former Shareholder will be required to file a Canadian tax return to claim any refund of tax. **Non-residents are urged to consult their own tax advisors to ascertain whether the relevant provisions of the U.S. Convention or other tax convention are available to them, and to ensure they comply with the notice and clearance certificate procedures in the Canadian Tax Act.**

Dissenting Non-Resident Shareholders

A non-resident Shareholder who exercises Dissent Rights in respect of Gwil Common Shares in connection with the Arrangement will be deemed to have received a taxable deemed dividend and a capital gain (or capital loss) based on the consideration received for the Gwil Common Shares, and computed as described above under “— Shareholders Resident in Canada — Dissenting Shareholders”. Non-residents deemed to receive taxable dividends are subject to Canadian withholding tax, as discussed above under “— Redemption of Gwil Redeemable Preferred Shares of Non-Residents”. The treatment of any capital gain (or capital loss) on the disposition of Gwil Common Shares by non-residents is discussed above under “— Sale of Gwil Common Shares by Non-Residents for Cash to GII Acquisition”. Interest awarded to a Shareholder by a Court will be subject to withholding tax at a rate of 25%, subject to reduction under the provisions of any applicable international tax convention. For U.S. residents, this rate is generally reduced to 10% pursuant to the U.S. Convention. Additional income tax considerations may be relevant to dissenting Shareholders who fail to perfect or withdraw their claims pursuant to the Dissent Rights. **Dissenting Shareholders should consult their own tax advisors in respect of the tax consequences arising on such dissent.**

GWIL INDUSTRIES INC.

Corporate History

Gwil Industries Inc. (formerly called Great West Steel Industries Ltd.) was incorporated under the laws of British Columbia in July 1969. Since that time, Gwil has operated as a conglomerate with as many as 25 operating divisions in diverse businesses. In the past five years, Gwil has operated businesses involved in the manufacture and distribution of unsaturated polyester resins and related materials to the reinforced plastics and composites industry, the provision of mobile crane rental services, the operation of a pilot scale wash plant and testing laboratory for the coal industry and the provision of management services.

In August 1998, Gwil sold the business and assets of the Plastics Division, which at that time was the primary business of Gwil. As a result of the sale of the Plastics Division, annual sales (restated) in 1998 were \$7.4 million compared to \$56.7 million in 1997.

Gwil currently operates the following businesses:

- Crane Service Division — rental of mobile cranes to a wide range of customers in such industries as construction, industrial plant maintenance and marine vessel loading;
- Birtley Coal and Minerals Testing — operates a small testing laboratory and pilot scale wash plant that primarily serves the Western Canadian coal industry;
- Management Services — provides senior level management assistance to other companies typically for a fee and a percentage of profits.

Crane Service Division

The Crane Service Division rents mobile cranes and provides supporting services in British Columbia from offices in Burnaby, Abbotsford and Kelowna. The Crane Service Division's fleet currently consists of 33 cranes providing the market with a full range of lifting capacity from 20 tons to 440 tons.

Annual revenues for the Crane Service Division were \$6.7 million in 1998 and \$6.4 million in 1997.

The principal markets for the Crane Service Division are the construction industry, industrial mills and plants, marine vessel loading and other miscellaneous lifting applications. The customer base is broad and sales are not dependent upon any one customer. Rental contracts are typically short-term, ranging from hourly, daily or weekly with the occasional contract having a duration of one or more months.

Various competitive sources exist for the supply of mobile cranes in British Columbia. Competition is based primarily on price, then service, equipment capability and equipment availability.

Gwil continues to invest capital to update its fleet. Its latest crane purchase was a 200 ton Demag crane in January 1999.

Birtley Coal and Minerals Testing

The Birtley Coal and Minerals Testing Division operates a laboratory and pilot scale wash plant at Calgary to analyze bulk and core coal samples and other minerals for the mining industry, primarily Western Canadian coal mines.

Annual revenues for the Coal Testing Division for 1997 were \$844,000 and for 1998 were \$747,000.

The Coal Testing Division competes for business on the basis of price and service.

Management Services Division

Through its Management Services Division, Gwil provides senior level management assistance to other companies, typically for an annual fee and a percentage of profits. Currently, the Management Services Division has one contract that expires in December 1999.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Consolidated Financial Information

	Six Months Ended June 30, 1999		Years Ended December 31,		
	1999	1998	1998	1997 (1)	1996
	(unaudited)			(audited)	
	(in thousands of Canadian dollars)				
Consolidated Balance Sheet Data					
Cash and temporary investments	\$38,000	\$ 4,321	\$51,253	\$ 2,025	\$ 3,149
Other current assets	5,066	15,663	4,680	15,126	13,545
Capital assets	10,373	25,056	9,024	26,030	27,182
Other assets	1,704	4,839	3,380	4,979	5,057
Current liabilities	3,838	6,778	16,735	5,549	7,256
Long-term debt	266	1,421	1,114	1,821	1,857
Other liabilities	—	—	—	1,139	959
Future income taxes	3,302	7,825	3,302	6,909	6,386
Shareholders' equity	47,737	33,855	47,186	32,742	32,476
Consolidated Statement of Earnings and Retained Earnings Data					
Sales	\$ 2,854	\$ 3,929	\$ 7,443	\$ 7,206	\$53,465
Cost of sales	1,592	2,186	4,012	3,904	37,011
Expenses	587	1,679	2,259	3,517	14,780
(Loss) earnings from operations before gain on disposal of other assets	(260)	1,113	1,588	266	1,077
Gain on disposal of other assets	810	—	12,856	—	—
Earnings for the period	550	1,113	14,444	266	1,077

(1) Certain of the figures for the year ended December 31, 1997 have been restated to conform to the presentation for the year ended December 31, 1998.

The following discussion should be read in conjunction with the consolidated financial statements of Gwil and the notes thereto set out in Appendix E to this Circular.

Six Months Ended June 30, 1999 Compared with Six Months Ended June 30, 1998

Sales for the six months ended June 30, 1999 were \$2,854,000, down from \$3,929,000 in 1998.

The loss before taxes was \$329,000 in 1999, compared to earnings of \$2,130,000 in 1998. The 1998 earnings include the operations of the Plastics Division which were sold in August 1998.

After providing for income and capital taxes, the loss from operations for the six months ended June 30, 1999 was \$260,000, compared to earnings of \$1,113,000 in 1998.

During the six months ended June 30, 1999, Gwil sold its land and buildings held for resale. The sale resulted in a gain of \$1,318,000 before taxes, or \$810,000 after taxes.

Earnings for the six months ended June 30, 1999 were \$550,000, compared to earnings of \$1,113,000 in 1998.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Results of Operations. Sales from continuing operations in 1998 were \$7.44 million, an increase of \$0.24 million over the previous year, while earnings from operations were \$1.59 million, an increase of \$1.32 million.

The Crane Service Division realized an increase in sales of 5% over 1997 and experienced an increase in operating profit before amortization in 1998.

Gwil continued its management services activity and earned \$0.30 million in profit sharing in addition to management fees.

Financial Condition and Liquidity. During the year ended December 31, 1998, Gwil sold the business and assets of its Plastics Division to Ashland Chemical Canada Ltd. and Ashland Chemical Co., a division of Ashland

Inc. The selling price was \$43.5 million for the business and assets plus \$12.9 million in respect to working capital. The sale resulted in a gain of \$19.6 million before tax and \$12.9 million after tax.

Cash flow from operations was \$3.73 million in 1998, compared to \$3.48 million in 1997.

The change in non-cash working capital is mainly due to the disposition of the working capital of the Plastics Division.

At December 31, 1998, Gwil had a cash position of \$51.2 million with current income taxes payable of \$11.7 million and other current debt of \$5.1 million. Total net working capital was \$39.2 million.

Regarding Year 2000 issues, Gwil has modified its software programs and is not expecting any internal problems. Gwil is also working with its suppliers to minimize the impact of any computer problems they may encounter.

Year Ended December 31, 1997 Compared with Year Ended December 31, 1996

Results of Operations. Sales in 1997 were \$56.73 million, an increase of \$3.27 million over the previous year, while earnings from operations were \$1.32 million, a reduction of \$0.77 million.

The Specialty Products Division (which was comprised of the former Plastics Division and the Birtley Coal and Minerals Testing Division) experienced good growth, including market expansion in the Prairie provinces and in the Pacific Northwest. During the year, Gwil strengthened its position in this market by acquiring the remaining interest in the U.S. segment of the Specialty Products Division. During 1997, the resin and gelcoat plant was expanded to enable Gwil more readily to produce bulk quantities of products for sales to customers in both new and existing markets. Costs related to the market expansion together with increased prices for raw materials contributed to a reduction in operating profit before amortization from 10.7% in 1996 to 9.8% in 1997.

The Crane Service Division realized an increase in sales of 15% over 1996. However, the Division experienced a decline in operating profit margins before amortization in 1997. This decrease in profit was due to increased repairs and maintenance on the cranes in the beginning of the year as a result of their high utilization rate at the end of 1996, costs related to the integration of two crane businesses acquired in 1996 and a continuation of the soft market during the year.

Gwil's tax provision for 1997 was an inordinately high percentage of pre-tax profits. This was caused primarily by the inclusion in expenses of \$259,000 of non-cash amortization of costs of goodwill and appraisal increments related to the acquisition of businesses during prior years which are not deductible for tax purposes. In addition, large corporation tax and British Columbia capital tax totalling \$145,000 had a significant impact on the tax rate. However, through the utilization of available capital cost allowances, Gwil paid no cash income taxes for 1997.

Gwil continued its management services activity and earned \$0.23 million in profit sharing in addition to management fees.

Financial Condition and Liquidity. At the end of 1997, Gwil continued to maintain strong cash and working capital positions and low debt levels.

Cash flow from operations was \$3.48 million in 1997 compared to \$4.31 million in 1995. The decrease was attributable to the reduction in earnings.

The change in non-cash working capital was mainly due to increased levels of investment in accounts receivable and inventory as a result of increased sales, prepaid insurance costs and a reduction in non-trade accounts payable related to the completion of the plant expansion.

During 1997, management continued to assess and manage risk prudently. Pursuant to Gwil's environmental management programme, environmental assessments were conducted on key properties, with favourable results. A review of information systems for Year 2000 compliance was ongoing during the year.

Directors

The following table sets out, with respect to each of the members of the Board of Directors: the name, municipality of residence and present principal occupation of such director; the principal occupations or employment of such director during the past five years, if different from the present; the month and year in which he was first appointed a director; the approximate number of Gwil Common Shares that he has advised are beneficially owned by him, directly or indirectly, or over which control or direction is exercised by him, as at October 25, 1999; and the percentage of the total number of outstanding Gwil Common Shares represented by such number of shares.

<u>Name, Municipality of Residence, Principal Occupation</u>	<u>Principal Occupations or Employment within Five Preceding Years if Different from Present</u>	<u>Served as a Director Since</u>	<u>Gwil Common Shares Owned or Controlled</u>	<u>Percent of Outstanding</u>
CHESTER A. JOHNSON (1) Vancouver, BC Corporate Director	Chairman of Board, Vancouver International Airport Authority	June 1987	12,500	0.2%
ALLAN D. LAIRD (1) Vancouver, BC Chairman and President, A.D. Laird Consulting Ltd.		May 1984	40,000	0.5%
HUGH A. MAGEE Vancouver, BC Chairman and Chief Executive Officer, Gwil Industries Inc.		March 1976	3,078,900 (2)	41.3%
GWYN MORGAN (1) Calgary, AB President and Chief Executive Officer, Alberta Energy Company Ltd.	Senior Vice-President, Alberta Energy Company Ltd.	June 1987	22,300	0.3%
JOHN H. MORRISH Surrey, BC Corporate Director	Chairman, Fording Coal Limited; President and Chief Executive Officer, Fording Coal Limited	June 1987	Nil	Nil
THOMAS D. MURPHY Vancouver, BC Senior Vice President, Gwil Industries Inc.		May 1989	385,725 (3)	5.2%
ALLAN S. OLSON Edmonton, AB President, First Industries Corporation		June 1987	25,000	0.3%
MERV G. SCHWEITZER Burnaby, BC President and Chief Operating Officer, Gwil Industries Inc.		August 1976	700,000 (4)	9.4%

(1) Member of the Audit Committee.

(2) Beneficially owned directly and through H.A. Magee Holdings Ltd.

(3) Beneficially owned directly and through 6034 Holdings Ltd.

(4) Beneficially owned directly and through 3409 Holdings Ltd.

Officers

The following table sets out, with respect to each of the current officers of Gwil: the name, municipality of residence and present principal occupation of such officer; the principal occupations or employment of such officer during the past five years, if different from the present; the month and year in which he was first appointed an officer; the approximate number of Gwil Common Shares that he has advised are beneficially owned by him, directly or indirectly, or over which control or direction is exercised by him, as at October 25, 1999; and the percentage of the total number of outstanding Gwil Common Shares represented by such number of shares.

<u>Name, Municipality of Residence, Principal Occupation</u>	<u>Principal Occupations or Employment within Five Preceding Years if Different from Present</u>	<u>Served as a Director Since</u>	<u>Gwil Common Shares Owned or Controlled</u>	<u>Percent of Outstanding</u>
HUGH A. MAGEE Vancouver, BC Chairman and Chief Executive Officer, Gwil Industries Inc.		March 1976	3,078,900 (1)	41.3%
MERV G. SCHWEITZER Burnaby, BC President and Chief Operating Officer, Gwil Industries Inc.		August 1976	700,000 (2)	9.4%
THOMAS D. MURPHY Vancouver, BC Senior Vice President, Gwil Industries Inc.		May 1989	385,725 (3)	5.2%
MICHAEL J. STRAIN North Vancouver, BC Vice President of Operations and Business Development, Gwil Industries Inc.	Director of Corporate Development, Gwil Industries Inc.	—	Nil	Nil
BRIAN W. GREER Langley, BC Corporate Secretary, Gwil Industries Inc.	Manager of Special Projects, Gwil Industries Inc.	—	100	(4)

(1) Beneficially owned directly and through H.A. Magee Holdings Ltd.

(2) Beneficially owned directly and through 3409 Holdings Ltd.

(3) Beneficially owned directly and through 6034 Holdings Ltd.

(4) Represents less than 0.1%.

Executive Compensation

Summary Compensation Table

The following table sets out annual compensation, long-term compensation and all other compensation awarded to Gwil's Named Executive Officers (as defined in the *Securities Act* (British Columbia)) during the fiscal years ended December 31, 1998, 1997 and 1996.

Name and Principal Position	Year Ended December 31,	Annual Compensation			Long-Term Compensation	
		Salary	Bonus	Other Annual Compensation	Securities Under Options Granted (#)	All Other Compensation
HUGH A. MAGEE Chairman & CEO	1998	\$291,300	\$771,000 (1) (2)	\$42,000 (3)		
	1997	282,900	246,000 (1)	42,000 (3)		
	1996	276,000	293,000 (1)	42,000 (3)		
MERV G. SCHWEITZER President & COO	1998	\$278,100	\$764,000 (1) (2)			
	1997	270,000	240,000 (1)			
	1996	263,400	286,700 (1)			
THOMAS D. MURPHY Senior Vice President	1998	\$185,400	\$562,000 (2)			
	1997	180,000	90,000			
	1996	176,200	112,600			

- (1) Includes compensation received in connection with consulting agreements under which Gwil and these individuals have agreed to jointly provide services to third parties.
- (2) Includes a bonus of \$500,000 earned in respect to the 1998 transaction involving the disposition of the business and assets of the Plastics Division.
- (3) Benefit imputed for income tax purposes in respect to the loan to Mr. Magee described under the heading "Indebtedness of Directors, Executive Officers and Senior Officers" below.

Financial Year-End Option Values

The following table sets out certain information with respect to options to purchase Gwil Common Shares held by the Named Executive Officers at December 31, 1998. (1)

Name	Number of Unexercised Options at December 31, 1998		Value of Unexercised in-the-Money Options at December 31, 1998	
	Exercisable	Unexercisable	Exercisable	Unexercisable
MERV G. SCHWEITZER	150,000 (2)		\$348,000	
THOMAS D. MURPHY	150,000 (2)		\$348,000	

- (1) The Named Executive Officers did not exercise any long-term incentive awards during 1996, 1997 or 1998.
- (2) These options were exercised subsequent to December 31, 1998. See "The Arrangement — Interests of Certain Persons in the Arrangement" and "— Indebtedness of Directors, Executive Officers and Senior Officers".

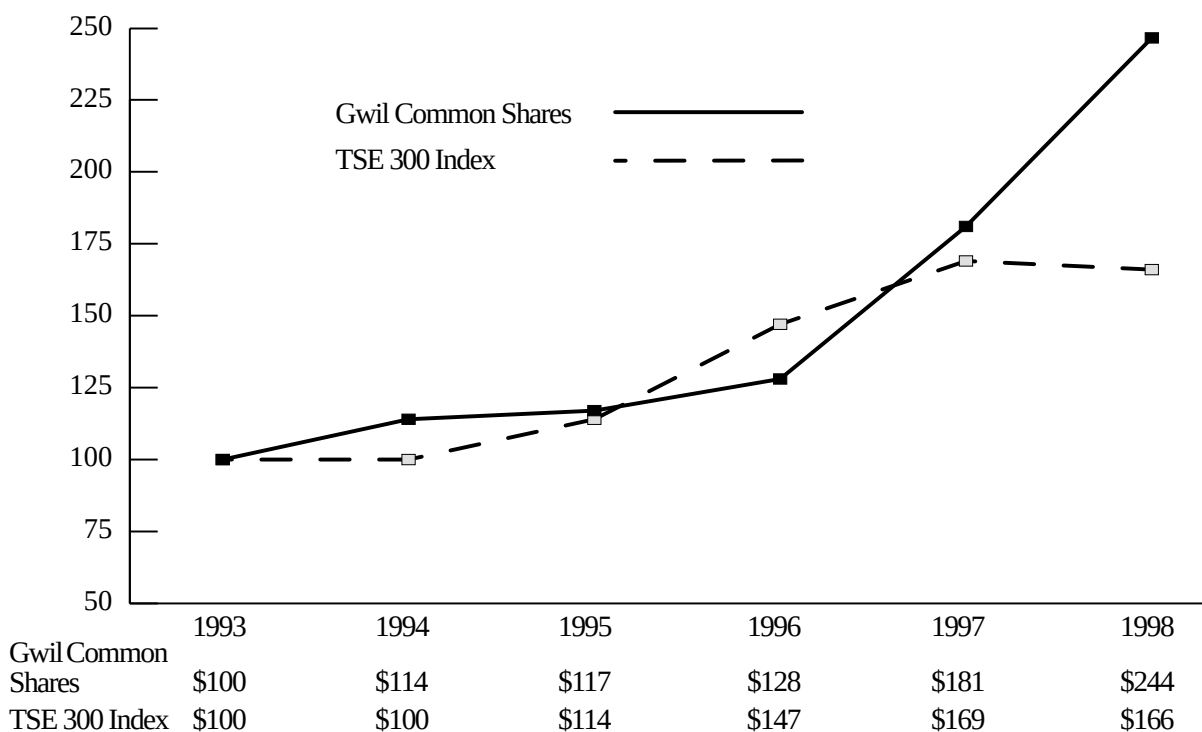
Pension Plan

The following table shows the estimated annual benefits payable under Gwil's Executive Officer Pension Plan (the "Pension Plan"). The Pension Plan is a defined benefit final average earnings plan. For each year of service, the member earns a pension benefit equal to 1.7% of salary. The pension benefit is not subject to any deduction for social security or other offset amount. At December 31, 1998, the estimated credited service for each of the Named Executive Officers was as follows: Hugh A. Magee — 33 years; Merv G. Schweitzer — 30 years; Thomas D. Murphy — 28 years.

Pensionable Earnings \$	Years of Service				
	15	20	25	30	35
175,000	44,625	59,500	74,375	89,250	104,125
200,000	51,000	68,000	85,000	102,000	119,000
225,000	57,375	76,500	95,625	114,750	133,875
250,000	63,750	85,000	106,250	127,500	148,750
275,000	70,125	93,500	116,875	140,250	163,625
300,000	76,500	102,000	127,500	153,000	178,500
325,000	82,875	110,500	138,125	165,750	193,375
350,000	89,250	119,000	148,750	178,500	208,250

Stock Performance Graph

The following graph assumes that on December 31, 1993, \$100 was invested in the Gwil Common Shares and in the TSE 300 Stock Index and compares total return for the five ensuing years. The value for each year shown is as of December 31. The comparison with the TSE 300 Index has been used as Gwil does not believe it can reasonably identify a peer group for comparison.



Composition of the Compensation Committee

The members of the Compensation Committee during the financial year ended December 31, 1998 were Messrs. Johnson (Chairman), Morrish and Olson. None of these individuals was an officer, employee or former officer of Gwil or of any of its subsidiaries. The Compensation Committee held two meetings during the fiscal year ended December 31, 1998.

Report on Executive Compensation

The Compensation Committee is comprised of outside directors and is responsible for establishing policies regarding executive compensation and determining annual compensation levels. The objective is to retain executive officers and to reward them on the basis of individual and corporate performance.

Compensation consists of a salary, an incentive bonus and eligibility for participation in share compensation arrangements and is reviewed annually. Salaries are based upon a review of market data, the entrepreneurial nature of Gwil and its management and other factors. Bonuses and participation in share compensation arrangements are based upon Gwil's operating performance measured over both the short and long term and upon individual performance and achievements.

The compensation of the Chief Executive Officer is determined according to the same principles applied to the other executive officers.

The Compensation Committee of the Board of Directors, whose names are set out below, has approved the issue of this Report on Executive Compensation and its inclusion in this Circular.

Chester A. Johnson, Chairman
John H. Morrish
Allan S. Olson

Compensation of Directors

Fees paid to directors for 1998 were \$61,000 in the aggregate. Fees are payable to outside directors only and consist of an annual retainer of \$8,000, fees for attending directors meetings of \$1,000 per meeting, fees for chairing committee meetings of \$750 per meeting and fees for attending committee meetings of \$500 per meeting.

Directors' and Officers' Liability Insurance and Corporate Reimbursement Insurance

Gwil has purchased insurance for the benefit of directors and officers of Gwil and its subsidiaries against any liability incurred by them in their capacity as directors and officers, subject to certain limitations contained in the BCCA. The premium is paid by Gwil, and the annual premium is \$11,970.

The policy provides coverage for each director and officer to a specified limit, with a specified aggregate limit of liability in each policy year. Each claim is subject to a nil deductible for each director or officer in respect of each loss, a nil deductible in the aggregate for all directors and officers in respect of each loss and a deductible of \$25,000 in respect of indemnification of any loss by Gwil in respect of indemnification of directors and officers. The Articles of Gwil provide for indemnification of directors and officers from and against any liability and costs of any action or suit against them arising out of the execution of their duties of office, subject to limitations contained in the Articles and in the BCCA.

Corporate Governance

The Board of Directors, through its Corporate Governance Committee, has reviewed the Guidelines (the "Guidelines") proposed pursuant to the Report of the Toronto Stock Exchange Committee on Corporate Governance in Canada (December 1994) and has concluded that Gwil is in substantial compliance with the Guidelines. The following describes the system of corporate governance currently in place.

Mandate of the Board of Directors

The mandate of the Board of Directors is to assume responsibility for the stewardship of Gwil and to assume responsibility to oversee and supervise senior management, to review strategic direction and objectives developed by management, to review Gwil's activities and performance of management against the strategic direction and

objectives and to identify the principal risks of Gwil's business and ensure that systems are in place to manage such risks. The objective is to maintain and enhance shareholder value.

Decisions requiring prior approval of the Board of Directors include decisions involving significant expenditures and/or commitments on the part of Gwil and decisions which the Board of Directors is required by statute to make.

Composition of the Board of Directors

The Board of Directors consists of eight directors, five of whom are unrelated directors as defined in the Guidelines. The Board of Directors considers that its current size facilitates effective decision making. There is no formal procedure for assessing Board of Directors performance or for recruiting new directors.

Independence from Management

The Guidelines state that the independence of a Board of Directors is most simply assured by appointing a Chairman who is unrelated to management. The current Chairman of the Board of Directors is a member of management, but the Board of Directors considers that, because of the number of unrelated directors, its independence from management is assured. If the need arises, the Board of Directors meets independently of related directors.

Committees of the Board of Directors

The Board of Directors is responsible for the establishment and operation of its committees and for the appointment of committee members and their compensation. The Board of Directors currently has established three standing committees to facilitate the discharge of Board of Directors duties and to comply with statutory requirements.

The Audit Committee

The Audit Committee is comprised of three directors, all of whom are unrelated directors as defined in the Guidelines. During the fiscal year ended December 31, 1998, the members of the Audit Committee were Messrs. Johnson (Chairman), Laird and Morgan. The Audit Committee meets quarterly or more frequently if required.

The Audit Committee reviews the annual and interim financial statements of Gwil and certain other public disclosure documents required by regulatory authorities and makes recommendations to the Board of Directors with respect to such statements and documents. The Audit Committee also makes recommendations to the Board of Directors regarding the appointment of independent auditors, reviews the nature and scope of the annual audit as proposed by the auditors and management and reviews with the auditors the management and adequacy of the internal control procedures and management information systems within Gwil.

The Compensation Committee

The Compensation Committee is comprised of three directors, all of whom are unrelated directors as defined in the Guidelines. During 1998, the members of the Compensation Committee were Chester A. Johnson (Chairman), John H. Morrish and Allan S. Olson. The Compensation Committee reviews Gwil's overall compensation philosophy and corporate succession and development plans at the executive officer level and has responsibility for assessing the requirements and performance, on an overview basis, of the Chief Executive Officer and senior management team. The Compensation Committee determines levels of compensation for senior management and for directors.

The Corporate Governance Committee

The Corporate Governance Committee is comprised of three directors, all of whom are unrelated directors as defined in the Guidelines. During the fiscal year ended December 31, 1998, the members of the Corporate Governance Committee were Messrs. Johnson (Chairman), Laird and Morgan. The Corporate Governance Committee meets annually or more frequently if required.

The Corporate Governance Committee generally reviews matters of corporate governance. The Corporate Governance Committee specifically reviews the corporate governance practices of Gwil in relation to the recommendations contained in the Report of The Toronto Stock Exchange Committee on Corporate Governance in

Canada (December 1994) and reports to the Board of Directors thereon. The Corporate Governance Committee also specifically reviews such matters as may be directed to it by the Board of Directors.

Investor Relations

Gwil has no formal procedures for receiving shareholder input other than at the annual general meeting of the Shareholders. Specific shareholder concerns are dealt with on an individual basis.

Outside Advice

Subject to the approval of the Board of Directors in the discharge of its duties, an individual director or group of directors may engage an outside professional advisor at Gwil's expense.

Indebtedness of Directors, Executive Officers and Senior Officers

Hugh A. Magee is indebted to Gwil in the amount of \$600,000 in respect to a loan granted pursuant to Gwil's Stock Purchase Plan. The loan is due on October 26, 2005 and does not bear interest. See "Executive Compensation — Summary Compensation Table".

Each of Mr. Schweitzer and Mr. Murphy is indebted to Gwil in the amount of \$312,000 in respect of a loan granted to him pursuant to Gwil's Stock Option Plan to exercise options previously granted to him. Mr. Schweitzer's loan is due on October 19, 2009 and Mr. Murphy's loan is due on October 20, 2009. The loans do not bear interest. See "The Arrangement — Interests of Certain Persons in the Arrangement" and "— Executive Compensation — Financial Year-End Option Values".

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During 1998	Amount Outstanding as of October 25, 1999	Financially Assisted Securities Purchased During 1998	Security for Indebtedness
HUGH A. MAGEE Chairman & CEO	lender	\$600,000	\$600,000		300,000 Gwil Common Shares
MERV G. SCHWEITZER President & COO	lender		\$312,000		150,000 Gwil Common Shares
THOMAS D. MURPHY Senior Vice President	lender		\$312,000		150,000 Gwil Common Shares

Description of Share Capital

Gwil's authorized capital consists of 20,000,000 Gwil Common Shares and 5,000,000 Gwil Redeemable Preferred Shares, of which 7,446,797 Gwil Common Shares and no Gwil Redeemable Preferred Shares were issued and outstanding as of October 25, 1999.

Each Gwil Common Share entitles its holder to receive notice of and to attend all meetings of Shareholders, other than meetings at which only the holders of a specified class or series of shares other than the Gwil Common Shares are entitled to vote and, at each such meeting, to one vote on a show of hands and to one vote for each such share held on a poll. The holders of Gwil Common Shares are entitled to receive, out of the funds of Gwil legally available for the payment of dividends, any dividends declared by the Board of Directors. The holders of Gwil Common Shares are entitled to participate in the distribution of the remaining property of Gwil upon the liquidation, dissolution or winding-up of Gwil or other distribution of its assets among its shareholders for the purpose of winding up its affairs.

The Gwil Redeemable Preferred Shares have certain special rights and restrictions attached to them as set out in the Articles of Gwil. As a result of the transactions contemplated by the Arrangement, such special rights and restrictions will be replaced with the special rights and restrictions set out in Exhibit 2 to the Plan of Arrangement. Reference is made to Exhibit 2 to the Plan of Arrangement attached as Schedule A to the Arrangement Agreement attached as Appendix A to this Circular for a full description of such special rights and restrictions. The Gwil Redeemable Preferred Shares issued under the Arrangement to Shareholders electing to receive them will be

redeemed immediately after their issuance on the Effective Date as part of the transactions contemplated by the Arrangement and holders of such shares will be entitled to receive the amount of \$5.00 per share in cash in respect of such redemption.

Historical Market Price Data

The Gwil Common Shares are listed and traded on the ME, TSE and VSE. The following table sets out the high and low prices and trading volume of such shares on the TSE for the periods indicated.

	<u>High</u>	<u>Low</u>	<u>Volume</u>
1997			
Fourth Quarter	\$3.25	\$2.80	10,900
1998			
First Quarter	\$3.30	\$2.50	5,700
Second Quarter	5.00	2.75	17,672
Third Quarter	5.25	4.00	22,672
Fourth Quarter	4.40	4.00	7,200
1999			
First Quarter	\$5.00	\$4.70	9,500
Second Quarter	4.70	4.25	3,694
July	4.40	4.00	1,600
August	4.35	4.35	131
September	5.40	4.35	6,900
October (1 to 25)	5.55	5.00	3,700

The closing price of the Gwil Common Shares on the TSE on September 24, 1999, the last trading day before Gwil issued a press release announcing the proposed privatization of Gwil, was \$4.35. The closing price of Gwil Common Shares on the TSE on October 25, 1999 was \$5.00.

Material Acquisitions and Dispositions

Pursuant to two related agreements dated June 24, 1998, Ashland Chemical Co., a division of Ashland Inc., and its subsidiary, Ashland Chemical Canada Ltd., purchased the business and assets of Gwil's Plastics Division for \$56.4 million, including \$12.9 million for working capital. The sale of the Plastics Division was approved by the shareholders of Gwil at an extraordinary general meeting held on August 7, 1998 and the transaction was completed on August 14, 1998.

Dividend Policy and Record

Gwil has never paid dividends on the Gwil Common Shares and its present policy is to retain any earnings for use in its business and it does not intend to pay cash dividends in the foreseeable future. Payment of cash dividends in the future would be dependent upon the earnings and financial condition of Gwil and other factors the Board of Directors may consider to be appropriate.

GII ACQUISITION CORP.

GII Acquisition is a company incorporated under the BCCA for the purpose of purchasing Gwil Common Shares under the Arrangement. The principal executive offices of GII Acquisition are located at Suite 650, West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7.

The authorized capital of GII Acquisition consists of 20,000 Common shares without par value, of which 100 shares are issued and outstanding and held by 593005.

The directors of GII Acquisition are Hugh A. Magee and Merv G. Schweitzer. Mr. Magee and Mr. Schweitzer are the Chairman and the President, respectively, of GII Acquisition, and Brian W. Greer is the Secretary of GII Acquisition.

593005 B.C. LTD.

593005 is a company incorporated under the BCCA that does not conduct any substantial business activities, other than to hold all of the outstanding shares of GII Acquisition. The principal executive offices of 593005 are located at Suite 650, West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7.

The authorized capital of 593005 consists of 20,000 Common shares without par value, of which 10,000 shares are issued and outstanding and held, as to 8,148 Common shares, by Hugh A. Magee and, as to 1,852 Common shares, by Merv G. Schweitzer.

The directors of 593005 are Hugh A. Magee and Merv G. Schweitzer. Mr. Magee and Mr. Schweitzer are the Chairman and the President, respectively, of 593005, and Brian W. Greer is the Secretary of 593005.

DISSENT RIGHTS

The BCCA does not contain a provision requiring Gwil to purchase Gwil Common Shares from Shareholders who dissent with respect to the Arrangement. However, pursuant to the terms of the Arrangement Agreement and the Interim Order, GII Acquisition and Gwil have granted to Shareholders who object to the Arrangement Resolution the Dissent Rights in respect of the provisions of the Arrangement. While the terms of such Dissent Rights are analogous to the dissenting shareholder provisions of the BCCA, they are not identical. The following is a description of the Dissent Rights. Reference is made to the Plan of Arrangement for a complete description of the Dissent Rights available to Shareholders pursuant to the Interim Order.

A Shareholder who wishes to exercise a Dissent Right must give a Notice of Dissent to Gwil by delivering such Notice of Dissent to Gwil, or mailing it to Gwil by registered mail, at its head office at Suite 650, West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7 in all cases so that it is received by Gwil at least 24 hours before the Meeting. To be valid, a Notice of Dissent must:

- (a) state that the Shareholder is exercising a Dissent Right; and
- (b) specify the number of Gwil Common Shares in respect of which such Shareholder is exercising a Dissent Right.

If Gwil proceeds with the Arrangement, the Dissenting Shareholder is entitled to require Gwil to purchase all of the Gwil Common Shares in respect of which the Notice of Dissent was given.

The Dissent Right must be exercised by or for the Shareholder of record, fully and correctly as such Shareholder's name appears on Gwil's register of members. If the Gwil Common Shares are held by a fiduciary, trustee, guarantor or custodian, the Notice of Dissent must be executed by such fiduciary or other holder. If the Gwil Common Shares are held by more than one person, as in a joint tenancy or tenancy in common, the Notice of Dissent must be executed by all joint owners. In other cases, such as an exercise by an agent or attorney, Gwil may require evidence of such authority in form and substance reasonably satisfactory to it.

The giving of a Notice of Dissent does not deprive a Shareholder of the right to vote at the Meeting. A vote against the Arrangement Resolution or the execution or exercise of a proxy does not constitute a Notice of Dissent.

A Shareholder is not entitled to exercise a Dissent Right with respect to any Gwil Common Shares that such shareholder votes (or instructs or is deemed, by submission of an incomplete proxy, to have instructed his proxyholder to vote) in favour of the Arrangement Resolution. A Shareholder is entitled to exercise a Dissent Right with respect to all or part of his Gwil Common Shares provided that such Shareholder does not vote (and has not instructed or been deemed, by submission of an incomplete proxy, to have instructed his proxyholder to vote) such shares in respect of which such Shareholder is seeking to exercise a Dissent Right in favour of the Arrangement Resolution.

If the Arrangement Resolution is duly passed, Gwil will, within ten days after such resolution is passed, give each Dissenting Shareholder notice that the Arrangement Resolution has been duly passed.

On receiving such notice, a Dissenting Shareholder is entitled to require Gwil to purchase all of the Gwil Common Shares in respect of which the Dissent Right is being exercised by delivering to Gwil within five days after Gwil gives its notice:

- (a) a notice that he requires Gwil to purchase all of the Gwil Common Shares in respect of which the Notice of Dissent was given; and
- (b) the certificate or certificates representing all of the Gwil Common Shares in respect of which the Notice of Dissent was given;

and thereupon the Dissenting Shareholder is bound to sell those Gwil Common Shares to Gwil and Gwil is bound to purchase them.

The price to be paid to a Dissenting Shareholder will be the fair value of such Gwil Common Shares as of the day before the date on which the Arrangement Resolution is approved by the Shareholders. Each Dissenting Shareholder who has complied with the Dissent Procedures will be paid the same price per Gwil Common Share.

If the Arrangement becomes effective and there are Dissenting Shareholders, Gwil will be required to determine the fair value of the Gwil Common Shares and to make a written offer to pay such amount to the Dissenting Shareholders. If such offer is not made or accepted within 30 days after the Effective Date, Gwil may apply to the Court to fix the fair value of the Gwil Common Shares. Gwil has no obligation to apply to the Court. If Gwil fails to make such an application, a Dissenting Shareholder has the right to apply within a further 20 days. On any such application to the Court:

- (a) all Dissenting Shareholders will be joined as parties and will be bound by the decision of the Court; and
- (b) Gwil will notify each affected Dissenting Shareholder of the date, place and consequences of the application and of the right to be heard in person or by counsel.

On any such application to the Court, the Court will fix the fair value per share for the Gwil Common Shares of all Dissenting Shareholders and each Dissenting Shareholder will be entitled to be paid such amount.

Any notice required to be given by Gwil or a Dissenting Shareholder to the other in connection with the exercise of the Dissent Right will be deemed to have been given and received on the day of delivery (if personally delivered), or on the earlier of the day of receipt and the fifth business day after the day of mailing (if mailed), or on the first business day after the day of transmittal if sent by telecopier or other similar form of transmission.

A Shareholder who properly exercises the Dissent Right by complying with all of the Dissent Procedures will:

- (a) be deemed not to have participated in the Arrangement; and
- (b) as of the effective time of the Arrangement cease to have any rights as a Shareholder other than the right to be paid the fair value for his Gwil Common Shares in accordance with the Dissent Procedures.

A Shareholder who initially seeks to exercise the Dissent Right, but:

- (a) who for any reason does not properly comply with each of the Dissent Procedures required to be complied with by a Dissenting Shareholder; or
- (b) subsequent to giving a Notice of Dissent, acts inconsistently with such dissent;

will be deemed to have participated in the Arrangement on the same basis as each non-dissenting Shareholder and will be entitled to payment of the amount that would be payable to him if he elected to have GII Acquisition purchase his Gwil Common Shares for an amount of \$5.65 per share in cash under the Arrangement.

Shareholders are advised that the failure to comply strictly with the Dissent Procedures may result in the loss of the Dissent Rights. Accordingly, any Shareholder who wishes to exercise the Dissent Right should seek his own legal advice with respect to the Dissent Right.

OTHER BUSINESS

Management of Gwil knows of no matter to come before the Meeting other than the matters referred to in the Notice of Extraordinary General Meeting.

CONSENT

To: The Board of Directors of
Gwil Industries Inc.

We hereby consent to the inclusion of a summary of our opinion dated October 27, 1999 in the management information circular of Gwil Industries Inc. dated October 27, 1999, to the reference to such opinion therein and to the filing of such opinion.

Vancouver, British Columbia
October 27, 1999

(signed) GOEPEL McDERMID INC.

APPROVAL

The contents and sending of this Circular have been approved by the Board of Directors. The information contained in this Circular concerning GII Acquisition and 593005 was supplied by GII Acquisition and 593005 at the request of Gwil. With respect to this information, the Board of Directors has relied upon GII Acquisition and 593005.

Dated at Vancouver, British Columbia as of this 27th day of October, 1999.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) Brian W. Greer
Corporate Secretary

APPENDIX A
ARRANGEMENT AGREEMENT

Made as of the 21st day of October, 1999

Among

GII ACQUISITION CORP.

and

593005 B.C. LTD.

and

GWIL INDUSTRIES INC.

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ARRANGEMENT AGREEMENT

THIS ARRANGEMENT AGREEMENT is made as of the 21st day of October, 1999

AMONG:

GII ACQUISITION CORP., a company incorporated under the laws of the Province of British Columbia
("GII Acquisition")

AND:

593005 B.C. LTD., a company incorporated under the laws of the Province of British Columbia
("593005")

AND:

GWIL INDUSTRIES INC., a company incorporated under the laws of the Province of British Columbia
("Gwil")

WHEREAS:

- A. Pursuant to a letter of intent of GII Acquisition dated September 27, 1999 and accepted by Gwil, the parties intend to effect a transaction under which the outstanding Common Shares of Gwil, other than those held by the Management Shareholders (as hereinafter defined), will, at the election of the respective holders thereof, be either purchased by GII Acquisition for a price of \$5.65 per share in cash or exchanged for redeemable preferred shares of Gwil, which will be redeemed by Gwil for a price of \$5.00 per share in cash; and
- B. The parties wish to set out herein their definitive agreement regarding the proposed transaction;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT, in consideration of the premises and the mutual covenants and agreements hereinafter contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

1. INTERPRETATION

1.1. Definitions

In this Agreement and in the recitals hereto, unless there is something in the context or subject matter inconsistent therewith, the following terms shall have the meanings hereinafter set out:

- 1.1.1. **"593005"** means 593005 B.C. Ltd., a company incorporated under the laws of the Province of British Columbia;
- 1.1.2. **"Agreement"** means this arrangement agreement including the schedules hereto as the same may be supplemented or amended from time to time;
- 1.1.3. **"Arrangement"** means the arrangement contemplated by the provisions of this Agreement and the Plan of Arrangement;
- 1.1.4. **"BCCA"** means the *Company Act*, R.S.B.C. 1996, c.62, as amended;
- 1.1.5. **"BCSC"** means the British Columbia Securities Commission;
- 1.1.6. **"Business Day"** means a day which is not a Saturday or a "holiday", as such term is defined in the *Interpretation Act* (British Columbia), as amended from time to time;
- 1.1.7. **"Court"** means the Supreme Court of British Columbia;
- 1.1.8. **"Depository"** means Montreal Trust Company of Canada;
- 1.1.9. **"Effective Date"** means the date on which the Registrar has accepted for filing under section 252 of the BCCA a certified copy of the Final Order and such other documents as are required to be filed under the BCCA to effect the Arrangement;

- 1.1.10. **“Final Order”** means the order of the Court approving the Arrangement;
- 1.1.11. **“GII Acquisition”** means GII Acquisition Corp., a company incorporated under the laws of the Province of British Columbia;
- 1.1.12. **“Gwil”** means Gwil Industries Inc., a company incorporated under the laws of the Province of British Columbia;
- 1.1.13. **“Gwil Common Shares”** means Common Shares without par value in the capital of Gwil;
- 1.1.14. **“Gwil Redeemable Preferred Shares”** means Preferred Shares in the capital of Gwil which are shares with a par value of \$10.00 each having attached thereto the special rights and restrictions set out in Part 19 of the Articles of Gwil and which will, as a result of the Arrangement, become shares without par value having attached thereto the special rights and restrictions set out in Exhibit 2 to the Plan of Arrangement;
- 1.1.15. **“Gwil Shareholders”** means the holders of Gwil Common Shares;
- 1.1.16. **“Information Circular”** means the management information circular of Gwil to be sent to the Gwil Shareholders in connection with the Meeting;
- 1.1.17. **“Interim Order”** means the interim order of the Court providing for, among other things, the calling and holding of the Meeting;
- 1.1.18. **“Mailing Date”** means the date of mailing of the Information Circular to the Gwil Shareholders;
- 1.1.19. **“Management Shareholders”** means, collectively, Hugh A. Magee and Merv G. Schweitzer, respectively the Chairman and Chief Executive Officer and the President and Chief Operating Officer of Gwil;
- 1.1.20. **“Meeting”** means the extraordinary general meeting of the Gwil Shareholders (including any adjournments thereof) to be held for the purpose of considering and, if deemed advisable, approving the Arrangement;
- 1.1.21. **“Plan of Arrangement”** means the plan of arrangement attached as Schedule A to this Agreement, as amended from time to time;
- 1.1.22. **“Registrar”** means the registrar of companies appointed under section 320 of the BCCA; and
- 1.1.23. **“Subsidiary”** means, with respect to a specified body corporate, a body corporate of which more than 50% of the outstanding shares ordinarily entitled to elect a majority of the directors thereof are at the time owned, directly or indirectly, by such specified body corporate (whether or not shares of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) and includes a body corporate in like relation to a Subsidiary;

and words and phrases used herein that are defined in the BCCA shall have the same meaning herein as in the BCCA unless the context otherwise requires.

1.2. Currency

All sums of money which are referred to in this Agreement and the Plan of Arrangement are expressed in lawful money of Canada.

1.3. Interpretation Not Affected by Headings

The division of this Agreement and the Plan of Arrangement into Articles and sections and the further division thereof and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement or the Plan of Arrangement.

1.4. References to Agreement

The terms “Arrangement Agreement”, “this Agreement”, “hereof”, “herein”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article or section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto and, unless otherwise indicated, a reference herein to an Article or section is to the appropriate Article or section of this Agreement.

1.5. Number and Gender

In this Agreement and the Plan of Arrangement, words importing the singular number only shall include the plural and *vice versa*, words importing the use of any gender shall include all genders and words importing persons shall include individuals, sole proprietorships, partnerships, unincorporated associations, unincorporated syndicates, unincorporated organizations, trusts, bodies corporate, trustees, executors, administrators or other legal representatives and the Crown or any agency or instrumentality thereof.

1.6. Actions to be Taken on Business Days

In the event that any date on which any action is required to be taken hereunder by any of the parties is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.7. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia.

1.8. Schedule

Schedule A — Plan of Arrangement is hereby incorporated in and forms part of this Agreement.

2. PURPOSE AND COVENANTS

2.1. Purpose

The parties hereto have entered into this Agreement for the purpose of effecting the Arrangement on the Effective Date.

2.2. Arrangement

The parties hereto agree to effect the Arrangement on the terms and subject to the conditions contained in this Agreement and the Plan of Arrangement.

2.3. Effectiveness of Arrangement

The Arrangement shall become effective at 5:00 p.m. on the Effective Date at which time the transactions contemplated by section 3.1 of the Plan of Arrangement will occur and be deemed to occur.

2.4. Covenants of Gwil

Gwil covenants and agrees with each of GII Acquisition and 593005 that it will:

- 2.4.1. take all necessary action to give effect to the transactions contemplated by this Agreement and the Arrangement, including, without limitation, obtaining all necessary regulatory and other approvals and making all necessary regulatory and other filings required to be obtained or made by it in connection with this Agreement and the Arrangement;
- 2.4.2. as soon as reasonably practicable, make an application to the Court under section 252 of the BCCA for the Interim Order and will allow GII Acquisition to participate in the preparation and making of such application;

- 2.4.3. prepare and distribute to the Gwil Shareholders and all other persons entitled to receive it the Information Circular in accordance with applicable law and ensure that the Information Circular will, with respect to information concerning the business and affairs of Gwil and the Arrangement, contain no untrue statement of a material fact and not omit to state a material fact that is required to be stated or that is necessary to make a statement contained therein not misleading in light of the circumstances in which such statement is made and will contain a recommendation of the board of directors of Gwil that the minority Gwil Shareholders vote in favour of the Arrangement at the Meeting;
- 2.4.4. as soon as reasonably practicable, convene the Meeting as ordered by the Interim Order, solicit proxies to be voted at the Meeting in favour of the Arrangement and conduct the Meeting in accordance with the Interim Order, the Articles of Gwil and otherwise in accordance with applicable law;
- 2.4.5. until the Effective Date:
 - 2.4.5.1. carry on its business, and cause its Subsidiaries to carry on their respective businesses, in the ordinary course, except as otherwise contemplated in this Agreement or as otherwise agreed to in writing by GII Acquisition;
 - 2.4.5.2. take no action, and cause its Subsidiaries to take no action, which may result in a material adverse change in its or their respective affairs; and
 - 2.4.5.3. not, and will cause each of its Subsidiaries not to, enter into, change or waive the terms of any material agreement to which Gwil or any of its Subsidiaries is a party;
- 2.4.6. use reasonable efforts to cause each of the conditions precedent set out in Article 4 to be satisfied on or before the Effective Date;
- 2.4.7. subject to the approval of the Arrangement by the Gwil Shareholders, deposit with the Depositary, on or before 5:00 p.m. (Vancouver time) on the day on which the Meeting is held, the aggregate funds required to redeem the Gwil Redeemable Preferred Shares to be redeemed by Gwil as contemplated by section 3.1 (e) of the Plan of Arrangement, along with an irrevocable direction to the Depositary to pay such funds to the Gwil Shareholders entitled thereto in accordance with the provisions of the Arrangement upon the Arrangement becoming effective;
- 2.4.8. subject to the approval of the Arrangement by the Gwil Shareholders and the provisions hereof, make an application to the Court for the Final Order and will allow GII Acquisition to participate in the preparation and making of such application;
- 2.4.9. subject to the provisions hereof, file or consent to the filing of the Final Order with the Registrar on the Effective Date;
- 2.4.10. not declare or pay any dividends, make any distribution of its properties or assets to the Gwil Shareholders, issue any additional shares or other securities (other than pursuant to the exercise of options, warrants and other rights for the issue of such shares in effect on the date hereof) or purchase or redeem any of its outstanding securities, other than as contemplated hereby;
- 2.4.11. not, and will cause each of its Subsidiaries not to, issue or grant, or enter into any agreement to issue or grant, options, warrants or other rights to acquire its or their shares or other securities or change the terms of any outstanding agreements, options, warrants or other rights to acquire its or their shares or other securities;
- 2.4.12. not, and will cause each of its Subsidiaries not to, merge into, amalgamate or consolidate with or sell all or any substantial part of its or their assets or undertaking to any other person or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions contemplated herein, other than as otherwise permitted herein;
- 2.4.13. comply, and cause each of its Subsidiaries to comply, with all laws, rules, regulations and governmental orders and decrees applicable to it or them and their respective assets and undertaking; and

- 2.4.14. not alter or amend its Memorandum or Articles, and will cause each of its Subsidiaries not to alter or amend its constating documents, as they exist at the date of this Agreement, other than as contemplated hereby.

2.5. Covenants of 593005

593005 covenants and agrees with Gwil that it will:

- 2.5.1. take all necessary action to give effect to the transactions contemplated by this Agreement and the Arrangement, including, without limitation, causing GII Acquisition to comply with its covenants hereunder and obtaining all necessary regulatory and other approvals and making all necessary regulatory and other filings required to be obtained or made by it in connection with this Agreement and the Arrangement;
- 2.5.2. use reasonable efforts to cause each of the conditions precedent set out in Article 4 to be satisfied on or before the Effective Date; and
- 2.5.3. subject to the provisions hereof, consent to the filing of the Final Order with the Registrar on the Effective Date.

2.6. Covenants of GII Acquisition

GII Acquisition covenants and agrees with Gwil that it will:

- 2.6.1. take all necessary action to give effect to the transactions contemplated by this Agreement and the Arrangement, including, without limitation, obtaining all necessary regulatory and other approvals and making all necessary regulatory and other filings required to be obtained or made by it in connection with this Agreement and the Arrangement;
- 2.6.2. provide Gwil with all such assistance as may be appropriate in connection with the application to be made by Gwil to the Court under section 252 of the BCCA for the Interim Order;
- 2.6.3. use reasonable efforts to cause each of the conditions precedent set out in Article 4 to be satisfied on or before the Effective Date;
- 2.6.4. subject to the approval of the Arrangement by the Gwil Shareholders and the sole shareholder of GII Acquisition, deposit with the Depositary, on or before 5:00 p.m. (Vancouver time) on the day on which the Meeting is held, the aggregate funds required to purchase the Gwil Common Shares to be purchased by GII Acquisition as contemplated by section 3.1(c) of the Plan of Arrangement, along with an irrevocable direction to the Depositary to pay such funds to the Gwil Shareholders entitled thereto in accordance with the provisions of the Arrangement upon the Arrangement becoming effective;
- 2.6.5. subject to the approval of the Arrangement by the Gwil Shareholders and the provisions hereof, provide Gwil with all such assistance as may be appropriate in connection with the application to be made by Gwil to the Court for the Final Order;
- 2.6.6. subject to the provisions hereof, file or consent to the filing of the Final Order with the Registrar on the Effective Date; and
- 2.6.7. prior to the Effective Date, not alter or amend its Memorandum or Articles as they exist as at the date of this Agreement.

3. REPRESENTATIONS AND WARRANTIES

3.1. Representations and Warranties of Gwil

Gwil represents and warrants to and in favour of each of 593005 and GII Acquisition as follows and acknowledges that 593005 and GII Acquisition are relying upon such representations and warranties:

- 3.1.1. each of Gwil and its Subsidiaries is a company duly incorporated and validly existing under the laws of its jurisdiction of incorporation and has the corporate power and capacity to own or lease its property and assets and to carry on its business as now conducted by it, is duly licensed or qualified to do business in each jurisdiction in which the character of the property and assets now owned by it or the nature of the business now conducted by it requires it to be so licensed or qualified and has filed all returns required to be filed and paid all fees and taxes required to be paid by it to maintain such licenses or qualification;
- 3.1.2. Gwil has the corporate power and capacity to enter into this Agreement and to perform its obligations hereunder, subject to obtaining all approvals and orders as contemplated herein;
- 3.1.3. the authorized capital of Gwil consists of 20,000,000 Gwil Common Shares, of which an aggregate of 7,446,797 Gwil Common Shares are duly authorized and validly issued and outstanding as fully paid and non-assessable shares, and 5,000,000 Gwil Redeemable Preferred Shares, none of which are issued and outstanding, and that the Gwil Common Shares currently issued and outstanding will be the only shares of Gwil outstanding on the Effective Date;
- 3.1.4. there are no shares in the capital of Gwil issuable upon the exercise of any outstanding agreements, options, warrants or other rights to acquire shares in the capital of Gwil in effect on the date hereof;
- 3.1.5. on the Effective Date, no shares in the capital of Gwil will be issuable pursuant to the terms of any agreement, option, warrant or other right to acquire shares in the capital of Gwil, other than as contemplated hereby;
- 3.1.6. Gwil owns directly no shares in the capital of any corporation other than Gwil Management Services Inc., Gwil Holdings Inc. and certain inactive subsidiaries and Gwil has no direct or indirect investment in any association, partnership, joint venture or other entity other than those that have been disclosed to GII Acquisition;
- 3.1.7. Gwil owns, directly or indirectly, all of the issued and outstanding shares in the capital of each of its Subsidiaries free and clear of any liens, pledges, charges or other encumbrances and no person has any agreement, option, warrant or other right to acquire any shares in the capital of any of the Subsidiaries of Gwil;
- 3.1.8. each of Gwil and its Subsidiaries has insured its assets against loss or damages as appropriate to its business and assets in such amounts and against such risks as are customarily carried and insured against by owners of comparable businesses and assets and such insurance coverage will remain in full force and effect to and including the Effective Date;
- 3.1.9. the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and the fulfilment of and compliance with the terms and provisions hereof do not and will not:
 - 3.1.9.1. conflict with or violate any law, rule or regulation or any governmental order, judgment, decree, permit, license or approval applicable to Gwil or any of its Subsidiaries;
 - 3.1.9.2. conflict with any of the terms, conditions or provisions of the Memorandum or Articles of Gwil or the constating documents of any of its Subsidiaries; or
 - 3.1.9.3. conflict with, result in a breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by Gwil or any of its Subsidiaries under, any agreement, lease or other instrument to which it is a party or by which it is bound or to which any of its properties is subject, result in the creation of any lien, charge or encumbrance upon any of its assets under any such agreement, lease or other instrument or

- give to others any material interest or rights, including rights of purchase, termination, cancellation or acceleration, under any such agreement, lease or other instrument;
- 3.1.10. the consummation of the transactions contemplated hereby has been duly approved by the board of directors of Gwil and this Agreement constitutes a valid and binding obligation of Gwil enforceable against it in accordance with its terms;
 - 3.1.11. no consent, approval, order or authorization of, or registration or filing with, any court, administrative agency, regulatory body or commission or other governmental authority or instrumentality is required to be obtained or made by Gwil or any of its Subsidiaries in connection with the transactions contemplated hereby, other than as will have been obtained or made, as the case may be, on or before the Effective Date;
 - 3.1.12. each of Gwil and its Subsidiaries is not, and has not received notice of any facts or circumstances which, with the giving of notice or the lapse of time, would cause it to be, in default or violation of any term, condition or provision of its constating documents or any agreement, lease or other instrument to which it is a party or by which it is bound or to which any of its properties is subject;
 - 3.1.13. each of Gwil and its Subsidiaries is not in violation of, and has not received any notices, demand letters or requests for information from any entity in connection with any alleged violation of or liability under, any applicable law, rule or regulation or any governmental order or decree, including, without limitation, any law, rule, regulation or governmental order or decree relating to environmental or human health or safety or similar matters, except for violations or liabilities which do not have a material adverse effect on the business, operations, assets or condition of Gwil on a consolidated basis, and there are no material actions, suits, proceedings or investigations, whether or not purportedly on behalf of Gwil or any of its Subsidiaries, pending or, to the knowledge of Gwil, threatened against or affecting Gwil or any of its Subsidiaries at law or in equity or before or by any court, commission, board, bureau, arbitrator, agency or instrumentality, domestic or foreign, of any kind;
 - 3.1.14. since December 31, 1998, Gwil has filed all forms, reports and other documents required to be filed by it with the securities regulatory authorities of each of the Provinces of Canada in which it is a "reporting issuer" or the equivalent pursuant to and in compliance with applicable law and none of such documents, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances in which they were made, not misleading;
 - 3.1.15. Gwil has delivered to GII Acquisition its audited consolidated financial statements for each of the fiscal years in the five-year period ended December 31, 1998 and its interim consolidated financial statements for the three- and six-month periods ended March 31, 1999 and June 30, 1999, respectively, and such statements and the notes thereto present fairly the consolidated financial condition of Gwil and the results of operations as at the respective dates and for the respective periods indicated in such statements and have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis except as otherwise stated in the notes to such statements and Gwil has no liabilities (whether accrued, absolute, contingent or otherwise) of a nature required to be set out in such statements and the notes thereto in accordance with Canadian generally accepted accounting principles other than as set out in such statements and the notes thereto;
 - 3.1.16. since June 30, 1999 there has been no material adverse change in the consolidated business or condition, financial or otherwise, of Gwil from that shown in the consolidated financial statements as at and for the period ended June 30, 1999 referred to in section 3.1.15;
 - 3.1.17. except for fees and disbursements payable to Gwil's counsel, auditors, financial adviser (in connection with the preparation of the opinion referred to in section 4.1.2), transfer agent and printers, filing and other fees payable to regulatory authorities and other miscellaneous fees and expenses which are not material in the aggregate, no person is entitled to any broker's or finder's fee or other fee, commission or compensation payable by Gwil or any of its Subsidiaries in connection with the transactions contemplated by this Agreement;

- 3.1.18. each of Gwil and its Subsidiaries has accurately prepared and filed, as and when due, all tax returns, reports and declarations required to be filed by it and has paid or made provision for the payment of all taxes that have become due and payable;
- 3.1.19. neither Gwil nor any of its Subsidiaries is a party to or bound by any employment, management, consulting or service agreement other than those that have been disclosed to GII Acquisition;
- 3.1.20. neither Gwil nor any of its Subsidiaries is a party to any pension, profit sharing, commission, bonus, employee benefit or other similar plan other than those that have been disclosed to GII Acquisition; and
- 3.1.21. neither Gwil nor any of its Subsidiaries is a party to or bound by any material agreement other than those that have been disclosed to GII Acquisition.

3.2. Representations and Warranties of 593005

593005 represents and warrants to and in favour of Gwil as follows and acknowledges that Gwil is relying upon such representations and warranties:

- 3.2.1. 593005 is a company duly incorporated and validly existing under the laws of British Columbia and has the corporate power and capacity to own or lease its property and assets and to carry on its business as now conducted by it;
- 3.2.2. 593005 has the corporate power and capacity to enter into this Agreement and perform its obligations hereunder;
- 3.2.3. the authorized capital of 593005 consists of 20,000 Common shares without par value, of which 10,000 Common shares are issued and outstanding and held by the Management Shareholders;
- 3.2.4. the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and the fulfilment of and compliance with the terms and provisions hereof do not and will not:
 - 3.2.4.1. conflict with or violate any law, rule or regulation or any governmental order, judgment, decree, permit, license or approval applicable to 593005; or
 - 3.2.4.2. conflict with any of the terms, conditions or provisions of the Memorandum or Articles of 593005;
- 3.2.5. the consummation of the transaction contemplated hereby has been duly approved by the board of directors of 593005 and this Agreement constitutes a valid and binding obligation of 593005 enforceable against it in accordance with its terms; and
- 3.2.6. no consent, approval, order or authorization of, or registration or filing with, any court, administrative agency, regulatory body or commission or other governmental authority or instrumentality is required to be obtained or made by 593005 in connection with the transactions contemplated hereby, other than as will have been obtained or made, as the case may be, on or before the Effective Date.

3.3. Representations and Warranties of GII Acquisition

GII Acquisition represents and warrants to and in favour of Gwil as follows and acknowledges that Gwil is relying upon such representations and warranties:

- 3.3.1. GII Acquisition is a company duly incorporated and validly existing under the laws of British Columbia and has the corporate power and capacity to own or lease its property and assets and to carry on its business as now conducted by it;
- 3.3.2. GII Acquisition has the corporate power and capacity to enter into this Agreement and perform its obligations hereunder;
- 3.3.3. the authorized capital of GII Acquisition consists of 20,000 Common shares without par value, of which 100 Common shares are issued and outstanding and held by 593005;

- 3.3.4. GII Acquisition has no assets or liabilities other than in connection with the transactions contemplated hereby;
- 3.3.5. the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and the fulfilment of and compliance with the terms and provisions hereof do not and will not:
 - 3.3.5.1. conflict with or violate any law, rule or regulation or any governmental order, judgment, decree, permit, license or approval applicable to GII Acquisition; or
 - 3.3.5.2. conflict with any of the terms, conditions or provisions of the Memorandum or Articles of GII Acquisition;
- 3.3.6. the consummation of the transaction contemplated hereby has been duly approved by the board of directors of GII Acquisition and this Agreement constitutes a valid and binding obligation of GII Acquisition enforceable against it in accordance with its terms; and
- 3.3.7. no consent, approval, order or authorization of, or registration or filing with, any court, administrative agency, regulatory body or commission or other governmental authority or instrumentality is required to be obtained or made by GII Acquisition in connection with the transactions contemplated hereby, other than as will have been obtained or made, as the case may be, on or before the Effective Date.

4. CONDITIONS PRECEDENT

4.1. Mutual Conditions Precedent

The respective obligations of each of the parties hereto to complete the transactions contemplated hereby shall be subject to the satisfaction, on or before the Effective Date, of each of the following conditions, any of which (except for those set out in sections 4.1.1 to 4.1.5 inclusive) may be waived, as to it, by 593005 and GII Acquisition on the one hand or Gwil on the other in whole or in part by notice in writing to the other parties hereto without prejudice to the right of such party to rely on any other or others of such conditions:

- 4.1.1. the Interim Order shall have been obtained in form and substance satisfactory to each of 593005, GII Acquisition and Gwil acting reasonably;
- 4.1.2. a favourable valuation and fairness opinion of Goepel McDermid Inc. shall have been delivered to the Special Committee of the Board of Directors of Gwil prior to the date of mailing of the Information Circular and such opinion shall not have been withdrawn as of the Effective Date;
- 4.1.3. the Arrangement and the transactions contemplated thereby shall have been approved by the Gwil Shareholders at the Meeting as provided in the Interim Order;
- 4.1.4. the Final Order shall have been granted by the Court, which order shall reflect the intent of the parties hereto as expressed by this Agreement and shall be in form and substance satisfactory to 593005, GII Acquisition and Gwil acting reasonably and having regard to this Agreement;
- 4.1.5. a certified copy of the Final Order shall have been accepted by the Registrar for filing;
- 4.1.6. there shall not be in force any order or decree of a court of competent jurisdiction, any federal, provincial, state, municipal or other governmental department or any commission, board, agency or regulatory body restraining, interfering with or enjoining the consummation of the transactions contemplated by this Agreement including, without limitation, the Arrangement;
- 4.1.7. all necessary regulatory and other required filings and approvals with respect to the transactions contemplated hereby, including, in particular, the Arrangement, shall have been made and obtained and all such actions as may be required by regulatory authorities having jurisdiction over the parties and the transactions contemplated hereby shall have been taken;
- 4.1.8. there shall not exist any prohibition at law against the completion of the Arrangement; and
- 4.1.9. this Agreement shall not have been terminated under section 6.3.

4.2. Additional Conditions Precedent to the Obligations of 593005 and GII Acquisition

The obligations of 593005 and GII Acquisition to complete the transactions contemplated hereby and the Plan of Arrangement and the obligations of GII Acquisition and 593005 to file or consent to the filing of a certified copy of the Final Order with such other documents as are required to be filed under the BCCA for acceptance by the Registrar to give effect to the Arrangement pursuant to section 252 of the BCCA shall also be subject to the fulfilment, or waiver by 593005 and GII Acquisition, of each of the following conditions:

- 4.2.1. there shall have been no material adverse change in the business, operations or assets of Gwil and its Subsidiaries, taken as a whole, and no change of law shall have occurred which, in the reasonable judgment of 593005 and GII Acquisition, has or will have a material adverse effect on the business, assets, financial condition or results of operations of Gwil and its Subsidiaries, taken as a whole;
- 4.2.2. all consents and approvals under any agreements to which Gwil or any Subsidiary thereof may be a party or bound which are required or necessary or desirable for the completion of the transactions contemplated under this Agreement or under the Arrangement shall have been obtained or received;
- 4.2.3. 593005 and GII Acquisition shall have received a certificate of the Depositary on and dated the Effective Date confirming the compliance by Gwil with its covenant set out in section 2.4.7;
- 4.2.4. the holders of an aggregate of not more than 5% of the outstanding Gwil Common Shares shall have exercised rights of dissent with respect to such shares pursuant to and in the manner set out in the Interim Order and the Plan of Arrangement; and
- 4.2.5. the covenants of Gwil set out in this Agreement shall have been performed on or before the Effective Date and, except as affected by the transactions contemplated by this Agreement, the representations and warranties of Gwil set out in this Agreement shall be true and correct in all material respects as at each of the Mailing Date and the Effective Date, with the same effect as if such representations and warranties had been made at, and as of, each such time.

4.3. Additional Conditions Precedent to the Obligations of Gwil

The obligation of Gwil to complete the transactions contemplated hereby and the Plan of Arrangement and the obligation of Gwil to file or consent to the filing of a certified copy of the Final Order with such other documents as are required to be filed under the BCCA for acceptance by the Registrar to give effect to the Arrangement pursuant to section 252 of the BCCA shall also be subject to the fulfilment, or waiver by Gwil, of each of the following conditions:

- 4.3.1. there shall have been no material adverse change in the business, operations or assets of 593005 and GII Acquisition, taken as a whole, and no change of law shall have occurred which, in the reasonable judgment of Gwil has or will have a material adverse effect on the business, assets, financial condition or results of operations of 593005 and GII Acquisition taken as a whole;
- 4.3.2. all consents and approvals under any agreements to which 593005 or GII Acquisition may be a party or bound which are required or necessary or desirable for the completion of the transactions contemplated under this Agreement or under the Arrangement shall have been obtained or received;
- 4.3.3. Gwil shall have received a certificate of the Depositary on and dated the Effective Date confirming the compliance by GII Acquisition with its covenant set out in section 2.6.4; and
- 4.3.4. the covenants of 593005 and GII Acquisition set out in this Agreement shall have been performed on or before the Effective Date and, except as affected by the transactions contemplated by this Agreement, the representations and warranties of 593005 and GII Acquisition set out in this Agreement shall be true and correct in all material respects as at each of the Mailing Date and the Effective Date, with the same effect as if such representations and warranties had been made at, and as of, each such time.

4.4. Merger of Conditions

The conditions set out in sections 4.1, 4.2 and 4.3 shall be conclusively deemed to have been satisfied, waived or released on the filing of a certified copy of the Final Order with such other documents as are required to be filed under the BCCA for acceptance by the Registrar to give effect to the Arrangement pursuant to section 252 of the BCCA.

5. IMPLEMENTATION OF TRANSACTIONS

5.1. Pre-Closing

Unless this Agreement is terminated earlier pursuant to the provisions hereof, the parties hereto shall meet at the offices of Lawson Lundell Lawson & McIntosh at 1600 — 925 West Georgia Street, Vancouver, British Columbia at 10:00 a.m. on December 1, 1999 (or at such other time or on such other date as they may agree) and each party shall deliver to the other parties:

- 5.1.1. the documents required to be delivered by it hereunder to complete the transactions contemplated hereby (provided that each such document required to be dated the Effective Date shall be dated as of the Effective Date and held in escrow to be released upon the acceptance of a certified copy of the Final Order for filing by the Registrar); and
- 5.1.2. written confirmation as to the satisfaction or waiver by it of the conditions in its favour set out herein (other than the acceptance of a certified copy of the Final Order for filing by the Registrar).

5.2. Filing of Final Order

Within one Business Day after the day on which the parties have met as provided in section 5.1, GII Acquisition and Gwil shall jointly cause to be sent to the Registrar pursuant to section 252 of the BCCA a certified copy of the Final Order and such other documents as are required to be filed under the BCCA for acceptance by the Registrar to give effect to the Arrangement with the request that such certified copy of the Final Order be accepted for filing forthwith.

5.3. Arrangement and Closing

Upon the receipt of notification by GII Acquisition and Gwil that a certified copy of the Final Order has been accepted for filing by the Registrar the documents held in escrow pursuant to section 5.1.1 shall be released and the parties shall exchange such other documents as may be necessary or desirable in connection with the completion of the transactions contemplated by this Agreement and the Arrangement.

6. GENERAL

6.1. Notice

Any notice, direction or other instrument required or permitted to be given hereunder shall be in writing and may be given by delivering the same or sending the same by facsimile transmission addressed as follows:

To GII Acquisition:

GII Acquisition Corp.
Suite 650, West Tower
555 West 12th Avenue
Vancouver, British Columbia
V5Z 3X7

Telecopier: (604) 874-4945
Attention: Brian W. Greer

with a copy to:

Lawson Lundell Lawson & McIntosh
1600 – 925 West Georgia Street
Vancouver, British Columbia
V6C 3L2

Telecopier: (604) 669-1620
Attention: Jerrold W. Schramm

To 593005:

593005 B.C. Ltd.
Suite 650, West Tower
555 West 12th Avenue
Vancouver, British Columbia
V5Z 3X7

Telecopier: (604) 874-4945
Attention: Brian W. Greer

with a copy to:

Lawson Lundell Lawson & McIntosh
1600 – 925 West Georgia Street
Vancouver, British Columbia
V6C 3L2

Telecopier: (604) 669-1620
Attention: Jerrold W. Schramm

To Gwil:

Gwil Industries Inc.
Suite 650, West Tower
555 West 12th Avenue
Vancouver, British Columbia
V5Z 3X7

Telecopier: (604) 874-4945
Attention: Brian W. Greer

with a copy to:

Lang Michener Lawrence & Shaw
1500 — 1055 West Georgia Street
Vancouver, British Columbia
V6E 4N7

Telecopier: (604) 685-7084
Attention: Karl E. Gustafson

Any such notice, direction or other instrument, whether delivered or transmitted by facsimile transmission, shall be deemed to have been given at the time and on the date on which it was delivered to or received in the office of the addressee, as the case may be, if delivered or transmitted prior to 5:00 p.m. (Vancouver time) on a Business Day or at 9:00 a.m. (Vancouver time) on the subsequent Business Day if delivered or transmitted subsequent to such time.

Either party hereto may change its address for service from time to time by notice given to the other party hereto in accordance with the foregoing.

Any notice, direction or other instrument delivered under this Agreement shall be signed by one or more duly authorized officers of the party delivering it.

The delivery of any notice, direction or other instrument, or a copy thereof, to a party hereunder shall be deemed to constitute the representation and warranty of the party who has delivered it to the other party that such delivering party is authorized to deliver such notice, direction or other instrument at such time under this Agreement (unless the receiving party has actual knowledge to the contrary) and the receiving party shall not be required to make any inquiry to confirm such authority.

6.2. Amendment

This Agreement may be amended by written agreement of 593005, GII Acquisition and Gwil without further notice to or authorization on the part of their respective shareholders.

6.3. Termination

This Agreement may be terminated prior to the Effective Date by 593005, GII Acquisition and Gwil by written agreement, notwithstanding the approval of this Agreement by the Gwil Shareholders or the granting by the Court of the Final Order. This Agreement shall terminate upon the earliest of:

- 6.3.1. the Gwil Shareholders failing to approve the Arrangement at the Meeting, as provided in the Interim Order;
- 6.3.2. a final determination from the Court or a Court of Appeal which denies the granting of the Final Order;
and
- 6.3.3. the failure to conclude the transactions contemplated hereby by December 31, 1999.

6.4. Binding Effect

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns.

6.5. Prohibition Against Assignment

No party may assign its rights or obligations under this Agreement without the prior written consent of the other parties hereto.

6.6. Enforceability Qualifications

All representations and warranties herein as to the enforceability of any covenant, agreement or document shall be qualified with respect to applicable bankruptcy and other laws affecting the enforcement of creditors' rights and by the fact that equitable remedies are discretionary and may not be ordered by a court in any particular circumstances.

6.7. Survival of Representations, Warranties and Covenants

All representations, warranties and covenants of the parties set out in this Agreement will remain operative and in full force and effect, regardless of any investigation made by or on behalf of the parties to this Agreement, until the earlier of the termination of this Agreement in accordance with its terms or the Effective Date, at which time such representations, warranties and covenants will expire (except for any covenants that by their terms survive for a longer period).

6.8. Severability

Each of the provisions of this Agreement is distinct and severable and any declaration as to the invalidity or unenforceability of any such provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

6.9. Disclosure

Each of the parties shall consult with the other parties before issuing any press release or making any other public disclosure with respect to the Arrangement or any other transactions contemplated by this Agreement and, except as required by any applicable law or regulatory requirement, neither party shall issue any such press release or make any such public announcement without the prior written consent of the other, which consent shall not be unreasonably withheld or delayed.

6.10. Further Assurances

Each of the parties hereto agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements, and to give such further written assurances, as may be reasonably requested by any other party to evidence and reflect the transactions contemplated hereby and to carry into effect the intent and purposes of this Agreement.

6.11. Entire Agreement

This Agreement constitutes the whole of the agreement between the parties hereto with respect to the transactions and matters herein contemplated and supersedes all prior agreements, whether written or oral, in connection herewith.

6.12. Time of Essence

Time shall be of the essence of this Agreement.

6.13. Counterpart Executions and Facsimile Transmissions

This Agreement may be executed in one or more counterparts, each of which when delivered (whether in originally executed form or by facsimile transmission) shall be deemed to be an original and all of which together shall constitute one and the same document.

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto as of the date first above written.

GII ACQUISITION CORP.

By: (signed) MERV G. SCHWEITZER, President

(signed) BRIAN W. GREER, Secretary

593005 B.C. LTD.

By: (signed) MERV G. SCHWEITZER, President

(signed) BRIAN W. GREER, Secretary

GWIL INDUSTRIES INC.

By: (signed) MERV G. SCHWEITZER, President

(signed) BRIAN W. GREER, Secretary

SCHEDULE A

PLAN OF ARRANGEMENT UNDER SECTION 252 OF THE *COMPANY ACT* (BRITISH COLUMBIA)

ARTICLE 1.

DEFINITIONS AND INTERPRETATION

1.1. Definitions

In this Plan of Arrangement, unless there is something in the subject matter or context inconsistent therewith, the following capitalized words and terms shall have the following meanings:

- (a) **"593005"** means 593005 B.C. Ltd., a British Columbia company;
- (b) **"Arrangement"** means the arrangement pursuant to section 252 of the BCCA on the terms and conditions set out in this Plan of Arrangement and any amendment or variation thereof made in accordance with Article 6;
- (c) **"Arrangement Agreement"** means the agreement made as of the 21st day of October, 1999 among GII Acquisition, 593005 and Gwil for the purpose of effecting the Arrangement;
- (d) **"BCCA"** means the *Company Act*, R.S.B.C. 1996, c.62, as amended;
- (e) **"Business Day"** means a day which is not a Saturday or a "holiday", as such term is defined in the *Interpretation Act* (British Columbia), as amended from time to time;
- (f) **"Court"** means the Supreme Court of British Columbia;
- (g) **"Depository"** means Montreal Trust Company of Canada at its principal office in Vancouver;
- (h) **"Dissent Right"** means the rights of dissent as provided in Article 5;
- (i) **"Dissent Procedures"** means the procedures to be complied with by a Dissenting Shareholder to properly exercise the Dissent Right as provided in Article 5;
- (j) **"Dissenting Shareholder"** means each holder of Gwil Common Shares that has delivered a valid Notice of Dissent pursuant to Article 5;
- (k) **"Effective Date"** means the date on which the Registrar has accepted for filing under section 252 of the BCCA a certified copy of the Final Order to effect the Arrangement;
- (l) **"Effective Time"** means 5:00 p.m. (Vancouver time) on the Effective Date;
- (m) **"Final Order"** means the order of the Court approving the Arrangement;
- (n) **"GII Acquisition"** means GII Acquisition Corp., a British Columbia company which is a wholly-owned subsidiary of 593005;
- (o) **"GII Acquisition Common Shares"** means Common shares without par value in the capital of GII Acquisition;
- (p) **"Gwil"** means Gwil Industries Inc., a British Columbia company;
- (q) **"Gwil Common Shares"** means Common Shares without par value in the capital of Gwil;
- (r) **"Gwil Redeemable Preferred Shares"** means Preferred Shares in the capital of Gwil which, immediately prior to the Effective Time, are shares with a par value of \$10.00 each having attached thereto the special rights and restrictions as set out in Part 19 of the Articles of Gwil and which will, as a result of the Arrangement, become shares without par value having attached thereto the special rights and restrictions set out in Exhibit 2 hereto;
- (s) **"Information Circular"** means the management information circular of Gwil sent to the holders of Gwil Common Shares in connection with the Meeting;

- (t) **“Interim Order”** means the interim order of the Court providing for, among other things, the calling and holding of the Meeting;
- (u) **“Letter of Transmittal”** means the letter of transmittal and election form forwarded by Gwil to holders of Gwil Common Shares with the Information Circular or such other equivalent form of letter of transmittal and election form acceptable to GII Acquisition, acting reasonably;
- (v) **“Management Shareholders”** means, collectively, Hugh A. Magee (the Chairman and Chief Executive Officer of Gwil), H.A. Magee Holdings Ltd., Merv G. Schweitzer (the President and Chief Operating Officer of Gwil) and 3409 Holdings Ltd.;
- (w) **“Meeting”** means the extraordinary general meeting of the holders of Gwil Common Shares (including any adjournments thereof) to be held for the purpose of considering and, if deemed advisable, approving the Arrangement;
- (x) **“Notice of Approval”** has the meaning set out in section 5.5;
- (y) **“Notice of Dissent”** means the written notice of a holder of Gwil Common Shares stating his intent to exercise his Dissent Right; and
- (z) **“Registrar”** means the registrar of companies appointed under section 320 of the BCCA.

1.2. Headings and References

The division of this Plan of Arrangement into Articles and sections and the further division thereof and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement. Unless otherwise specifically indicated, the terms “Plan of Arrangement”, “hereof”, “herein”, “hereunder” and similar expressions refer to this Plan of Arrangement and not to any particular Article or section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto and, unless otherwise indicated, a reference herein to an Article or section is to the appropriate Article or section of this Plan of Arrangement.

1.3. Currency

All sums of money which are referred to in this Plan of Arrangement are expressed in lawful money of Canada.

1.4. Time

Time shall be of the essence in each and every matter or thing herein provided. Unless otherwise indicated, all times expressed herein are local time in Vancouver, British Columbia.

1.5. Number and Gender

In this Plan of Arrangement, words importing the singular number only shall include the plural and *vice versa*, words importing the use of any gender shall include all genders and words importing persons shall include individuals, sole proprietorships, partnerships, unincorporated associations, unincorporated syndicates, unincorporated organizations, trusts, bodies corporate, trustees, executors, administrators or other legal representatives and the Crown or any agency or instrumentality thereof.

1.6. Actions to be Taken on Business Days

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action shall be required to be taken on the next succeeding day which is a Business Day.

1.7. Exhibits

Exhibits 1 and 2 attached hereto shall be included in, and form part of, this Plan of Arrangement.

ARTICLE 2.
PLAN OF ARRANGEMENT

2.1. Arrangement Agreement

This Plan of Arrangement is made pursuant to and subject to the provisions of the Arrangement Agreement.

ARTICLE 3.
THE ARRANGEMENT AND RELATED MATTERS

3.1. Arrangement

At the Effective Time, the following events shall occur and shall be deemed to occur in the following order without any further act or formality:

- (a) the Memorandum of Gwil shall be and be deemed to be altered by changing the Gwil Redeemable Preferred Shares from shares with a par value of \$10.00 each to shares without par value and the Memorandum of Gwil, as so altered, shall be in the form set out in Exhibit 1 hereto;
- (b) the Articles of Gwil shall be and be deemed to be altered by varying the special rights and restrictions attached to the Gwil Redeemable Preferred Shares by deleting such special rights and restrictions as set out in Part 19 of the Articles of Gwil and replacing them with the special rights and restrictions set out in Exhibit 2 hereto;
- (c) the Gwil Common Shares held by all holders other than:
 - (i) the Management Shareholders;
 - (ii) Dissenting Shareholders who are ultimately entitled to be paid the fair value for their Gwil Common Shares as provided in section 5.12(a); and
 - (iii) holders who have elected in a Letter of Transmittal which has been duly completed, executed and delivered to the Depositary as provided in the Information Circular (together with a certificate or certificates representing such shares) to receive Gwil Redeemable Preferred Shares in exchange for their Gwil Common Shares as provided in section 3.1(d);

shall be and be deemed to be purchased by GII Acquisition for a price of \$5.65 per share in cash and each such holder shall thereupon be entitled to receive out of the funds held by the Depositary for such purpose an amount equal to the aggregate purchase price so payable to such holder and such amount shall, from and after such time, be and be deemed to be held by the Depositary in trust for such holder;

- (d) each issued and outstanding Gwil Common Share held by a holder who so elects in a Letter of Transmittal which has been duly completed, executed and delivered to the Depositary as provided in the Information Circular (together with a certificate or certificates representing such shares) shall be and be deemed to be exchanged for one Gwil Redeemable Preferred Share with capital equal to the capital attributable to such Gwil Common Share; and
- (e) each issued and outstanding Gwil Redeemable Preferred Share shall be and be deemed to be redeemed by Gwil for a price of \$5.00 per share in cash and each holder of Gwil Redeemable Preferred Shares shall thereupon be entitled to receive out of the funds held by the Depositary for such purpose an amount equal to the aggregate redemption price so payable to such holder and such amount shall, from and after such time, be and be deemed to be held by the Depositary in trust for such holder.

For greater certainty, the Gwil Common Shares held by the Management Shareholders will not be affected by the Arrangement.

3.2. Acquisition of Gwil Common Shares of Dissenting Shareholders

Each Gwil Common Share held by a Dissenting Shareholder who is ultimately entitled to be paid the fair value thereof as provided in section 5.12(a) shall be and be deemed to be transferred to Gwil for cancellation and cancelled contemporaneously with the purchase by GII Acquisition of Gwil Common Shares pursuant to section 3.1(c) and such holder shall have no rights or entitlements with respect to such Gwil Common Shares except as provided in Article 5.

ARTICLE 4.

CERTIFICATES AND PAYMENT

4.1. Effect of Certificates Representing Gwil Common Shares

After the Effective Time, certificates formerly representing Gwil Common Shares, other than those held by GII Acquisition and the Management Shareholders shall represent only the right to receive payment of the applicable amount provided in sections 3.1(c) and (e) and 5.12(a) until the sixth anniversary of the Effective Date at which time they shall cease to represent a claim of any nature whatsoever, shall be deemed to be surrendered to Gwil and shall be cancelled.

4.2. Payment

As soon as practicable following the Effective Date, where a holder of Gwil Common Shares has delivered to the Depositary a duly completed and executed Letter of Transmittal and the certificate or certificates representing such Gwil Common Shares, Gwil and GII Acquisition shall cause the Depositary:

- (a) to forward or cause to be forwarded by first class mail to such holder at the address specified in the Letter of Transmittal;
- (b) if requested by such holder in the Letter of Transmittal, to make available at the offices of the Depositary for pick-up by such holder; or
- (c) if the Letter of Transmittal neither specifies an address as provided in section 4.2(a) nor contains a request as provided in section 4.2(b), to forward or cause to be forwarded to such holder at the address of such holder as shown on the share register maintained by Gwil immediately prior to the Effective Date;

a cheque in Canadian currency representing the aggregate cash amount payable to such holder as provided in section 3.1(c) or (e), as the case may be. Unless otherwise specified in the Letter of Transmittal, such cheque shall be issued in the name of the holder entitled thereto.

4.3. Provision of Funds to Depositary

On or before 5:00 p.m. (Vancouver time) on the day on which the Meeting is held, GII Acquisition shall provide the Depositary with sufficient funds, by bank transfer or other means satisfactory to the Depositary, to enable the Depositary to make payment of the amounts provided in section 3.1(c). On or before 5:00 p.m. (Vancouver time) on the day on which the Meeting is held, Gwil shall provide the Depositary with sufficient funds, by bank transfer or other means satisfactory to the Depositary, to enable the Depositary to make payment of the amounts provided in section 3.1(e).

4.4. Amounts to be Held in Trust

Subject to section 4.5, all amounts payable to a holder of Gwil Common Shares shall be held by the Depositary in trust for such holder. All monies received from GII Acquisition and Gwil and so held in trust by the Depositary shall be invested by it in interest-bearing accounts (which may be in deposits at, or other interest-bearing obligations of, the Depositary) upon such terms as the Depositary may deem appropriate and all accrued interest will be paid to GII Acquisition or Gwil, as the case may be.

4.5. Forfeiture

If any holder of Gwil Common Shares fails for any reason to deliver to the Depositary for cancellation either the certificates formerly representing such Gwil Common Shares or a duly completed and executed Letter of Transmittal on or before the sixth anniversary of the Effective Date, such holder shall be deemed to have donated and forfeited to Gwil the cash together with all accrued interest thereon, net of any applicable withholding or other taxes, held by the Depositary in trust for such holder pursuant to section 4.4.

ARTICLE 5.

RIGHTS OF DISSENT

5.1. Grant of Rights of Dissent

Notwithstanding section 3.1, holders of Gwil Common Shares may exercise a Dissent Right in connection with the Arrangement pursuant to the Interim Order and this Article 5.

5.2. Dissent Procedures

A holder of Gwil Common Shares who wishes to exercise his Dissent Right must give a Notice of Dissent to Gwil by delivering such Notice of Dissent to Gwil or mailing it to Gwil by registered mail, at its head office at Suite 650 West Tower, 555 West 12th Avenue, Vancouver, British Columbia V5Z 3X7, marked to the attention of the Corporate Secretary, in all cases so that it is received by Gwil not later than 24 hours before the Meeting. To be valid, a Notice of Dissent must:

- (a) state that the holder of Gwil Common Shares is exercising his Dissent Right; and
- (b) specify the number of Gwil Common Shares in respect of which such holder is exercising his Dissent Right.

The Dissent Right must be exercised by or for the holder of Gwil Common Shares of record, fully and correctly as his name appears on Gwil's register of members. If the Gwil Common Shares are held by a fiduciary, trustee, guarantor or custodian, the Notice of Dissent must be executed by such fiduciary or other holder. If the Gwil Common Shares are held by more than one person, as in a joint tenancy or tenancy in common, the Notice of Dissent must be executed by all joint owners. In other cases, such as an exercise by an agent or attorney, Gwil may require evidence of such authority in form and substance reasonably satisfactory to it.

5.3. Right to Vote

The giving of a Notice of Dissent does not deprive a holder of Gwil Common Shares of his right to vote at the Meeting on the special resolution approving the Arrangement. A vote against such special resolution or the execution or exercise of a proxy requiring a vote against such special resolution does not constitute a Notice of Dissent.

5.4. Dissent Right Availability

A holder of Gwil Common Shares is not entitled to exercise a Dissent Right with respect to such Gwil Common Shares as such shareholder votes (or instructs, or is deemed by submission of any incomplete proxy, to have instructed his proxyholder to vote) in favour of the special resolution approving the Arrangement. A holder of Gwil Common Shares is entitled to exercise a Dissent Right with respect to all or certain of his Common Shares provided that such shareholder does not vote (and has not instructed or been deemed, by submission of any incomplete proxy, to have instructed his proxy holder to vote) such shares in respect of which such holder is seeking to exercise a Dissent Right in favour of the special resolution approving the Arrangement. A holder of Gwil Common Shares may, however, vote as a proxy for a shareholder whose proxy required an affirmative vote without affecting his right to exercise the Dissent Right in respect of his Gwil Common Shares.

5.5. Notice of Approval

If the special resolution approving the Arrangement is duly passed, Gwil will, within 10 days after such special resolution is duly passed, give each Dissenting Shareholder notice that the special resolution has been duly passed (a “Notice of Approval”).

5.6. Exercise of Dissent Right

On receiving a Notice of Approval in accordance with section 5.5, a Dissenting Shareholder is entitled to require Gwil to purchase all of the Gwil Common Shares in respect of which the Notice of Dissent was given by delivering to Gwil at the address specified in section 5.2 within five days after Gwil gives the Notice of Approval in accordance with section 5.5:

- (a) a notice that he requires Gwil to purchase all of the Gwil Common Shares in respect of which the Notice of Dissent was given; and
- (b) the certificate or certificates representing all of the Gwil Common Shares in respect of which the Notice of Dissent was given;

and thereupon the Dissenting Shareholder is bound to sell such Gwil Common Shares to Gwil and Gwil is bound to purchase them.

5.7. Fair Value

The price to be paid to a Dissenting Shareholder for his Gwil Common Shares will be their fair value as determined in accordance with section 5.8 as of the day before the date on which the special resolution approving the Arrangement was duly passed and every Dissenting Shareholder who has complied with section 5.6 will be paid the same price per Gwil Common Share.

5.8. Determination of Fair Value

If the Arrangement becomes effective, Gwil will be required to determine the fair value per share of the Gwil Common Shares and to make a written offer to pay such amount to each Dissenting Shareholder. If such offer is not made by Gwil or accepted by the Dissenting Shareholder within 30 days after the Effective Date, Gwil may apply to the Court to fix the fair value per share of the Gwil Common Shares. There is no obligation on Gwil to apply to Court. If Gwil fails to make such an application, a Dissenting Shareholder has the right to so apply within a further 20 days. If an application is made by either party, the Dissenting Shareholder will be entitled to be paid the amount fixed by the Court.

5.9. Application to the Court

On an application to the Court under section 5.8:

- (a) all Dissenting Shareholders will be joined as parties and will be bound by the decision of the Court; and
- (b) Gwil will notify each affected Dissenting Shareholder of the date, place and consequences of the application and of his right to be heard in person or by counsel.

5.10. Power of the Court

On an application to the Court under section 5.8, the Court will fix a fair value per share for the Gwil Common Shares of all Dissenting Shareholders.

5.11. Notice

Any notice required to be given by Gwil or a Dissenting Shareholder to the other in connection with the exercise of the Dissent Right will be deemed to have been given and received, if delivered, on the day of delivery, or, if mailed, on the earlier of the date of receipt and the fifth Business Day after the day of mailing, or, if sent by telecopier or other similar form of transmission, on the first Business Day after the date of transmittal.

5.12. Procedures

A holder of Gwil Common Shares who:

- (a) properly exercises the Dissent Right by complying with all of the Dissent Procedures required to be complied with by a Dissenting Shareholder, will:
 - (i) be bound by the provisions of this Article 5;
 - (ii) be deemed not to have participated in the Arrangement; and
 - (iii) as of the Effective Time cease to have any rights as a holder of Gwil Common Shares other than the right to be paid by Gwil the fair value of the Gwil Common Shares held by him, in accordance with the Dissent Procedures; or
- (b) seeks to exercise the Dissent Right, but:
 - (i) who for any reason does not properly fulfill each of the Dissent Procedures required to be completed by a Dissenting Shareholder; or
 - (ii) subsequent to giving his Notice of Dissent, acts inconsistently with such dissent;

will be deemed to have participated in the Arrangement on the same basis as each non-dissenting holder of Gwil Common Shares and will be entitled to payment of the amount that would be payable to him pursuant to section 3.1(c).

ARTICLE 6.

AMENDMENT

6.1. Amendment

Subject to section 6.2:

- (a) GII Acquisition and Gwil may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time, provided that any such amendment, modification or supplement must be approved by GII Acquisition and Gwil and, if made following the Meeting, approved by the Court and communicated to holders of Gwil Common Shares in the manner required by the Court (if so required); and
- (b) any amendment, modification or supplement of or to this Plan of Arrangement which is directed by the Court following the Meeting shall be effective only if it is consented to by GII Acquisition and Gwil.

6.2. Approval of Amendment

If and to the extent any amendment, modification or supplement of or to this Plan of Arrangement does not amend, modify or supplement the obligations of Gwil, the approval of Gwil to such amendment, modification or supplement shall not be unreasonably withheld.

ARTICLE 7.

REFERENCE DATE OF PLAN OF ARRANGEMENT

7.1. Reference Date

This Plan of Arrangement is dated for reference October 21, 1999.

EXHIBIT 1

ALTERED MEMORANDUM OF GWIL INDUSTRIES INC.

Form 1
(Section 5)

Altered Memorandum of
GWIL Industries Inc.

(as altered by an arrangement under section 252 of the Company Act)

1. The name of the company is “GWIL Industries Inc.”
2. The authorized capital of the company consists of TWENTY-FIVE MILLION (25,000,000) shares divided into:
 - (a) TWENTY MILLION (20,000,000) Common Shares without par value; and
 - (b) FIVE MILLION (5,000,000) Preferred Shares without par value, the special rights and restrictions attached to which are set out in the Articles of the company.

EXHIBIT 2

SPECIAL RIGHTS AND RESTRICTIONS ATTACHED TO THE GWIL REDEEMABLE PREFERRED SHARES

PART 19 — PREFERRED SHARES

The Preferred Shares shall have attached thereto the following special rights and restrictions:

19.1 Participation

The holders of the Preferred Shares shall not participate in the profits or surplus of the Company and, accordingly, no dividends shall be declared or payable on the Preferred Shares.

19.2 Redemption Amount

The price or consideration payable entirely in lawful money of Canada at which the Preferred Shares shall be redeemed (the “Redemption Amount”) shall be \$5.00 per Preferred Share.

19.3 Specified Amount

The amount specified for purposes of subsection 191(4) of the *Income Tax Act* (Canada) in respect of the Preferred Shares is \$5.00 per share.

19.4 Redemption Right and Terms and Conditions

The Preferred Shares shall not be redeemable before 5:00 p.m. (Vancouver time) (the “Effective Time”) on the day on which the Registrar of Companies for British Columbia has accepted for filing a certified copy of an order of the British Columbia Supreme Court approving the arrangement (the “Arrangement”) under section 252 of the Company Act between the Company and the holders of the outstanding Common Shares of the Company and involving GII Acquisition Corp. (“GII Acquisition”) on the terms and conditions set out in the Plan of Arrangement (the “Plan of Arrangement”) attached as Schedule A to the Arrangement Agreement made as of October 21, 1999 among the Company, 593005 B.C. Ltd. and GII Acquisition.

Subject to the provisions of the Company Act, the Company shall redeem, immediately after their issuance at the Effective Time, as and when provided in the Plan of Arrangement, all of the issued and outstanding Preferred Shares for the Redemption Amount.

An amount sufficient to redeem all of the Preferred Shares issued and outstanding at the Effective Time shall be deposited by the Company, or on its behalf, with Montreal Trust Company of Canada (the “Depositary”), as and when provided in the Plan of Arrangement. All interest, if any, payable on the moneys so deposited shall accrue to the Company.

Subject to such deposit being made prior to the Effective Time, the Preferred Shares then issued and outstanding are and shall be deemed to have been redeemed immediately after their issuance at the Effective Time, as and when provided in the Plan of Arrangement, and shall be cancelled and may not be reissued.

Upon compliance by a holder of Preferred Shares with and subject to the terms and conditions of the Arrangement, the Company shall cause the Depositary to, and the Depositary shall, pay, without interest, the Redemption Amount payable in respect of the Preferred Shares of that holder. All cheques representing the Redemption Amount for Preferred Shares shall be delivered or made available for delivery in accordance with the instructions provided by the respective holders of such Preferred Shares.

The holders of Preferred Shares so redeemed shall not be entitled to exercise any of the rights of members of the Company in respect of such shares except to receive, without interest, the Redemption Amount therefor, provided that if payment of such Redemption Amount is not duly made by or on behalf of the Company, in accordance with the provisions hereof, then the rights of such holders shall remain unaffected.

Any portion of the amount deposited with the Depositary represented by any cheque issued in payment of the Redemption Amount which shall not have been presented for payment or which shall not have been otherwise claimed within a period of six years from the Effective Time shall be returned by the Depositary to the Company.

Notwithstanding the aforementioned provisions, cheques issued in payment of the Redemption Amount for the Preferred Shares will not be mailed if the Company determines that delivery thereof by mail may be delayed. Persons entitled to cheques which are not mailed for the foregoing reason may take delivery thereof at the Depositary's principal office in Vancouver until such time the Company has determined that delivery by mail will no longer be delayed. The Company shall publicly announce any determination not to mail as soon as reasonably practicable.

19.5 Voting Rights

Except as otherwise expressly provided in this Part 19 and in the Company Act, the holders of Preferred Shares shall not, as such, have any voting rights for the election of directors or for any other purpose and shall not be entitled to receive any notice of or to attend meetings of members of the Company.

19.6 Liquidation or Dissolution

In the event of the liquidation or dissolution of the Company or any distribution of the assets of the Company among its members for the purpose of winding up its affairs, no sum shall be paid to, nor shall any assets be distributed among, the holders of shares of any other class of shares of the Company until there shall have been paid to the holders of Preferred Shares, in respect of each Preferred Share, an amount equal to the Redemption Amount and the holders of Preferred Shares shall be entitled to be paid equally and rateably all such moneys out of the assets of the Company by preference over and in priority to the holders of shares of any other class of shares of the Company. All the remaining assets and funds of the Company shall be divided among and paid to the holders of shares of other classes of shares of the Company in accordance with their respective rights.

19.7 Amendments

As long as any Preferred Shares are outstanding, the Company may not, except with the approval of the holders of Preferred Shares as hereinafter provided and after having complied with the relevant provisions of the Company Act, create or issue any other shares ranking in priority to or *pari passu* with the Preferred Shares, voluntarily liquidate or dissolve the Company or effect any reduction of capital involving a distribution of assets on other shares of its share capital or repeal, modify or otherwise alter any of the provisions of this Part 19 relating to the Preferred Shares.

The approval of the holders of the Preferred Shares as to any and all matters hereinbefore referred to shall be deemed to have been sufficiently given if contained in a separate resolution passed and carried by a majority of not less than three-quarters of the votes cast on a poll by the holders of the Preferred Shares who voted in respect of such resolution at a meeting of the holders of the Preferred Shares duly called for that purpose. Any approval given in this manner shall be binding upon all holders of the Preferred Shares.

If at any such meeting, the holders of more than 50% of the outstanding Preferred Shares are not present in person or represented by proxy within 30 minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than 15 days later, and to such time and place as may be fixed by the chairman of the meeting and, at such adjourned meeting, the holders of Preferred Shares present in person or represented by proxy, whether or not they hold more or less than 50% of all Preferred Shares then outstanding, may transact the business for which the meeting was originally called, and a resolution duly passed and carried thereat by a majority of not less than three-quarters of the votes cast on a poll by the holders of Preferred Shares who voted in respect of such resolution at such adjourned meeting shall constitute the approval of the holders of Preferred Shares hereinbefore mentioned.

Notice of any such original meeting of the holders of the Preferred Shares shall be given not less than 21 days prior to the date fixed for such meeting and shall specify in general terms the purpose for which the meeting is called, and notice of any such adjourned meeting shall be given not less than 21 days prior to the date fixed for

such meeting, but it shall not be necessary to specify in such notice the purpose for which the adjourned meeting is called. The formalities to be observed with respect to the giving of notice of any such original meeting or adjourned meeting or any other meeting of the holders of Preferred Shares and the conduct thereof shall be those from time to time prescribed by these Articles with respect to meetings of members of the Company.

Any meeting of the holders of the outstanding Preferred Shares may be held at any time and for any purpose without notice, if all holders of Preferred Shares entitled to vote at the meeting waive notice of the meeting in writing. For the purposes of waiver of notice, the words “in writing” shall, without limitation, include the sending of a telecopy or any other form of written communication by a holder of Preferred Shares. Any holder of Preferred Shares may waive notice of any meeting either before or after the meeting is held.

Irregularities in the notice or in the giving thereof as well as the accidental omission to give notice of any meeting to, or the non-receipt of any notice by, any holder of Preferred Shares shall not invalidate any action taken at any meeting.

At any meeting of the holders of Preferred Shares, each holder of Preferred Shares shall be entitled to one vote in respect of each Preferred Share held by that holder.

APPENDIX B

ARRANGEMENT RESOLUTION

Arrangement under Section 252 of the *Company Act* (British Columbia)

RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The arrangement (the "Arrangement") pursuant to section 252 of the *Company Act* (British Columbia) (the "BCCA") between Gwil Industries Inc. ("Gwil") and the holders of its issued and outstanding Common Shares and involving GII Acquisition Corp. ("GII Acquisition") on the terms and conditions set out in the plan of arrangement attached as Schedule A to the arrangement agreement (the "Arrangement Agreement") made as of October 21, 1999 among GII Acquisition, 593005 B.C. Ltd. and Gwil, a copy of which Arrangement Agreement is attached as Appendix A to the management information circular of Gwil dated October 27, 1999, as the same may be amended, modified or supplemented pursuant to the provisions thereof, is hereby authorized, approved and adopted.
2. Any one or more of the directors and officers of Gwil is hereby authorized and directed, acting for, in the name of and on behalf of Gwil, to execute, under the seal of Gwil or otherwise, and to deliver such documents as are necessary or desirable in connection with the Arrangement and to deliver a certified copy of the order of the Supreme Court of British Columbia approving the Arrangement to the Registrar appointed under section 320 of the BCCA for filing, along with all such other documents as may be necessary or desirable to give effect to the Arrangement.
3. Any one or more of the directors and officers of Gwil is hereby authorized and directed, acting for, in the name of and on behalf of Gwil, to execute or cause to be executed, under the seal of Gwil or otherwise, and to deliver or cause to be delivered, all such documents, agreements and instruments and to do or to cause to be done all such other acts and things as he or they may determine to be necessary or desirable in order to carry out the intent of the foregoing paragraphs of this special resolution and the matters authorized thereby, such determination to be evidenced conclusively by the execution and delivery of such document, agreement or instrument or the doing of such act or thing.
4. Notwithstanding that this special resolution has been duly approved by the holders of the issued and outstanding Common Shares of Gwil or that the Arrangement has been approved by the Supreme Court of British Columbia, the board of directors of Gwil, without further notice to or approval of the holders of the issued and outstanding Common Shares of Gwil or the Supreme Court of British Columbia, may decide not to proceed with the Arrangement or may revoke this special resolution at any time prior to the Arrangement becoming effective.

APPENDIX C
INTERIM ORDER

NO. A992774
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF SECTION 252 OF THE *COMPANY ACT*, R.S.B.C.
1996, C. 62, AS AMENDED

AND

IN THE MATTER OF AN ARRANGEMENT BETWEEN
GWIL INDUSTRIES INC. AND THE HOLDERS
OF ITS OUTSTANDING COMMON SHARES
AND INVOLVING GII ACQUISITION CORP.

ORDER

BEFORE MASTER BARBER) FRIDAY, THE 22ND DAY OF OCTOBER, 1999.

THE HEARING OF THE PETITION for an interim order coming on for hearing on this date at Vancouver, British Columbia and upon hearing Craig A. Ferris, counsel for the Petitioner;

AND UPON READING the Petition and the Affidavit of Merv G. Schweitzer sworn the 21st day of October, 1999 both filed herein;

THIS COURT makes the following Order (the "Interim Order") pursuant to sections 203 and 252(2) of the *Company Act* and Rules 3, 10, 12 and 13 of the Rules of Court;

THIS COURT ORDERS that Gwil Industries Inc. ("Gwil") be at liberty to convene an extraordinary general meeting (the "Meeting") of the holders of its issued and outstanding Common Shares (the "Gwil Shareholders") to be held in the Aspen Room, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, on Tuesday, November 30, 1999 at 9:00 a.m. (Vancouver time) to consider and, if thought fit, to pass, with or without amendment, a resolution (the "Special Resolution") to approve an arrangement (the "Arrangement") as contemplated in the Arrangement Agreement dated as of October 21, 1999 among Gwil, GII Acquisition Corp. and 593005 B.C. Ltd., and to transact such other business as may properly come before the Meeting;

THIS COURT FURTHER ORDERS that good and sufficient notice of the Meeting for all purposes will be given by Gwil by mailing, by prepaid, ordinary mail, at least 21 days prior to the date of the Meeting (excluding the date of mailing and the date of the Meeting), the following materials:

- (a) the Notice of Extraordinary General Meeting;
- (b) the Management Information Circular;
- (c) the Letter of Transmittal and Election Form;
- (d) the letter of Merv G. Schweitzer to the Gwil Shareholders; and
- (e) the Form of Proxy

(collectively referred to as the "Meeting Materials"), in substantially the form attached to the Affidavit of Merv G. Schweitzer filed in these proceedings, with such amendments as counsel may advise are necessary or desirable (provided that such amendments are not inconsistent with this Interim Order), to the following persons:

- (a) the Gwil Shareholders at their registered addresses as they may appear on the register of members of Gwil as at the close of business on October 25, 1999; and
- (b) the directors and auditor of Gwil;

THIS COURT FURTHER ORDERS that the accidental omission to give notice of the Meeting to or the non-receipt of such notice by one or more of the persons specified in the previous paragraph shall not invalidate any resolution passed or proceedings taken at the Meeting;

THIS COURT FURTHER ORDERS that Gwil shall include with the Meeting Materials a copy of this Interim Order and a Notice of Application for Final Order in substantially the form attached as Schedule 1 to this Interim Order and service of the Notice of Application for Final Order shall be deemed to be effected on the fifth day following the day on which such notice is mailed to the Gwil Shareholders, whether such Gwil Shareholders reside within the jurisdiction of British Columbia or within another jurisdiction, and Gwil shall not be required to serve copies of the Petition, any Affidavit filed in support, any further Order made in these proceedings or any other documents filed by or on behalf of the Petitioner in these proceedings, except upon written request as specified in the Notice of Application for Final Order;

THIS COURT FURTHER ORDERS that the Meeting shall be called, held and conducted in accordance with the provisions of this Interim Order, the Articles of Gwil and the Company Act;

THIS COURT FURTHER ORDERS that the Meeting may be adjourned for any reason upon the approval of the Chair of the Meeting and, if the Meeting is adjourned, it shall be reconvened at a place and time to be designated by the Chair of the Meeting to a date which is not more than 30 days thereafter;

THIS COURT FURTHER ORDERS that the Gwil Shareholders shall be granted the rights of dissent in connection with the Arrangement as provided in the Plan of Arrangement attached as Schedule "A" to the Arrangement Agreement;

THIS COURT FURTHER ORDERS that the only persons entitled to receive notice of and to attend and to be represented and to vote at the Meeting shall be the Gwil Shareholders as at the close of business on October 25, 1999 and the directors and auditor of Gwil;

THIS COURT FURTHER ORDERS that the vote required to pass the Special Resolution shall be the affirmative vote of:

- (a) 75% of the votes cast by the Gwil Shareholders in person or by proxy at the Meeting;
- (b) a simple majority of the votes cast by the Gwil Shareholders, other than the Management Shareholders (as such term is defined in the Management Information Circular), in person or by proxy at the Meeting; and
- (c) not less than 66 $\frac{2}{3}$ % of the votes cast by the Minority Shareholders, as such term is defined in the Management Information Circular, in person or by proxy at the Meeting;

THIS COURT FURTHER ORDERS that the application for the Final Order be set for hearing at 9:45 a.m. on Wednesday, December 1, 1999 before the presiding Judge in Chambers;

THIS COURT FURTHER ORDERS that any Gwil Shareholder has the right to appear (either in person or by his or her solicitor) and make submissions at the hearing of the application for the Final Order provided that such Gwil Shareholder shall file an Appearance in the form prescribed by the Rules of the Court of the Supreme Court of British Columbia with this Court and deliver a copy of the filed Appearance together with a copy of all materials upon which the Gwil Shareholder intends to rely at the application for the Final Order, to the solicitors for the Petitioner at their address for delivery set out in the Petition, on or before 4:00 p.m. on Monday, November 29, 1999 or as the Court may otherwise direct;

THIS COURT FURTHER ORDERS that compliance with Rule 65 in relation to the hearing of the application for the Final Order is not required;

THIS COURT FURTHER ORDERS that if the hearing of the application for the Final Order is adjourned only those persons who have filed and delivered an Appearance in accordance with this Interim Order need be served and provided with notice of the adjourned hearing date;

AND THIS COURT FURTHER ORDERS that the Petitioner and the Gwil Shareholders shall, and hereby do, have liberty to apply to vary this Interim Order or such further Order or Orders as may be appropriate.

BY THE COURT

(signed) DEPUTY DISTRICT REGISTRAR

APPROVED AS TO FORM:

(signed) Craig A. Ferris
COUNSEL FOR THE PETITIONER

SCHEDULE 1

NOTICE OF APPLICATION FOR FINAL ORDER

NO. A992774
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF SECTION 252 OF THE *COMPANY ACT*,
R.S.B.C. 1996, C. 62, AS AMENDED

AND

IN THE MATTER OF AN ARRANGEMENT BETWEEN
GWIL INDUSTRIES INC. AND THE HOLDERS
OF ITS OUTSTANDING COMMON SHARES
AND INVOLVING GII ACQUISITION CORP.

NOTICE OF APPLICATION

NOTICE IS HEREBY GIVEN that a Petition has been filed by Gwil Industries Inc. ("Gwil") in the Supreme Court of British Columbia for approval of an arrangement (the "Arrangement") pursuant to an arrangement agreement dated as of October 21, 1999 among Gwil, GII Acquisition Corp. and 593005 B.C. Ltd., pursuant to section 252 of the *Company Act*, R.S.B.C. 1996, c. 62, as amended.

NOTICE IS FURTHER GIVEN that on October 22, 1999, the Supreme Court of British Columbia has granted an Interim Order relating to the Arrangement, and gave directions for convening a meeting of the holders of the issued and outstanding Common Shares of Gwil for the purpose of considering and, if thought fit, passing a resolution to approve the Arrangement;

NOTICE IS FURTHER GIVEN that an application (the "Final Application") for a Final Order approving the Arrangement shall be made in chambers at the Courthouse, 800 Smithe Street, in the City of Vancouver, on Wednesday, December 1, 1999, at the hour of 9:45 o'clock in the forenoon, or so soon thereafter as counsel may be heard, and that, at such hearing, the Court will consider, among other things, the fairness of the terms and conditions of the Arrangement.

Any holder of issued and outstanding Common Shares of Gwil has the right to appear (either in person or by counsel) and be heard and make submissions at the hearing of the Final Application if such person has filed with the Court at the Vancouver Registry, 800 Smithe Street, Vancouver, British Columbia, Canada, an Appearance in the form prescribed by the Rules of Court of the Supreme Court of British Columbia and delivered a copy of the filed Appearance, together with all materials on which such person intends to rely at the hearing of the Final Application, to the Petitioner at the address for delivery set out below, on or before 9:00 a.m. on Monday, November 29, 1999, subject to the direction of the Court.

The Petitioner's address for delivery is: c/o Lawson Lundell Lawson & McIntosh, 1600 – 925 West Georgia Street, Vancouver, British Columbia V6C 3L2. Attention: Craig A. Ferris (phone number: (604) 685-3456; fax number: (604) 669-1620).

IF YOU WISH TO BE HEARD AT THE HEARING OF THE FINAL APPLICATION OR WISH TO BE NOTIFIED OF ANY ADJOURNMENT THEREOF, YOU MUST GIVE NOTICE OF YOUR INTENTION by filing and delivering the form of Appearance as aforesaid. You may obtain a form of Appearance at the Vancouver Registry, 800 Smithe Street, Vancouver, British Columbia, V6Z 2E1.

On the Final Application, the Petitioner will seek an order approving the Arrangement.

A copy of the Petition and other documents filed with the Court by the Petitioner can be obtained on written request to the Petitioner's solicitors at the address for delivery set out above.

DATED at the City of Vancouver, in the Province of British Columbia, this 22nd day of October, 1999.

Counsel for the Petitioner

APPENDIX D

VALUATION AND FAIRNESS OPINION OF GOEPEL McDERMID INC.

Prepared for the Special Committee of

Gwil Industries Inc.

October 27, 1999



October 27, 1999

Special Committee of
Gwil Industries Inc.
Suite 650 West Tower,
555 West 12th Avenue
Vancouver, B.C.
V5Z 3X7

Dear Sirs:

Goepel McDermid Inc.

RE: Valuation of Gwil Industries Inc.

Suite 2200
925 West Georgia Street
Vancouver, BC
Canada V6C 3L2
Tel: 604.659.8200
Fax: 604.659.8399

Proposed Transaction

Goepel McDermid Inc. ("Goepel McDermid") understands that Mr. Hugh Magee, the Chairman and Chief Executive Officer of Gwil Industries Inc. ("Gwil" or the "Company") and Mr. Mervyn Schweitzer, the President and Chief Operating Officer of Gwil have proposed a transaction (the "Going Private Transaction") by which they will effectively acquire all of the common shares of Gwil not currently held by them. The Going Private Transaction will involve an arrangement under the British Columbia *Company Act* pursuant to which the outstanding common shares (the "Shares") of Gwil either will be acquired by GII Acquisition Corp. ("Acquisition Co."), a company to be incorporated and indirectly owned by Mr. Magee and Mr. Schweitzer or exchanged and redeemed by Gwil. Under the terms of the Going Private Transaction, each holder of Shares other than Messrs. Magee and Schweitzer (the "Minority Shareholders") will have the right to elect between:

(1) having their Shares acquired and receiving cash of \$5.65 per common share (the "Acquisition Consideration"); and

(2) having their Shares exchanged and redeemed and receiving cash of \$5.00 per common share (the "Redemption Consideration").

The terms and conditions of the Going Private Transaction are more fully described in the management proxy circular (the "Circular") to be sent to the holders of the Shares in connection with the Going Private Transaction.

Goepel McDermid understands that the Going Private Transaction will constitute a going private transaction for the purposes of Ontario Securities Commission Policy 9.1 ("Policy 9.1") and Policy No. Q-27 of the Quebec Securities Commission ("Policy Q-27") and must be carried out in accordance with the requirements of Policy 9.1 and Policy Q-27. Policy 9.1 and Policy Q-27, in these circumstances, require the Company to obtain an independent valuation of the Shares and to include such formal valuation or a summary thereof in the Circular sent to the holders of the Shares.

Unless the context otherwise requires, each capitalized term used in this report (the "Report") which is not otherwise defined in the Report has the meaning given to such term in the Circular.

Engagement

The Board of Directors of Gwil (the "Board") has appointed a special committee of the Board (the "Special Committee") to review the Going Private Transaction and to report to the Board with respect to the Going Private Transaction.



Goepel McDermid was first contacted in respect of this assignment on May 20, 1999. Under the terms of an engagement agreement dated June 10, 1999 (the "Engagement Agreement"), the Special Committee, under the authority of and at the expense of Gwil, has retained Goepel McDermid as its financial advisor and has requested that Goepel McDermid prepare a formal valuation (the "Valuation") of the Shares. In addition, the Special Committee has requested that Goepel McDermid provide its opinion (the "Fairness Opinion") as to the fairness, from a financial point of view, of the Going Private Transaction to the holders (the "Minority Shareholders") of the Shares other than Messrs. Magee and Schweitzer and their related parties (as defined in Policy 9.1) (the "Controlling Shareholders").

Under the Engagement Agreement, the Company will pay Goepel McDermid \$100,000 for the performance of its services and will reimburse Goepel McDermid for its reasonable out of pocket expenses, including the expenses of any professional advisors retained by Goepel McDermid. In addition, pursuant to the Engagement Agreement the Company has agreed to indemnify Goepel against certain costs and damages in certain circumstances. The fees payable to Goepel McDermid are not contingent in whole or in part upon the success of the Going Private Transaction nor are they dependent on the conclusions reached by Goepel McDermid in its Valuation or the Fairness Opinion.

We consent, subject to the terms of the Engagement Agreement, to the inclusion of the Valuation and the Fairness Opinion and/or a summary of one or both in the Circular and to the filing of the Valuation and the Fairness Opinion with the securities commission or similar regulatory authority in each of the Provinces of Canada.

Independence of Goepel McDermid

Goepel McDermid is not an insider, associate or affiliate (as such terms are defined in the *Securities Act* (Ontario)) of Gwil or any of its respective associates or affiliates. Except as an advisor under the Engagement Agreement, neither Goepel McDermid nor any of its affiliates has advised Gwil or any of its associates or affiliates in respect of the Going Private Transaction. During the 24 months preceding the date we were first contacted regarding this engagement, Goepel McDermid did not provide any financial advisory services, or participate in any financing as lead or co-lead underwriter involving Gwil or any of its associates or affiliates.

Goepel McDermid acts as trader and dealer, both as principal and agent, in major Canadian equity markets and as such may execute transactions on behalf of clients or on behalf of Gwil or its related entities for which it receives compensation. In addition, as an investment dealer, Goepel McDermid conducts research on securities and may, in the ordinary course of business, provide research support and investment advice to its clients on matters pertaining to Gwil.

There are no understandings or agreements between Goepel McDermid and Gwil or any of its associates or affiliates, with respect to future business dealings. Goepel McDermid may, however, from time to time in the future, perform financial advisory or investment banking services for Gwil.

Qualifications of Goepel McDermid

Goepel McDermid is an independent, full service investment dealer with investment banking and retail brokerage operations located across Canada. Its investment banking division specializes in corporate finance services for, and the sale and trading of equity securities of, industrial, technology and resource companies headquartered primarily in western Canada. Goepel McDermid also provides investment research and trading services to financial institutions relating to investments. Goepel McDermid and its principals have prepared numerous valuations and fairness opinions and have participated in a significant number of transactions involving private and publicly traded companies.



The opinion expressed herein is the opinion of Goepel McDermid and the form and content hereof has been approved for release by a committee of its officers and directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

This Report has been prepared in accordance with the Disclosure Standards for Formal Valuations and Fairness Opinions of the Investment Dealers Association of Canada but the Association has not been involved in the preparation or review of the Valuation or the Fairness Opinion.

Definition of Value

For the purposes of this Report, fair market value is defined as the highest price available in an open and unrestricted market between informed and prudent parties acting at arm's length and under no compulsion to act, expressed in terms of money or money's worth. In preparing the Valuation, we have made no downward adjustment to the valuation of the Shares to reflect the liquidity of the Shares, the effect of the Going Private Transaction or the fact that the subject matter does not form part of a controlling interest.

Shareholders of Gwil who validly exercise their right under the *Company Act (British Columbia)* to dissent in respect of the Going Private Transaction will be entitled to receive "fair value" (as determined by a court of competent jurisdiction) for their Shares if the Going Private Transaction is completed. The opinions expressed by Goepel McDermid in this report do not relate to the "fair value" which the dissenting shareholders might receive as a result of the exercise of their dissent rights. "Fair value" of the Shares as determined by the courts may be different than Goepel McDermid's opinion as to the fair market value of the Shares.

Valuation Date

The Valuation and the Fairness Opinion have been given as at September 24, 1999 (the "Valuation Date"), the business day immediately prior to the announcement of the Going Private Transaction.

Valuation Conclusions

Based on, and subject to the limitations, qualifications and restrictions set out in this Report, in the opinion of Goepel McDermid the *en bloc* fair market value of the Shares as at the Valuation Date was in the range of \$39.8 million to \$44.3 million (or approximately \$5.35 to \$5.95 per fully diluted Share).

Restrictions

This Report is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than as set out herein without our prior written permission in each instance.

The Valuation and the Fairness Opinion have been provided for the use of the Special Committee and the Board and may not be used by any other person or relied upon by any other person other than the Special Committee and the Board without the express prior written consent of Goepel McDermid. The Valuation and the Fairness Opinion (a) do not address the merits of the underlying decision by Gwil to enter into the Going Private Transaction, (b) are directed only to the valuation of the Shares and the fairness of the Going Private Transaction, from a financial point of view, to the Minority Shareholders, and (c) do not constitute, and are not intended to be, a recommendation to any shareholder of Gwil as to how such shareholder should vote on the Going Private Transaction or any matter related thereto. In preparing the Valuation and the Fairness Opinion, Goepel McDermid has not considered, and makes no comment on, the tax position of any holder of Shares or on the tax implications of the Going Private Transaction for any such holder.



The Valuation and the Fairness Opinion are given as of the date hereof and Goepel McDermid disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Valuation or Fairness Opinion which may come or be brought to Goepel McDermid's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Valuation or Fairness Opinion after the date hereof, Goepel McDermid reserves the right to change, modify or withdraw the Valuation or Fairness Opinion.

Our analysis must be considered as a whole. Selecting portions of our analysis and of the factors considered, without considering all factors and analyses in connection with the preparation of this Report could create an incomplete and misleading view of the processes underlying the valuation of the Shares. The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. In our analyses, we have made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Gwil.

Assumptions

With the Special Committee's approval and as provided in the Engagement Letter, Goepel McDermid has relied upon, and assumed the completeness, accuracy and fair presentation of, information obtained from public sources and the information provided by Gwil and its agents and advisors. As provided in the Engagement Agreement, subject to the exercise of our professional judgment and except as expressly described herein we have not attempted to verify independently the accuracy or completeness of any such information.

Senior management of Gwil, for and on behalf of Gwil, have represented to Goepel McDermid, in certificates dated today, that, amongst other things, (a) the information and data provided to Goepel McDermid was, as at the date the information was provided, true, accurate and complete in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the information not misleading in light of the circumstances under which such statement was made; (b) since the dates on which the information was provided there has not been any material change relating to the business or affairs of Gwil or in the Going Private Transaction or any change in any material fact or in any material element of any information which is of a nature as to render any portion of the information untrue or misleading in any material respect, and (c) in the 24 months preceding the engagement of Goepel McDermid (i) no bona fide offers were received for the Shares or Gwil's material assets, and (ii) no "prior valuations" (as defined in the *Ontario Securities Act*) of Gwil, its material assets or its securities were prepared.

In preparing the Valuation of the Shares, we have made several other assumptions including the following: (a) that the disclosure in the Circular is accurate and complete and that the Circular and the Going Private Transaction described therein, comply with applicable securities laws including all related rules, regulations and published policy statements including Policy 9.1 and Policy Q-27, (b) that all of the conditions to the completion of the Going Private Transaction have been, or will be, satisfied without adverse consequences, (c) the Going Private Transaction will proceed as described in, and substantially within the time frames specified in, the Circular.

In addition, in preparing this Report, we have assumed that, amongst other things:

- (1) Gwil had no material contingent liabilities, unusual contractual obligations or substantial commitments other than in the ordinary course of business or as noted herein;
- (2) Gwil had no uninsured litigation pending or threatened other than as noted herein; and
- (3) Gwil had no material redundant assets that have not been noted in this Report.



In this regard, we note that in light of the nature of Gwil's present and past operations there is a possibility that in the future claims may be advanced against Gwil for product liability or professional negligence. In preparing this Report, Goepel McDermid considered the appropriateness of making some provision in its Valuation for the possibility of such claims. Goepel McDermid determined not to make any such provision.

Although Goepel McDermid believes that the assumptions it has made in the preparation of this Report are appropriate in the circumstances, some or all of them may nevertheless prove to be incorrect.

This Report has been rendered on the basis of the securities markets, economic and general business and financial conditions prevailing as at the Valuation Date and the conditions and prospects, financial and otherwise, of Gwil as reflected in the information reviewed by Goepel McDermid.

Scope of Review

In preparing its valuation of the Shares, Goepel McDermid has reviewed and, where we deemed it appropriate to do so, relied upon, among other things, the following:

- (1) the Annual Information Form for Gwil for each of the three fiscal years ended December 31, 1996 to 1998;
- (2) Gwil's Information Circular for its annual general meetings for each of the three fiscal years ended December 31, 1996 to 1998;
- (3) audited consolidated financial statements for Gwil for each of the five fiscal years ended December 31, 1994 to December 31, 1998;
- (4) certain other publicly available information regarding Gwil including the annual report to shareholders for each of the five fiscal years ended December 31, 1994 to 1998, and the quarterly reports to shareholders for the Company's twenty most recent quarters;
- (5) certain non-public information regarding Gwil provided to Goepel McDermid by management of Gwil ("Gwil Management") including, but not limited to:
 - (a) internal unaudited segmented annual financial information for each of the Company's ten most recently completed fiscal years;
 - (b) unaudited year to date (August 31, 1999) financial information for each of the Crane Division and the Coal Testing Division;
 - (c) the Company's unaudited consolidated financial statements as at August 31, 1999 (the "Financial Statement Date");
 - (d) information concerning the value of the Crane Division's fleet of cranes;
 - (e) information concerning the utilization and productivity of the Crane Division's fleet of cranes;
- (6) certain marketing and sales information relating to Gwil's products;
- (7) tax returns for Gwil for each of the three taxation years ended December 31, 1996 to 1998;
- (8) information obtained from site visits to Gwil's head office in Vancouver and the Crane Division's primary premises in Burnaby;
- (9) information obtained from discussions with management of Gwil, the auditors of Gwil and legal counsel to Gwil;



- (10) a draft of the Arrangement Agreement and the Plan of Arrangement with respect to the Going Private Transaction;
- (11) a draft of the Circular dated October 25, 1999;
- (12) relevant stock market data regarding Gwil;
- (13) relevant stock market data and other publicly available information regarding the North American equipment rental industry and companies involved in that industry; and
- (14) such other financial, market and industry information, investigations and analysis as we considered necessary or appropriate in the circumstances.

Goepel McDermid was granted access by Gwil to its senior management group and advisors and was not, to its knowledge denied any type of information with respect to Gwil which it requested which might be considered to be material to the Valuation.

Valuation of GWIL Industries

History

During the 1970s and 1980s, the Company evolved into an industrial conglomerate with interests in a variety of engineering, manufacturing and construction related enterprises. At its peak, the Company held interests in more than 25 businesses. A number of dispositions (including the disposition of the steel manufacturing operations in 1988) and reorganizations in the 1980s resulted in a significant reduction in the Company's range of businesses. By 1989, the Company's operations consisted of (a) a Crane Division with operations in Alberta and B.C., (b) a Plastics Division, (c) a Coal Testing Division; and (d) a Management Consulting Services Division.

In 1994, the Company sold the business and assets of its Alberta crane operations to Sterling Crane for approximately C\$23.0 million.

In 1998, the Company sold the business and assets of its Plastics Division to Ashland Chemicals ("Ashland") for \$56.4 million, including \$12.9 million for working capital.

The unaudited balance sheet of Gwil as at August 31, 1999 is set out in Appendix A.

Review of Trading History of Gwil Common Shares

As at the Valuation Date, there were 7,146,797 common shares of Gwil issued and outstanding. In addition, there were options outstanding to acquire 300,000 common shares of the Company at a price of \$2.08 per share. The common shares of Gwil are listed for trading on The Toronto Stock Exchange (the "TSE"), the Montreal Exchange (the "ME") and the Vancouver Stock Exchange (the "VSE") (collectively the "Exchanges").

The Shares have not traded on the ME or the VSE in the last 12 months. Total trading volume of the Shares on the TSE for the 12-months ended September 24, 1999 was 22,825 shares. In the 12-months ended September 24, 1999, the Shares traded in a range of \$3.50 to \$5.50, with the Shares closing at \$4.35 on September 22, 1999, the last day prior to the Valuation Date on which the Shares traded.

Valuation Approach

Following our review of the historic operating results of Gwil and its current financial position, Goepel McDermid concluded that a liquidation approach was the most appropriate method to ascribe value to the Shares. In employing this approach, Goepel McDermid valued the assets and liabilities of Gwil using assumptions and valuation methodologies which Goepel McDermid considered appropriate and consistent in the circumstances.



Goepel McDermid assumed that the liquidation of Gwil's assets and liabilities would be effected in an orderly manner over a period (the "Liquidation Period") of approximately 12 months in order to maximize their value. Goepel McDermid also made numerous assumptions regarding the timing of the various cash inflows and outflows resulting from the liquidation.

In selecting a liquidation approach for valuing the Shares, Goepel McDermid considered, amongst other things, the following:

- (1) Gwil's history as a holding company with three distinct operating divisions;
- (2) the fact that the majority of Gwil's assets and liabilities are redundant to the ongoing operations of Gwil's two remaining divisions;
- (3) in light of, among other things, the tax position of Gwil and Gwil's corporate overhead burden, a liquidation approach yields higher values for the Shares than going-concern approaches.

Set out below is our valuation of each of Gwil's material assets and liabilities.

Valuation of Crane Division

Overview

Gwil's Crane Division (the "Crane Division") and its predecessors have been in the business of providing mobile crane services in British Columbia for over 40 years. The Crane Division was acquired by the Company in 1969.

As at the Valuation Date, the Crane Division's fleet consisted of 33 mobile cranes ranging in size from 20 tons to 440 tons. The average age of the fleet is 15 years with the most recent acquisition (January 1999) being a 200 ton Demag mobile crane with an acquisition cost of approximately \$1.9 million. The Crane Division provides mobile cranes and operators to a variety of construction and industrial customers in British Columbia.

In fiscal 1998, the Crane Division provided crane rentals to over 100 customers. The Crane Division's top 10 customers accounted for 34% of the Division's total revenues with the largest single customer accounting for 8% of revenues.

While no definitive market share data is available, management of the Crane Division estimates that it holds between 35% and 45% of the Lower Mainland's market for mobile crane rental services. Competition for mobile crane rental business is keen in Vancouver's Lower Mainland. Most customers seek competing bids from various operators before selecting an operator for a particular job.

The Crane Division currently employs 12 full time non-unionized permanent staff. The full time staff have an average of 11 years of service with the Crane Division.



Financial Review

Set out below is a table summarizing the financial performance of the Crane Division for the fiscal years ending December 31, 1989 to 1998 and for the eight months ended August 31, 1999:

Financial Performance of the Crane Division (unaudited in C\$000)

	Dec 31 1989	Dec 31 1990	Dec 31 1991	Dec 31 1992	Dec 31 1993	Dec 31 1994	Dec 31 1995	Dec 31 1996	Dec 31 1997	Dec 31 1998	8 mos. ended Aug 31 1999
Sales	\$6,175	\$6,214	\$6,212	\$4,443	\$5,006	\$5,316	\$5,077	\$5,523	\$6,362	\$6,696	\$3,610
Cost of Sales	2,588	2,910	3,079	2,194	2,597	2,916	2,804	2,994	3,671	3,764	2,010
Gross Profit	3,587	3,303	3,132	2,249	2,408	2,400	2,273	2,529	2,691	2,932	1,600
Selling, Gen. & Admin	791	1,031	1,123	1,193	1,163	1,244	1,243	1,580	1,864	1,746	1,121
EBITDA(1)	2,796	2,272	2,010	1,057	1,245	1,156	1,031	965	826	1,185	488
Depreciation	99	225	318	313	332	690	657	897	1,189	1,196	786
EBIT(2)	2,696	2,047	1,692	743	913	466	374	68	(303)	(10)	(324)
Capital Expenditures(3) ...	n/a	n/a	n/a	n/a	n/a	n/a	214	4,843	481	203	2,183

1. Earnings before interest, taxes, depreciation and amortization

2. Earnings before interest and taxes

3. Prior to 1995, no segregated information was available. In 1996, the Crane Division acquired the business and assets of two smaller Crane operators.

Valuation Approach — Crane Division

In valuing the Crane Division, Goepel McDermid considered liquidation or break-up valuation methodologies as well as several going concern valuation methodologies including the net asset value approach, the comparable transactions approach, the discounted cash flow approach and the comparable company trading approach. In light of the Crane Division's long-term history of profitability and prospects for future profitability, Goepel McDermid concluded that a liquidation approach to the valuation of the Crane Division was inappropriate.

Net Asset Value Approach

Where there is little or no expectation that the value of a business interest will include intangible value, going concern value can in some circumstances be determined by directly addressing the value of the particular net tangible assets employed by the business. The value in continued use of each asset and liability is determined and the net amount, which results from deducting the amount of adjusted liabilities from the amount of adjusted assets is referred to as net asset value.

As at the Financial Statement Date, the assets of the Crane Division, including accounts receivable had a net book value of \$11.0 million. For purposes of the net asset value analysis, these assets were valued at between \$10.4 million and \$12.2 million.¹

¹ See Appendix B.



In the opinion of Goepel McDermid, the Crane Division has no intangible value. Many of the Crane Division's contracts are obtained through a competitive bidding process and as a result the Division's past successes are of limited influence in securing future business. In addition, the competitiveness of the mobile crane business in the Lower Mainland of British Columbia means there is a limited opportunity to earn profits in excess of an adequate return on the tangible assets employed.²

Using the net asset value approach to valuing the Crane Division, Goepel McDermid valued the Crane Division, on an asset basis and including accounts receivable, at between \$10.4 million and \$12.2 million.

Set out in Appendix B is our net asset value analysis of the Crane Division.

Comparable Transaction Analysis

Overview

The comparable transaction approach to valuation of a subject business involves searching for and, if identified, reviewing transactions involving the acquisition/sale of a business that is directly comparable to the subject business. If sufficient information is available concerning the comparable transaction, the multiples and other pricing information derived from an analysis of the transaction are then applied, with any adjustments deemed necessary to reflect differences between the subject business and the comparable business, to the subject business to arrive at an estimate of the value of the subject business.

Industry Consolidation

There have been hundreds of acquisitions in the last two years of smaller industrial equipment rental companies in North America. Given the relatively small size of these transactions, the public acquirors are not required to, and almost always do not, provide any meaningful disclosure concerning the historic or forecast financial performance of the acquired companies. As a result, it was not possible to conduct a useful analysis of such transactions.

Previous Transactions Involving the Crane Division

In the last five years, Gwil has been a party to three transactions involving the purchase or sale of a crane business. Set out in the following table is a brief description of each of these transactions:

<u>Acquiror</u>	<u>Target</u>	<u>Transaction Date</u>	<u>Transaction Type</u>	<u>Purchase Price</u>
Sterling Crane Crane Division	Gwil's Alberta Crane division	September 1994	Assets	C\$23,000,000
Crane Division	Action Crane	February 1996	Assets	C\$ 1,520,000
Crane Division	Griffiths Crane	November 1996	Shares	C\$ 1,062,000

Set out in Appendix C is a more detailed analysis of each of these transactions.

In each of these transactions, the purchase price was at or near the agreed value of the tangible assets (i.e. cranes and working capital) being acquired. In other words, little or no value was ascribed to the intangible assets of the business being acquired.

While these transactions are not directly applicable to a valuation of the Crane Division, in the opinion of Goepel McDermid, these transactions support the conclusions reached employing the other valuation methodologies employed in the Valuation.

² Goepel McDermid prepared a discounted cash flow analysis of the Crane Division, which supports the conclusion that the Crane Division has no intangible value.



Conclusion — Value of Crane Division

Based on the foregoing analysis and subject to the qualifications and limitations set out herein, Goepel McDermid valued the Crane Division as at the Valuation Date, on an asset basis and including accounts receivable, at between \$10.4 million and \$12.2 million.

Valuation of Coal Testing Division

Overview

Established in 1970, Gwil's coal testing division (the "Coal Testing Division") and its predecessors have been in the business of providing coal testing services for over 29 years.

The Coal Testing Division provides coal testing services to coal producers in Alberta and British Columbia. The services provided range from bulk sample washing to laboratory analysis. Laboratory analysis prices range from \$10 per unit to \$200 per unit depending upon the nature of the analysis.

In fiscal 1998, the Coal Testing Division provided coal testing services to such major Western Canadian coal producers as Fording Coal, Teck Corporation, Manalta Coal, Luscar, and Smoky River. The Division's top 10 customers account for over 80% of its total revenues with the largest single customer accounting for approximately 35% of revenues.

While no definitive market share data is available, management of the Coal Testing Division estimates that it holds between 40% and 50% of the Western Canadian market for coal testing services. The Coal Testing Division's management believes that its primary competitors are CANMET, Loring Laboratories and Elk Valley Environmental Services.

The Coal Testing Division competes for coal testing service business on the basis of price and, to a somewhat lesser extent, service.

The Coal Testing Division currently employs 7 full time non-unionized permanent staff. The full time staff have an average of 9 years of service with the Coal Testing Division.



Financial Review

Set out on the following page is a table summarizing the financial performance of the Coal Testing Division for the fiscal years ending December 31, 1989 to 1998 and for the eight months ended August 31, 1999:

Financial Performance of the Coal Testing Division (unaudited in C\$000)

	Dec. 31, 1989	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992	Dec. 31, 1993	Dec. 31, 1994	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1997	Dec. 31, 1998	8 mos. ended Aug. 31, 1999
Sales	\$550	\$531	\$ 283	\$363	\$677	\$787	\$656	\$1,151	\$844	\$747	\$ 191
Cost of Sales	295	272	254	220	243	468	321	356	409	407	217
Gross Profit	292	259	29	142	434	519	336	795	435	341	(26)
Selling, General and Administrative	168	166	170	193	185	211	191	204	198	187	119
EBITDA(1)	124	93	(141)	(50)	249	307	144	590	236	154	(145)
Depreciation	45	42	32	12	12	9	27	33	47	41	22
EBIT(2)	79	51	(173)	(62)	237	298	118	557	190	114	(167)
Capital Expenditures ...	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

(1) Earnings before interest, taxes, depreciation and amortization

(2) Earnings before interest and taxes

A material retrenchment of the North American coal business is ongoing and, as evidenced by the Coal Testing Division's recent financial results, this retrenchment is having a significant negative impact on the performance of the Coal Testing Division. In addition, many industry participants do not anticipate any material improvement in the Canadian coal business in the near to medium term. As a result, the Coal Testing Division's prospects for future profitability are limited.

As at the Financial Statement Date, the Coal Testing Division's assets consisted of certain capital assets with a net book value of \$46,000 and accounts receivable of \$31,000. The Coal Testing Division's liabilities consisted of accounts payable in the amount of \$8,000.

Valuation Approach — Coal Testing Division

In light of, among other things, the Coal Testing Division's recent history of negative operating cash flow and of the Division's limited prospects for future profitability, Goepel McDermid determined that the most appropriate method for ascribing value to the assets of the Coal Testing Division was a liquidation approach. Goepel McDermid assumed an immediate liquidation of the Coal Testing Division.

A liquidation of the capital assets of the Coal Testing Division would likely yield net proceeds of approximately nil and a liquidation of the Coal Testing Division's accounts receivable would likely yield net proceeds of between \$21,000 and \$31,000.

The costs associated with terminating the Coal Testing Division's operations are in the range of approximately \$465,000 to \$665,000. These costs are comprised of lease termination costs; personnel severance costs and certain other related clean-up and closing costs.

Set out in Appendix D is our liquidation analysis with respect to the Coal Testing Division.



Management Consulting Services

The Company currently provides management consulting services to a private company pursuant to a management agreement (the "Management Agreement") which commenced June 29, 1993 and expires December 31, 1999. The Management Agreement provides, amongst other things, that Gwil will make the services of Hugh Magee and Merv Schweitzer available for the purposes of having Messrs. Magee and Schweitzer serve on the Executive Committee of the company. In consideration of these services, Gwil receives an annual fixed fee of \$200,000 plus a share of profits. In 1998, the profit sharing component of the compensation was \$300,000. Historically, the Company has paid Messrs. Magee and Schweitzer a bonus equal to 50% of the profit sharing component of the compensation.

In light of, among other things, (i) the fact that the Management Agreement expires in December of this year, and (ii) Goepel McDermid's assumptions regarding the termination of Gwil's corporate head office staff including Messrs. Magee and Schweitzer, the only value which Goepel McDermid ascribed to the Management Agreement was in respect of the cash flow likely to be generated pursuant to such agreement between the Valuation Date and December 31, 1999.

Valuation of Cash and Equivalents

As at the Financial Statement Date, Gwil held cash and equivalents in the amount of \$38.7 million. Goepel McDermid valued these amounts at their stated book value.

Valuation of Holdbacks Receivable

As at the Financial Statement Date, Gwil's balance sheet reflected a holdback receivable in the amount of \$1.0 million. This receivable relates to Gwil's sale of its Plastic Division to Ashland in 1998. Funds equal to the amount of the receivable are held in escrow by a Vancouver law firm and are to be released to Gwil on February 15, 2000. For purposes of the Valuation, Goepel McDermid has assumed that the conditions to the release of the escrowed funds will be satisfied and that the escrowed funds will be released to Gwil at the times and in the manner contemplated by the agreement with Ashland.

Valuation of Certain Accounts Receivable

As at the Financial Statement Date, Gwil held certain trade receivables related to Gwil's former Plastics Division. These receivables had a face value of \$1.58 million and management of Gwil has provided for reserves against these receivables in the amount of \$1.39 million such that their net book value as at the Financial Statement Date was \$189,000. Goepel McDermid valued these receivables at their net book value.

Valuation of Prepaid Expenses

As at the Financial Statement Date, Gwil's balance sheet reflected prepaid expenses in the amount of \$283,000. The majority of these relate to insurance for the Crane Division and Gwil's other operations. Goepel McDermid assumed that these prepaids would be required in order to operate Gwil during the Liquidation Period and accordingly would not be available for liquidation.

Valuation of Certain Capital Assets

As at the Valuation Date, Gwil held certain capital assets unrelated to the Crane Division or the Coal Testing Division with a net book value of \$82,000 as at the Financial Statement Date. These assets are primarily office fixtures and computers. Goepel McDermid valued these assets at between \$8,000 and \$41,000.



Valuation of Other Assets

As at the Valuation Date, Gwil held certain long-term receivables related to the Plastics Division with a net book value of \$400,000. These receivables were re-acquired by Gwil from Ashland in connection with a settlement of a claim by Ashland against Gwil. Each of these receivables is currently in default and management of Gwil has estimated that Gwil will realize only \$200,000 in respect of these receivables. Goepel McDermid valued these receivables at \$200,000.

As at the Valuation Date, Gwil held a loan receivable from Hugh Magee in the principal amount of, and with a book value of, \$600,000. This loan was made to Mr. Magee in connection with the purchase by Mr. Magee in 1995 of 300,000 common shares of Gwil in connection with Gwil's Employee Stock Purchase Plan. The loan is non-interest bearing, due on or before October 27, 2005 and is secured by the 300,000 common shares of Gwil. Goepel McDermid valued the loan by determining the present value of the principal repayment of \$600,000 to be received on October 27, 2005. In calculating this present value, Goepel McDermid employed a range of discount rates of 6.0% to 8.0%, reflecting the secured nature of, and low risk associated with, the loan receivable. Accordingly, Goepel McDermid valued the loan receivable at between \$378,000 and \$423,000.

As at the Financial Statement Date, Gwil's balance sheet reflected deferred pension costs in the amount of \$520,000. These deferred pension costs arose as a result of certain pension upgrades provided by Gwil to certain of its current employees in 1994. For accounting purposes, these pension upgrade costs have been capitalized as an asset and are to be amortized over the remaining term of the employees' employment with Gwil, which in each employee's case is assumed to be age 65. These deferred pension costs have no commercial value and Goepel McDermid assigned no value to them.

As at the Financial Statement Date, Gwil's balance sheet reflected goodwill in the amount of \$37,000. This goodwill arose upon the acquisition by Gwil of the shares of Griffiths Crane Service Ltd. in 1996. The operations of Griffiths Crane have subsequently been combined with those of the Crane Division. Goepel McDermid assessed the goodwill associated with the Crane Division on a combined basis and made no separate assessment of the goodwill related to Griffiths Crane.

As at the Valuation Date, Gwil held 4% of the equity of a private surgery clinic in Vancouver, British Columbia. Gwil's investment is recorded on Gwil's balance sheet at its historical cost of \$126,000. Goepel McDermid valued Gwil's investment as at the Valuation Date at between \$25,000 and \$126,000.

Valuation of Accounts Payable etc.

As at the Financial Statement Date, Gwil's balance sheet reflected trade accounts payable and head office accruals in the amount of \$1,156,000. Goepel McDermid valued these liabilities at their book values.

Valuation of Certain Accrued Liabilities

As at the Financial Statement Date, Gwil's balance sheet reflected a number of additional accrued liabilities. Except as noted below, Goepel McDermid valued these liabilities at their book values.

As at the Financial Statement Date, Gwil's balance sheet reflected an accrual in the amount of \$355,000 in respect of Gwil's liability for certain environmental clean-up costs. The aggregate amount of the accrual was included in Gwil's audited financial statements for the fiscal year ended December 31, 1998. Goepel McDermid valued Gwil's liability for remediation of these premises at between \$305,000 and \$579,000.

As at the Financial Statement Date, Gwil's balance sheet included certain accruals in the aggregate amount of \$1,692,000 reflecting management's assessment of the value of certain contingent liabilities. These accruals were



included in Gwil's audited financial statements for the fiscal year ended December 31, 1998. Goepel McDermid valued these liabilities at between \$0 and \$2,222,000.

Valuation of Certain Other Liabilities

On April 27, 1999, Gwil received a Notice of Reassessment from Revenue Canada with respect to Gwil's 1995 taxation year. Gwil's balance sheet as at the Financial Statement Date did not include an accrual in respect of this reassessment. Goepel McDermid valued this liability at between \$250,000 and \$500,000.

The Compensation Committee of the Board has approved in principle an upgrade of the pensions of Messrs. Magee, Schweitzer and Murphy. A similar upgrade was provided to all other employees of Gwil in 1998. The cost of providing the upgrade has not yet been definitively established. However, a pension consultant's report dated August 11, 1999 estimates the cost at between \$2,300,000 and \$2,900,000. Goepel McDermid estimated the cost of providing the pension upgrades to be in the range of \$2,100,000 to \$2,600,000.

After-Tax Free Cash Flow During Liquidation Period

Based on discussions with management, a review of the current operating performance of Gwil's two operating divisions, and Goepel McDermid's assumptions concerning the timing of the disposition of the operating divisions, Goepel McDermid estimated that, except as otherwise noted herein, Gwil would not generate any after-tax free cash flow during the Liquidation Period.

Liquidation Costs

The costs associated with liquidating Gwil include, amongst other things, income taxes, employee severance costs, lease termination costs and related management, accounting, legal, clean-up and shut-down costs. Appendix E sets out Goepel McDermid's estimates of these costs.

With respect to the estimate of employee severance costs, we note that Gwil does not have formal written employment agreements with any of its staff. As a result, in the event of an actual liquidation of Gwil, the quantum of severance entitlements would be determined by reference to the common law and employment law statutes. Goepel McDermid's estimate of these severance costs is based on discussions with management of Gwil and with legal counsel to Gwil.

Benefits to the Controlling Shareholders

In arriving at our opinion as to the value of the Shares, we reviewed and considered whether any distinctive material value will accrue to Messrs. Magee and Schweitzer (the "Controlling Shareholders") through the acquisition of all of the Shares held by Minority Shareholders as contemplated by the Going Private Transaction. We concluded that there are no material specific operational or financial benefits that would accrue to the Controlling Shareholders other than if and to the extent Minority Shareholders elect to receive the Redemption Consideration rather than the Acquisition Consideration, the Controlling Shareholders' cost of acquiring the Shares of such Minority Shareholders will be reduced. However, no adjustment was made to the valuation of the Shares in respect of this benefit because the nature and quantum of the consideration paid for the Shares does not of itself impact the value of the Shares. We note, however, that the Toronto-Dominion Bank, a holder of approximately 2.3 million Shares has agreed to receive the Redemption Consideration.



Valuation of Gwil — Conclusions

Set out below is a summary of our liquidation analysis:

	Book Value 31-Aug-99	Liquidation Value (Range)	
		Low	High
Part I — Calculation of Pre-Tax Proceeds of Liquidation of Gwil's			
Assets			
Current Assets (excl. Crane and Coal Testing Division current assets) . . .	42,053	41,770	41,770
Crane Division	11,027	10,405	12,155
Coal Testing Division	77	21	38
Total Other Assets	<u>1,765</u>	<u>611</u>	<u>790</u>
Total Assets	<u>54,922</u>	<u>52,807</u>	<u>54,753</u>
Part II — Calculation of Pre-Tax Cost of Satisfaction of Gwil's			
Liabilities			
Accounts Payable Etc.	1,156	1,156	1,156
Certain Accrued Liabilities	2,819	3,573	1,077
Term Bank Advances	—	—	—
Deferred Income Taxes	<u>3,302</u>	<u>—</u>	<u>—</u>
Total Liabilities	<u>7,277</u>	<u>4,729</u>	<u>2,233</u>
Shareholders' Equity	47,645	48,078	52,520
Less: Certain Other Unaccrued Liabilities	—	3,100	2,350
Adjusted Shareholders' Equity Before Liquidation Costs and Taxes		44,978	50,170
Part III — Calculation of Net Liquidation Proceeds After Liquidation			
Costs and Taxes			
Adjusted Shareholders' Equity Before Liquidation Costs and Taxes		44,978	50,170
Less:			
Liquidation Costs		5,940	4,990
Estimated Income Taxes		<u>(1,381)</u>	<u>1,011</u>
Net Liquidation Proceeds Before Option Exercise		40,419	44,169
Net Present Value of Liquidation Proceeds (Assuming 12 month liquidation)		39,222	43,700
Assumed Exercise of Options		624	624
Net Liquidation Proceeds After Option Exercise		<u>39,846</u>	<u>44,324</u>
Shares Outstanding, fully diluted		7,447	7,447
Net Liquidation Proceeds Per Share (Fully Diluted)		\$ 5.35	\$ 5.95

Set out in Appendix E is a more detailed review of our liquidation analysis.

Subject to the limitations, qualifications and restrictions set out in this Report, in the opinion of Goepel McDermid as at the Valuation Date the fair market value of the Shares was in the range of **\$39.8 million to \$44.3 million (or approximately \$5.35 to \$5.95 per fully diluted share).**



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Fairness Opinion

Factors Considered

In considering the fairness of the Going Private Transaction, from a financial point of view, to the Minority Shareholders, we principally considered and relied upon the following:

- (1) a comparison of the Acquisition Consideration under the Going Private Transaction to the range of fair market values of the Shares under our Valuation.
- (2) a comparison of the Acquisition Consideration under the Going Private Transaction to the trading price of the Shares prior to the announcement (the "Announcement") on September 27, 1999 of the Going Private Transaction; and
- (3) the liquidity of the Shares.

We expand on each of these considerations below.

Comparison of Acquisition Consideration to Fair Market Value

The value of the Acquisition Consideration under the Going Private Transaction is at the mid-point of the range of fair market value of the Shares under our Valuation.

Comparison of Consideration to Trading Price

The value of the Acquisition Consideration under the Going Private Transaction represents a premium of 27.7% to the average of the bid and ask prices for the Shares on the TSE on September 24, 1999, the last trading day prior to the announcement of the Going Private Transaction. The Shares did not trade on September 24, 1999.

In addition, the consideration per Share represents a 29.9% premium to the weighted average trading price for the Shares for the last 60 days and a 36.0% premium to the weighted average trading price for the Shares for the last 120 days.

Liquidity of Shares

Liquidity in the Shares is limited. Over the 12 months ended on September 24, 1999, 22,825 shares of Gwil have traded on the TSE, representing an average daily volume of approximately 90 shares. The Going Private Transaction provides Minority Shareholders with a level of liquidity for positions in the Shares that may not otherwise be available.

Fairness Conclusion

Based upon and subject to the foregoing, Goepel McDermid is of the opinion that, as of the Valuation Date, the Going Private Transaction is fair from a financial point of view to the Minority Shareholders.

Yours truly,

GOEPEL MCDERMID INC. (signed)



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APPENDIX A
Balance Sheet As At August 31, 1999
(unaudited)

	<u>1999</u>	<u>1998</u>
	(\$000s)	
ASSETS		
CURRENT		
Cash and Temporary Investments	38,728	53,675
Accounts Receivable	2,978	3,469
Holdbacks receivable	1,000	2,000
Prepaid Expense	283	357
	<u>42,989</u>	<u>59,501</u>
CAPITAL ASSETS, NET OF ACCUMULATED AMORTIZATION	10,250	9,558
OTHER ASSETS	1,683	3,255
	<u>54,922</u>	<u>72,314</u>
LIABILITIES		
CURRENT		
Accounts Payable and Accruals	4,006	8,451
Corporate Income Taxes Payable	(31)	640
Current Portion of Other Long Term Debt	—	11,393
	<u>3,975</u>	<u>20,484</u>
TERM BANK ADVANCES	—	1,320
DEFERRED INCOME TAXES	3,302	3,302
	<u>7,277</u>	<u>25,106</u>
SHAREHOLDERS' EQUITY		
Share Capital	17,361	17,361
Retained Earnings	30,284	29,847
	<u>47,645</u>	<u>47,208</u>
	<u>54,922</u>	<u>72,314</u>



APPENDIX B

Crane Division — Net Asset Value Analysis

	<u>Note</u>	<u>Book Value at August 31, 1999</u>	<u>Value in Use</u>	
			<u>Low</u>	<u>High</u>
(in C\$000s)				
<i>Cranes</i>				
At Original Cost		17,331		
Less: Accumulated Depreciation		<u>(7,209)</u>		
	(1)	10,122	9,500	11,250
Accounts Receivable		<u>905</u>	<u>905</u>	<u>905</u>
Net Asset Value of Crane Division	(2)	<u>11,027</u>	<u>10,405</u>	<u>12,155</u>

Notes:

- (1) Value in use of cranes was determined by reference to: Contractors Hot Line Equipment Guide (Volume XI, 1999), The Last Bid — Construction Equipment Annual 1998 (Volume 44), correspondence with crane dealers, discussions with management and consideration of our DCF analyses. In recent years, Gwil has sold a number of cranes at or slightly above book value.
- (2) Accounts payable of \$391,000 accounted for separately.



APPENDIX C

Comparable Transaction Analysis — Summary of Comparable Transactions

Target	Acquiror	Trans. Date	Trans. Type	Work. Cap.?	Employees Assumed?	Non Compete?	Trans. Value	Revenue		EBITDA		Agreed Value of Net PPE (1)	
								4 Yr. Avg.	Mult.	4 Yr. Avg.	Mult.	\$	Prem (Disc.) (2)
GWIL — Alberta Crane	Sterling Crane	Sep-94	Assets	N	Y	Y	\$23,000	\$9,644	2.4	\$2,289	10.0	\$22,060	4.3%
Action Crane	GWIL - BC	Feb-96	Assets	N	Y	Y	\$ 1,520	\$ 571	2.7	\$ 78	19.5	\$ 1,420	7.0%
Griffiths Crane	GWIL -BC	Nov-96	Shares	N	N	Y	\$ 1,062	\$ 776	1.4	\$ 128	8.3	\$ 1,300	(18.3)%
<i>Average</i>													
Crane Division								<u>\$5,915</u>		<u>\$1,002</u>		<u>\$11,250</u>	

(1) Net property plant and equipment.

(2) Percentage by which transaction value exceeded (fell below) agreed value of Net PPE.



Gwil Industries Inc.
Valuation Report
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APPENDIX D **Liquidation Analysis — Coal Testing Division**

			Liquidation Value (Range)	
	Note	Book Value as at August 31, 1999	Low	High
		(in C\$000s)		
Capital Assets				
At Original Cost				
Less: Accumulated Depreciation				
		46	—	7
Accounts Receivable		<u>31</u>	<u>21</u>	<u>31</u>
Liquidation Value of Coal Testing Division Assets		<u>77</u>	<u>21</u>	<u>38</u>



APPENDIX E Liquidation Analysis

		Book Value	Liquidation Value	
	Note	31-Aug-99	(Range)	
			Low	High
Part I — Calculation of Pre-Tax Proceeds of Liquidation of Gwil's Assets				
Current Assets				
Cash and Temporary Investments		\$38,728	\$38,728	\$38,728
Accounts Receivable (net of bad debt allowance and excluding accounts receivable of Crane Division and Coal Testing Division) . .	(1)	2,042	2,042	2,042
Holdbacks Receivable	(2)	1,000	1,000	1,000
Inventories		—	—	—
Prepaid Expenses		283	—	—
Total Current Assets		42,053	41,770	41,770
Operating Divisions				
Crane Division	(3)	11,027	10,405	12,155
Coal Testing Division	(4)	77	21	38
Total Operating Divisions		11,104	10,426	12,193
Other Assets				
Other Capital Assets		82	8	41
Long Term Plastic Receivables	(5)	400	200	200
Loan Receivable from Hugh Magee	(6)	600	378	423
Goodwill-Crane		37	—	—
Investment in Private Surgical Clinic		126	25	126
Deferred Pension Costs		520	—	—
Total Other Assets		1,765	611	790
Total Assets		54,922	52,807	54,753

Notes

- (1) Includes (a) \$1.0 million mortgage receivable due January 2000 relating to sale of Burlington real estate, (b) Management services contract receivable of \$468,000, (c) certain trade receivables related to Plastics Division.
- (2) Non-compete holdback with respect to sale of Plastics Division. Due February 15, 2000.
- (3) Assumes going concern sale. Does not include related accounts payable which are dealt with separately.
- (4) Assumes immediate liquidation.
- (5) Receivables acquired from Ashland in connection with settlement of dispute.
- (6) Non-interest bearing loan of \$600,000 due in approximately 6 years — secured by shares of Gwil. Liquidation value calculated by using annual discount rates of 6.0% and 8.0%.



APPENDIX E — (Continued)
Liquidation Analysis

		Book Value	Liquidation Value	
	Note	31-Aug-99	(Range)	
			Low	High
Part II — Calculation of Pre-Tax Cost of Satisfaction of Gwil's Liabilities				
Accounts Payable Etc.				
Bank Indebtedness			—	—
Accounts Payable	(7)	391	391	391
Other Payables and Accruals		796	796	796
Current Portion of Long Term Debt			—	—
Corporate Income Taxes Payable		(31)	(31)	(31)
Subtotal		1,156	1,156	1,156
Certain Accrued Liabilities				
Accrual for Severance of Certain Plastics Employees		531	531	531
Accrual for Shutdown of Plastics		241	241	241
Accrual for Environmental Clean-up		355	579	305
Accrual for Certain Contingencies	(8)	1,692	2,222	—
Subtotal		2,819	3,573	1,077
Term Bank Advances		—	—	—
Deferred Income Taxes	(9)	3,302	—	—
Total Liabilities		7,277	4,729	2,233
Shareholders' Equity		47,645	48,078	52,520
Less: Certain Other Unaccrued Liabilities				
Pension Upgrades	(10)		2,600	2,100
Provision for potential cost of tax reassessment	(11)		500	250
Subtotal		—	3,100	2,350
Adjusted Shareholders' Equity Before Liquidation Costs and Taxes		47,645	44,978	50,170

Notes:

(7) Includes accounts payable of Crane Division and Coal Testing Division.

(8) Management accrual in respect of certain contingent liabilities.

(9) Taxes accounted for separately below.

(10) Based on consultant's estimate of amount required to upgrade pensions of Magee, Schweitzer and Murphy in line with pension upgrade recently provided to other employees.

(11) As per management estimates. Reassessment is currently being appealed.



APPENDIX E — (Continued)
Liquidation Analysis

		Book Value	Liquidation Value	
		Aug. 31, 1999	(Range)	
	Note		Low	High
(in C\$000s)				
Part III — Calculation of Net Liquidation Proceeds After Liquidation				
Costs and Taxes				
Adjusted Shareholders' Equity Before Liquidation Costs and Taxes			44,978	50,170
Less: Liquidation Costs				
Lease Termination Costs				
Crane Division	(12)		280	280
Coal Testing Division			110	90
Corporate Head Office	(13)		225	225
Subtotal			615	595
Accounting, Legal, Closing and Cleanup Costs				
Sale of Crane Division			250	200
Liquidation of Coal Testing Division			200	100
Head Office and Other			600	400
Subtotal			1,050	700
Human Resources				
Severance of Certain Crane Division employees	(14)		320	220
Severance of Coal Testing Division employees			355	275
Severance of Head Office employees			3,100	2,800
Head Office Salaries to Supervise Liquidation			500	400
Subtotal			4,275	3,695
Total Liquidation Costs			5,940	4,990
Income Taxes				
Estimated Income Taxes Payable on Liquidation			(1,381)	1,011
Net Liquidation Proceeds Before Option Exercise			40,419	44,169
Net Present Value of Liquidation Proceeds				
(Assuming 12 month liquidation)			39,222	43,700
Assumed Exercise of Options				
Merv Schweitzer and T. Murphy (300,000 Options at \$2.08)			624	624
Net Liquidation Proceeds After Option Exercise			39,846	44,324
Shares Outstanding				
Basic			7,147	7,147
Issued on exercise of Options			300	300
			7,447	7,447
Net Liquidation Proceeds Per Share (Fully Diluted)			\$ 5.35	\$ 5.95

Notes

(12) As per management, assumes acquiror of Crane Division would not assume lease of Burnaby premises.

(13) Assumed to be equal to approximately one year of current head office tenancy costs. Gwil has the right to terminate without penalty in October 2000.

(14) As per management, assumes acquiror of Crane Division would not retain certain employees of Crane Division.

APPENDIX E

**CONSOLIDATED FINANCIAL STATEMENTS OF
GWIL INDUSTRIES INC.**

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Six Months Ended June 30, 1999 and 1998

GWIL INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

For the six months ended June 30, 1999

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	1999	1998	1999	1998
		Restated (Note 6)		Restated (Note 6)
		(Thousands of Dollars)		
SALES	\$1,396	\$2,066	\$ 2,854	\$3,929
COST OF SALES	<u>839</u>	<u>1,104</u>	<u>1,592</u>	<u>2,186</u>
GROSS MARGIN	<u>557</u>	<u>962</u>	<u>1,262</u>	<u>1,743</u>
EXPENSES				
Selling, general and administration	481	498	931	1,005
Amortization of capital assets	287	294	594	597
Amortization of other assets	35	52	67	73
Interest expense	15	36	28	65
Investment income	<u>(473)</u>	<u>(51)</u>	<u>(1,033)</u>	<u>(61)</u>
	<u>345</u>	<u>829</u>	<u>587</u>	<u>1,679</u>
EARNINGS (LOSS) BEFORE GENERAL CORPORATE EXPENSE & TAXES				
FROM CONTINUING OPERATIONS	212	133	675	64
FROM DISCONTINUED OPERATIONS (Note 1)	<u> </u>	<u>1,861</u>	<u> </u>	<u>3,046</u>
	212	1,994	675	3,110
GENERAL CORPORATE (EXPENSE) (Note 2)	<u>(569)</u>	<u>(490)</u>	<u>(1,004)</u>	<u>(980)</u>
(LOSS) EARNINGS BEFORE TAXES	<u>(357)</u>	<u>1,504</u>	<u>(329)</u>	<u>2,130</u>
INCOME AND CAPITAL TAXES (Note 3)				
Current income tax (recovery) provision	(151)		(137)	1
Deferred income tax provision		647		916
Capital taxes	<u>37</u>	<u>51</u>	<u>68</u>	<u>100</u>
Total income and capital taxes (recovery)	<u>(114)</u>	<u>698</u>	<u>(69)</u>	<u>1,017</u>
(LOSS) EARNINGS FROM OPERATIONS	(243)	806	(260)	1,113
GAIN ON DISPOSAL OF OTHER ASSETS (Note 4)	<u> </u>	<u> </u>	<u>810</u>	<u> </u>
EARNINGS FOR THE PERIOD	<u><u>(243)</u></u>	<u><u>806</u></u>	<u><u>550</u></u>	<u><u>1,113</u></u>

GWIL INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the six months ended June 30

(Unaudited)

	<u>1999</u>	<u>1998</u>
		Restated (Note 6)
		(Thousands of Dollars)
OPERATING ACTIVITIES		
Earnings for the Period	\$ 550	\$ 1,113
Amortization — continuing operations	661	670
Amortization — discontinued operations		671
Loss (gain) on disposal of Plastics land and buildings	(810)	
Loss (gain) on sale of capital assets	(63)	(81)
Income taxes not requiring cash		916
Non-controlling interest		45
CASH FLOW FROM OPERATIONS	<u>338</u>	<u>3,334</u>
Change in non-cash working capital		
Income tax (payments)	(11,616)	(32)
Other	165	186
	<u>(11,113)</u>	<u>3,488</u>
FINANCING ACTIVITIES		
Repayment of debt	(1,145)	(319)
	<u>(1,145)</u>	<u>(319)</u>
INVESTING ACTIVITIES		
Additions to capital assets	(2,120)	(147)
Proceeds on disposal of capital assets	240	2
Proceeds on disposal of other assets	37	
Proceeds on disposal of Plastics land and buildings	1,848	
Receivable on disposal of Plastics land and buildings	(1,000)	
Additions to other assets		121
Acquisition of net assets of businesses from non-controlling shareholders		(1,184)
Increase in goodwill on business acquisition		(242)
	<u>(995)</u>	<u>(1,450)</u>
INCREASE (DECREASE) IN CASH DURING THE PERIOD	<u>(13,253)</u>	1,719
CASH-BEGINNING OF PERIOD	<u>51,253</u>	<u>2,602</u>
CASH-END OF PERIOD	<u>38,000</u>	<u>4,321</u>
CASH FLOW FROM OPERATIONS PER SHARE	<u>0.05</u>	<u>0.47</u>

GWIL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Gain on Disposal of Plastics Division and Discontinued Operations

The Company sold the business and assets of its Plastics Division effective August 14, 1998. The results of the Plastics Division have been accounted for as discontinued operations and previously reported financial statements have been restated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(Thousands of Dollars)			
Earnings from discontinued operations before income and capital tax	\$	\$1,861	\$	\$3,046
Income and capital taxes		849		1,402
Earnings from discontinued operations		1,012		1,644

Note 2 General Corporate Expense

These expenses cannot be reasonably allocated to the Company's continuing and discontinued operations.

Note 3 Deferred Income Tax

The income tax provision differs from that using statutory rates. This is primarily a result of the non-deductible nature of the amortization of appraisal increments and goodwill.

Note 4 Gain on Disposal of Other Assets

The Company sold the Land and Buildings held for resale. The sale resulted in a gain of \$1,318,000 before tax, or \$810,000 after tax.

Note 5 Earnings per Share

These calculations are based on 7,146,797 Common shares outstanding. The impact of Stock Options has no material effect on the earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(Thousands of Dollars)			
From Continuing Operations	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.01
From Discontinued Operations		0.14		0.23
General Corporate (Expense)	(0.05)	(0.04)	(0.08)	(0.08)
	(0.03)	0.11	(0.03)	0.16
Gain on Disposal of Other Assets			0.11	
Earnings per Share	(0.03)	0.11	0.08	0.16

Note 6 Restatement of Prior Year's Figures

Certain of the prior year's figures have been restated to conform to the current year's presentation.

Note 7 Business segments

The Company operates in the following business segments:

- the supply of mobile crane services primarily to the construction industry,

GWIL INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- the testing and laboratory analysis of coal and other minerals,
- management services to the construction industry.

All continuing operating industry segments are based in Canada. Corporate assets include cash and temporary investments of \$38,000,000 (1998 — \$4,321,000).

By industry Segment (in Thousands of Dollars) (Note 6)

	Crane Services		Specialty Products and Services		Total	
	1999	1998	1999	1998	1999	1998
Sales	\$ 2,708	\$ 3,604	\$ 146	\$325	\$ 2,845	\$ 3,929
Segment operating profit (loss) before amortization	441	702	(110)	36	331	738
Amortization					(661)	(670)
Interest expense					(28)	(65)
Investment income					1,033	61
From management profit sharing						
Earnings before discontinued operations and taxes					675	64
Earnings from discontinued operations						3,046
General corporate expense					1,004	980
(Loss) Earnings before income taxes					(329)	2,130
Income and Capital taxes (recovery)					(69)	1,017
(Loss) Earnings from operations					(260)	1,113
Gain on disposal of Other Assets					810	
Earnings for the Period					550	1,113
Segment assets	11,310	11,214	179	398	11,489	11,612
Corporate assets					41,147	7,275
Discontinued assets					2,507	30,992
Total assets					55,143	49,879
Capital expenditures	2,112		2		2,114	44
Corporate capital expenditures					6	46
Discontinued capital expenditures						57
Total capital expenditures					2,120	147
Amortization	593		16		609	617
Corporate amortization					52	53
Discontinued amortization						671
Total amortization					661	1,341

(signed) H.A. MAGEE, *Director*

(signed) M.G. SCHWEITZER, *Director*

The Consolidated Statements, as shown, include the Accounts of the following operating subsidiary companies:
Gwil Holdings Inc.
Gwil Management Services Inc.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the Years Ended December 31, 1998 and 1997

AUDITORS' REPORT

To the Shareholders of Gwil Industries Inc.

We have audited the consolidated balance sheets of Gwil Industries Inc. as at December 31, 1998 and 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

(signed) Deloitte & Touche LLP
CHARTERED ACCOUNTANTS
Vancouver, B.C.
February 22, 1999

CONSOLIDATED BALANCE SHEETS

As at December 31

	<u>1998</u>	<u>1997</u> (Note 16)
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$51,253,131	\$ 2,025,274
Accounts receivable	2,374,379	7,955,854
Holdbacks receivable	2,000,000	—
Inventories	—	6,743,358
Prepaid expenses	<u>305,790</u>	<u>426,873</u>
	55,933,300	17,151,359
CAPITAL ASSETS	(Note 4) 9,023,693	26,029,794
OTHER ASSETS	(Note 5) <u>3,380,480</u>	<u>4,979,131</u>
	<u><u>\$68,337,473</u></u>	<u><u>\$48,160,284</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 4,431,157	\$ 4,892,766
Corporate taxes payable	11,663,931	(43,880)
Current portion of long term debt	(Note 6) <u>640,318</u>	<u>700,526</u>
	16,735,406	5,549,412
LONG TERM DEBT	(Note 6) 1,113,735	1,820,933
NON-CONTROLLING INTEREST IN SUBSIDIARY	—	1,139,127
FUTURE INCOME TAXES	(Note 1) <u>3,302,000</u>	<u>6,908,854</u>
	<u>21,151,141</u>	<u>15,418,326</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL	(Note 7) 17,360,555	17,360,555
RETAINED EARNINGS	<u>29,825,777</u>	<u>15,381,403</u>
	47,186,332	32,741,958
	<u><u>\$68,337,473</u></u>	<u><u>\$48,160,284</u></u>

Approved by the Directors

(signed) HUGH A. MAGEE
Director

(signed) MERV G. SCHWEITZER
Director

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31

	<u>1998</u>	<u>1997</u>
		(Note 16)
SALES	\$ 7,443,445	\$ 7,205,738
COST OF SALES	<u>4,012,225</u>	<u>3,903,793</u>
GROSS MARGIN	3,431,220	3,301,945
EXPENSES		
Selling, general and administration	1,933,082	2,062,807
Amortization of capital assets	1,199,656	1,197,910
Amortization of other assets	204,056	163,643
Interest expense	45,325	169,176
Investment income	<u>(1,122,666)</u>	<u>(76,721)</u>
	<u>2,259,453</u>	<u>3,516,815</u>
EARNINGS (LOSS)		
From continuing operations	1,171,767	(214,870)
From discontinued operations (Note 2)	3,913,888	3,054,548
From management services profit sharing (Note 12)	<u>300,000</u>	<u>234,000</u>
EARNINGS BEFORE GENERAL CORPORATE EXPENSE AND TAXES ...	5,385,655	3,073,678
GENERAL CORPORATE EXPENSE (Note 2)	<u>2,392,796</u>	<u>1,934,129</u>
EARNINGS FROM OPERATIONS BEFORE TAXES	2,992,859	1,139,549
INCOME AND CAPITAL TAXES (Note 9)		
Income taxes		
Current provision	1,206,354	175,280
Deferred	<u>—</u>	<u>552,242</u>
	1,206,354	727,522
Capital taxes	<u>198,194</u>	<u>145,904</u>
Total income and capital taxes	<u>1,404,548</u>	<u>873,426</u>
EARNINGS FROM OPERATIONS	1,588,311	266,123
GAIN ON DISPOSAL OF PLASTICS DIVISION (Note 2)	<u>12,856,063</u>	<u>—</u>
EARNINGS FOR THE YEAR	<u>\$14,444,374</u>	<u>\$ 266,123</u>
RETAINED EARNINGS — BEGINNING OF YEAR	<u>\$15,381,403</u>	<u>\$15,115,280</u>
RETAINED EARNINGS — END OF YEAR	<u><u>\$29,825,777</u></u>	<u><u>\$15,381,403</u></u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31

	<u>1998</u>	<u>1997</u> (Note 16)
OPERATING ACTIVITIES		
Earnings for the year	\$ 14,444,374	\$ 266,123
Amortization — continuing operations	1,403,712	1,361,553
Amortization — discontinued operations	844,978	1,297,356
Non-controlling interest	44,513	179,973
Gain on sale of assets	(154,130)	(176,878)
Gain on disposal of Plastics Division	(12,856,063)	—
Income taxes not requiring cash	<u>—</u>	<u>552,242</u>
CASH FLOW FROM OPERATIONS	3,727,384	3,480,369
Change in non-cash working capital	<u>7,565,087</u>	<u>(3,241,094)</u>
	<u>11,292,471</u>	<u>239,275</u>
 FINANCING ACTIVITIES		
Repayment of long term debt	(767,406)	(966,431)
Proceeds from long term debt	<u>—</u>	<u>870,000</u>
	<u>(767,406)</u>	<u>(96,431)</u>
 INVESTING ACTIVITIES		
Additions to capital assets	(279,560)	(1,630,282)
Additions to other assets	(327,000)	(389,096)
Proceeds on disposal of other assets	2,800	3,800
Proceeds on disposal of capital assets	232,352	749,271
Proceeds on disposal of Plastics Division	43,500,000	—
Holdbacks on disposal of Plastics Division	(3,000,000)	—
Acquisition of net assets of business from non-controlling shareholders	(1,183,640)	—
Increase in goodwill on business acquisition	<u>(242,160)</u>	<u>—</u>
	<u>38,702,792</u>	<u>(1,266,307)</u>
INCREASE (DECREASE) IN CASH DURING THE YEAR	<u>49,227,857</u>	<u>(1,123,463)</u>
CASH AND TEMPORARY INVESTMENTS — BEGINNING OF YEAR	<u>2,025,274</u>	<u>3,148,737</u>
CASH AND TEMPORARY INVESTMENTS — END OF YEAR	<u>\$ 51,253,131</u>	<u>\$ 2,025,274</u>
CASH FLOW FROM OPERATIONS PER SHARE	<u><u>\$.52</u></u>	<u><u>\$.49</u></u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1998 and 1997

1. Significant accounting policies and principles

The financial statements have been prepared in accordance with generally accepted accounting principles.

Consolidation

The consolidated financial statements include the accounts of Gwil Industries Inc. and all material wholly-owned subsidiaries, namely:

- Gwil Management Services Inc.
- Gwil Holdings Inc., which holds a 100% interest in Tacoma Fiberglass Products Inc. and Gwil Industries Corp.

Temporary investments

Temporary investments are short term bankers' acceptances and term deposits, recorded at cost plus accrued interest.

Inventory valuation

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Amortization

Amortization is calculated at rates which will reduce the original cost of capital assets to the estimated residual value at the end of the assets' useful life. Amortization is recorded on a straight-line basis at the following annual rates: buildings — 2.5% to 10%; equipment — 2.5% to 33%.

Goodwill

Goodwill is the excess cost of subsidiaries over the net value of tangible assets at the date of acquisition, net of amortization. The amounts are amortized on a straight-line basis over their estimated lives, which do not exceed 20 years and are principally amortized by the year 2000. On an annual basis the fair market value of the applicable operation is reviewed to determine the appropriateness of the carrying value.

Deferred pension fund costs

The Company has fully funded its past service pension fund costs. These costs have been deferred and are being amortized on a straight-line basis over the expected remaining service life at the time of the funding of the employees covered by the plans.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Income taxes

The Company follows the future income tax asset and liabilities method of providing for income taxes. Future income taxes primarily result from the difference between capital cost allowance, pension contributions and holding and shutdown costs claimed for tax purposes and amortization and expenses claimed for accounting purposes.

The Company has elected early adoption of the new recommendations of the Canadian Institute of Chartered Accountants concerning accounting for income taxes. This new accounting policy was adopted as of January 1, 1998 and applied retroactively. There was no material adjustment required to the 1997 comparative statements.

The adoption of the new standards changes the Company's focus when accounting for income taxes from a statement of earnings to a balance sheet approach. Previously the Company recorded deferred income taxes based on timing differences in the recognition of income and expense for tax and financial reporting purposes. The new standards require the recognition of future income taxes for the expected future tax consequences of differences between the carrying amount of the balance sheet items and their corresponding tax values.

These standards also require the Company to compute future taxes using the enacted corporate income tax rates for the years in which the differences will reverse. Previously, deferred income tax balances reflected the rates in effect when the difference arose.

Translation of foreign currency

The financial statements of Gwil Holdings Inc., which is a fully integrated foreign subsidiary, are translated using the temporal method whereby monetary assets and liabilities are translated at year end rates, non-monetary items at historical rates and revenues and expenses at the average rate for the year. Gains or losses from exchange translations are included in the consolidated statements of earnings.

2. Gain on Disposal of Plastics Division and Discontinued Operations

The Company sold the business and assets of its Plastics Division effective August 14, 1998. The sale resulted in a gain of \$19,608,377 before tax, and \$12,856,063 after tax. The results of the Plastics Division have been accounted for as discontinued operations and previously reported financial statements have been restated as follows:

	1998	1997
Sales	\$36,927,175	\$49,524,782
Earnings from discontinued operations before income tax and capital tax	3,913,888	3,054,548
Income tax and capital tax	1,783,687	1,347,955
Earnings from discontinued operations	2,130,201	1,706,593
Gain on disposal of Plastics Division before income tax	19,608,377	—
Income tax	6,752,314	—
Gain on disposal of Plastics Division	12,856,063	—
	<u>\$14,986,264</u>	<u>\$ 1,706,593</u>

For the year ended December 31, 1998 General Corporate Expense cannot be reasonably allocated to the Company's continuing and discontinued operations. The income tax calculated above does not take into consideration the Company's General Corporate Expense.

3. Inventories

	1998	1997
Raw materials	\$ —	\$1,739,763
Finished goods	—	5,003,595
	<u>\$ —</u>	<u>\$6,743,358</u>

4. Capital assets

	Cost	Accumulated Amortization	1998 Net Book Value	1997 Net Book Value
Land	\$ —	\$ —	\$ —	\$ 1,051,476
Buildings and equipment	16,644,869	7,621,176	9,023,693	24,978,318
	<u>\$16,644,869</u>	<u>\$7,621,176</u>	<u>\$9,023,693</u>	<u>\$26,029,794</u>

5. Other assets

	1998	1997
Holdbacks receivable	\$1,000,000	\$ —
Long term receivables	1,037,201	722,000
Deferred pension costs (Note 11)	575,551	2,985,779
Land and buildings, held for resale	529,511	—
Investments, at cost	126,000	126,000
Goodwill	70,592	782,255
Long term insurance policies	41,625	363,097
	<u>\$3,380,480</u>	<u>\$4,979,131</u>

Subsequent to December 31, 1998 the Company disposed of land and buildings, held for resale for \$1,850,000.

6. Long term debt

	1998	1997
Term loans		
Term advance	\$ 373,729	\$ 659,825
Term bank advances	1,380,324	1,861,634
	1,754,053	2,521,459
Less current portion	640,318	700,526
	<u>\$1,113,735</u>	<u>\$1,820,933</u>

The term advance is unsecured with interest of 3.9% and expires in 1999.

Term bank advances are secured by security interests in specific accounts receivable and equipment. The interest rates range from approximately 6.5% to 7.9%. Expiry dates occur in 2001.

Principal and interest payments required are:

1999.....	\$ 727,505
2000.....	497,363
2001.....	<u>693,953</u>
	1,918,821
Less interest portion	<u>164,768</u>
	1,754,053
Less current portion	<u>640,318</u>
	<u><u>\$1,113,735</u></u>

7. Share capital

Authorized

20,000,000 Common shares without par value.

Issued and fully paid

	<u>Shares</u>	<u>Amount</u>
At December 31, 1998 and 1997	7,146,797	\$17,360,555

The Company has issued options to purchase a total of 300,000 shares at \$2.08 per share. These options were granted to certain officers of the Company, expire in October 2005, and as of December 31, 1998, no options have been exercised.

8. Earnings per share, net of tax

	<u>1998</u>	<u>1997</u>
From continuing operations	\$ 0.08	\$(0.07)
From discontinued operations	0.30	0.24
General corporate expense	<u>(0.16)</u>	<u>(0.13)</u>
	0.22	0.04
Gain on Disposal of Plastics Division	<u>1.80</u>	<u>—</u>
Earnings per Share	<u>\$ 2.02</u>	<u>\$ 0.04</u>
Fully diluted earnings per share	<u><u>\$ 1.94</u></u>	<u><u>\$ 0.04</u></u>

9. Income and capital taxes

The Company's effective income taxes are reconciled as follows:

	<u>1998</u>		<u>1997</u>	
Earnings before taxes	<u>\$2,992,859</u>	<u>100%</u>	<u>\$1,139,549</u>	<u>100%</u>
Income taxes at Canadian statutory rates	1,346,787	45%	512,797	45%
Increase (decrease) in taxes due to:				
Amortization of non-deductible goodwill and appraisal increments on				
equipment acquisitions	212,476	7%	258,888	23%
Application of prior years' tax losses	(57,964)	(2%)	(101,773)	(9%)
Application of business and investment tax credits	(274,661)	(9%)	—	—
U.S. tax differential	(71,509)	(3%)	—	—
Other items	51,225	2%	17,088	1%
Provision for prior years' taxes	—	—	19,097	2%
Provision for tax on inter-company deemed dividend	—	—	43,925	4%
Realization of unrecorded deferred tax debits	—	—	(22,500)	(2%)
Income tax provision and effective rate	<u>1,206,354</u>	<u>40%</u>	<u>727,522</u>	<u>64%</u>
Capital taxes				
Large corporation tax	108,000	4%	66,375	6%
B.C. capital tax	<u>90,194</u>	<u>3%</u>	<u>79,529</u>	<u>7%</u>
	<u>198,194</u>	<u>7%</u>	<u>145,904</u>	<u>13%</u>
	<u><u>\$1,404,548</u></u>	<u><u>47%</u></u>	<u><u>\$ 873,426</u></u>	<u><u>77%</u></u>

Effective January 1, 1998, the Company adopted the new Canadian Institute of Chartered Accountants standards on accounting for income taxes which require the use of the future income tax asset and liabilities method of providing for income taxes. The cumulative effect of the change as of January 1, 1997 was insignificant.

10. Commitments

The Company is committed to the expenditure of approximately \$2.0 million in capital asset additions in 1999. At December 31, 1998 operating lease commitments which are expensed as incurred are as follows:

1999	\$404,700
2000	\$249,472
2001	\$221,583
2002	\$192,027
2003	\$ 36,420

11. Pension plans

The Company has pension plans which cover substantially all employees and which are comprised of both defined benefit plans and a defined contribution plan. The defined benefit plans provide pension benefits upon retirement based on length of service and a mix of career and final average earnings. Defined contribution benefits are determined by the value of contributions and the return on investment of these contributions.

The cost of pension benefits earned by employees is actuarially determined. The defined benefit portion of the pension plan is funded as actuarially determined, in accordance with regulatory requirements, through contributions to a trust fund. The costs of defined contribution pension benefits are based on a percentage of salary.

The cumulative difference between the amounts funded and the amounts expensed is reflected as a deferred asset in the consolidated balance sheet.

Actuarial reports prepared during the year, which were based on projections of employees' compensation levels to the time of retirement, indicate that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, as of December 31 are as follows:

	1998	1997
Pension fund assets	\$12,000,000	\$11,000,000
Accrued pension benefits	\$10,600,000	\$ 8,700,000

The pension expense of \$365,000 (1997 — \$522,000) includes the amortization of deferred past service costs and plans experience gains and losses.

As a result of the sale of the Plastics Division an amount of \$2,400,000 is in the process of being transferred to individual RRSP's of the employees affected by the sale. In addition, the deferred pension costs of \$2,207,000 related to these individuals have been included in the cost of the sale of the division.

12. Management services to the construction industry

The Company provides management services under a contract which continues to December 31, 1999. The contract calls for a fixed annual fee, cost recoveries and profit sharing. The fixed fee and cost recoveries are shown as reductions of applicable overhead costs. In 1998 \$300,000 (1997 — \$234,000) was earned from profit sharing.

13. Related party transactions

In 1995, the Company financed the issue of 300,000 shares, pursuant to the Employees Stock Purchase Plan, in the amount of \$600,000 to an officer of the Company. The non-interest bearing note receivable is due on or before October 27, 2005.

14. Financial instruments

(a) Fair Value

The Company's financial instruments include cash and temporary investments, accounts receivable, loans receivable, holdback receivables, long term receivables, bank indebtedness, accounts payable and long term debt. The fair value of these financial instruments approximates carrying values.

(b) Financial Risk

Financial risk is the risk arising from fluctuations in interest rates and changes in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in interest rates and foreign currency exchange rates.

(c) Credit Risk

The Company is not dependent on revenue from primarily one customer, therefore concentration of credit risk is not considered to be significant.

15. Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

16. Restatement of prior year's figures

Certain of the prior year's figures have been restated to conform to the current year's presentation.

17. Business segments

The Company operates in the following business segments:

- the supply of mobile crane services primarily to the construction industry,
- the testing and laboratory analysis of coal and other minerals,
- management services to the construction industry (Note 12).

All continuing operating industry segments are based in Canada.

Corporate assets include cash and temporary investments of \$51,253,131 (1997 — \$2,025,274).

By Industry Segments (Note 16)

	Crane Services		Specialty Products and Services		Total	
	1998	1997	1998	1997	1998	1997
Sales	\$6,695,967	\$6,361,845	\$747,478	\$843,893	\$ 7,443,445	\$ 7,205,738
Segment operating profit before amortization	1,344,329	998,853	153,809	240,285	1,498,138	1,239,138
Amortization					1,403,712	1,361,553
Interest expense					45,325	169,176
Investment income					(1,122,666)	(76,721)
From management services profit sharing					(300,000)	(234,000)
Earnings before discontinued operations and taxes ...					1,471,767	19,130
Earnings from discontinued operations					3,913,888	3,054,548
General corporate expense					2,392,796	1,934,129
Earnings before income taxes					2,992,859	1,139,549
Income and capital taxes					1,404,548	873,426
Earnings from operations					1,588,311	266,123
Gain on disposal of Plastics Division					12,856,063	—
Earnings for the year					\$14,444,374	\$ 266,123
Segment assets	9,735,189	11,628,477	186,274	372,506	9,921,463	12,000,983
Corporate assets					54,333,767	4,737,981
Discontinued assets					4,082,243	31,421,320
Total assets					\$68,337,473	\$48,160,284
Capital expenditures	203,224	481,200	4,479	20,089	207,703	501,289
Corporate capital expenditures					5,637	12,624
Discontinued capital expenditures					66,220	1,116,369
Total capital expenditures					\$ 279,560	\$ 1,630,282
Amortization	1,195,539	1,189,384	40,861	46,673	1,236,400	1,236,057
Corporate amortization					167,312	125,496
Discontinued amortization					844,978	1,297,356
Total amortization					\$ 2,248,690	\$ 2,658,909

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the Years Ended December 31, 1997 and 1996

GWIL INDUSTRIES INC.

AUDITORS' REPORT

To the Shareholders of Gwil Industries Inc.

We have audited the consolidated balance sheets of Gwil Industries Inc. as at December 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

(signed) Deloitte & Touche
CHARTERED ACCOUNTANTS
Vancouver, B.C.
February 13, 1998

GWIL INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
As at December 31

	<u>1997</u>	<u>1996</u> (Note 14)
ASSETS		
CURRENT ASSETS		
Cash and temporary investments	\$ 2,601,649	\$ 3,148,737
Accounts receivable	7,955,854	7,261,312
Inventories (Note 2)	6,743,358	5,988,788
Prepaid expenses	426,873	238,427
Taxes recoverable	43,880	56,541
	<u>17,771,614</u>	16,693,805
CAPITAL ASSETS (Note 3)	26,029,794	27,181,851
OTHER ASSETS (Note 4)	4,979,131	5,057,244
	<u>\$48,780,539</u>	<u>\$48,932,900</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 576,375	\$ 319,330
Accounts payable	4,892,766	6,174,947
Current portion of long term debt (Note 5)	700,526	761,290
	<u>6,169,667</u>	7,255,567
LONG TERM DEBT (Note 5)	1,820,933	1,856,600
NON-CONTROLLING INTEREST IN SUBSIDIARY (Note 8)	1,139,127	959,154
DEFERRED INCOME TAXES	6,908,854	6,385,744
	<u>16,038,581</u>	16,457,065
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	17,360,555	17,360,555
RETAINED EARNINGS	15,381,403	15,115,280
	<u>32,741,958</u>	32,475,835
	<u>\$48,780,539</u>	<u>\$48,932,900</u>

Approved by the Directors

(Signed) HUGH A. MAGEE
Director

(Signed) MERV G. SCHWEITZER
Director

See accompanying notes to consolidated financial statements.

GWIL INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31

	<u>1997</u>	<u>1996</u>
SALES	\$56,730,520	\$53,465,022
COST OF SALES	<u>40,588,685</u>	<u>37,011,493</u>
GROSS MARGIN	<u>16,141,835</u>	<u>16,453,529</u>
EXPENSES		
Selling, general and administration	12,293,671	12,310,634
Amortization of capital assets	2,195,499	2,073,279
Amortization of other assets	463,410	457,410
Interest expense	221,547	174,300
Investment income	<u>(117,814)</u>	<u>(235,943)</u>
	<u>15,056,313</u>	<u>14,779,680</u>
EARNINGS BEFORE MANAGEMENT SERVICES		
INCOME	1,085,522	1,673,849
Profit sharing from management services	(Note 10) <u>234,000</u>	<u>420,000</u>
EARNINGS FROM OPERATIONS	1,319,522	2,093,849
Non-controlling interest	<u>(179,973)</u>	<u>(174,610)</u>
EARNINGS BEFORE TAXES	<u>1,139,549</u>	<u>1,919,239</u>
INCOME AND CAPITAL TAXES	(Note 7)	
Income taxes		
Current (recovery) provision	175,280	(37,519)
Deferred	<u>552,242</u>	<u>756,513</u>
	<u>727,522</u>	<u>718,994</u>
Capital taxes	<u>145,904</u>	<u>122,791</u>
Total income and capital taxes	<u>873,426</u>	<u>841,785</u>
EARNINGS FOR THE YEAR	<u>\$ 266,123</u>	<u>\$ 1,077,454</u>
EARNINGS PER SHARE	(Note 6) <u>\$.04</u>	<u>\$.15</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31

	<u>1997</u>	<u>1996</u>
RETAINED EARNINGS — BEGINNING OF YEAR	\$15,115,280	\$14,037,826
EARNINGS FOR THE YEAR	<u>266,123</u>	<u>1,077,454</u>
RETAINED EARNINGS — END OF YEAR	<u>\$15,381,403</u>	<u>\$15,115,280</u>

See accompanying notes to consolidated financial statements.

GWIL INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31

	<u>1997</u>	<u>1996</u> (Note 14)
OPERATING ACTIVITIES		
Earnings for the year	\$ 266,123	\$ 1,077,454
Amortization	2,658,909	2,530,689
Income taxes not requiring cash	552,242	756,513
Non-controlling interest	179,973	174,610
Gain on sale of assets	<u>(176,878)</u>	<u>(234,170)</u>
CASH FLOW FROM OPERATIONS	3,480,369	4,305,096
Change in non-cash working capital	<u>(2,664,719)</u>	<u>(2,488,120)</u>
	<u>815,650</u>	<u>1,816,976</u>
FINANCING ACTIVITIES		
Repayment of long term debt	(966,431)	(1,109,860)
Proceeds from long term debt	<u>870,000</u>	<u>2,215,174</u>
	<u>(96,431)</u>	<u>1,105,314</u>
INVESTING ACTIVITIES		
Additions to capital assets	(1,630,282)	(5,582,647)
Acquisition of net assets of businesses	—	(2,020,000)
Additions to other assets	(389,096)	—
Proceeds on disposal of other assets	3,800	872,008
Proceeds on disposal of capital assets	<u>749,271</u>	<u>255,501</u>
	<u>(1,266,307)</u>	<u>(6,475,138)</u>
(DECREASE) IN CASH DURING THE YEAR	(547,088)	(3,552,848)
CASH AND TEMPORARY INVESTMENTS — BEGINNING OF YEAR ...	<u>3,148,737</u>	<u>6,701,585</u>
CASH AND TEMPORARY INVESTMENTS — END OF YEAR	<u>\$ 2,601,649</u>	<u>\$ 3,148,737</u>
CASH FLOW FROM OPERATIONS PER SHARE	<u>\$.49</u>	<u>\$.60</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1997 and 1996

1. Significant accounting policies and principles

The financial statements have been prepared in accordance with generally accepted accounting principles.

Consolidation

The consolidated financial statements include the accounts of Gwil Industries Inc. and all material wholly-owned subsidiaries, namely:

- Gwil Management Services Inc.
- Gwil Holdings Inc., which effectively holds a 51% interest in Tacoma Fiberglass Products Inc. and Gwil Industries Corp.

During the year the Company dissolved Griffith Crane Service Ltd. and assumed its assets and liabilities.

Temporary investments

Temporary investments are short term banker's acceptances and term deposits, recorded at cost plus accrued interest.

Inventory valuation

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Amortization

Amortization is calculated at rates which will reduce the original cost of capital assets to the estimated residual value at the end of the assets' useful life. Amortization is recorded on a straight-line basis at the following annual rates: buildings — 2.5% to 10%; equipment — 2.5% to 33%. The rate of amortization for the manufacturing facilities installed in recent years was decreased in 1997 from 5% to 2.5% to reflect its projected useful life based on the Company's experience with a comparable facility. This change in rate resulted in a reduction in 1997 amortization of \$285,000.

Leases

Leases which transfer substantially all the benefits and risks of ownership of the property are recorded as an asset and the obligation incurred as a liability. Under this method of accounting for leases, the asset is amortized on a straight-line basis over its estimated useful life, and the obligation (including interest thereon) is liquidated over the life of the lease. Rents on operating leases are expensed as incurred.

Goodwill

Goodwill is the excess cost of subsidiaries over the net value of tangible assets at the date of acquisition, net of amortization. The amounts are amortized on a straight-line basis over their estimated lives, which do not exceed 20 years and are principally amortized by the year 2000. On an annual basis the fair market value of the applicable operation is reviewed to determine the appropriateness of the carrying value.

Deferred pension fund costs

The Company has fully funded its past service pension fund costs. These costs have been deferred and are being amortized on a straight-line basis over the expected average remaining service life at the time of the funding of the employee groups covered by the plans.

Income taxes

The Company follows the tax allocation method of providing for income taxes. Deferred income taxes primarily result from the difference between capital cost allowance and pension contributions claimed for tax purposes and amortization claimed for accounting purposes.

Translation of foreign currency

The financial statements of Gwil Holdings Inc., which is a fully integrated foreign subsidiary, are translated using the temporal method whereby monetary assets and liabilities are translated at year end rates, non-monetary items at historical rates and revenues and expenses at the average rate for the year. Gains or losses from exchange translations are included in the consolidated statements of earnings.

2. Inventories

	1997	1996
Raw materials	\$1,739,763	\$1,353,230
Finished goods	5,003,595	4,635,558
	<u>\$6,743,358</u>	<u>\$5,988,788</u>

3. Capital assets

	Cost	Accumulated Amortization	1997 Net Book Value	1996 Net Book Value
Land	\$ 1,051,476	\$ —	\$ 1,051,476	\$ 1,051,476
Buildings and equipment	37,829,725	12,851,407	24,978,318	24,707,360
Equipment financed by capital leases	—	—	—	1,335,463
Construction in progress	—	—	—	87,552
	<u>\$38,881,201</u>	<u>\$12,851,407</u>	<u>\$26,029,794</u>	<u>\$27,181,851</u>

4. Other assets

	1997	1996
Deferred pension costs (Note 9)	\$2,985,779	\$3,172,390
Goodwill	782,255	1,059,054
Long term receivables	722,000	725,800
Investment, at cost	126,000	100,000
Long term insurance policies	363,097	—
	<u>\$4,979,131</u>	<u>\$5,057,244</u>

5. Long term debt

	1997	1996
Term loans		
Term advance	\$ 659,825	\$ 19,432
Term bank advances	1,861,634	2,197,506
	2,521,459	2,216,938
Obligations under capital lease	—	400,952
	2,521,459	2,617,890
Less current portion	700,526	761,290
	<u>\$1,820,933</u>	<u>\$1,856,600</u>

The 1996 term advance was unsecured with interest of 10% and expired in 1997. The 1997 term advance is unsecured with interest of 3.9% and expires in 1999.

Term bank advances are secured by security interests in specific accounts receivable, inventories and equipment. The interest rates range from approximately 6.5% to 9.75%. Expiry dates occur between 1998 and 2001. The interest rate implicit in the fixed rate capital lease was approximately 10.5% and expired in 1997.

Principal and interest payments required in the next five years are:

	Term loans
1998	\$ 832,783
1999	797,083
2000	497,363
2001	693,953
2002	—
	2,821,182
Less interest portion	299,723
	2,521,459
Less current portion	700,526
	<u>\$1,820,933</u>

6. Share capital

Authorized

20,000,000 Common shares without par value.

Issued and fully paid

	<u>Shares</u>	<u>Amount</u>
At December 31, 1997 and 1996	7,146,797	\$17,360,555

The Company has issued options to purchase and a total of 300,000 shares at \$2.08 per share. These options were granted to certain officers of the Company, expire in October 2005, and as of December 31, 1997 no options have been exercised. The impact of exercising these options would have no material effect on the earnings per share.

7. Income and capital taxes

The Company's effective income taxes are reconciled as follows:

	<u>1997</u>		<u>1996</u>	
Earnings before taxes	\$1,139,549	100%	\$1,919,239	100%
Income taxes at Canadian statutory rates	512,797	45%	863,658	45%
Increase (decrease) in taxes due to:				
Amortization on non-deductible goodwill and appraisal increments on equipment acquisitions	258,888	23%	176,343	9%
Application of prior years' tax losses	(101,773)	(9%)	(93,323)	(5%)
Application of investment and manufacturing and processing tax credits	—	—	(26,234)	(1%)
Provision (recovery) of current and prior years' taxes	19,097	2%	20,175	1%
Provision for tax on inter-company deemed dividend	43,925	4%	—	—
Realization of unrecorded deferred tax debits	(22,500)	(2%)	(225,162)	(11%)
Other items	17,088	1%	3,537	—
Income tax provision and effective rate	727,522	64%	718,994	38%
Capital taxes				
Large corporation tax	66,375	6%	64,481	3%
B.C. capital tax	79,529	7%	58,310	3%
	<u>145,904</u>	<u>13%</u>	<u>122,791</u>	<u>6%</u>
	<u>\$ 873,426</u>	<u>77%</u>	<u>\$ 841,785</u>	<u>44%</u>

The Company has available in its U.S. subsidiary approximately U.S.\$46,000 of income tax losses which expire on various dates from 1998 to 2004. The potential future benefit of the application of these income tax losses to reduce future taxes is not reflected in these financial statements.

8. Commitments

At December 31, 1997 operating lease commitments which are expensed as incurred are as follows:

1998	\$678,089
1999	422,646
2000	249,980
2001	199,080
2002	161,983

The Company has a future commitment to purchase the non-controlling interest in Tacoma Fiberglass Products Inc., based on a predetermined formula relating to net book values, and has fulfilled this commitment subsequent to the year end by acquiring the remaining 49% of the company.

9. Pension plans

The Company has pension plans which cover substantially all employees and which are comprised of both defined benefit plans and a defined contribution plan. The defined benefit plans provide pension benefits upon retirement based on length of service and a mix of career and final average earnings. Defined contribution benefits are determined by the value of contributions and the return on investment of these contributions.

The cost of pension benefits earned by employees is actuarially determined. The defined benefit portion of the pension plan is funded as actuarially determined, in accordance with regulatory requirements, through contributions to a trust fund. The costs of defined contribution pension benefits are based on a percentage of salary.

The cumulative difference between the amounts funded and the amounts expensed is reflected as a deferred asset in the consolidated balance sheet.

Actuarial reports prepared during the year, which were based on projections of employees' compensation levels to the time of retirement, indicated that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, as of December 31 are as follows:

	<u>1997</u>	<u>1996</u>
Pension fund assets	\$11,000,000	\$9,600,000
Accrued pension benefits	\$ 8,700,000	\$8,300,000

The pension expense of \$521,622 (1996 — \$519,080) includes the amortization of deferred past service costs and plans experience gains and losses (Note 4).

10. Management services to the construction industry

The Company provides management services under a contract which continues to December 31, 1998. The contract calls for a fixed annual fee, cost recoveries and profit sharing. The fixed fee and cost recoveries are shown as reductions of applicable overhead costs. In 1997 \$234,000 (1996 — \$420,000) was earned from profit sharing.

11. Related party transactions

In 1995, the Company financed the issue of 300,000 shares, pursuant to the Employees Stock Purchase Plan, in the amount of \$600,000 to an officer of the Company. The non-interest bearing note receivable is due on or before October 27, 2005.

12. Financial instruments

The Company's financial instruments include cash, temporary investments, accounts receivable, loans receivable, bank indebtedness, accounts payable, and long term debt. The fair value of these financial instruments approximates carrying values.

13. Litigation

A legal claim has been commenced against the Company by the consulting engineer involved in the recent expansion of the Company's plant in Kelowna. The Company is defending the claim and has filed a counter-claim. While the outcome of this claim cannot be determined at this time, management is of the opinion that it will not have a material adverse effect on the Company's financial position.

14. Restatement of prior year's figures

Certain of the prior year's figures have been restated to conform to the current year's presentation.

15. Business segments

The Company operates in the following business segments:

- the supply of mobile crane services primarily to the construction industry,
- the manufacture, warehousing and distribution of products for the reinforced plastics industry consisting of resins, gelcoats and related materials, and the testing and laboratory analysis of coal and other minerals,
- management services to the construction industry (Note 10).

By Industry Segments (Note 14)

	Crane Services		Specialty Products and Services		Total	
	1997	1996	1997	1996	1997	1996
Sales	\$ 6,361,845	\$ 5,523,334	\$50,368,675	\$47,941,688	\$56,730,520	\$53,465,022
Segment operating profit						
before amortization	998,853	1,169,251	4,957,235	5,106,131	5,956,088	6,275,382
Amortization					2,658,909	2,530,689
General corporate expense					2,107,924	2,132,487
Interest expense					221,547	174,300
Investment income					(117,814)	(235,943)
Profit sharing from management services ..					(234,000)	(420,000)
Earnings from operations					1,319,522	2,093,849
Non-controlling interest					179,973	174,610
Earnings before income taxes					1,139,549	1,919,239
Income and capital taxes					873,426	841,785
Earnings for the year					\$ 266,123	\$ 1,077,454
Segment assets	11,628,467	12,897,592	31,745,944	29,894,286	43,374,411	42,791,878
Corporate assets					5,406,128	6,141,022
Total assets					\$48,780,539	\$48,932,900
Capital expenditures	481,200	4,843,333	1,136,458	2,992,566	1,617,658	7,835,899
Corporate capital expenditures					12,624	33,894
Total capital expenditures					\$ 1,630,282	\$ 7,869,793
Amortization	1,189,384	896,535	1,344,029	1,513,606	2,533,413	2,410,141
Corporate amortization					125,496	120,548
Total amortization					\$ 2,658,909	\$ 2,530,689

By Geographic Segments (Note 14)

	Canada		United States		Total	
	1997	1996	1997	1996	1997	1996
Sales						
To external customers	\$40,773,146	\$39,332,557	\$15,957,374	\$14,132,465	\$56,730,520	\$53,465,022
Intercompany to other regions	4,670,296	3,212,421	68,859	107,657		
	45,443,442	42,544,978	16,026,233	14,240,122		
Segment operating profit						
before amortization	5,343,835	5,840,708	612,253	434,674	5,956,088	6,275,382
Segment assets	39,124,219	39,378,240	4,250,192	3,413,638	43,374,411	42,791,878
Corporate assets					5,406,128	6,141,022
Total assets					\$48,780,539	\$48,932,900
Capital expenditures	1,147,704	7,493,297	469,954	342,602	1,617,658	7,835,899
Corporate capital expenditures					12,624	33,894
Total capital expenditures					\$ 1,630,282	\$ 7,869,793
Amortization	2,427,271	2,356,961	106,142	53,180	2,533,413	2,410,141
Corporate amortization					125,496	120,548
Total amortization					\$ 2,658,909	\$ 2,530,689

Canadian export sales amounted to \$5,569,981 (1996 — \$3,998,893).

Corporate assets include cash and temporary investments of \$2,601,649 (1996 — \$3,148,737).