

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

BETWEEN :

CRH FUNDING II PTE. LTD.

Applicant

- and -

SAGE GOLD INC.

Respondent

SUPPLEMENTAL AFFIDAVIT OF ANDREW WEHRLEY
(Sworn July 12, 2018)

I, Andrew Wehrley, of the City of New York, in the State of New York, MAKE OATH AND SAY:

1. I am a Director of Cartesian Royalty Holdings Pte. Ltd. ("**Cartesian**"), the sole shareholder of CRH Mezzanine PTE. Ltd. ("**CRH Mezzanine**"), which is, in turn, the sole shareholder the Applicant, CRH Funding II PTE. Ltd. ("**CRH**"), senior secured creditor of the Respondent, Sage Gold Inc. ("**Sage**").
2. Accordingly, I have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on my direct personal knowledge, I have stated the source of that information and believe such information to be true.
3. This affidavit is sworn and filed as a supplement to my affidavit sworn on July 10, 2018 (the "**First Wehrley Affidavit**"), which was filed in support of CRH's application (the "**Application**") for an order (the "**Receivership Order**") providing for, *inter alia*, the appointment of Deloitte Restructuring Inc. ("**Deloitte**" or the "**Proposed Receiver**") as receiver over the assets, property and undertakings of Sage (the "**Property**") pursuant to subsection 243(1) of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") and section 101 of the *Courts of Justice Act*.

4. All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the First Wehrley Affidavit.

I. **BACKGROUND**

5. As further described in the First Wehrley Affidavit, over the past few months, several events of defaults have occurred under the GPA and the Debenture, none of which have been remedied.

6. On or about May 3, 2018, CRH issued to Sage a *Notice of Default* (the "**Notice of Default**"), formally advising it of the occurrence of several events of default under the GPA (collectively, the "**Events of Default**"), and demanding that Sage immediately deliver to it the specified amount of gold set out in the GPA by way of gold credits or such other form as contemplated by the GPA, and all other amounts of cash and gold owing by Sage to CRH, while reserving its rights pursuant to the GPA and related agreements and documents. A copy of the Notice of Default was attached to the First Wehrley Affidavit as Exhibit "G".

7. At no time following the issuance of the Notice of Default did Sage ever contest the occurrence of Events of Default.

8. On June 25, 2018, CRH sent to Sage a *Notice of Intention to Enforce Security* pursuant to section 244 of the BIA (the "**244 Notice**"), with a view of appointing a receiver to Sage's Property. A copy of the Notice of Default was attached to the First Wehrley Affidavit as Exhibit "L".

9. Again, at no point whatsoever following the issuance of the 244 Notice did Sage ever contest either the occurrence of Events of Defaults, or even its insolvency.

10. As early as June 25, 2018, CRH advised Sage of its firm intention to appoint a receiver over the latter's assets, in order to secure, as soon as possible, its collateral. Despite several follow ups and attempts made by CRH and its counsels to obtain a confirmation of Sage's position with respect to the appointment of a receiver, CRH never received any such confirmation.

11. On July 10, 2018, after the expiry of the 10-day delay under the 244 Notice, CRH proceeded to file its Application.

12. It should be noted that between July 9 and 11, 2018, inclusively, myself and my colleagues at CRH have attempted, on a daily basis, to communicate with Sage's Chief Executive Officer, Mr. Nigel Lee, both via email and telephone (at the office and on his cell phone) in order to obtain a better understanding of Sage's position and intention with regards to its operations going forward and its plan with respect to the preservation of its assets (and therefore CRH's collateral).

13. As at the date of this Affidavit, CRH has not received any response from Mr. Lees.

II. SAGE'S NOTICE OF ARBITRATION

14. On July 11, 2018, following the filing of the Application, CRH received from Sage's counsel service of a *Notice of Arbitration* advising it that, pursuant to Section 14.1 of the GPA, Sage intended to submit an apparent dispute with CRH to arbitration (the "**Notice of Arbitration**").

15. As appears from the Notice of Arbitration, the only grounds for which Sage appears to be relying upon in submitting this matter to arbitration are the following:

"3. in the Notice of Default the demand for payment is not reasonable;

[...]

5. Sage Gold disputes that the Notice of Default and the Notice of Intention to Enforce Security comply with the Agreement or any statutory rights that CRH purports to have;"

16. No other grounds of opposition has been put forward.

17. The Notice of Arbitration, and the grounds therefor comes as a surprise to CRH in light of the fact that Sage never previously contested either:

- a) the occurrence of Events of Defaults;
- b) the fact that it is unable to meet its obligations as they generally become due, or that the aggregate of its property is insufficient to enable the payment of all of its obligations, due and accruing due; or even

c) CRH's entitlement to appoint a receiver over its assets.

18. Rather, Sage admitted on several occasions that it was insolvent and that Events of Defaults had occurred under the GPA, resulting in CRH being entitled to exercise its remedies, including its right to terminate the GPA and realize on its security.

III. SAGE'S ADMISSIONS OF DEFAULTS AND OF INSOLVENCY

19. The table below provides a few examples of the numerous written admissions made by Sage over the past few months with respect to the occurrence of Events of Default. These admissions have been made either through written communications with CRH, or in its public disclosures to its shareholders:

Admission	Supporting Document
<i>"The Company further acknowledges that 123.436 troy ounces of gold are currently owing to CRH, being 15% of the production from the March and April 2018 mill runs, completed April 2, 2018 and April 27, 2018, respectively [...] we are working together in good faith to address a remedy to this and other Events of Default which are looming, such as the requirement to reach Commercial Production (as defined in the GPA) within 18 months of the date of the GPA, being sometime next week. [...] we need to understand CRH's intentions with respect to defaults under the GPA"</i>	Sage's Response to the Notice of Default, dated May 7, 2018 ¹
<i>"Sage previously advised CRH that it could not pay the current stream payments in gold or cash, as it was not generating positive cash flow"</i>	Sage's Response to the Notice of Default, dated May 7, 2018 ²
<i>"Sage management and its Board have been working diligently and in good faith to remedy this situation by raising additional funds while at the same time reaching out to CRH to address the Company's financial situation and Events of Defaults that have already occurred along with those that are imminent under the GPA"</i>	Sage's Response to the Notice of Default, dated May 7, 2018 ³

¹ Exhibit "H" attached to the First Wehrley Affidavit.

² Exhibit "H" attached to the First Wehrley Affidavit.

³ Exhibit "H" attached to the First Wehrley Affidavit.

Admission	Supporting Document
<p><i>"The start of Commercial Production will be delayed from May 17, 2018 to an unspecified time in the future"</i>⁴</p>	<p>Sage's Response to the Notice of Default, dated May 7, 2018⁵</p>
<p><i>"Subject to any applicable cure periods, CRH as a secured lender is in a position to terminate the GPA and enforce its security over the Clavos Project"</i></p>	<p>Sage's News Release dated May 11, 2018⁶</p>
<p><i>"Subsequent to year end, the Company is in default of the GPA described in note 28"</i></p>	<p>Sage's Consolidated Financial Statements issued on June 13, 2018⁷</p>
<p><i>"In addition, under the terms of the GPA, the Company was supposed to have achieved "Commercial Production", as such term is defined within the GPA, by May 17, 2018. Failure to meet this target also constitutes an Event of Default under the terms of the GPA. Subject to any applicable cure periods, CRH as secured lender is in a position to terminate the GPA and enforce its security over the Clavos Project. The Company continues to engage in discussions with CRH in an attempt to remedy the Events of Defaults."</i></p>	<p>Sage's Management's Discussion and Analysis dated July 14, 2018⁸</p>
<p><i>"Subsequent to December 31, 2017, the Company was required to deliver approximately 159 ounces of gold to CRH, being 15% of the 2018 gold production from the Clavos property. The company has delivered 36 of the 159 ounces to CRH."</i></p>	<p>Sage's Management's Discussion and Analysis dated July 14, 2018⁹</p>
<p><i>"On May 11, 2018, the Company announced that it had received notice from CRH that it was in default of the GPA for its failure to deliver the additional 123 ounces owing to CRH. In addition, under</i></p>	<p>Sage's Management's Discussion and Analysis</p>

⁴ Pursuant to the GPA, and as admitted by Sage, failure to reach Commercial Production (as defined in the GPA) by May 17, 2018 constitutes an event of default.

⁵ Exhibit "H" attached to the First Wehrley Affidavit.

⁶ Exhibit "I" attached to the First Wehrley Affidavit.

⁷ Exhibit "E" attached to the First Wehrley Affidavit, at p. 8.

⁸ Exhibit "F" attached to the First Wehrley Affidavit, at p. 6.

⁹ Exhibit "F" attached to the First Wehrley Affidavit, at p. 35.

Admission	Supporting Document
<i>the terms of the GPA, the Company was supposed to have achieved "Commercial Production" as such term is defined within the GPA, by May 17, 2018. Failure to meet this target also constitutes and Event of Default under the terms of the GPA."</i>	dated July 14, 2018 ¹⁰
<i>Subject to any applicable cure periods, CRH as a secured lender is in a position to terminate the GPA and enforce its security over the Clavos Project."</i>	Sage's Management's Discussion and Analysis dated July 14, 2018 ¹¹
<i>"The Company continues to engage in discussions with CRH in an attempt to remedy the Events of Default."</i>	Sage's Management's Discussion and Analysis dated July 14, 2018 ¹²
<i>"There can be no assurance that these discussions will be successful or that the Company will be able to remedy the Events of Default to satisfy CRH to forbear from creditor remedies in the interim."</i>	Sage's Management's Discussion and Analysis dated July 14, 2018 ¹³

20. In addition to the above, Sage has also admitted on several occasions its inability to meet its obligations as they generally become due. The table below provides a few examples of the numerous written admissions made by Sage over the past few months with respect to dire financial situation. Again, these admissions have been made either through written communications with CRH, or in its public disclosures to its shareholders:

Admission	Supporting Document
<i>"Sage previously advised CRH that it could not pay the current stream payments in gold or cash, as it was not generating positive cash-flow."</i>	Sage's Response to the Notice of Default, dated May 7, 2018 ¹⁴

¹⁰ Exhibit "F" attached to the First Wehrley Affidavit, at p. 6.

¹¹ Exhibit "F" attached to the First Wehrley Affidavit, at p. 6.

¹² Exhibit "F" attached to the First Wehrley Affidavit, at p. 6.

¹³ Exhibit "F" attached to the First Wehrley Affidavit, at p. 6.

¹⁴ Exhibit "H" attached to the First Wehrley Affidavit.

Admission	Supporting Document
<p><i>"Sage is not in the financial position to continue care and maintenance at the Clavos site. We cannot continue to absorb the costs of the ongoing burn rate at Clavos and the costs of unpaid wages for previous payrolls. We cannot operate without a compressor. The company will be forced to close the mine and allow the mine to flood."</i></p>	<p>Sage's email to CRH dated June 25, 2018¹⁵</p>
<p><i>"Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the fifteen month period ended December 31, 2017 a working capital deficiency as at December 31, 2017 and defaulted on significant amount of debt subsequent to December 31, 2017. These conditions along with other matters set forth in Note indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern."</i></p>	<p>Sage's Consolidated Financial Statements issued on June 13, 2018¹⁶</p>
<p><i>"As a result, the Company will require significant additional financing within the next twelve months in order to meet its liabilities as they come due and fund its operations"</i></p>	<p>Sage's Consolidated Financial Statements issued on June 13, 2018¹⁷</p>
<p><i>"During the fifteen-month period ended December 31, 2017, the Company reported a net loss of \$21,562,565 and has not generated cash flow from operations. As at December 31, 2017, the Company had negative working capital of \$7,351,031. As a result, the Company will require significant additional financing within the short-term in order to meet its liabilities as they come due."</i></p>	<p>Sage's Management's Discussion and Analysis dated July 14, 2018¹⁸</p>

¹⁵ Exhibit "J" attached to the First Wehrley Affidavit.

¹⁶ Exhibit "E" attached to the First Wehrley Affidavit, at p. 2.

¹⁷ Exhibit "E" attached to the First Wehrley Affidavit, at p. 8.

¹⁸ Exhibit "F" attached to the First Wehrley Affidavit, at p. 7.

Admission	Supporting Document
<i>"As a result of this announcement, the price of the Company's common shares has declined which has significantly increased the risk that the Company will not be able to raise sufficient funds through financing initiatives to meet its financial obligations. As a result of the Company's current financial situation and given that the Company has yet to complete an update to the estimated Mineral Resources at the Clavos Project and update the corresponding life-of-mine plan, the Company was required to book a write-down in its December 31, 2017 financial statements against the carrying value of mine development and mineral property expenditures of \$12,275,416."</i>	Sage's Management's Discussion and Analysis dated July 14, 2018 ¹⁹
<i>"As at December 31, 2017, the Company had cash and [sic] of \$52,221 compared to \$440,711 as at September 30, 2016, or a decrease of \$388,490."</i>	Sage's Management's Discussion and Analysis dated July 14, 2018 ²⁰

21. In addition to the above, and as mentioned in the First Wehrley Affidavit, CRH was also recently advised that Sage has also apparently failed to make various payments to some of its equipment lessors and service providers, some of which would have registered construction liens against the assets of Sage, in an aggregate amount in excess of \$580,000.

22. On June 14, 2018, CRH was verbally advised by Sage's Chief Executive Officer, Mr. Lees, that Sage's cash on hand, as at that date, had now reduced to an amount between \$30,000 to \$40,000. On June 21, 2018, CRH was then verbally advised by Sage's Chief Financial Officer, Mr. Michael Farrant, that Sage's cash on hand, as at that date, had now reduced to less than \$1,000, and that Mr. Farrant had not yet been paid for his services.

23. Finally, CRH was also informed by its advisors, following a site visit at the Clavos Property on July 4, 2018, that Sage was in arrears with the payment of its electricity invoices (resulting in the electricity supply at the Clavos Property potentially

¹⁹ Exhibit "F" attached to the First Wehrley Affidavit, at p. 7.

²⁰ Exhibit "F" attached to the First Wehrley Affidavit, at p. 18.

being at risk) and that the employees working at this property, through as service provider, had not been paid for some time.

IV. CONCLUSION

24. In light of the above, it is difficult to comprehend how Sage may “*dispute that the Notice of Default and the Notice of Intention to Enforce Security comply with the Agreement or any statutory rights that CRH purports to have*”, as set forth in the Notice of Arbitration, considering, *inter alia*, CRH’s clear right under the Debenture to have a receiver appointed, as discussed in the First Wehrley Affidavit.

25. As previously mentioned, since having received the Notice of Arbitration, CRH has attempted to communicate with Sage’s management in order to obtain a better understanding of Sage’s position, and, more importantly of its intentions, including with respect to the funding of its operations going forward and its plan with respect to the preservation of its assets (and therefore CRH’s collateral), which is of great concern to CRH, especially considering the content of Sage’s email of June 25, 2018 (Exhibit “J” of the First Wehrley Affidavit), in which CRH was advised, in no uncertain terms that:

“Sage is not in the financial position to continue care and maintenance at the Clavos site. We cannot continue to absorb the costs of the ongoing burn rate at Clavos and the costs of unpaid wages for previous payrolls. We cannot operate without a compressor. The company will be forced to close the mine and allow the mine to flood.”

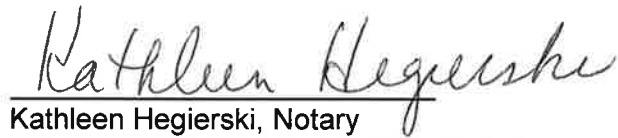
26. As at the date of this Supplemental Affidavit, CRH has received not received any response from Sage’s management.

27. This affidavit is made in support of CRH’s Application for the appointment of Deloitte as receiver over the Property of Sage, together with the proposed ancillary and related relief as set out in the draft Receivership Order filed, and for no other or improper purpose.

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ANDREW WEHRLEY

On this 12 day of July 2018 A.D. personally came before me, a Notary Public in and for said State duly commissioned and sworn, Andrew Wehrley known to me personally to be such persons who executed such instrument, and acknowledged to me that such instrument was in his own proper handwriting, and that his act of executing and delivering such instrument was duly authorized.


Kathleen Hegierski, Notary
01HE6155794 (Qualified in New York County)

KATHLEEN HEGIERSKI
NOTARY PUBLIC-STATE OF NEW YORK
No. 01HE6155794
Qualified in New York County
My Commission Expires November 20, 2018

CRH FUNDING II PTE. LTD. SAGE GOLD INC.
Applicant and Respondent

Court File No.: CV-18-601307-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**SUPPLEMENTAL AFFIDAVIT OF
ANDREW WEHRLEY
(Sworn July 12, 2018)**

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