

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

BETWEEN:

CRH FUNDING II PTE. LTD.

Applicant

- and -

SAGE GOLD INC.

Respondent

**SECOND SUPPLEMENT TO THE
SECOND REPORT OF THE RECEIVER
DELOITTE RESTRUCTURING INC.**

DATED JANUARY 8, 2019

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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 supplemental report filed on December 20, 2018 (the “**First Supplemental Report**”). Please be advised that this report should be read in conjunction with the First Supplemental Report.
2. Capitalized terms not otherwise defined herein shall have the meanings attributed to them in the Second Report.

BACKGROUND

3. The First Supplemental Report was filed in order to advise the Court and Sage’s stakeholders of the potential risk that the Receiver would not have sufficient funding to continue the environmental Care and Maintenance Program at the Clavos Property past January 3, 2019, which could necessitate the Receiver’s abandonment of the site.
4. As noted in Paragraph 13 in the First Supplemental Report, on December 20, 2019, the Receiver borrowed an additional \$190,000 advance from CRH. These funds were provided to continue the environmental Care and Maintenance Program through January 3, 2019 to allow for continued negotiations with interested parties for the divestiture of the Clavos Property.
5. Pursuant to an Order of this Honourable Court dated December 21, 2018, Her Majesty the Queen in right of Ontario (“**HMQ**”) was granted a charge (the “**Abandonment Cost Charge**”) on all real property comprised of the Clavos Property (as defined in the Supplementary Report) in an amount not to exceed \$50,000, as security for out of pocket costs and expenses actually incurred by HMQ in respect of non-environmental remediation at the Clavos Property in respect of an abandonment of the Clavos Property. CRH consented to the granting of the Abandonment Cost Charge.

6. In addition, Paragraph 16 of the Receivership Order was modified to permit the Receiver to abandon all or any of the Property on two business days' written notice to the Director of Mine Rehabilitation describing the abandoned Property. CRH consented to this modification to the Receivership Order.
7. At the December 21, 2018 hearing, CRH's counsel advised the Court that its client intended to continue to work with the Receiver to settle an appropriate funding solution for the Clavos Property. Counsel to CRH also handed-up to His Honour, Mr. Justice Dunphy, a copy of a letter delivered by CRH to the Receiver setting out a proposal to fund the Clavos Property into 2019 (the "**CRH Funding Proposal**") on certain terms. The CRH Funding Proposal is attached hereto as Schedule "A".

ACTIVITIES SINCE DECEMBER 21, 2019

8. Following the December 21, 2018 hearing, the Receiver continued its marketing efforts with SISP Participants and other potential interested parties in addition to continuing Care and Maintenance activities. These activities have included,
 - a. Facilitating on-site attendances by an interested party;
 - b. Ongoing discussions and negotiation of asset purchase agreement terms with an interested party for the Onaman Property;
 - c. Calls and correspondence with six (6) interested parties for the Clavos Property;
 - d. Calls and correspondence with CRH to provide updates about these activities and to discuss other potential opportunities for the Clavos Property, including putting the mine into state of inactivity or other marketing efforts.
 - e. Discussions with mine staff about Care and Maintenance activities and questions and responding to requests by Ministry representatives; and

9. Engaging in conference calls and other discussions with Ministry representatives about the potential abandonment and facilitating a second visit from Ministry representatives on January 7, 2019.
10. During that period, the Receiver and CRH discussed the terms of potential further financing of the Clavos Project. However, despite the Receiver's continued efforts to achieve a sale transaction in respect of Sage Gold's property, by January 3, 2019, it had not entered into any agreements of purchase and sale for the Clavos Property, the Onaman Property or any other of Sage Gold's assets. In light of those circumstances, CRH was not prepared to commit to providing further financing.

NOTICE OF ABANDONMENT

11. The Receiver estimated that it had insufficient funds to continue operations at the Clavos Property past January 7, 2019. Accordingly, it had no other choice but to seek to turn over the care and maintenance of the Clavos Property to the Director of Mine Rehabilitation by issuing a notice under paragraph 16 of the Receivership Order (as amended).
12. On January 3, 2019, the Receiver provided its written notice to the Director of Mine Rehabilitation that it intended to abandon, renounce and divest its control (and ancillary possession), if any, of the Clavos Property, all without prejudice to the Debtor's interest in such property and rights and interests of creditors (including creditors with security arising as a consequence of the Receivership Order), effective January 8, 2019. The notice was circulated to the Service List in accordance with the Receivership Order.
13. Since delivery of the abandonment notice, the Receiver has been in close communication with staff for the Director of Mine Rehabilitation to ensure a smooth transfer of responsibility for the site. Notwithstanding having issued its notice of abandonment, the Receiver has worked hard (with assistance from CRH) during the notice period to secure a binding agreement for the sale of the Clavos Property, subject to satisfactory arrangements with the Ministry of Energy, Northern Development and Mines.

All of which is respectfully submitted at Toronto, Ontario this 8th day of January, 2019.

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 "Philip J. Reynolds".

Per:

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

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

Per:

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

Schedule "A" – see attached.



CARTESIAN *Royalty Holdings*

10 Changi Business Park Central 2, #05-01
Hansapoint @CBP
Singapore (486030)

December 20, 2018

Dear Phil and Rob,

Thank you for your efforts. We are prepared to proceed subject to the following plan:

Expedited Sale to be Completed Prior to January 3, 2019:

- Your team endeavors to complete the sale of Onamon promptly for C\$342,500;
- Your team pursues a sale of Clavos to Abbey (or McEwen) at least C\$3.5 million.

Absent a Sale by January 3, 2019:

- Under your supervision, Clavos will be transitioned into a state of inactivity. This would include activities listed in the attached spreadsheet, in the tab "Scenario 2_A", in the cells C6:C12 and C26:C30 for January.
- Completion of this activity would be subject to a competitive bidding process.
- You will endeavor to complete these activities in January for a total cost of less than C\$395,000.
- You will endeavor to maintain monthly costs thereafter at less than C\$45,000. This would include activities listed in the attached spreadsheet, in the tab "Scenario 2_B", in the cells C26:C30 for February and each subsequent month.
- We will work with you to maximize recovery amounts, for example, through capture of salvage value of equipment, additional HST rebates, and securing a credit from Bob Ritchie for his firm's past services.
- Beginning early March, we would work with you to approach potential acquirors of the inactive property.

On the basis of the foregoing, we have wired C\$190,000 today to fund in full the receivership and sales process and accrued expenses through January 3. The specific activities are described in the attached spreadsheet, in the tab "Scenario 1", in the cells C6:C10.

Please confirm your understanding of the foregoing by signing and returning a copy of this letter.

Thank you again for your support. Best wishes for the holiday season.

Peter Yu

Director
CRH Funding II Pte. Ltd.

ACKNOWLEDGED BY:
