

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

BETWEEN:

**CRH FUNDING II PTE. LTD.**

Applicant

- and -

**SAGE GOLD INC.**

Respondent

**REPORT OF THE PROPOSED RECEIVER**

**DELOITTE RESTRUCTURING INC.**

**DATED JULY 12, 2018**

## INTRODUCTION

1. This report (“**Report**”) is filed by Deloitte Restructuring Inc. (“**Deloitte**”) as proposed receiver over the assets, property and undertakings (the “**Property**”) of Sage Gold Inc. (“**Sage**” or the “**Company**”).
2. The application for the appointment of Deloitte as Receiver is being made by CRH Funding II Pte. Ltd. (“**CRH**”), the senior secured creditor of the Respondent.
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”.
4. Sage is primarily engaged in the exploration of gold in Ontario Canada. Its main properties consists of the Clavos property (the “**Clavos Property**”) located near Timmins and the Onaman property northeast of Thunder Bay (the “**Onaman Property**”).
5. As set out in the Affidavit of Andrew Wehrley sworn on July 10, 2018, Sage is in default of its obligations under a Gold Purchase Agreement dated November 17, 2016 and the obligations owed by Sage to CRH are secured pursuant to a Debenture dated November 17, 2016.
6. On June 25, 2018, CRH issued a Notice of Intention to Enforce Security pursuant to section 244 of the *Bankruptcy and Insolvency Act* (Canada) (the “**244 Notice**”) with a view to seeking the appointment of Deloitte as receiver.
7. On July 10, 2018, Sage publicly announced its financial results for the quarter-ended March 31, 2018, it suffered a net loss of approximately \$3.0 million, and EBITDA (a proxy for cash flow) was approximately negative \$2.5 million.

8. The purpose of the proposed receivership proceedings is to secure the Property, complete the process of placing the mines on care and maintenance and for the receiver to realize on the Property.
9. The purpose of this Report is to provide this Honourable Court with the observations of Deloitte based on its recent attendance on site at the Clavos Property.
10. All references to currency are in Canadian dollars unless otherwise noted.

#### **TERMS OF REFERENCE**

11. In preparing this Proposed Receiver's Report, Deloitte has relied upon unaudited financial information, discussions with representatives of Ritchie Services (defined below) who are engaged in Sage's mining operations. The Proposed Receiver has not performed an audit or other verification of such information and accordingly, the Proposed Receiver expresses no opinion or other form of assurance in respect of such information contained in this Proposed Receiver's Report.

#### **RECEIVER'S ATTENDANCE**

12. On Friday July 6, 2018, Mr. Nigel Lees, Chief Executive Officer of Sage permitted representatives of Deloitte to attend, on an short term basis, at Sage's primary mine at the Clavos Property in order to assess the situation, inspect the property and meet with representatives of the contract mine manager, R. Ritchie Services Ltd. ("**Ritchie Services**").
13. Sage does not have any of its own employees that work at the Clavos Property or the Onaman Property. Sage retains Richie Services as the contract mine manager and Ritchie Services directly engages employees that attend at Clavos Property to carry out the required activities and care and maintenance operations. Sage is invoiced by Ritchie Services for the manpower and supplies utilized at the Clavos Property. Accordingly, Ritchie Services is very familiar with the operations at the Clavos Property.

14. Commencing Saturday July 7, 2018, Rob Biehler, Senior Vice-President of Deloitte attended at the Clavos Property and met with Bob Ritchie, P. Eng., principal of Ritchie Services, mine project manager and Qualified Person (i.e. a defined term in the mining industry that reflects subject matter expert possessing technical skills and experience in mineral exploration, mine development and operations), Ross Penney, mine superintendent and Keith Gage, mining compliance administrator.
15. The Receiver's representative attended the Clavos Property on a daily basis until Tuesday July 10, 2018, and completed the following activities:
  - a) Interviewing representatives of Ritchie Services with a view to understand the care and maintenance and physical security activities being carried out at the Clavos Property, in addition to the proposed budget for manpower and operating supplies and adequacy of capital resources (collectively "**Care and Maintenance Program**");
  - b) Identifying risks and status of key suppliers of Sage impacting the Care and Maintenance Program;
  - c) Reviewing the status of payment arrangements with Ritchie Services and the impacted employees that work on-site at Clavos Property;
  - d) Reviewing the status of the staff's environmental compliance monitoring and reporting practices;
  - e) Reviewing the status of compliance in respect of matters related to Ministry of Labour ("**MOL**") and Ministry of Environment, Conservation and Parks ("**MOE**"); and
  - f) Other matters impacting the stakeholders, including CRH.

## **PROPOSED RECEIVER'S OBSERVATIONS**

16. Sage is facing severe liquidity and other issues which impact the Company's ability to effectively complete and continue the Care and Maintenance Program. These issues include:

- a) Sage has not provided a payment to Ritchie Services since mid-May 2018. Bob Ritchie estimates that his company is owed over \$1.4 million by Sage and as a result it has ceased making payroll and other payments to its employees that work at the Clavos Property;
- b) In order to complete and continue the Care and Maintenance Program, Ritchie Services will require a minimum of 8 employees, including Bob Ritchie, in light of the various roles and 24 hour, 7 day nature of the security and operations required;
- c) Ritchie Services employees are paid on the 10<sup>th</sup> and 25<sup>th</sup> of the month for work completed up to the last day of the month prior and 15<sup>th</sup> day, respectively. The latest day of payment that these employees have been paid is May 25, 2018 and therefore the employees that have continued the Care and Maintenance Program for Sage are approximately 45 days in arrears. Deloitte was advised that the significant majority of the remaining former employees of Ritchie Services serving Sage have been laid off or have resigned;
- d) the purchase of consumable materials, including diesel fuel, water treatment chemicals, mobile equipment parts, pump parts, etc. are critical to the effective execution of the Care and Maintenance Program. Sage does not have sufficient funding the secure supply of these materials;
- e) Deloitte has requested from management, but has not received, confirmation of the payment of insurance premiums to date, and therefore it is unclear whether Sage currently has insurance coverage in place;

- f) Two key suppliers that Sage requires for its MOE reporting, Testmark Laboratories Ltd. who test the quality of water discharged into the environment, and WSP Canada Inc. who provide reporting on the Company's water sampling volumes and other parameters have ceased providing information to the Company. It is unclear whether the water samples have been tested and the recent results are unknown to the Company;
  - g) Sage has seven (7) underground pumps in the mine down to the 261 meter level. These pumps are discharging water out of the mine at the rate of approximately 750,000 L per day as part of the Care and Maintenance Program. The pumping is necessary to maintain the water levels. Sage only has one spare pump in the case of a failure; and
  - h) Bob Ritchie advises that the pumps operate solely on electrical power and that to his knowledge the Hydro One invoice has not been paid in at least 90 days. If power service is terminated, pumping would stop and the resulting rise in water levels would place the underground equipment in peril and potentially diminish the economic recovery in respect of the mine. In addition, the underground equipment, such as transformers and electrical equipment, contain contaminants and therefore maintaining the water levels at safe levels is important for environmental compliance.
17. There is one outstanding order issued by the MOL and three outstanding orders issued by the MOE orders which cannot be addressed without additional liquidity and appropriate management.
18. The outstanding MOL order relates to the required installation of a tester for the brightness, which is measured in lumens, of the miners' hats.
19. The MOE orders are effective June 8, 2018 and are in respect of the installed septic tank and septic bed adjacent to the office facility at the Clavos Property. These orders, include:

- a) the need for signage and markers of the septic system by July 1, 2018 and Sage has addressed this action;
  - b) the inspection of the septic system and assessment of the impact of potential damage caused by equipment by July 31, 2018; and
  - c) a submission of an Environmental Compliance Assessment amendment to amend Sage's permit to include the design of the septic system which Sage built without obtaining appropriate permits.
20. Bob Ritchie and Keith Gage of Ritchie Services have indicated that Sage does not have the financial resources to comply with these orders by these deadlines. Although an extension of the deadline may be granted, Sage's ability to comply is questionable in the current circumstances.
21. Representatives of Ritchie Services have advised that their own testing of the water quality and volumes have been continued at the Clavos Property and that results are within required thresholds. Deloitte has been advised that Sage is currently compliant with MOE reporting deadlines. However, without the continued service by third-party verified information the future reporting deadlines appear to be at risk.
22. Executing the Care and Maintenance Program safely and effectively is critical to preserving the value of the Property.
23. Ritchie Services representatives advise that the diesel air compressor has been repossessed and that an immediate replacement is necessary to provide emergency air to the underground levels of the mine. Sage does not have a planned replacement or funding to put this into place.

All of which is respectfully submitted at Toronto, Ontario this 12<sup>th</sup> day of July, 2018.

**Deloitte Restructuring Inc.,**  
solely in its capacity as the  
Proposed Court-appointed 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