

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

**SUPPLEMENT TO THE
SECOND REPORT OF THE RECEIVER
DELOITTE RESTRUCTURING INC.
DATED DECEMBER 20, 2018**

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INTRODUCTION AND PURPOSE OF REPORT

1. The purpose of this report is to provide this Honourable Court with an update regarding recent material events in the Receivership proceedings since our second report filed on December 12, 2018 (the “**Second Report**”) and seek directions and obtain appropriate relief.
2. Capitalized terms not otherwise defined herein shall have the meanings attributed to them in the Second Report.

BACKGROUND

3. As noted in the Second Report, the Receiver has been administering the final stages of the sale and investment solicitation process approved by this Court on August 29, 2018 and, until the occurrence of the events described below, the Receiver had been in the process finalizing one or more transactions (including the CRH Credit Bid.)
4. In connection with those transactions, and with CRH’s consent and support, the Receiver served a motion returnable on December 18, 2018 for an order approving the Priority Claims Process and an order increasing the Receiver’s Borrowings Charge from \$1.0 million to \$2.0 million.
5. Throughout the receivership proceedings, CRH has provided funding on an as needed basis since the commencement of these Receivership Proceedings. The Receiver has issued five (5) separate Receiver’s Certificates evidencing advances totaling \$899,000 in borrowings authorized under the Receiver’s Borrowings Charge. Advances have been used to fund operations, primarily at the Clavos Project¹, including the environmental Care and Maintenance Program described in the Second Report.

¹ Clavos Property means (i) the area located about 46 kilometres northeast of Timmins, Ontario, and centred at 514000 E and 5384000 N in NAD83, Zone 10, presently consisting of 73 contiguous leased and/or patented claims, unpatented claims and mining leases covering 2,540 hectares, as further described in the schedules to the SISP; (ii) and any and all real property interests, mineral claims, mineral leases, and any related rights, concessions or interests, owned or in respect of which an interest is held in respect of the Clavos Project, directly or indirectly, by Sage and includes all buildings, structures, improvements, appurtenances and fixtures thereon or attached thereto, whether created privately or by the action of any

6. In light of the higher operating costs being incurred during the winter and the upcoming holiday season as part of the Care and Maintenance Program during the week ending on December 14th, and minimal cash in the Receiver's bank account, the Receiver urgently requested an additional \$100,000 to provide funding within the authorized Receiver's Borrowings Charge, plus an amount to be determined prior to December 21st on the basis that the requested increase to the Receiver's Borrowings Charge would be granted by this Honourable Court. CRH indicated to the Receiver that it was concerned with the ongoing carrying costs of the mine.

DECEMBER 14, 2018

7. Over the course of December 14, 15, 16 and 17, 2018, the Receiver engaged CRH in urgent business discussions to obtain a commitment from CRH to fund operations during the holiday period and during the period up to January 31, 2019 in order to complete the sale and investment solicitation process. The Receiver was unable to secure committed funding by the morning of December 18, 2018.
8. In light of the insufficient funding in place for the Receiver, the Receiver advised CRH that it would be taking immediate steps to notify the Director of Mine Rehabilitation, along with representatives of the Ministry of the Environment, Conservation and Parks and the Ministry of Northern Development and Mining, that the Receiver may have no choice but to abandon the Clavos Property as early as December 27, 2018. Such communication was provided to the various government authorities on the morning of December 18, 2018.

governmental authority; (iii) any term extension, renewal, replacement, conversion or substitution of any such real property interests, mineral claims, mineral leases, and any related rights, concessions or interests, owned or in respect of which an interest is held, directly or indirectly, by Sage; and (iv) and all other present and after-acquired real or personal property or other assets and rights (including water rights and surface rights) of Sage in respect of the Clavos mining, exploration and development project described in the Affidavit of Andrew Wehrley sworn on July 10, 2018 in support of the appointment of the Receiver.

DECEMBER 18, 2018

9. On December 18, 2018, the Receiver's counsel appeared before the Honourable Justice Dunphy to request the adjournment of the motion to approve the Priority Claims Process and to advise the Court of the uncertainty of additional funding and the potential need for the Receiver to abandon the Clavos Property.
10. On the evening of December 18, 2018, the Receiver's counsel served a short notice of motion on the e-service list for a motion to abandon the Clavos Property returnable on December 21, 2018.

DECEMBER 19-20, 2018

11. The Receiver and its legal counsel had several discussions with CRH and its counsel over the course of December 19 and December 20, 2018. At CRH's request, the Receiver provided its most up to date funding projections which were prepared under various scenarios, including the costs associated with putting the Clavos Property into a formal "state of inactivity" in accordance with applicable environmental legislation.
12. The Receiver and its counsel also continued its discussions with representatives of the Director of Mine Rehabilitation to discuss a smooth turnover of the Clavos Property on or before December 27, 2018, should such a turnover be required. In addition, representatives of the Director of Mine Rehabilitation attended at the Clavos Property on December 19, 2018 to conduct a pre-abandonment inspection.

DECEMBER 20, 2018

13. On the afternoon of December 20, 2018, the Receiver received confirmation from CRH that it had initiated a wire in the amount of \$190,000 to the Receiver's trust account. This amount is sufficient to continue activities at the Clavos Property until January 3, 2019. The short-term funding was provided by CRH in order to give the Receiver an opportunity to finalize one or more sale agreements with the SISP Participants, in light of CRH's withdrawal of the CRH Credit Bid.
14. In the event that the Receiver is successful in obtaining sale agreements acceptable to CRH, it expects CRH to provide such additional funding as may be necessary to close those transactions.

15. In the meantime, the Receiver is currently discussing the parameters on which CRH would be prepared to continue funding the receivership proceedings in order to transition the Clavos Property to a “state of inactivity” should an acceptable transaction be unavailable. Those discussions have included detailed plans for financing the necessary operational work and a potential path through to early spring, along with a possible further attempt to sell the inactive Clavos Property.
16. While those discussions continue, the Receiver is mindful that absent committed financing, it may need to abandon the Clavos Property as early as January 3, 2019. Accordingly, given the funding and time constraints at play, the Receiver believes that it is reasonable and appropriate to amend the Receivership Order to allow the Receiver to abandon the Clavos Property on two (2) business days notice to the Director of Mine Rehabilitation, rather than having to schedule a further court appearance.

CONCLUSIONS AND RECOMMENDATIONS

17. We submit this Supplementary to the Second Report to in support of the Receiver’s motion to this Honourable Court making orders:
 - a. amending paragraph 16 of the Receivership Order in accordance with the draft order attached to the Receiver’s motion record; and
 - b. 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 20th day of December, 2018.

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



Per:

Philip J. Reynolds, CPA, CA, CIRP, LIT
Senior Vice-President



Per:

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