

No. S-1812407
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN

ORION FUND JV LIMITED, in its capacity as Collateral Agent for
ORION FUND JV LIMITED and LIBERTY METALS AND MINING
HOLDINGS LLC

PLAINTIFF

AND

RED EAGLE MINING CORPORATION
REMDC HOLDINGS LIMITED
ORION TITHECO LIMITED
ROYAL BANK OF CANADA

DEFENDANTS

FIRST REPORT OF THE RECEIVER

March 19, 2019

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

**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 debtors, which included 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 section 39 of the *Law and Equity Act, R.S.B.C. 1996 c. 253*, as amended, and shall be referred to herein as the (“**Receivership**”).
2. The Respondents are indebted to Orion Fund JV Limited and Liberty Metals and Mining Holdings LLC (collectively, the “**Secured Creditors**”) pursuant to a credit agreement, guarantees, and security agreements. As at November 8, 2018, the Secured Creditors state that the Respondents are indebted to them for the sum of \$79,901,288 USD.
3. Copies various pleadings and documents from the Receivership can be found on the website that was established by the Receiver at <http://cfcanada.fticonsulting.com/redeaglemining> (the “**Website**”).
4. This an interim report of the Receiver prepared pursuant to section 246(2) of the BIA to provide this Honourable Court with information in respect of:

- (a) The interim statement of Receipts and Disbursements for the period November 21, 2018 to March 18, 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 from the Secured Creditors in respect of the Fernando Claim (defined below);
 - (d) The priority claim of the Canada Revenue Agency (“**CRA**”); and
 - (e) The anticipated completion of the Receivership.
5. 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.

INTERIM SUMMARY OF RECEIPTS AND DISBURSEMENTS

6. 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) Account 9-3 CDN\$ (15.50)
 - (b) Account 8-4 CDN\$ 0.00
 - (c) Account 4-0 US\$ 861.38
 - (d) Account 0-1 CDN\$ 205.62
7. The Receiver transferred to its account the net amount of the balance of funds from these accounts, being \$1,327.17 in Canadian dollars.

8. The receipts and disbursements for the period November 21, 2018 to March 18, 2019 are summarized below:

	CDN
Opening Cash Position	1,323.17
Receipts	
Interest	2.34
Disbursements	
Bank Service Charges	11.40
Closing Cash Position	1,314.11

9. The receipts and disbursements solely consist of interest payments received for funds on deposit and Bank service fees.

PROPERTY THAT HAS NOT YET BEEN SOLD OR REALIZED

10. 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 shares in subsidiaries, and the potential cause of action against Annibale SAC (“**Annibale**”) and Mr. Fernando Palazuelo (the “**Fernando Claim**”).
11. The physical shares are being held in trust by counsel to the Secured Creditor and the Receiver has not requested possession of the shares.
12. 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. REMDC is the 100% owner of REMDC SAS, a Colombian entity which operated a gold mine in the Antioquia province of Colombia. Due to lack of funding, REM management stopped production and processing at the mine in Colombia in July of 2018.
13. Though REMDC SAS is not subject to the Receivership, 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 operations may be able to restart at the mine.

14. REM is the 100% shareholder of Red Eagle Exploration Corp. (“**XR**”). XR is not subject to the Receivership but the Receiver has been assisting with certain settlement discussions described below due to the potential benefit to REM.
15. XR holds pre-development mining properties in Colombia. XR has filed a damages claim (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 Colombia laws.
16. Slater Corporate Services Corporation (“**SCSC**”) is a secured creditor of XR and is owned by Mr. Ian Slater, the former CEO of REM. SCSC was owed approximately \$400,000 by XR, secured by the assets of XR which include the Arbitration Claim and the shares of a subsidiary.
17. On November 7, 2018, SCSC issued a notice pursuant to s. 61 of the *Personal Property Security Act* (the “**Voluntary Foreclosure Notice**”) of its intention to take the property of XR in satisfaction of XR’s obligations to SCSC under a general security agreement. Shortly after the Date of the Receivership, XR and REM objected to the Voluntary Foreclosure Notice. Since then, the parties have pursued discussions to negotiate a settlement between XR, the Secured Creditors, SCSC and Mr. Slater. The Receiver believes that the settlement agreement may be close to completion.

THE FERNANDO CLAIM

18. One of the assets of REM is the Fernando Claim. In July 2018, Annibale entered into a subscription agreement with REM to provide a capital injection to restart operations at the mine in Colombia. The subscription agreement was supported by the personal guarantee of the owner of Annibale, Mr. Fernando Palazuelo.

19. Just prior to the funding date, Mr. Palazuelo advised REM that Annibale did not intend to fulfil its obligations under the subscription agreement.
20. As a result of Annibale and Mr. Palazuelo's breach of the subscription agreement, REM did not have sufficient capital to restart operations at REMDC SAS and its liquidity was so constrained that the Secured Creditors commenced the proceedings herein and sought the appointment of the Receiver.
21. The Fernando Claim is REM's cause of action against Annibale and Mr. Palazuelo for breach of contract. The estimated damages are anticipated to be less than the amount owing to the Secured Creditors.
22. In an effort to realize on this asset, the Receiver canvassed several litigation funding agencies to determine if there was interest in purchasing the Fernando Claim. No parties were interested in purchasing the litigation but a number of parties expressed interest in funding the litigation.
23. The Secured Creditors have determined that they wish to make a credit bid for the Fernando Claim and pursue it outside of the Receivership (the "**Credit Bid**"). The Credit Bid is subject to Court approval.
24. The Receiver's discussions with the litigation funding agencies and legal counsel indicated that the timeline to pursue the claim could be anywhere from 6 months to 2 years.
25. REM does not have the means necessary to fund the Receivership for any length of time let alone the lengthy period of time required to pursue the Fernando Claim. As such, regardless of whether the Fernando Claim is pursued by the Receiver or by the Secured Creditors, the Secured Creditors would ostensibly be funding the litigation thereby increasing what is likely to be a significant deficiency at the end of the day.
26. Purchasing the Fernando Claim by way of the Credit Bid would reduce costs, by doing away with any transactional costs associated with a sales process and sale

of the Fernando Claim and because the Receivership would not need to be continued once the assets are realized.

27. To determine a value range for an award in the event that the Fernando Claim could be pursued to a recovery, the Receiver used a probabilities assessment. Based on that assessment and the anticipated costs of litigation and timeline to pursue the claim, the Receiver is of the opinion that the Credit Bid is reasonable in the circumstances.
28. The Receiver has not included the valuation range or the Credit Bid in this Report as the Fernando Claim is yet to be before the court and we do not wish to prejudice any potential settlement discussions. Copies of the valuation range and Credit Bid will however be provided to the Court and the Receiver will seek an Order that it be filed under seal.

CRA DEEMED TRUST CLAIM

29. On February 25, 2019, the Receiver received a claim from CRA for:
 - (a) \$77,368.51 related to unpaid source deductions; and
 - (b) \$54,325.69 related to unpaid federal income tax.
30. Included in the above are amounts which appear to be subject to the deemed trust provisions of the *Income Tax Act*.
31. The only asset in the Receiver's possession that is currently available and subject to the deemed trust, is the cash held by the Receiver. The Receiver will communicate with CRA and make the appropriate payment prior to its discharge.

ANTICIPATED STEPS TO COMPLETION

32. The following steps require completion in order to finalize the Receivership:
 - (a) Obtain Court approval of the Secured Creditors' credit bid in respect of the Fernando Claim;

- (b) Communication with and payment to CRA in respect of funds held by the Receiver; and
 - (c) Fee approval and discharge of the Receiver.
33. The Secured Creditors' will suffer a significant shortfall on their secured claim. Accordingly, there will be no funds available for unsecured creditors.
34. It is currently anticipated that the Receivership will be completed by the end of March, 2019.

Dated this 19 day of March, 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