

Red Eagle Mining Corporation

FIRST INTERIM REPORT OF THE RECEIVER **(Subsection 246(2) of the *Bankruptcy and Insolvency Act*)**

May 20, 2019

IN THE MATTER OF THE RECEIVERSHIP OF
RED EAGLE MINING CORPORATION AND REMDC HOLDINGS LIMITED

**FIRST INTERIM REPORT
PREPARED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS RECEIVER**

INTRODUCTION & BACKGROUND

1. Pursuant to the Order of the Honourable Mr. Justice Walker (the “**Receivership Order**”) of the Supreme Court of British Columbia (the “**Court**”) granted November 21, 2018, (the “**Date of Receivership**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) without security, of all the assets, undertakings, and properties of Red Eagle Mining Corporation (“**REM**”) and REMDC Holdings Limited (“**REMDC**”), (collectively, the “**Respondents**”) acquired for, or used in relation to a business carried on by the debtor involving a gold mining interest in Colombia. The application was brought pursuant to section 243 of the *Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3*, as amended (the “**BIA**”), and shall be referred to herein as the (“**Receivership**”).
2. The Receiver has previously prepared reports for REM and REMDC in accordance with section 245 of the BIA detailing the assets, liabilities and the activities of the Respondents. Copies of these reports can be found on the website that was established by the Receiver at <http://cfcanada.fticonsulting.com/redeaglemining> (the “**Website**”).
3. This an interim report of the Receiver prepared pursuant to section 246(2) of the BIA to provide the court with information in respect of:

- (a) The interim statement of Receipts and Disbursements for the period November 21, 2018 to May 17, 2019;
- (b) Details of property of which the Receiver took possession or control that has not yet been sold or realized;
- (c) The credit bid in respect of the cause of action by REM;
- (d) The priority claim of the Canada Revenue Agency (“CRA”); and
- (e) The anticipated completion of the Receivership.

4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined are as defined in the Receivership Order or previous reports of the Receiver.

INTERIM SUMMARY OF RECEIPTS AND DISBURSEMENTS

5. At the date of the receivership REM had four bank accounts with Royal Bank of Canada. The balances of these accounts were as follows:
- (a) Acct 9-3CDN\$ (15.50)
 - (b) Acct 8-4CDN\$ 0.00
 - (c) Acct 4-0US\$ 861.38
 - (d) Acct 0-1CDN\$ 205.62
6. The Receiver transferred to its account \$1,323.17 the net amount of the balance of funds in Canadian dollars.
7. The receipts and disbursements for the period November 21, 2018 to May 20, 2019 are summarized below:

	CDN
Opening Cash Position	1,323.17
Receipts	
Interest	7.68
Disbursements	
Bank Service Charges	11.40
Closing Cash Position	1,319.45

8. The receipts relate to interest received for funds on deposit and the disbursements relate to Bank service fees.

PROPERTY THAT HAS NOT YET BEEN SOLD OR REALIZED

9. Pursuant to the provisions of the Receivership Order, the Receiver took possession of the books and records of the business and the property of the Respondents as applicable. The property was limited to the cash as described above and the shares of REM's subsidiaries.
10. The physical shares are being held in trust, by counsel to the Secured Creditor and the Receiver has not requested possession of the shares.
11. The only other asset is a potential cause of action against Annibale SAC (“**Annibale**”) and Mr. Fernando Palazuelo (the “**Fernando Claim**”).

THE FERNANDO CLAIM

12. One of the assets of REM is the Fernando Claim. In July 2018, Annibale entered into a subscription agreement with REM to provide REM with a capital injection to restart the mining operations of its subsidiary located in Colombia.
13. The subscription agreement was supported by the personal guarantee of Mr. Fernando Palazuelo the owner of Annibale.
14. However, just prior to the funding date Mr. Palazuelo advised REM that Annibale did not intend to fulfill its obligations under the subscription agreement. As a result, REM did not have sufficient capital to restart operations at REMDC SAS and its liquidity became so constrained that the Secured Creditors of REM commenced the application for the Receivership.
15. Accordingly, REM has a potential cause of action against Annibale and Mr. Palazuelo for breach of contract.
16. The Receiver canvassed several litigation funding agencies to determine if there was interest in purchasing the litigation claim. No parties were interested in purchasing the litigation claim but a number of parties expressed interest in funding the litigation.
17. Subsequently, the Secured Creditors determined that they wished to make a credit bid for the claim and pursue it outside of the Receivership. The estimated damages relating to the claim are anticipated to be less than the amount owing to the Secured Creditors.
18. In its discussions with the litigation funding agencies and legal counsel, it was estimated the timeline to pursue the claim could be between 6 months and 2 years.

19. The sale of the litigation claim would allow the Receivership to be concluded thereby eliminating the continuing costs associated with the Receivership proceedings.
20. The Secured Creditors submitted a confidential credit bid which was accepted by the Receiver on March 7, 2019. The Receiver provided a confidential report to the Court outlining the details of the Credit Bid and Court approval of the transaction was obtained on April 4, 2019.

REMDC

21. REM was a holding company and did not have active operations. At the date of the Receivership REM was the 100% owner of REMDC, a company subject to the Receivership.
22. REMDC is the 100% owner of REMDC SAS a Colombian entity which operated a gold mine in the Antioquia province of Colombia. As indicated previously, REM management had ceased production and processing at the mine in Colombia in July of 2018, due to a lack of funding.
23. REMDC SAS is not subject to the Receivership, however the Receiver has been assisting the management team of REMDC SAS in discussions with interested parties in the hopes that a capital injection may be found and that operations may be restarted at the mine.
24. Numerous parties contacted the Receiver with respect to the mining assets in Colombia owned by REMDC SAS. Each party was directed to the management team in Colombia to conduct due diligence investigations with respect to these assets. One party has expressed an interest in the shares of REMDC and has provided the Receiver with a draft term sheet. However, there are still matters being negotiated and it is not clear at this time if a transaction can be completed.

ARBITRATION CLAIM

25. REM is also the 100% shareholder of Red Eagle Exploration Corp. (“**XR**”). XR is not subject to the Receivership but the Receiver has been assisting with the settlement discussions described below due to the potential benefit to REM.
26. XR holds pre-development mining properties in Colombia. XR has filed a claim for damages (the “**Arbitration Claim**”) against the Colombian government for effective expropriation of these properties as it is no longer possible to develop these holdings due to a change in the law in Colombia.
27. The Arbitration Claim was subject to a foreclosure proceeding by Slater Corporate Services Corporation (“**SCSC**”) initiated shortly after the Date of the Receivership. SCSC, is owned by Mr. Ian Slater the former CEO of REM.
28. SCSC was owed approximately \$0.4 million by XR, secured by the assets of XR which include the Arbitration Claim and the shares of a subsidiary. XR and REM objected to the foreclosure and have pursued discussions to negotiate a settlement between XR, the Secured Creditors, SCSC and Mr. Slater.
29. On March 13, 2019 an agreement was reached in respect of the Arbitration Claim. Pursuant to the terms of the agreement, the rights and responsibilities for managing the Arbitration Claim were assigned to Mr. Ian Slater. Although XR was not subject to the Receivership, the Receiver was advised of the settlement as REM, a Company subject to the Receivership was the 100% owner of the shares of XR.

CRA DEEMED TRUST CLAIM

30. On February 25, 2019 the Receiver received a claim for \$77,368.51 from CRA for unpaid source deductions. In addition, CRA claimed that \$54,325.69 of federal income tax, included in the above claim are trust funds subject to the deemed trust provisions of the income tax act.

ANTICIPATED STEPS TO COMPLETION

31. The following steps require completion in order to finalize the Receivership:
 - (a) Determine if an agreement can be reached in respect of the proposal to acquire the shares of REMDC;
 - (b) Communication with and payment to CRA in respect of its deemed trust claim; and
 - (c) Fee approval and discharge of the Receiver.
32. It is anticipated that the Senior Lender will suffer a shortfall on its secured claim. Accordingly, there will be no funds available for unsecured creditors.
33. It is currently anticipated that the Receivership will be completed by the end of July 2019.

Dated this 20th day of May, 2019.

FTI Consulting Canada Inc.
In its capacity as Receiver of Red Eagle Mining Corporation
and REMDC Holdings Limited
And not in its personal or corporate capacity



Toni Vanderlaan
Senior Managing Director