

IN THE MATTER OF THE BANKRUPTCY OF
SEAFIELD RESOURCES LTD.
HAVING ITS HEAD OFFICE IN
THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO

Report of Trustee on Preliminary Administration

Trustee: KPMG Inc.

Estate No. 31-2028707

KPMG Inc. (“KPMG”) was appointed Trustee (the “Trustee”) of the Estate of Seafield Resources Ltd. (“Seafield” or the “Company”) on August 24, 2015 pursuant to an assignment for the general benefit of creditors (the “Assignment”) filed by KPMG in its capacity as the Company’s Court appointed receiver.

As discussed further below, KPMG was appointed as receiver (the “Receiver”) of Seafield pursuant to an order of the Ontario Superior Court of Justice (the “Court”) dated September 9, 2014 (the “Receivership Order”). On May 20, 2015 the Court issued an order authorizing the Receiver to assign Seafield into bankruptcy to preserve any rights to challenge certain Labour Agreement Amendments (as defined and described further below) and any other reviewable transactions undertaken by Seafield or any other person.

Background

Seafield, a development stage gold company incorporated pursuant to the *Ontario Business Corporations Act*, has its registered office at 36 Toronto Street, Suite 1000, Toronto, Ontario. Seafield’s primary asset is the shares of its wholly-owned subsidiary, Minera Seafield S.A.S (“Minera”), a Columbian company. Minera is 100% owner of 15 mining concessions covering an area of more than 6,000 hectares in Columbia.

The Company’s senior secured lender is RMB Australia Holdings Ltd (“RMB”) which is owed approximately \$18 million from Seafield and Minera. These amounts were borrowed by Seafield pursuant to a facility agreement between RMB and Seafield dated February 21, 2013 (the “Facility Agreement”). Seafield, as borrower under the Facility Agreement, and Minera, as guarantor of Seafield’s obligations under the Facility Agreement, each granted RMB security over all their respective assets, undertakings and property, including but not limited to (in the case of Seafield) all of the issued and outstanding shares in Minera (the “Minera Shares”).

As a result of a decline in the price of gold and continuing cash flow difficulties, the Company could not successfully restructure its financing arrangement with RMB, and ultimately failed to make an interest payment of approximately \$406,000 due on July 15, 2014, resulting in a default of its RMB Facility Agreement.

On August 28, 2014, RMB issued a demand for payment and notice of intention to enforce security (the “BIA Notice”) pursuant to Section 244 of the *Bankruptcy and Insolvency Act* (“BIA”).

Subsequently, on September 4, 2014, Seafield announced that Minera filed a request to enter reorganization proceedings pursuant to Colombian insolvency legislation which would enable the business to continue as a going concern while seeking a settlement with its creditors. RMB opposed this decision as it believed it would materially prejudice the interests of RMB and other operating creditors of Minera.

Accordingly, RMB commenced an application to appoint KPMG as Receiver of Seafield to among other things, take possession of and exercise control over the assets of the Company (including the Minera Shares) and any and all proceeds, receipts and disbursements arising out of or from the Seafield assets.

By order of the Honourable Mr. Justice Newbould of the Ontario Superior Court of Justice made on September 9, 2014, KPMG Inc. was appointed Receiver.

The executives of the Company including, Mr. David Prins (former Chief Executive Officer, President and Chairman) (“Prins”) and Ms. Stephanie Ashton (former Chief Financial Officer) were engaged under contractor agreements which were terminated by the Receiver following its appointment.

In October 2014, the Receiver learned that certain amendments to the labour contracts with Prins and Giovanni Ortiz (Director and CEO) (“Ortiz”) were adopted by Minera (the “Labour Agreement Amendments”) following a resolution of the former board of directors of Seafield made shortly prior to the Receivership Order, at a time that Seafield was encountering significant cash flow problems and was in default under the RMB Facility Agreement.

The Receiver issued its first report dated May 11, 2015 (the “First Report”) and a supplemental report dated May 18, 2015 (the “Supplemental Report”) to, among other things, provide an update to the Court with respect to its actions to obtain control over Minera, seek approval of a proposed sales and investor solicitation process (the “SISP”), and seek the Court’s authorization for the Receiver to assign the Company into bankruptcy.

The Court issued an order dated May 20, 2015 (the “May 20 Order”) authorizing the Receiver to assign Seafield into bankruptcy to preserve any rights to challenge certain Labour Agreement Amendments (as defined and described further below) and any other reviewable transactions undertaken by Seafield or any other person.

The Labour Agreement Amendments may have the effect, among other things, of giving Prins and Ortiz significant claims for compensation against Minera and therefore may have a detrimental effect on the potential recoveries of the creditors of Seafield. Assuming sufficient funding is available, it is the Trustee’s intention to review the details of the Labour Agreement Amendments with the estate inspector(s) to consider next steps, if any, are to be taken.

A copy of the Receivership Order, First Report and Supplemental Report which together include a summary of the Labour Agreement Amendments, the May 20 Order and other applicable materials relating to the receivership proceedings can be found at the Receiver’s website at:

<http://www.kpmg.com/ca/en/services/advisory/transactionrestructuring/creditorlinksites/seafield-resources-ltd/pages/default.aspx>

Section A - Trustee's Duties

Under Section 16(1) of the *Bankruptcy and Insolvency Act* (“BIA”), the Trustee is required to give security in cash or by bond of a guaranty company in an amount set by the Official Receiver. No bond has been set in this estate.

Books and Records

Under Section 16(3) of the BIA, the Trustee is required to take possession of all records and property not subject to creditor’s security, and make an inventory of the Company’s assets. The Company’s registered office in Toronto, Ontario is located at the offices of DSA Corporate Services Inc. and Marrelli Support Services Inc. which Seafield engaged to provide corporate secretarial, financial accounting and reporting services for the Company and its subsidiaries. The Trustee understands that upon its appointment, the Receiver attended the Company’s registered offices and took possession of the books and records. The Trustee has access to these books and records as needed.

Seafield’s Assets

The Company’s assets are subject to claims of the secured creditors noted in Section E below. As at the bankruptcy date, the Company’s assets include the Minera Shares (as outlined above) and its interest in the Elora Property (as defined below).

The Company has a 100% registered and beneficial interest in 14 patented parcels of mining land and one licence of occupation in the Upper Manitou Lake Area, Boyer Lakes Map Area, Kenora Mining Division (Dryden Area) District of Kenora, Ontario (the “Elora Property”), which it obtained pursuant to the terms of an Option Agreement between Elora Gold Mines Limited (“Elora”) and Gold Summit Mines Ltd. (“Gold Summit”) dated October 1, 2002. The interest was assigned to Seafield pursuant to an assignment agreement among Elora, Gold Summit and Seafield dated October 1, 2003, as restated between Elora and Seafield pursuant to an agreement dated October 1, 2005 (the “Elora Option Agreement”).

According to the Elora Option Agreement, Elora retained a 2.5% net smelter return royalty (“NSR”) and Seafield is required to make annual advance royalty payments of \$20,000 by December 1st of each year until the project reaches commercial production.

In 2012, the Company entered into an option agreement with Manitou (the “Manitou Option Agreement”) whereby Manitou could acquire the Company’s interest in the Elora Property in exchange for the payment of \$0.2 million in cash, the issuance of 2,000,000 common shares of Manitou and the completion of a \$2.5 million work commitment over a three year period.

In May 2014, Manitou approached the Company to renegotiate the terms of the Manitou Option Agreement, however, revised terms could not be agreed and the agreement was terminated.

The Receiver included the Company’s interest in the Elora Property in the SISP, however advises there has not been any interest expressed in the Elora Property.

The SISP, as outlined in the Receiver's First Report, has not resulted in any qualified offers being received as at the end of Phase 2. The Receiver is evaluating possible alternatives with RMB in order to determine next steps, including a credit bid by RMB for the shares of Minera and possibly other property of Seafield.

Section B - Conservatory and Protective Measures

At the time of its appointment, the Receiver took conservatory and protective measures pursuant to the authority granted in the Receivership Order. Accordingly, there are no further steps to be taken by the Trustee.

Section C - Legal Proceedings

The Trustee is not aware of any formal legal proceedings by or against Seafield.

Section D - Provable Claims

As of the writing of this report a limited number of unsecured proofs of claim have been filed in the estate. As a result, the Trustee is not able to verify the accuracy of the Statement of Affairs.

Section E - Secured Creditors

Based on a review of the PPSA, RMB Australia Holdings Ltd. and a related party RMB Resources Inc., are the only secured creditors that have registered a security interest in the Company's Assets. Throughout the receivership proceedings the Receiver has borrowed funds from RMB by way of borrowing certificates (the "Certificates"), which Certificates rank in priority to all other creditor claims.

The Company did not have any employees as of the date of Bankruptcy or in the prior 6 month period and accordingly, there are no claims in respect of the Wage Earner Protection Program.

Based on a notice submitted by Canada Revenue Agency ("CRA"), there was an outstanding balance owing of less than \$2,000 relating to payroll remittances, however, at this time it is not clear if the balance relates to a priority deemed trust or an unsecured claim.

Section F - Anticipated Realization and Projected Distribution

Based on the anticipated realizations of the Seafield assets, including the Minera Shares, through the Receiver's SISP, the secured creditors are expected to incur a significant shortfall and accordingly the Trustee believes that there will not be a dividend available to the unsecured creditors.

Section G - Preference Payments and Transfers at Under Value

As outlined herein, the primary purpose of the Assignment was to preserve any rights to challenge certain Labour Agreement Amendments (as defined herein) and any other reviewable transactions undertaken by Seafield or any other person.

Subject to available funding, it is the Trustee's intention to further review this matter with the Estate Inspector(s) if any are appointed to evaluate the merits of whether or not to pursue this matter further.

Section H - Other Matters

As stated herein, KPMG Inc. was appointed Receiver pursuant to an Order of the Court dated September 9, 2014. KPMG retained the law firm of McMillan LLP, as independent counsel ("Counsel") to advise as to the validity and enforceability of RMB's security over the assets of Seafield. Counsel provided an opinion that, subject to the usual assumptions and qualifications, RMB has valid and enforceable security over Seafield's personal property. Perfection in respect of the Minera Shares will require input from applicable local counsel. Counsel expect to be able to arrange for the delivery of an opinion regarding the validity and enforceability of RMB's security interest in and to the shares of Minera shortly after receiving the required input from applicable local counsel. Based on the fact that no qualified bids for the assets of Seafield were received during the SISP process and the current expectation that RMB has valid and enforceable security over all of the assets of Seafield it is not currently expected that there will be any realizations for unsecured creditors. With respect to Seafield's interest in the Elora Property, there has been no interest expressed in the Receiver's SISP and accordingly, no costs have been incurred in completing a security review in respect of this asset to date.

RMB has guaranteed the Trustee's fees and disbursements associated with the administration of the bankrupt estate and has provided a \$25,000 deposit to the Trustee.

The Trustee is not aware of any other matters that require disclosure.

Dated at Toronto, Ontario this 14th day of September, 2015

KPMG INC.
Trustee of the estate of
Seafield Resources Ltd.