

Court File No. 18-601307-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

CRH FUNDING II PTE. LTD.

Applicant

- and -

SAGE GOLD INC.

Respondent

FIRST REPORT OF THE RECEIVER
DELOITTE RESTRUCTURING INC.
DATED AUGUST 21, 2018

CONTENTS

INTRODUCTION AND PURPOSE OF REPORT	3
TERMS OF REFERENCE.....	5
RECEIVER’S ACTIVITIES.....	5
INTERIM FUNDING	10
RECEIVER’S INTERIM RECEIPTS AND DISBURSEMENTS	11
PROPOSED SALE AND INVESTOR SOLICITATION PROCESS	11
CONCLUSIONS AND RECOMMENDATIONS	15

LIST OF APPENDICES

Appendix “A” - Receivership Order

Appendix “B” – Interim Receiver Order

Appendix “C” – Report of the Proposed Receiver

Appendix “D” – Report of the Interim Receiver

Appendix “E” – Notice and Statement of Receiver

Appendix “F” – Interim Statement of Receipts and Disbursements from July 13, 2018 to August 17, 2018

Appendix “G” – Sale and Investor Solicitation Procedures

INTRODUCTION AND PURPOSE OF REPORT

1. Pursuant to an Order (“**Receivership Order**”) of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) dated July 30, 2018 (“**Receivership Date**”), Deloitte Restructuring Inc. (“**Deloitte**”) was appointed as receiver and manager (the “**Receiver**”) of all of the assets, undertakings and properties of Sage Gold Inc. (“**Sage**” or the “**Company**”) acquired for, or used in relation to business carried on by Sage (the “**Property**”) pursuant to section 243 of the *Bankruptcy and Insolvency Act* (Canada), R.S.C. 1985, c. B-3, as amended (the “**BIA**”) and section 101 of the *Courts of Justice Act*, R.S.O., 1990, C-43 (“**CJA**”) . A copy of the Receivership Order is attached hereto as **Appendix “A”**.
2. The application for the appointment of Deloitte as the Receiver pursuant to section 243 of the BIA and section 101 of the CJA over the Property made on July 13, 2018 by CRH Funding II Pte. Ltd (“**CRH**”), the senior secured creditor of the Respondent, was opposed by the Company. At that time, the Court found it appropriate in the circumstances to make an Order for the appointment of Deloitte as an interim receiver under Section 47 of the BIA (“**Interim Receivership Order**”) pending resolution of the Company’s opposition to the appointment at a subsequent hearing. On July 30, 2018, Mr. Justice Dunphy heard arguments from CRH, Deloitte (as interim receiver) and the Company, ultimately granting the Receivership Order. A copy of the Interim Receivership Order is attached hereto as **Appendix “B”**.
3. Sage is a publically traded company headquartered in Toronto, Ontario, with its common shares listed on the TSX Venture Exchange under the symbol “**SGX**”. Sage is primarily engaged in the exploration of gold in Ontario, Canada. Its main properties consist of the Clavos property (the “**Clavos Property**”) located near Timmins and the Onaman property northeast of Thunder Bay (the “**Onaman Property**”), each as more fully described in the affidavit of Andrew Wehrley dated July 10, 2018.

- 4 -

4. Deloitte previously issued two reports to the Court in these proceedings. Attached hereto is the Report of the Proposed Receiver (without appendices) and Report of the Interim Receiver (without appendices) as **Appendix “C”** and **“D”**, respectively.
5. The Clavos Property has been developed by Sage (and the prior owner) as a producing gold mine. The mine has been developed with an underground ramp access to 300 meter level and the surface has infrastructure including, an office and staff facility, first aid trailer, core cutting shed and a shop building.
6. The Onaman Property is an exploration property and does not have any infrastructure. The Receiver has not attended on this site, as attending was not required to preserve this property.
7. The Receivership Order authorized the Receiver to, among other things, take possession of, and exercise control over the Property and any and all proceeds, receipts and disbursements, arising out of, or from, the Property.
8. The Receivership Order, together with related Court documents, the Notice to Creditors and this report (the **“First Report”**) have been posted on the Receiver’s website at: www.insolvencies.deloitte.ca/en-ca/sagegoldinc .
9. The purpose of this First Report is to:
 - a. Provide this Honourable Court with an update on the Receiver’s activities and the administration of the receivership since its appointment; and
 - b. Respectfully recommend that this Honourable Court make orders:
 - i) Approving the sales and investment solicitation process (the **“SISP”**) proposed and developed by the Receiver and its legal counsel in consultation with CRH and its legal counsel in respect of the Property and authorizing and directing the Receiver, including through its affiliate, Deloitte

- 5 -

Corporate Finance Inc. (“**DCFI**”), to take all steps and actions necessary to implement, conduct and carry-out the SISP.

- ii) Approving the Receiver’s Interim Statement of Receipts and Disbursements for the period from July 13, 2018 to August 17, 2018;
- iii) Approving the activities of the Receiver since July 13, 2018; and
- iv) Providing such other relief that this Honourable Court considers just and warranted in the circumstances.

- 10. Unless otherwise stated, all dollar amounts contained in this First Report are expressed in Canadian dollars.
- 11. Unless otherwise provided, all other capitalized terms not otherwise defined in this First Report are as defined in the Receivership Order or the Report of the Interim Receiver.

TERMS OF REFERENCE

- 12. In developing this First Report, the Receiver has relied upon unaudited financial information prepared by the Company’s management (“**Management**”), the Company’s books and records and discussions with its management. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to be the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the information.

RECEIVER’S ACTIVITIES

Taking possession and safeguarding assets

- 13. The Receiver has undertaken the following activities in accordance with the terms of the Receivership Order:

Toronto Head Office

- a. attended the Company's premises at 67 Yonge Street, Unit 808 in Toronto and took possession of the books and records;
- b. met with Sage's former Chief Financial Officer and the former accounts payable administrator (the only remaining employees of Sage) on-site to advise them of the appointment of the Receiver and, pursuant to paragraph 14 of the Receivership Order, delivered notices of termination of their employment by the Company;
- c. ensured access to the building was restricted only to those individuals engaged or authorized by the Receiver;
- d. arranged for the backing up of Sage's computer cloud system and revoked the access of all non-authorized users;
- e. engaged two former employees as independent contractors to assist the Receiver with certain activities including to prepare a listing of known creditors, Records of Employment and T4 slips, to bring the books and records of Sage up to date, to file the HST and other statutory returns, to preserve the books and records, complete a listing of Sage's records held offsite and attended other additional matters as they arose from time to time;
- f. arranged for a complete inventory to be made of the Company's assets at the head office and arranged for a walk through and informal appraisal of the assets, net of moving costs;
- g. made arrangements for the continuation of services with the existing off-site storage provider;
- h. provided Sage and its counsel with notice that it intended to terminate Sage's interest in the premises lease;

- 7 -

- i. contacted Davpart Inc. (the “**Landlord**”) to obtain a copy of the head office lease and issued receivership notification to terminate the lease effective August 16, 2018 and requested an accounting for occupation rent; and
- j. responded to inquiries made by several creditors with outstanding invoices related to pre-receivership period.

Clavos Property

- k. attended the Clavos Property and took possession of the Company’s assets located there;
- l. made arrangements for continuation of services with utilities and other service providers including in respect of electricity, telephone and internet;
- m. arranged for a complete inventory to be made of the Company’s equipment and inventory located underground at various levels and on the surface;
- n. made arrangements with the mine manager and staff of Ritchie Services regarding staffing, billing arrangements and communications with representatives of the Receiver;
- o. arranged for continued environmental testing and commissioning of regulatory and compliance reporting provided by Testmark Laboratories Ltd. and WSP Canada Inc.;
- p. made arrangements with certain suppliers for continued supply of consumables such as diesel fuel, water treatment chemicals, oil and filters for equipment.
- q. contacted companies that rented pumping equipment to Sage in order to reconcile the status of the accounts, identify pumps being utilized in the dewatering process in order to determine the expenses related the Receiver’s activities.

- 8 -

- r. issued receivership notification to suppliers and creditors or any other party who may have had Sage's property in their possession, of the appointment of Deloitte as the Receiver and the stay of proceedings;
- s. coordinated with the management to obtain a list of Company's independent contractors and consultants to advise of the receivership and to release Sage's books and records in their possession to the Receiver;
- t. continued monitoring the security and maintenance activities, movement of underground mining equipment to surface, dewatering activities related to with the Care and Maintenance Program on-site and continued assessing the effectiveness of the monitoring and testing procedures being carried out at the Clavos Property by representatives of Ritchie Services;
- u. ensured that backing up of electronic data at Clavos Property which was undertaken by Ritchie Services personnel and monitored by a representative of Deloitte;
- v. reviewing geological data, resource calculations, core sample inventory and drilling records and interviewing former independent contractors and representatives of Ritchie Services were undertaken by Receiver's staff with geotechnical and mining expertise;
- w. continued communication with representatives of provincial government Ministries to provide information regarding the current status of Sage's compliance with applicable laws and requirements, the environmental condition of the mine and potential steps to mitigate environmental risks at the Clavos Property through the receivership proceedings.

Other Activities of the Receiver

13. The Receiver completed the following activities since its appointment:

- 9 -

- a. established the Receiver's website and issued the Notice and Statement of Receiver pursuant to subsections 245(1) and 246(1) of the BIA. A copy of the notice is attached hereto as **Appendix "E"**. The prescribed notice pursuant to Section 245(2) also been provided to the Office of the Superintendent of Bankruptcy;
- b. notified the Company's bank, Royal Bank of Canada, of its appointment and requested all accounts be frozen for deposit only. The Receiver arranged for the opening of new bank accounts to facilitate future receipts and disbursements with respect to the administration of the receivership;
- c. informed the Canada Revenue Agency ("**CRA**") of the receivership and requested the establishment of a new HST account for the post-receivership period and audits of the pre-receivership HST and payroll accounts of Sage;
- d. provided notice of the Receiver's appointment to Hub International HKMB, the Company's insurance broker, who arranged for continued insurance coverage through the Company's insurer, Chubb Insurance Co. of Canada ("**Chubb**"). Additionally, the Receiver requested to be added as named insured and loss payee on the Company's policies with Chubb; and
- e. registered with Service Canada and calculated the *Wage Earner Protection Program Act* ("**WEPPA**") claims for the only former employee and forwarded the appropriate information to Service Canada.

Environmental and Regulatory Matters

14. Representatives of the Receiver and its legal counsel have continued to conduct regular conference call meetings with representatives of the Ministry of Environment, Conservation and Parks ("**MOECP**") and the Ministry of Northern Development, Mines and Forestry ("**MNDMF**"), collectively referred to as

- 10 -

“**Ministries**”, in order to assess the current status of the Clavos Property, environmental compliance and risks associated with the Clavos Property and collect copies of relevant current records and other matters.

15. Further to the Receiver’s discussions with the Ministries and its own due diligence, and subject to available financing, the Receiver has developed a go forward plan which involves placing mining activity at the Clavos Property on temporary suspension, and has shared this plan with the Ministries.
16. The Receiver contacted two licensed companies that have the capability to inspect, remove and transport explosive materials in order to remove the existing materials on-site and in this regard, the Receiver has prepaid for this service with the incumbent supplier. The supplier is scheduling an inspection and appropriate steps will commence within two weeks of the date of this Report.
17. The Receiver engaged a licensed contractor to inspect and pump the septic tank system at Clavos Property. The location of the septic bed has been flagged and marked.
18. A representative of the Receiver with appropriate technical qualifications reviewed the latest laboratory test results for water quality of the discharge and the latest reports by WSP in order to confirm water quality and volumes being discharged were within normal levels.

INTERIM FUNDING

19. To date, CRH has provided \$549,000 in funding through Receiver’s Certificates which has been utilized in the Care and Maintenance Program and in the receivership administration.
20. The Receiver has been working with CRH representatives to establish the budget and reporting processes in the receivership proceeding. Representatives of CRH have attended conference calls to review the actual expenditures and to discuss the forecasted expenditures.

21. As noted in previous reports the funding of the Care and Maintenance Program will be principally funded by Receiver's Certificates.

RECEIVER'S INTERIM RECEIPTS AND DISBURSEMENTS

22. Attached as **Appendix "F"** is the Interim Statement of Receipts and Disbursements for the period July 13, 2018 to August 17, 2018 (the "**Interim R&D**"). As at August 17, 2018, the closing cash balance was approximately \$483,000.

PROPOSED SALE AND INVESTOR SOLICITATION PROCESS

23. The Receiver and its legal counsel have developed the SISP with respect to the marketing and sale of the Property and solicitation of investment proposals from interested parties. A copy of the SISP is attached hereto as **Appendix "G"**. The Receiver is of the view that it is necessary to execute the SISP to properly market the Company's Property and is seeking approval from this Honourable Court to approve the SISP.

24. The following is a summary of the key components of the SISP (to be undertaken by the Receiver and its affiliate):

- a. the Receiver, including through its affiliate, DCFI, shall conduct the Solicitation Process as defined in the SISP;
- b. as soon as reasonably practicable after the granting of an Order approving the SISP, the Receiver shall issue a press release announcing this SISP;
- c. the Receiver, will prepare a list of potential bidders in respect of a Sale or an Investment in Sage (the "**Known Potential Bidders**"). The Secured Creditor may identify any parties to the Receiver which shall be included in the list of Known Potential Bidders;

- 12 -

- d. the Receiver, will prepare an initial offering summary (the “**Teaser Letter**”) notifying prospective buyers of the existence of the SISP and inviting such parties to enter into a confidentiality agreement (“**Confidentiality Agreement**”) in order to receive further information;
- e. following the execution of a Confidentiality Agreement and submission of documentation to the Receiver demonstrating that a party has the financial and other capabilities to consummate a Sale or an Investment in Sage, that party shall be deemed to be a potential bidder (“**Potential Bidder**”);
- f. the Receiver, based on the criteria set out in the SISP, will make a determination as to whether a Potential Bidder is a “**Qualified Phase 1 Bidder**” as promptly as practicable, but not later than five (5) Business Days after a Potential Bidder delivers all of the materials required. The Receiver will promptly notify the Potential Bidder that it is a Qualified Phase 1 Bidder;
- g. the Receiver will establish an electronic data room containing detailed relevant information related to Sage Property for sale and the debt and equity interests in Sage;
- h. the Receiver will make due diligence materials and information relating to the Sage Property and the debt and equity interests in Sage available to Potential Bidders as the Receiver deems appropriate;
- i. Qualified Phase I Bidders interested in submitting non-binding indications of interest to acquire all, or substantially all of the Sage Property or to invest in Sage (each a “**Non-Binding Indication of Interest**”) must deliver a Non-Binding Indication of Interest to the Receiver by 5:00 p.m. (Toronto time) on September 28, 2018, or such later date or time as the Receiver may determine appropriate (the “**Phase 1 Bid Deadline**”);
- j. a Non-Binding Indication of Interest will be considered a “**Qualified Non-Binding Indication of Interest**” only if it is submitted by a Qualified Phase 1 Bidder, received on or before the Phase 1 Bid

- 13 -

Deadline, and contains the necessary information described in the SISP, including the intention to make a Sale Proposal or to make an Investment Proposal;

- k. following the Receiver's assessment, each Qualified Phase 1 Bidder who has submitted a Qualified Non-Binding Indication of Interest may be accepted as a "**Qualified Phase 2 Bidder**". Pursuant to the SISP, if CRH executes a Confidentiality Agreement, it will be deemed to be a Qualified Phase 2 Bidder and may, upon notice to the Receiver (within 5 days of the commencement of Phase 2 of the process), participate in Phase 2 of the sales process;
- l. a Sale Proposal submitted by a Qualified Phase 2 Bidder will be considered a "**Qualified Purchase Bid**" and an Investment Proposal submitted by a Qualified Phase 2 Bidder will be considered a "**Qualified Investment Bid**" only if they comply with all of the SISP requirements;
- m. a Qualified Phase 2 Bidder must deliver a Qualified Purchase Bid or Qualified Investment Bid, (each a "**Qualified Bid**") to the Receiver by no later than 5:00 p.m. (Toronto time) on October 29, 2018, or such later date or time as the Receiver may determine appropriate (the "**Phase 2 Bid Deadline**");
- n. the Receiver will assess and consider whether the Qualified Bid(s), if any, are likely to be consummated and in the best interests of stakeholders of Sage and may select Qualified Bids for further negotiation and/or clarification of any terms or conditions before identifying the highest or otherwise best Qualified Bid(s) received (the "**Successful Bid**"). The Qualified Bidder(s) who made the Successful Bid is/are the successful bidder ("**Successful Bidder**");
- o. The Receiver, will finalize definitive agreements in respect of the Successful Bid conditional upon approval by the Court; and
- p. in the event that no Qualified Bid was received, or at least one Qualified Bid was received but it is not likely that the transactions contemplated in such Qualified Bids will be consummated, the

- 14 -

Receiver shall notify the Secured Creditor within ten (10) business days of such determination and file an application with the Court seeking directions. The Secured Creditor shall have the option within five (5) business days from such determination to submit a credit bid (that would constitute a binding agreement if accepted) even if they did not submit a credit bid at any other point during Phase 1 or Phase 2, and notwithstanding the receipt of any new information regarding bids or offers after the commencement of Phase 2.

25. CRH is permitted to participate in the Solicitation Process as prescribed in the SISP. Should CRH wish to participate in the Solicitation Process, its rights to consult with the Receiver during the Solicitation Process are limited.

26. The key activities and estimated timelines of the SISP are summarized below:

Summary timelines of the SISP		
Phase/Event	Date	Description of Activities
SISP Order	August 29, 2018	➤ If authorized, the Court grants an order approving the sales process (the “ SISP Order ”).
Publication Notice		➤ As soon as reasonably practicable after the granting of the SISP Order, the Receiver shall issue a press release announcing the SISP.
Phase 1		<ul style="list-style-type: none"> ➤ Indications of Interest for the Company. ➤ The Receiver will promptly identify and notify Qualified Phase 1 Bidders. ➤ Qualified Phase 1 Bidders may submit Non-Binding Indications of Interest in a sale or investment in the Company. ➤ For a period of approximately 30 days after the granting of the SISP Order.
Phase 1 Bid Deadline	September 28, 2018	<ul style="list-style-type: none"> ➤ To occur at 5:00 pm on September 28, 2018. ➤ All Qualified Non-Binding Indications of Interest will be considered in regard to the requirements of the SISP.
Assessment of Non-Binding Indications of Interest		➤ As promptly as practicable after the Phase 1 Bid Deadline, each Qualified Non-Binding Indication of Interest will be assessed to determine whether it is a Qualified Phase 2 Bidder to move onto Phase 2.
Phase 2		<ul style="list-style-type: none"> ➤ Solicitation of Qualified Purchase Bid or Qualified Investment Bid. ➤ The Secured Creditor may declare its intention to make a Qualified Purchase Bid and deliver a Bid Notice within five days of the commencement of Phase 2. ➤ For a period of approximately 30 days following the Phase 1 Bid Deadline.

Phase 2 Bid Deadline	October 29, 2018	<ul style="list-style-type: none"> ➤ To occur at 5:00 pm on October 29, 2018. ➤ A Qualified Phase 2 Bidder must deliver a Qualified Purchase Bid or Qualified Investment Bid to the Receiver prior to the Phase 2 Bid Deadline.
Evaluation and Selection of the Successful Bid		<ul style="list-style-type: none"> ➤ Terms of all Qualified Purchase Bid or Qualified Investment Bid will be clarified. ➤ The Receiver may select Qualified Bids for further negotiation and/or clarification of any terms or conditions of such Qualified Bids, including the amounts offered, before identifying the Successful Bid. ➤ Upon completion of any further negotiations or clarifications, the Receiver will identify the Successful Bid and may identify a next highest or otherwise best Qualified Bid received (such offer, the "Backup Bid").
Approval Hearing	November 12, 2018 or such other date as the Receiver may determine necessary and the Court may hear the Receiver's motion	<ul style="list-style-type: none"> ➤ After the Successful Bid and Backup Bid have been finalized in accordance with the SISP, the Receiver shall seek a hearing as soon as practicable on a date to be scheduled by the Court that will permit not less than two full business Days' notice to the service list (the "Approval Hearing") to approve the Successful Bid or the Backup Bid should the Successful Bid not close for any reason.

CONCLUSIONS AND RECOMMENDATIONS

27. We submit this First Report in support of the Receiver's motion to this Honourable Court making orders:

- a. Approving the SISP proposed and developed by the Receiver and its legal counsel in consultation with CRH and its legal counsel in respect of the Property and authorizing and directing the Receiver (including through its affiliate, DCFI) to take all steps and actions necessary to implement, conduct and carry-out the SISP.
- b. Approving the Receiver's Interim Statement of Receipts and Disbursements for the period from July 13, 2018 to August 17, 2018;
- c. Approving the activities of the Receiver since the July 13, 2018; and
- d. Providing such other relief that this Honourable Court considers just and warranted in the circumstances.

All of which is respectfully submitted at Toronto, Ontario this 21st day of August, 2018.

Deloitte Restructuring Inc.,
solely in its capacity as the
Receiver of Sage Gold Inc., and not in its personal
capacity

A handwritten signature in blue ink, appearing to read "Biehler".

Per:

Rob Biehler, CPA, CA, CIRP, LIT
Senior Vice-President