

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c.C-36 AS AMENDED**

**AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
EXPRESS GOLD REFINING LTD.**

**SECOND REPORT OF THE MONITOR
December 10, 2020**

INTRODUCTION

1. On October 15, 2020 (the “**Filing Date**”), Express Gold Refining Ltd. (“**EGR**” or the “**Applicant**”) filed for and obtained protection under the *Companies’ Creditors Arrangement Act* (the “**CCAA**”). Pursuant to the Order of this Court granted October 15, 2020 (as may be amended, restated or supplemented from time to time, the “**Initial Order**”), Deloitte Restructuring Inc. (“**Deloitte**”) was appointed as the Monitor in these proceedings (in such capacity, the “**Monitor**”). The Initial Order also provided for, among other things, a stay of proceedings with respect to the Applicant until and including October 19, 2020 (the “**Stay Period**”). In his endorsement, Justice Hainey scheduled the comeback hearing (the “**Comeback Hearing**”) for October 19, 2020.
2. On October 18, 2020, Deloitte filed the First Report of the Monitor (the “**First Report**”) which, among other things, described the activities of EGR and the Monitor and the monitoring protocol established and being implemented, in conjunction with the Applicant,

with respect to the business operations of EGR. A copy of the First Report is available on the Monitor's case website at www.insolvencies.deloitte.ca/en-ca/ExpressGoldRefiningLtd (the "**Monitor's Website**").

3. At the Comeback Hearing on October 19, 2020, Justice McEwen amended the Initial Order (the "**Amended Initial Order**") to, among other things, extend the Stay Period until and including October 27, 2020.
4. On October 27, 2020, the Amended Initial Order was amended a second time (the "**Second Amended Initial Order**") to approve the monitoring protocol (the "**Monitoring Protocol**") agreed to among the Applicant, the Canada Revenue Agency ("**CRA**") and the Monitor, and to extend the Stay Period until and including December 15, 2020.

PURPOSE

5. The purpose of this second report of the Monitor (the "**Second Report**") is to provide the Court with information and updates on the following:
 - a) the activities of EGR and the Monitor from October 27, 2020 to the date of this Second Report;
 - b) the cash flow forecast for the 6-week period from October 16 to November 27, 2020 included in the Pre-Filing Report and results relative to forecast;
 - c) EGR's revised cash flow forecast (the "**Revised Cash Flow Forecast**") for the 16-week period from November 30, 2020 to March 19, 2021 and the Monitor's comments thereon; and

- d) the Monitor's recommendation regarding the Company's request to extend the Stay Period until March 15, 2021.
6. This Second Report should be read in conjunction with the Affidavit of Atef Salama sworn December 9, 2020 in support of the Applicant's motion for the extension of the Stay (the "**Salama Affidavit**").

TERMS OF REFERENCE AND DISCLAIMER

7. In preparing this Second Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by EGR, and discussions with management of the Applicant ("**Management**") (collectively, the "**Information**").
8. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Generally Accepted Assurance Standards ("**Canadian GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.
9. Some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

10. Future oriented financial information referred to in this Second Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
11. This Second Report does not include any consideration of the likely impact of the Covid-19 pandemic ("Covid-19") on sales, supply chain or any other aspect of the business of the Applicant as the situation is continuing to evolve, and many uncertainties remain as to the effect the Covid-19 crisis will have on the Applicant and the broader domestic and global economies. Changes to market conditions could substantively affect the Applicant and this Report.
12. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

ACTIVITIES OF EGR SINCE OCTOBER 27, 2020

13. The activities of EGR since October 27, 2020 are set out in the Salama Affidavit at paragraph 9, and such activities of EGR that are related to or arising out of these CCAA Proceedings include:
 - a) Complying with the terms of the Monitoring Protocol;
 - b) Continuing to manage its relationships with customers and suppliers to minimize business disruptions;

- c) Continuing to operate its business during the lockdown (the “**Temporary Lockdown**”), effective November 23, 2020, in the City of Toronto, as a “business that may open” pursuant to Schedule 2 of Ontario Regulation 654/20 made under the *Reopening Ontario (A Flexible Response to COVID-19) Act, 2020* (the “**Regulation**”);
- d) Together with its counsel, the Monitor and the Monitor’s counsel, holding discussions with General Counsel for Justice Canada, and CRA regarding the development and implementation of proposed amendments to the Monitoring Protocol in response to the Temporary Lockdown;
- e) Continuing to provide regular updates and information to the Monitor with respect to the business; and
- f) Continuing to advance the Commodity Tax Dispute (a status update of the Commodity Tax Dispute is provided in paragraphs 26 to 29 of the Salama Affidavit).

ACTIVITIES OF THE MONITOR SINCE OCTOBER 27, 2020

- 14. Since October 27, 2020, the Monitor has undertaken the following activities:
 - a) Monitored EGR’s business in accordance with the Monitoring Protocol;
 - b) Together with its counsel, reviewed Schedule 2 of the Regulation and concurred with EGR that EGR appears to qualify as a “business that may open” during the Temporary Lockdown;

- c) Communicated with the Applicant's restructuring counsel regarding developments in the CCAA Proceedings and the Applicant's tax counsel regarding the status of developments in the Commodity Tax Dispute;
- d) Communicated with CRA regarding the Applicant's monthly GST/HST filings;
- e) Communicated with General Counsel for Justice Canada regarding developments in the CCAA Proceedings;
- f) Assisted EGR in preparing the Revised Cash Flow Forecast and cash flow variance reporting; and
- g) Attended to various inquiries which the Monitor received from EGR's creditors and other interested parties through either the Monitor's telephone hotline or by e-mail. One particular creditor disclosed to the Monitor that CRA has issued a demand letter for payment of amounts corresponding to amounts owing from EGR. The Monitor has raised this issue with General Counsel for Justice Canada.

CASH FLOW FORECAST AND RESULTS RELATIVE TO FORECAST

15. Summarized in the following table are EGR's actual cash receipts and disbursements for the 6-week period ended November 27, 2020 (the "**Reporting Period**") as compared to the corresponding weeks in the Cash Flow Forecast included in the Pre-filing Report.

Express Gold Refining Ltd.

Summary of Actual versus Forecast Cash Flows

For the 6-week period from October 16, 2020 to November 27, 2020

(SCAD '000s)

Unaudited

	Actual	Forecast	Variance	Note
Receipts				
Sales	8,911	13,942	(5,031)	A
HST refunds	0	0	0	
Interest income	0	2	(2)	
Other	3,841	0	3,841	B
Total Receipts	12,752	13,944	(1,192)	
Disbursements				
Purchases	9,584	13,136	3,552	C
HST	0	413	413	D
Salaries and wages	90	68	(21)	E
Consulting and professional fees	19	110	91	F
General Administrative Expenses	63	51	(12)	
Insurance	88	88	(1)	
Rent	30	14	(16)	G
Advertising and promotion	21	27	6	
Vehicle	4	3	(1)	
Freight	12	10	(2)	
Income Tax	10	20	10	H
Total Disbursements	9,921	13,940	4,019	
Net Cash Flow Before Litigation and Restructuring Costs				
	2,831	5	2,826	
Litigation Costs	15	300	285	I
Restructuring Costs	211	375	164	J
Total Litigation and Restructuring Costs	226	675	449	
Net Cash Flow	2,605	(670)	3,275	
Opening Cash	2,787	2,586	200	
Ending Cash	5,391	1,916	3,476	

16. EGR's actual net cash flow for the Reporting Period was approximately positive \$2.6 million, compared to forecast net cash outflow of \$670,000 resulting in a favourable variance of \$3.3 million. The following are the reasons for the major variances, identified by the Notes in the above table:

- a) An unfavourable variance of \$5.0 million in sales receipts is a permanent difference due to decreased customer traffic as a result of Covid-19 and the CCAA Proceeding. Total sales were less than total purchases over the Reporting Period; this is a timing difference expected to reverse in December. Management advised that because of the cash flow provided by the favourable variance of \$3.8 million in other receipts, EGR had sufficient liquidity available and did not require additional inventory to be sold;
- b) A favourable variance of \$3.8 million in other receipts is a permanent difference from Asahi Refining Canada Limited, a third-party refiner with in-house trading and treasury capabilities, settling EGR's trading positions, as permitted in respect of eligible financial contracts entered into before the CCAA proceedings;
- c) A favourable variance of \$3.6 million in purchases is a permanent difference due to decreased purchase volumes as a result of Covid-19 and the CCAA Proceedings;
- d) Actual HST paid for purchases of goods and services have been included under various disbursement line items. Total HST paid over the Reporting Period is approximately \$333,000. A favourable variance of \$80,000 is a permanent

difference due to decreased purchase volumes as a result of Covid-19 and the CCAA Proceeding;

- e) An unfavourable variance of \$21,000 in salaries and wages is a timing difference expected to reverse in the next pay period;
- f) A favourable variance of \$91,000 in consulting and professional fees is a permanent difference as actual disbursements were less than forecast;
- g) An unfavourable variance of \$16,000 in rent is a permanent difference due to the payment of October rent in November;
- h) An unfavourable variance of \$10,000 in income taxes is a timing difference expected to reverse in December;
- i) A favourable variance of \$285,000 in litigation costs is a permanent difference as actual disbursements were less than forecast; and
- j) A favourable variance of \$164,000 in restructuring costs is a timing difference expected to reverse in December.

APPLICANT'S REVISED CASH FLOW FORECAST

17. The Applicant, with the assistance of the Monitor, has prepared the Revised Cash Flow Forecast, which covers the period from November 30, 2020 to March 19, 2021 (the “**Revised Cash Flow Period**”) for the purposes of projecting the estimated results of the

Applicant's planned operations and other activities during the Revised Cash Flow Period. A copy of the Revised Cash Flow Forecast is attached as Appendix "A" hereto.

18. The Revised Cash Flow Forecast has been prepared by Management, using the probable and hypothetical assumptions set out in the notes to the Revised Cash Flow Forecast (the "Assumptions"), and is presented on a weekly basis during the Revised Cash Flow Period.
19. EGR's opening cash balance on November 30, 2020 was \$5.3 million. The forecast cash flow deficit for the Revised Cash Flow Period before litigation and restructuring costs is estimated to be \$348,598. Litigation and restructuring costs in connection with the Commodity Tax Dispute and the CCAA proceeding are estimated to be \$430,000 and \$1.2 million respectively over the Revised Cash Flow Period. The forecast cash flow deficit for the Revised Cash Flow Period after litigation and restructuring costs is estimated to be \$1.9 million, resulting in an estimated ending cash balance of \$3.4 million on March 19, 2021.
20. Accordingly, the Applicant has sufficient forecast liquidity during the proposed Stay Period.
21. The Monitor has reviewed the Revised Cash Flow Forecast to the standard required of a Court-appointed monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the monitor's findings. The Canadian Association of Insolvency and Restructuring Professionals' Standards of Professional Practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on a cash flow statement.

22. In accordance with the standard, the Monitor's review of the Revised Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to the Information. Since the Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Cash Flow Forecast. The Monitor also reviewed the support provided by Management for the Assumptions and the preparation and presentation of the Revised Cash Flow Forecast.
23. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in all material aspects, that:
 - a) the Assumptions are not consistent with the purpose of the Revised Cash Flow Forecast;
 - b) as at the date of this Report, the Assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Revised Cash Flow Forecast, given the Assumptions; or
 - c) the Revised Cash Flow Forecast does not reflect the Assumptions.
24. Since the Revised Cash Flow Forecast is based on Assumptions regarding future events, actual results will vary from the information presented even if the Assumptions occur, and the variations could be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flow Forecast will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Revised Cash Flow Forecast or relied upon by the Monitor in preparing this Report.

25. The Revised Cash Flow Forecast has been prepared solely for the purposes described above, and readers are cautioned that it may not be appropriate for other purposes.

COMMODITY TAX DISPUTE

26. The Monitor has initiated preliminary discussions separately with EGR and its tax counsel, and CRA and General Counsel for Justice Canada, with a view to obtain an understanding of the *status quo* of the Commodity Tax Dispute timeline and matters going forward. In addition, the Monitor is commencing its independent review of the details of the Commodity Tax Dispute to determine if an avenue exists, either through general financial or other assistance or facilities or procedures available under the CCAA, to expedite the overall resolution of the Commodity Tax Dispute.

STAY EXTENSION

27. The current Stay Period expires on December 15, 2020. The Applicant is seeking the extension of the Stay Period up to and including March 15, 2021 in order for the Applicant, with the assistance of the Monitor, to:
- a) preserve the *status quo* and continue to maintain the stability of operations;
 - b) provide the parties the opportunity to assess the effectiveness of the Protocol;
 - c) seek a resolution to the Commodity Tax Dispute with CRA; and
 - d) determine next steps in respect of the CCAA Proceedings.

28. As described above, the Revised Cash Flow Statement indicates that the Applicant will have sufficient liquidity during the Revised Cash Flow Period.
29. In the Monitor's view, the Applicant has acted and continues to act in good faith and with due diligence in the CCAA Proceedings.
30. The Monitor supports EGR's request for the extension of the Stay Period to March 15, 2021.

All of which is respectfully submitted this 10th day of December, 2020.

**Deloitte Restructuring Inc.,
Solely in its capacity as Court-appointed Monitor
of Express Gold Refining Ltd.**

A handwritten signature in black ink, appearing to read "Phil Reynolds".

Phil Reynolds, LIT
Senior Vice-President

A handwritten signature in black ink, appearing to read "Warren Leung".

Warren Leung, LIT
Vice-President

APPENDIX “A”

Express Gold Refining Ltd.

16-week cash flow forecast for the period November 30, 2020 to March 19, 2021

Amounts in CAD, unaudited

Notes	Week Week Ending	1 4-Dec	2 11-Dec	3 18-Dec	4 25-Dec	5 1-Jan	6 8-Jan	7 15-Jan	8 22-Jan	9 29-Jan	10 5-Feb	11 12-Feb	12 19-Feb	13 26-Feb	14 5-Mar	15 12-Mar	16 19-Mar	TOTAL
Receipts																		
1	Sales	1,485,125	1,485,125	3,585,125	891,075	-	1,707,893	1,707,893	1,707,893	1,707,893	1,707,893	1,707,893	1,707,893	1,707,893	1,485,125	1,485,125	1,485,125	25,564,971
2	HST refunds	-	-	-	-	-	56,000	-	-	-	251,807	-	-	-	200,000	-	-	507,807
3	Interest income	447	-	-	-	-	447	-	-	-	447	-	-	-	447	-	-	1,788
	Total Receipts	1,485,572	1,485,125	3,585,125	891,075	-	1,764,340	1,707,893	1,707,893	1,707,893	1,960,148	1,707,893	1,707,893	1,707,893	1,685,572	1,485,125	1,485,125	26,074,567
Disbursements																		
4	Purchases	1,455,422	1,455,422	1,455,423	873,253	-	1,673,736	1,673,736	1,673,736	1,673,736	1,673,736	1,673,736	1,673,736	1,673,736	1,455,422	1,455,422	1,455,422	22,995,672
5	Salaries and wages	-	13,557	16,683	29,682	-	13,557	16,683	29,682	-	13,557	16,683	29,682	-	13,557	16,683	29,682	239,685
6	Consulting and professional fees	-	-	40,000	-	-	-	-	40,000	-	-	40,000	-	-	-	-	40,000	160,000
7	General Administrative Expenses	11,221	11,221	11,222	11,221	-	21,221	11,221	11,221	11,221	11,221	11,221	11,221	11,221	11,221	11,221	11,221	178,322
8	Insurance	7,511	-	5,000	-	-	7,511	5,000	-	-	7,511	-	5,000	-	7,511	-	5,000	50,043
9	Rent	-	14,480	-	-	-	14,480	-	-	-	14,480	-	-	-	14,480	-	-	57,922
10	Advertising and promotion	2,781	2,781	17,357	2,781	-	2,781	2,781	2,781	2,781	2,781	2,781	2,781	2,781	2,781	2,781	2,781	56,292
11	Vehicle	3,071	-	-	-	-	3,071	-	-	1,598	1,473	-	1,598	-	1,473	-	-	12,284
12	Freight	-	12,076	-	-	-	12,076	-	-	-	12,076	-	-	-	12,076	-	-	48,305
13	Income Tax	-	-	2,100,000	175,000	-	-	-	-	175,000	-	-	-	175,000	-	-	-	2,625,000
	Total Disbursements	1,480,006	1,509,538	3,645,684	1,091,937	-	1,748,433	1,709,421	1,757,420	1,864,336	1,736,835	1,704,421	1,762,420	1,864,336	1,518,522	1,486,108	1,544,106	26,423,524
	Net Cash Flow Before Litigation and Restructuring Costs	5,565	(24,413)	(60,560)	(200,863)	-	15,907	(1,528)	(49,526)	(156,443)	223,313	3,472	(54,526)	(156,443)	167,050	(983)	(58,982)	(348,958)
14	Litigation Costs	-	100,000	-	-	-	110,000	-	-	-	110,000	-	-	-	110,000	-	-	430,000
15	Restructuring Costs	-	157,265	-	172,950	-	170,000	-	110,000	-	160,000	-	110,000	-	160,000	-	110,000	1,150,215
	Total Litigation and Restructuring Costs	-	257,265	-	172,950	-	280,000	-	110,000	-	270,000	-	110,000	-	270,000	-	110,000	1,580,215
	Net Cash Flow	5,565	(281,678)	(60,560)	(373,813)	-	(264,093)	(1,528)	(159,526)	(156,443)	(46,687)	3,472	(164,526)	(156,443)	(102,950)	(983)	(168,982)	(1,929,173)
16	Opening Cash	5,305,566	5,311,132	5,029,453	4,968,894	4,595,081	4,595,081	4,330,989	4,329,461	4,169,935	4,013,492	3,966,805	3,970,277	3,805,751	3,649,308	3,546,358	3,545,375	5,305,566
	Ending Cash	5,311,132	5,029,453	4,968,894	4,595,081	4,595,081	4,330,989	4,329,461	4,169,935	4,013,492	3,966,805	3,970,277	3,805,751	3,649,308	3,546,358	3,545,375	3,376,394	3,376,394

Notes

General Receipts and disbursements denominated in U.S. Dollars have been converted into Canadian Dollars using an exchange rate of CD\$1.30 = US\$1.00.

Projected disbursements include GST and HST charged for purchases of goods and services.

EGR is closed for the holidays from December 24th to January 1st.

1 Receipts from sales are estimated based on historical average monthly sales, collected weekly. Additional inventory will be sold during the week ending December 18th to meet EGR's FY2020 income tax obligations.

2 The projected tax refunds are estimated based on input tax credits claimed on GST and HST paid to vendors.

3 Receipts from interest income earned on deposits.

4 These projected disbursements represent payments to suppliers of precious metals such as gold, silver, platinum and palladium bullion in the form of bars. The Company also purchases unrefined bars and scrap gold for refining.

5 These projected disbursements include payroll costs for all salaried and hourly employees. The forecast amounts are based on historic run rates. Hourly employees are paid bi-weekly and salaried employees are paid monthly. Payroll disbursements include all employee source deductions, employee and employer portions of CPP and EI, and other payroll-related taxes.

6 These projected disbursements include payments to EGR's advisors for corporate matters.

7 These projected disbursements include payments related to office supplies, repair and maintenance, telephone and networking, bank charges, travel, software and utilities.

8 These projected disbursements include premium payments for general, property and liability insurance, employee benefits, life insurance, and car insurance.

9 These projected disbursements include rent payments to Farag Properties Inc., a related party.

10 These projected disbursements relate to the various advertising and promotional initiatives.

11 These projected disbursements represent vehicle lease and other vehicle-related expenses.

12 These projected disbursements represent freight expenses to transport inventory for refining or for delivery to customers.

13 These projected disbursements represent corporate income tax instalments. EGR will make remittances of approximately \$2.1 million to meet its FY2020 income tax obligations during the week ending December 18th.

14 These projected disbursements include payments to legal advisors for litigation matters.

15 These projected disbursements include payments to EGR's legal advisor for specialist restructuring advice and the fees and costs of the Monitor and its counsel.

16 The opening cash balance reflects the bank balance and cash on hand balance at the start of the cash flow forecast.



Express Gold Refining Ltd.

Precious Metals Dealer • Refining • Assaying

December 7, 2020

Deloitte Restructuring Inc.
Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto, Ontario M5H 0A9
Canada

Attention: Phil Reynolds

Dear Sirs:

**Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA")
Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections**

In connection with the CCAA proceedings in respect of Express Gold Refining Ltd. ("**EGR**"), the management of EGR ("**Management**") has prepared the attached Cash Flow Statement and the assumptions on which the Cash Flow Statement is based.

EGR confirms that:

1. The Cash Flow Statement and the underlying assumptions are the responsibility of EGR;
2. All material information relevant to the Cash Flow Statement and to the underlying assumptions has been made available to Deloitte Restructuring Inc., in its capacity as Monitor of EGR;
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the Cash Flow Statement are appropriate in the circumstances;
 - b. That the individual assumptions underlying the Cash Flow Statement, taken as a whole, are appropriate in the circumstances; and
 - c. That all relevant assumptions have been properly presented in the Cash Flow Statement or in the notes accompanying the Cash Flow Statement.
4. Management understands and agrees that the determination of what constitutes a material adverse change in the projected cash flow or financial circumstances, for the purposes of our monitoring the on-going activities of EGR, is ultimately at your sole discretion, notwithstanding that Management may disagree with such determination;

215 Victoria St., Suite 400, Toronto, Ontario M5B1T9

Phone: (416) 366-4000 Fax: (416) 363-9633 Email: info@xau.ca Website: <http://www.xau.ca>



Express Gold Refining Ltd.

Precious Metals Dealer • Refining • Assaying

5. Management understands its duties and obligations under the CCAA and that a breach of these duties and obligations could make EGR's Management liable to fines and imprisonment in certain circumstances; and
6. The Cash Flow Statement and assumptions have been reviewed and approved by the EGR's board of directors or Management has been duly authorized by EGR's board of directors to prepare and approve the cash flow assumptions.

Yours truly,

Atef Salama
Vice President