

This is Affidavit #2 of Matthew Freeman in this proceeding and was made on December 18, 2019

No. S1910194
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c.57

AND

**IN THE MATTER OF ENERGOLD DRILLING CORP., CROS-MAN DIRECT
UNDERGROUND LTD., EGD SERVICES LTD., BERTRAM DRILLING CORP., AND
OMNITERRA INTERNATIONAL DRILLING INC.**

PETITIONERS

AFFIDAVIT #2 OF MATTHEW FREEMAN

I, Matthew Freeman, of 543 Granville Street, Suite 1100, Vancouver, British Columbia, V6C 1X8,
HEREBY SWEAR THAT:

1. I am the Director of Finance of Energold Drilling Corp. ("**Energold**"), the parent company of each of the other Petitioners.
2. I have over 20 years of experience in accounting and financial management. I have worked for Energold and with the other Petitioners since September 3, 2019 and, as such, have personal knowledge of the facts set out in this Affidavit except where stated to be based on information and belief, in which case I believe both the information and the resulting statements to be true.
3. Capitalized terms used in this Affidavit and not otherwise defined have the meaning set out in the Initial Order made in these proceedings on September 13, 2019.

BACKGROUND

4. On September 13, 2019, this Honourable Court made the Initial Order granting, among other things, a stay of proceedings. The relief under the Initial Order has been extended by further orders and presently expires January 31, 2020.

5. On September 13, 2019, this Honourable Court also made the following orders:
- (a) an order authorizing and directing Energold Drilling Corp., in its capacity as the sole shareholder of Bertram Drilling Corp. (“**Bertram Drilling**”) to enter into an asset disposition proposal agreement with Century Services Corp. (“**Century**”) for the sale of certain assets of Bertram Drilling and to conclude the transactions contemplated by that agreement; and
 - (b) an order authorizing and directing the Petitioners to carry out a sale solicitation process (the “**SSP**”) to solicit offers to purchase all or any part of the property, assets and undertakings of the Petitioners.

THE BERTRAM DRILLING AUCTION

6. As set out in my Affidavit #1 made November 25, 2019 (my “**First Affidavit**”), the Petitioners worked with Century to complete the sale of Bertram Drilling’s assets. The sales were completed at auctions held on October 28, October 30, November 21 and November 22, 2019.

7. Prior to completion of the auction in November 2019, Century delivered proceeds of approximately \$4,000,000 to Energold, which was largely used to repay the Interim Financing.

8. I am informed by Bevan May, President of Century, that Century is preparing a final report and accounting detailing the total proceeds of the Century Auctions in order to make their final payment to the Petitioners. There are ongoing discussions between representatives of the Petitioners and Century regarding this report. As a result of these discussions, the final report and accounting is not available as of the date of this Affidavit. Based on my discussions with Brian Mittman, a consultant hired by the Petitioners to assist with the Bertram Drilling auction and other matters related to the restructuring, I estimate the total net proceeds of the Century Auctions to be paid to the Petitioners will be approximately \$6,900,000. This is \$900,000 more than the estimate provided in my First Affidavit.

THE SALE SOLICITATION PROCESS

9. Throughout these proceedings, the Petitioners worked diligently and in consultation with the Monitor and the Financial Advisor to complete the SSP. Further information regarding this work is set out in my First Affidavit.

10. Following the SSP, Extract was the successful bidder for each of the Latin American Unit, EMEA Unit, BDI Unit and Cros-Man Unit (as defined in the SSP, and collectively referred to herein as the “**Energold Units**” and each an “**Energold Unit**”). Further details regarding the SSP and the agreements entered into with respect to the Energold Units are set out in the Affidavit #5 of Mark Berger made November 1, 2019 and the Affidavit #2 of Michael Bell made November 5, 2019. These Affidavits have not yet been filed with the Court, but will be filed with this Affidavit.

11. Prior to the Petitioners bringing an application for a vesting order in respect of the agreements for the Energold Units, Extract advised that it intended to present a plan under the *Companies Creditors Arrangement Act* which would, among other things, implement the transactions with Extract for the Energold Units.

RESIDUAL ASSETS

12. In addition to the Energold Units, the Petitioners have various assets which are collectively referred to as the “**Residual Assets**”.

13. Since the Extract Plan included credit bidding to acquire the Residual Assets, I prepared an analysis of the value of the Residual Assets for the purpose of assisting Extract in determining the appropriate price attributable to those assets and whether a further sale process is required in respect of the Residual Assets. Attached and marked as **Exhibit “A”** is a true copy of the list of Residual Assets, along with the estimated range of total value between approximately \$7.07 million and \$4.91 million (the “**Residual Asset List**”).

14. The Residual Assets List and estimated range of value was prepared based on the unaudited books and records of the Petitioners on the basis of liquidation value of a forced sale. I used forced liquidation value because the estate has limited liquidity and, based on my discussions with representatives

of Extract and other noteholders, I believe that the creditors would object to an extended sale or liquidation process and the associated costs.

15. The Residual Asset List represents the Petitioners' best estimate of the range of value of the Residual Assets on a forced liquidation basis. The Residual Asset List is not a formal opinion as to value, and the Petitioners have not sought third party opinions or estimates as to value.

16. As noted above, I have over 20 years of experience in accounting and financial management. In that capacity, I have valued assets and been involved in valuations for financial reporting purposes. However, I do not have any certifications in respect of preparing valuations of assets, I have not prepared valuations for sale transactions or in respect of court proceedings, and I have never acted as an expert on valuations in any court proceedings.

Assumptions

17. In preparing the Residual Asset List, I made certain assumptions including the following.

- (a) The cash balance is the amount I anticipate the Petitioners will have as of January 31, 2020 based on current cash flow projections. The cash flow, as of November 25, 2019, was attached as Exhibit A to my First Affidavit. The cash flow has been updated since that time to reflect, among other things, receipt of proceeds from the sale of certain Shares (as defined in my First Affidavit).
- (b) The Shares are publicly traded, and the value range is based on a discount to the market price. Based on my discussions with the broker that holds the Shares, I believe that a discount to the market price would be necessary to sell the Shares quickly. The broker advises that they received an unsolicited offer for the shares Energold owns in one of the companies. This offer was at a discount from the market price. Energold did not consider this offer reasonable at the time and rejected it, but I believe that this confirms that a liquidation sale of the Shares would require a discount to the market price.
- (c) I discounted the promissory note in favour of Energold granted by Dando Drilling International Limited using net present value of future cash flows and applying a discount

rate because the note is unsecured and collectable over 10 years. The face value of the note is £3.1 million (approximately \$5.3 million), and I estimate a liquidation value of between approximately \$780,000 and \$2.3 million.

- (d) I estimated the value of the remaining inventory using the results of recent auctions to estimate the market price. This assumes that the remaining inventory is broadly consistent with the other inventory.
- (e) I have assumed that the property, plant and equipment of Energold and EGD Services have limited potential liquidation value since they are primarily office furniture and IT equipment.
- (f) As noted above, based on my discussions with Century and Mr. Mittman, I estimate that the Bertram Drilling auction will result in proceeds of approximately \$6,900,000. The previous estimate of auction proceeds (\$6,000,000) is reflected in the cash flow and estimated cash balance. Accordingly, the additional estimated proceeds of \$900,000 are included as a Residual Asset. I have assumed that the final report and payment will be concluded shortly.
- (g) I estimated the Bertram Drilling accounts receivable by taking the book value of those receivables, deducting the amount due to RBC by Bertram Drilling (due to RBC's first ranking security interest in the Bertram Drilling accounts receivable) and applying a discount to reflect the liquidation value of receivables, with a low-end value estimate discounting the receivables by 50% and a high-end value estimate discounting the receivables by 25%.
- (h) I estimated the value of the Bertram Drilling real estate using the Alberta tax assessments for the high end valuation and a discount of that amount by 50% for the low-end valuation because the real estate is located in the village of Carbon, Alberta.

- (i) Energold holds 50% of the shares of Energold Drilling Peru, S.A.C. (“**Energold Peru**”). I estimated the value of those shares based on the forced liquidation value of Energold Peru’s assets.
- (j) No value is attributed to share warrants, goodwill, pre-paid expenses, intercompany investments, right of use assets such as leases and intellectual property, because I do not believe that there is liquidation value in those assets.

Assets Included in the Residual Assets List

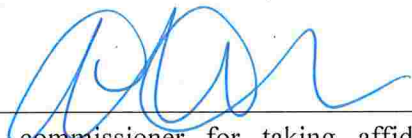
- 18. The Residual Assets are owned by Energold, Bertram Drilling and EGD Services.
- 19. Omniterra is a wholly owned subsidiary of Energold and holding company. Its only assets are the shares held in subsidiaries incorporated outside Canada (including 50% of Energold Peru). Under the SSP, Energold has entered into a share purchase agreement that includes all its shares in Omniterra.
- 20. Cros-Man has entered into an asset purchase agreement with Extract pursuant to the SSP (the “**APA**”) which includes all of the assets owned by Cros-Man. Cros-Man does have cash flow, which may contribute a cash balance to the Residual Assets. However, as of December 17, 2019, I estimate that Cros-Man’s contribution to the cash balance of the Residual Assets will be zero.
- 21. In particular, due to timing differences Energold has been paying certain of Cros-Man’s post-filing obligations. As of December 17, 2019, Cros-Man owed Energold \$210,000 in respect of those post-filing obligations. Based on the current cash flow projections, Cros-Man will not have any funds in excess of the amounts it owes to Energold for post-filing obligations.


Intercompany Debt

- 22. Prior to these proceedings, the Petitioners and other subsidiaries operated on the basis that funds would flow between entities. Accordingly, there are significant intercompany debts which are owing by various subsidiaries outside Canada to Energold. Based on my experience with the Petitioners and my discussions with Mark Berger, the Petitioners’ CRO, I believe that the Petitioners intended that Energold would forgive and discharge these intercompany balances as part of concluding the transactions in the SSP. Accordingly, I have not placed any value on these intercompany balances.

23. In the event the intercompany balances remained as an asset of Energold following the sale of the Energold Units, I estimate that there is a range of value between \$2.86 million and \$2.09 million for those intercompany debts. This range is lower than the book value of the debts, and is calculated based on the value of the applicable subsidiary's assets on a forced liquidation basis. I have assumed that to collect these amounts, Energold would need to commence collection and liquidation proceedings. Accordingly, if these intercompany balances were included in the Residual Assets, I estimate that the total range of value is between approximately \$10 million and \$7 million.

SWORN BEFORE ME at Vancouver, British Columbia, on the 18th day of December, 2019.)
)
)
)
)


A commissioner for taking affidavits for British Columbia


MATTHEW FREEMAN


LISA C. HIEBERT
Barrister & Solicitor
BORDEN LADNER GERVAIS LLP
1200 Waterfront Centre, 200 Burrard Street
P.O. Box 48600, Vancouver, Canada V7X 1T2
604-632-3425

Energold Group
 Estate assets and liabilities
 in Canadian dollars

	Value Range	
	High	Low
Cash at Jan 31, 2020 (estimated based on forecast to court)	1,480,055	1,480,055
Energold GST Receivable	27,000	27,000
Marketable Securities		
Impact Silver	978,740	873,875
Other	111,008	74,005
Dando note (GBP 3.1M undiscounted)	2,227,251	779,538
Energold residual inventory	27,954	24,245
Energold Drilling Corp residual - PP&E	8,000	6,000
EGD Services residual PP&E	5,000	5,000
Incremental auction proceeds from BDC sale	900,000	900,000
BDC accounts receivable - beyond period of forecast	793,063	411,274
BDC real estate	200,000	100,000
Incremental BDC insurance refunds	100,000	100,000
Shares in Energold Peru (50% share)	211,624	135,890
TOTAL ASSET VALUE	7,069,694	4,916,882
Less: incremental wind down costs post cash flow forecast	(300,000)	(300,000)
Net remaining value	6,769,694	4,616,882

ESTIMATED TRANSACTION VALUE	BDI	1,500,000	1,500,000
(pending final working capital adjustments)	Cros-man	3,000,000	3,000,000
	EMEA	3,050,000	3,050,000
	Latin America	4,160,000	4,160,000
TOTAL VALUE		18,479,694	16,326,882
NOTEHOLDERS DEBT		25,492,642	25,492,642
TOTAL IMPAIRMENT		7,012,948	9,165,761

This is Exhibit "A" referred to in the affidavit of MATTHEW FREEMAN made before me on DEC 18 20 19



A Commissioner for taking Affidavits for British Columbia

No. S1910194
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c.57

AND

IN THE MATTER OF ENERGOLD DRILLING CORP., CROS-MAN DIRECT
UNDERGROUND LTD., EGD SERVICES LTD., BERTRAM DRILLING
CORP., AND OMNITERRA INTERNATIONAL DRILLING INC.

PETITIONERS

AFFIDAVIT #2 OF MATTHEW FREEMAN

BORDEN LADNER GERVAIS LLP
1200 Waterfront Centre
200 Burrard Street
P.O. Box 48600
Vancouver, BC V7X 1T2
Telephone: (604) 632-3544
Attn: Lisa Hiebert
Email: lhiebert@blg.com
File: 035456/000004