

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

-----X
SECURITIES AND EXCHANGE :
COMMISSION, :
Plaintiff, :
-v- :
PLATINUM MANAGEMENT (NY) LLC; :
PLATINUM CREDIT MANAGEMENT, L.P.; :
MARK NORDLICHT; :
DAVID LEVY; :
DANIEL SMALL; :
URI LANDESMAN; :
JOSEPH MANN; :
JOSEPH SANFILIPPO; and :
JEFFREY SHULSE, :
Defendants. :
-----X

No. 16-cv-6848 (BMC)(VMS)

DECLARATION OF MELANIE L. CYGANOWSKI

I, Melanie L. Cyganowski, pursuant to 28 U.S.C. § 1746, hereby declare that the following is true to the best of my knowledge, information and belief:

1. In accordance with the Order Adopting Protocols for Parties in Interest to Be Heard on Receiver Motions (Dkt. No. 271), I make this Declaration in my capacity as the duly appointed Receiver (the “**Receiver**”) of Platinum Credit Management, L.P., Platinum Partners Credit Opportunities Master Fund LP, Platinum Partners Credit Opportunities Fund (TE) LLC, Platinum Partners Credit Opportunities Fund LLC, Platinum Partners Credit Opportunity Fund (BL) LLC, Platinum Liquid Opportunity Management (NY) LLC, and Platinum Partners Liquid Opportunity Fund (USA) L.P. (the “**Receivership Entities**”), in connection with the application (the “**Application**”) for an order approving the retention of Houlihan Lokey Capital, Inc. *nunc pro tunc* to September 11, 2017, Dkt. No. 275.

2. Attached hereto under Exhibit 1 is a response to the Application that was timely delivered to my and my counsel's e-mail addresses from William C. Nystrom, Esq., on behalf of "a large group of non-insider Platinum Partners Credit Opportunities Fund ('PPCO' or the 'Fund') investors."

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 25th day of October, 2017, in Ventura County, California.

Melanie L. Cyganowski
Melanie L. Cyganowski

EXHIBIT 1



October 23, 2017

Via Service Through the Receiver

Honorable Brian M. Cogan
United States District Court for the Eastern District of New York
225 Cadman Plaza East
Brooklyn, NY 11201

Re: SEC v. Platinum Management (NY) LLC, et al.
Case No. 16-cv-06848-DLI-VMS

Dear Judge Cogan:

This firm represents a large group of non-insider Platinum Partners Credit Opportunities Fund (“PPCO” or the “Fund”) investors (the “Independent Investors”).¹ By this letter, the Independent Investors respond to the Application for Order Approving the Retention of Houlihan Lokey Capital, Inc. (“HLC”) (Dkt. No. 275) (the “Application”) to liquidate the PPCO assets listed on Schedule B to HLC’s Engagement Letter (see Dkt. No. 275-3), including the Abdala Tailings Project (“Abdala”). As detailed herein, the Independent Investors do not oppose the retention of HLC with respect to any of the assets listed except Abdala, which, because of its unique industry (mining), region (Brazil) and value (potentially several hundreds of millions of dollars), will require highly specialized services to maximize its value to investors.

Abdala has been represented to be PPCO’s most valuable asset, worth between \$50 and \$550 million, depending upon the amount of recoverable gold in the tailings pond. Based upon information provided by an independent mining company, JDS Energy and Mining, Inc. (“JDS”), and Bart Schwartz (“Schwartz”), the previous Receiver, it appears that the higher end valuations can only be realized with a capital investment by the Fund to demonstrate the project’s efficacy.

Therefore, the Independent Investors respectfully request that: (1) the Court defer action on the Application solely with respect to Abdala; and (2) the Independent Investors be given an opportunity to be heard by the Court at the December 1, 2017 status conference on alternatives to the liquidation of Abdala.

¹ Beacon Journal Publishing, Ann Bevilacqua, Kathleen Bothwick, Bruce Bullen, John and Mary Alice Callahan, Joseph and Norma Edmiston, Bonnie Ellison, John Fabiano, Garatoni Family Foundation, Garatoni Holdings Investment Partnership, Alicia Garatoni, Judy Garatoni, Larry Garatoni, Gillman/SJC-Lit Partners Revocable Trust, William and Doris Loehning, Torsten Murke, William Perlstein, Whitney Solcher, Bruce and Terry Stevens, Perry and Ruby Stevens, Seth Waxman, World Traveler Revocable Trust.

Hon. Brian M. Cogan
October 23, 2017
Page 2

A. *The Abdala Tailings Project*

PPCO owns a 10-year mining right over the “tailings dam”² of a gold mining operation in a part of Brazil that has a long history of gold recovery. Dkt. No. 130-1, at 21. In 2015, PPCO hired JDS, an independent Canadian energy and mining company, to “establish a drilling and sampling program from Abdala’s tailing deposits and research the gold potential in the tailings dam.” *Id.*

In early January 2016, JDS issued a report (attached as Exhibit A) and estimated that the tailings dam contained 860,000 ounces of gold, of which approximately 65-70% could be economically recovered. In its assessment of the economic opportunities presented by Abdala, JDS stated that it represented:

an *exceptional opportunity* for mining and extraction of gold, assuming the resource estimation and gold recovery results obtained so far are representative of the entire tailings deposit. The high average . . . gold grades of the tailings are very unusual and, assuming samples are representative, the tailings processing would be a *lucrative venture and should be pursued expeditiously*.

Ex. A, at 11 (emphasis added).

Armed with this information from JDS, on a January 2016 conference call, Platinum’s managers advised investors of projected returns of between \$450 and \$550 million. Platinum also reported that JDS offered to bear the costs of the project in exchange for a share of the profits.

B. *Assessment by Schwartz*

Schwartz was appointed Independent Overseer of PPCO in June 2016, and was appointed Receiver of the Fund on December 19, 2016. Schwartz and his team viewed Abdala as having the potential to generate substantial returns with the expenditure of modest additional capital. In his First Quarterly Report, Schwartz stated that:

The Receivership team is currently evaluating the operating steps and capital requirements that would be necessary to put the on-site infrastructure in place to commence the processing of tailings. If the Receiver decides to move forward with such a plan, it would be with the goal of selling the investment after proving its value to prospective buyers.

Dkt. No. 130-1, at 22.

² “A tailings dam is an earth-fill embankment dam used to store byproducts of mining operations.” Dkt. No. 130-1, at 21.



Hon. Brian M. Cogan
October 23, 2017
Page 3

According to Schwartz, Houlihan Lokey Financial Advisors (“HLFA”)³ valued the project at \$55 million to \$114 million, assuming PPCO invested just \$5 million into the project. See Dkt. No. 180, at 2. HLFA cautioned, however, that “PPCO would be unable to recover its cost basis (approximately \$10 million) if the Receiver tried to sell it today.” Id.

C. The Schwartz/SEC Protocol

In May 2017, a rift emerged between Schwartz and the SEC concerning his proposed treatment of certain Receivership assets. Schwartz believed that “perhaps five to six investment positions [including Abdala] and a stage 2 bio-pharma investment” may require additional capital commitments to “adequately protect investors’ assets, and to conduct an *orderly* wind down and a *responsible* liquidation of assets.” Dkt. No. 142, at 4 (emphasis in original). The SEC, however, was concerned that “continued expenditures and/or investments in what it viewed as risky assets was not advisable and that continued operation of the Receivership as an operating business has the potential to dissipate assets . . . and result in other potential regulatory pitfalls.” Id.

To move things forward, the SEC and Schwartz jointly proposed a protocol through which Schwartz would submit his proposed plan of action to the Court, including submissions for capital and operating budgets, and proposals (if any) to make investment-related expenditures after the Receiver had concluded his due diligence efforts. Id. at 4-7. Thereafter, parties-in-interest would be given an opportunity to weigh in on these Receivership matters. The Independent Investors welcomed this protocol, which Schwartz and the SEC stated would bring transparency to the proceeding, particularly since the protocol contemplated that the Receiver’s proposals for any additional investments would be submitted within approximately 45 days. See id. at 7. However, Schwartz resigned before the protocol was implemented.

D. Appointment of Current Receiver and the Pending Application

The Court (Irizarry, C.J.) appointed the current Receiver on July 6, 2017. Dkt. No. 216. The Second Amended Order Appointing Receiver submitted by the Receiver and approved by the Court on October 16, 2017 (Dkt. No. 276) (the “Second Amended Order”) conferred authority on the Receiver to “manage, control, operate, and maintain the Receivership Entities” and “take any action which . . . could have been taken by the officers . . . of the Receivership Entities” in order to “maximize the value realized upon the disposition of Receivership Property.” Second Amended Order, ¶¶ 6(C), (E), 31. To accomplish this goal, the Second Amended Order expressly permits the Receiver to engage in transactions outside the ordinary

³ To aid in his understanding of the Receivership assets, Mr. Schwartz sought Court approval to retain the services of HLFA to provide valuation and investment banking advisory services. Dkt. No. 111. The Court approved the retention of HLFA on August 21, 2017 (Dkt. No. 245), after the newly-appointed Receiver filed an addendum to Mr. Schwartz’s request on August 8, 2017 (Dkt. No. 236). HLFA and HLC are affiliated.



Hon. Brian M. Cogan
October 23, 2017
Page 4

course of business above \$3 million with Court approval. Second Amended Order, ¶ 30.⁴

On August 10, 2017, the Receiver filed her Initial Status Report. Dkt. No. 237. As of that date, the Receiver had “not determined if any assets [i.e., Abdala] warrant any capital investment . . . until it can be assessed and determined the best manner in which it may be monetized for the benefit of the investors and creditors.” *Id.* at 8.

The Application, filed on October 16, 2017, therefore, took PPCO investors by surprise. In it, the Receiver stated that she believed HLC is “best suited to undertake the liquidation of the Portfolio [which includes Abdala].” Dkt. No. 275, at 6. And as such, the Engagement Agreement gives HLC “the exclusive right . . . to provide services with respect to the disposition of the Portfolio.” *Id.* In short, it appears that the Receiver has made the decision not to invest further in Abdala, without providing a detailed explanation to the Court or PPCO investors. HLC, moreover, does not appear to possess relevant expertise in minerology, natural resource extraction, or South America. The significance of the Abdala disposition, at a minimum, militates in favor of the retention of an investment bank with relevant subject matter and geographic area expertise.

If accurately reported by the previous Receiver, the failure to provide funding to Abdala may result in PPCO being unable to recover its cost basis of \$10 million. Dkt. No. 180, at 2. Such an outcome would not maximize the value of the Receivership Estate for the benefit of investors and creditors. See *Eberhard v. Marcu*, 530 F.3d 122, 132-33 (2d. Cir. 2008); *SEC v. Callahan*, 193 F. Supp. 3d 177, 206 (E.D.N.Y. 2016).

The Receiver’s decision to forego an opportunity that could generate additional Receivership funds warrants a full airing before the Court with the opportunity for the Independent Investors to be heard. See, e.g., *SEC v. Schooler*, 3:12-cv-2164, 2016 WL 3031824, at *9-10 (S.D. Cal. May 25, 2016) (ordering receiver to submit report to Court concerning disposition of most valuable assets of receivership estate, where independent appraisal suggested that maintaining the assets could substantially increase their value). Indeed, the Independent Investors have a due process right to be heard at a meaningful time and in a meaningful manner concerning the disposition of their property interests in the Receivership Estate. *SEC v. Whitworth Energy Res., Ltd.*, 243 F.3d 549, 549 (9th Cir. 2000) (unpublished); *SEC v. Lauer*, No. 03-80612, 2007 WL 9618926, at *1 (S.D. Fla. May 1, 2007).

In light of these facts and concerns, the Independent Investors respectfully ask that:

- 1) the Court defer action on the Application (solely with respect to Abdala); and
- 2) the Independent Investors be given an opportunity to be heard by the Court at the December 1, 2017 status conference on alternatives to the liquidation of this most important Fund asset.

⁴ The Second Amended Order also incorporates the authority of the Receiver to carry on the business of the Receivership Estate implicated in 28 U.S.C. § 959. Second Amended Order, ¶ 30.

Hon. Brian M. Cogan
October 23, 2017
Page 5

Thank you for your kind attention to this matter.

Very truly yours,

/s/ William C. Nystrom
William C. Nystrom

cc: Hon. Melanie L. Cyganowski (*via email*)
Adam Silverstein (*via email*)



Exhibit A



PARTNERS IN
ACHIEVING
MAXIMUM
RESOURCE
DEVELOPMENT
VALUE

JDS Energy & Mining Inc.
Suite 900 – 999 West Hastings Street
Vancouver, BC V6C 2W2
t 604.558.6300
jdsmining.ca

To: Ari Hirt, Platinum Partners
Cc: Elliot Bertram; Samuel Salfati; Mark Nordlicht; Zach Weiner
Date: January 6, 2016
From: JDS Energy & Mining Inc.
Re: Abdala Tailings Study Report for Platinum Partners

Scope of Work

JDS Energy & Mining Inc. (JDS) was contracted by Platinum Partners to oversee sampling, assaying, resource estimation and gold recovery testwork on the Abdala tailings located in the State of Mato Grosso, Brazil.

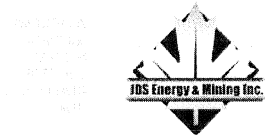
JDS scope of work included:

- Tour the Brazilian facility to determine local logistics and support;
- Audit the existing processing facility;
- Determine an approximate location for the processing facility and new tailings disposal area;
- Determine and execute a sampling program for one tailings facility;
- Arrange and manage in-country testwork;
- Estimate cost and revenue for a chosen extraction plan; and
- Build an economic model to determine project value.

Following a high-level review of available data for the project on June 2015, JDS identified several risks associated with the potential economic value of the tailings, which need to be mitigated before proper valuation of the tailings resource can occur. These risks include:

- Tailings grade;
- Tailings volume and density; and
- Tailings recovery.

PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



Initial Site Visit

An initial site visit was completed by Denise Nunes and Mike Makarenko of JDS on July 22, 2015. JDS had no access to the processing plant facility or any engineering document referent to the mine, processing or tailings facility. The site visit entailed a walk thru the tailings facility to determine sampling strategy, a general site overview and a visit to the mineralized area currently being mined.

Sampling Program

JDS established a drilling and sampling program for the tailings which ran from August 25 to September 8, 2015 at Abdala's site near Cuiaba, Brazil. A JDS contract representative, Roberto Benevides, was on site during the drilling and sampling, and was in charge of managing the contract drilling company NACON. Roberto was also responsible for the safety and shipment of the samples to the assay laboratory; SGS Geosol Laboratorios Ltda. Samples were under surveillance and custody of the JDS representative until delivery to the shipping company. Roberto was present at the sampling drill during the entire sampling process from holes #1 through #8 on the upper tailings facility and holes #10, #11 and #12 on the newer lower tailings facility.

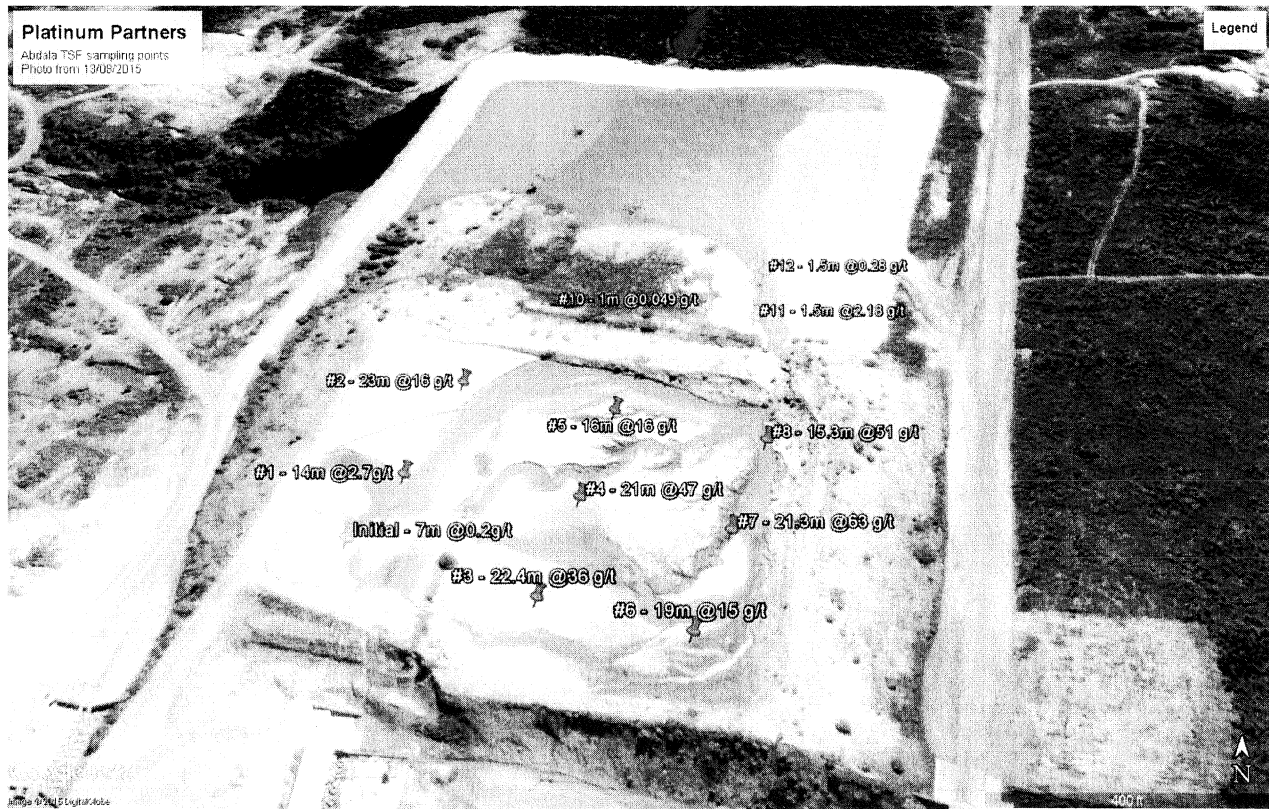
Samples were collected using a percussion drill and a SPT test sampler. Samples were collected for each 1 m of depth until reaching a layer of silt or clay. Each 1 m sample was split into two bags and labeled with the hole ID number and its depth. One set of samples was sent for assay testing to SGS in Minas Gerais within the dates of the sampling program, while the set of duplicate samples from holes #1 through #8 were stored at the NACON facility in Cuiaba. On September 8, 2015, three samples were collected on the newer lower tailings facility by the north edge contiguous to the upper tailings facility. Due to the higher water content, the entire mass of samples from the lower tailings facility was sent to SGS.

A total of 169 samples were collected, 166 from the upper tailings facility and three from the lower facility. The samples locations are shown in Figure 1.

PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



Figure 1: Tailings Sampling Locations



Source: JDS 2015 – Image by Google Earth

Assays – Variability and Reproducibility Assessment for Individual 1 m Samples

An initial subset of 60 samples was selected to verify overall grade variability of the tailings. Fire assay and aqua-regia digestion were used to assay and the tests were conducted at SGS in Brazil. Figure 2 shows the histogram for the fire assay results of gold grade on individual 1 m samples.

The fire assay results indicate that 50% of the samples have a head grade above 20 ppm Au.

In order to assess the reproducibility of the assay results, 13 samples were submitted to multiple assay tests; the results are shown in Table 1 and in the precision curve presented in Figure 3. The %Diff of the precision curve is calculated as:

$$\%Diff_{S1\&S2} = \left| \frac{S1 - S2}{Average(S1:S2)} \right| * 100$$

Being S1 and S2 the assay results for a duplicate sample.

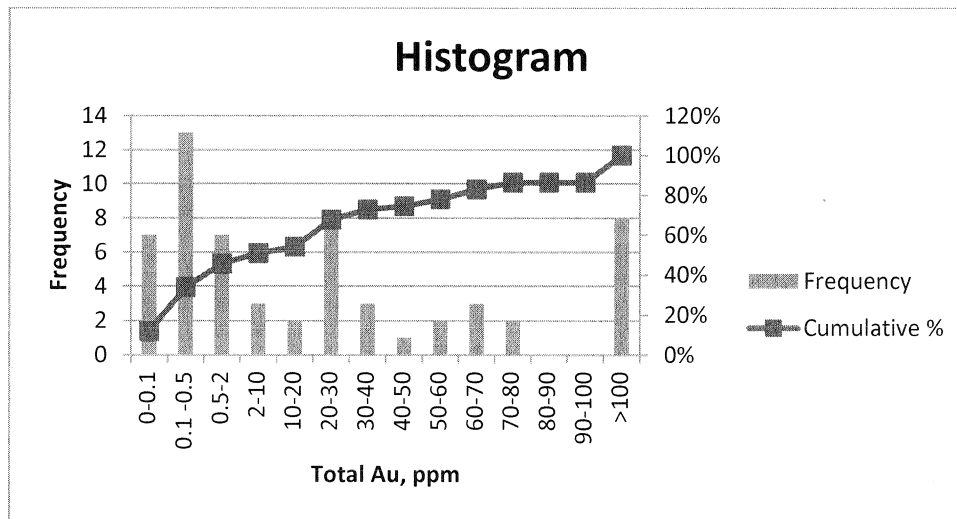
PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



Figure 2 shows that eight of the total 17 pairs of analyzed data show a difference from $\pm 50\%$ to $\pm 200\%$ compared to the average grade of samples pairs.

SGS concluded that the high variability on the multiple assay results as compared to a single sample is due to the presence of “coarse gold” or “free gold”, which would not be expected in tailings from a well-run gravity concentration plant.

Figure 2: Histogram for Total Gold by Fire Assay



Source: JDS 2015

Table 1: Results of Duplicate Analysis of Individual 1 m Samples

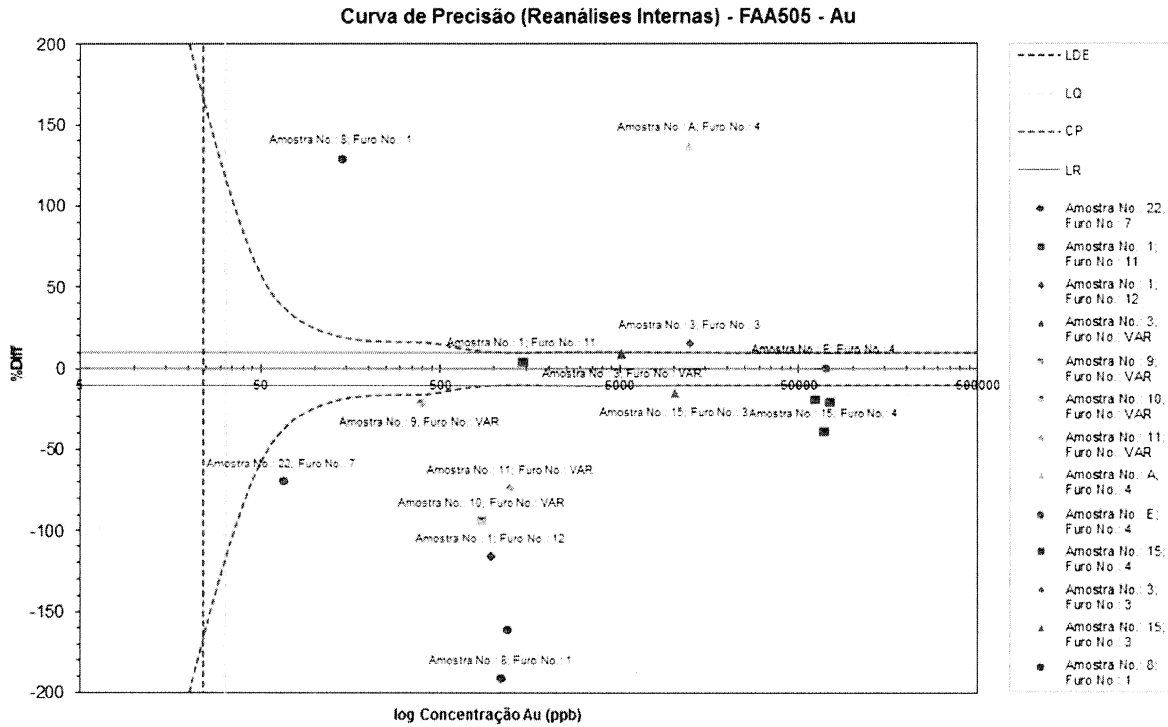
| Sample ID | S1, ppm Au | S2, ppm Au |
|--------------------------------|------------|------------|
| Amostra No.: 1; Furo No.: 11 | 1.46 | 1.40 |
| Amostra No.: 1; Furo No.: 12 | 0.40 | 1.52 |
| Amostra No.: 10; Furo No.: VAR | 0.45 | 1.25 |
| Amostra No.: 11; Furo No.: VAR | 0.77 | 1.68 |
| Amostra No.: 15; Furo No.: 3 | 9.36 | 10.85 |
| Amostra No.: 15; Furo No.: 4 | 55.52 | 81.87 |
| Amostra No.: 15; Furo No.: 4 | 55.52 | 66.90 |
| Amostra No.: 15; Furo No.: 4 | 81.87 | 66.90 |
| Amostra No.: 22; Furo No.: 7 | 0.04 | 0.09 |
| Amostra No.: 3; Furo No.: 3 | 13.15 | 11.32 |
| Amostra No.: 3; Furo No.: VAR | 5.36 | 4.88 |
| Amostra No.: 8; Furo No.: 1 | 0.23 | 2.12 |
| Amostra No.: 8; Furo No.: 1 | 0.23 | 0.05 |
| Amostra No.: 8; Furo No.: 1 | 2.12 | 0.05 |
| Amostra No.: 9; Furo No.: VAR | 0.35 | 0.43 |
| Amostra No.: A; Furo No.: 4 | 20.50 | 3.83 |
| Amostra No.: E; Furo No.: 4 | 69.15 | 68.73 |

Source: SGS Brazil 2015

PLATINUM PARTNERS
 ABDALA TAILINGS STUDY REPORT



Figure 3: Precision Curve for SGS internal assay checks (Au by fire assay) ⁱ



Source: ⁱ QA-QC Report to Ari Hirt, SGS, November 2015, page 11

In order to try to mitigate the high variability of assay results, samples were composited into about 5 m intervals and processed by metallic screen fire assay. The results from this analysis were used for the resource estimation. This assay method requires a bigger volume of samples, which did not allow for the precision analysis of the duplicate samples within the same laboratory. SGS results are shown in Table 2.

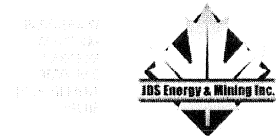
PLATINUM PARTNERS
 ABDALA TAILINGS STUDY REPORT



Table 2: SGS Geosol Metallic Screen Fire Assay Results

| Composite Samples | | | | | |
|-------------------|---------------|-----------|-----------|--------|------------|
| Sample ID | Total Au, g/t | Coarse Au | From (m) | To (m) | Length (m) |
| 1A | 0.33 | 48% | 0 | 5 | 5.00 |
| 1B | 6.86 | 43% | 5 | 10 | 5.00 |
| 1C | 0.61 | 33% | 10 | 14 | 4.00 |
| 2A | 15.56 | 55% | 0 | 5 | 5.00 |
| 2B | 2.91 | 38% | 5 | 10 | 5.00 |
| 2C | 0.63 | 62% | 10 | 15 | 5.00 |
| 2D | 25.97 | 52% | 15 | 20 | 5.00 |
| 2E | 47.19 | 46% | 20 | 23 | 3.00 |
| 3A | 36.03 | 49% | 0 | 5 | 5.00 |
| 3B | 22.10 | 58% | 5 | 10 | 5.00 |
| 3C | 21.20 | 53% | 10 | 15 | 5.00 |
| 3D | 53.54 | 53% | 15 | 20 | 5.00 |
| 3E | 53.12 | 58% | 20 | 23 | 3.00 |
| 4A | 35.07 | 49% | 0 | 10 | 10.00 |
| 4B | 64.42 | 66% | 10 | 21 | 11.00 |
| 4C | 30.99 | 56% | lost tags | | 5.00 |
| 5A | 8.83 | 35% | 0 | 5 | 5.00 |
| 5B | 15.47 | 44% | 5 | 10 | 5.00 |
| 5C | 21.73 | 48% | 10 | 16 | 6.00 |
| 6A | 23.38 | 49% | 0 | 5 | 5.00 |
| 6B | 9.90 | 61% | 5 | 10 | 5.00 |
| 6C | 23.96 | 68% | 10 | 15 | 5.00 |
| 6D | 0.07 | 13% | lost tags | | 4.00 |
| 7A | 123.54 | 73% | 0 | 5 | 5.00 |
| 7B | 48.88 | 60% | 5 | 10 | 5.00 |
| 7C | 68.11 | 71% | 10 | 15 | 5.00 |
| 7D | 25.36 | 51% | 15 | 22 | 7.00 |
| 7E | 179.29 | 71% | lost tags | | 3.00 |
| 8A | 63.08 | 51% | 0 | 5 | 5.00 |
| 8B | 74.87 | 79% | 5 | 10 | 5.00 |
| 8C | 17.30 | 54% | 10 | 15.3 | 5.30 |
| 0A | 0.27 | 58% | 0 | 5 | 5.00 |
| 0B | 0.23 | 33% | 5 | 10 | 5.00 |
| 0C | 0.16 | 35% | 10 | 16 | 6.00 |

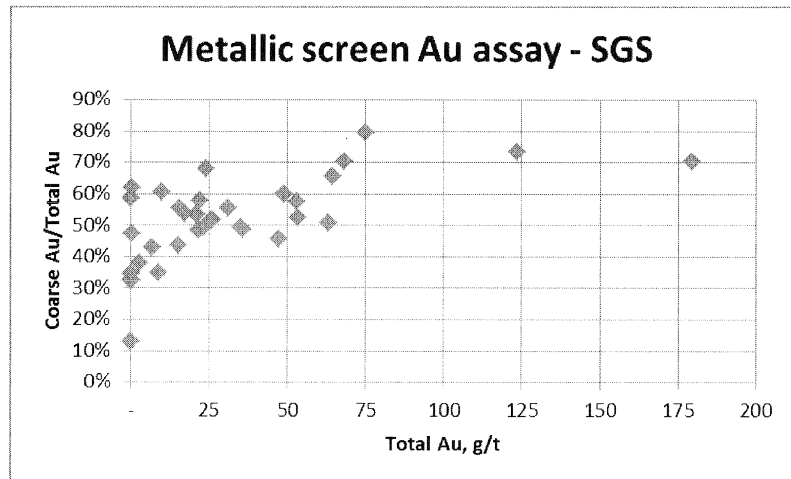
Source: SGS 2015



Assays for Resource Estimation

The 169 samples were combined into 34 composite samples of 5 m average each, and processed by the Metallic screen gold assay method for estimation of the average gold grade in the tailings facility. The method reports the total gold grade and coarse gold grade. Figure 4 illustrates the assay results for all 34 data points used for the resource estimation.

Figure 4: Coarse Gold Percentage and Total Gold Assay for the 34 Samples Used in the Resource Estimation



Source: JDS 2015

Resource Estimation

A high-level resource estimation was produced based on the gold grade of the 34 composite samples in nine holes processed by the Metallic screen method at SGS in Brazil. The measured moisture of samples and length of each of the sampling holes was used to calculate the total mass of material available at Abdala's tailings facility.

To estimate the tailings resource, a simple block model was constructed. The shape of the tailings is based on GPS locations along the surface and depth, to the base of the tailings in each of the drill holes. The shape of the berm was estimated graphically using a 45° angle of repose. The block size is 25 m on X, 25 m on Y, and 5 m on Z. Blocks are in turn sub-blocked down to 1.56 m on X and Y and 0.31 m on Z. Sub-blocking allows the model to better fit the shape of the tailings. A specific gravity of 1.4 is used for all blocks, which is based on results obtained at site.

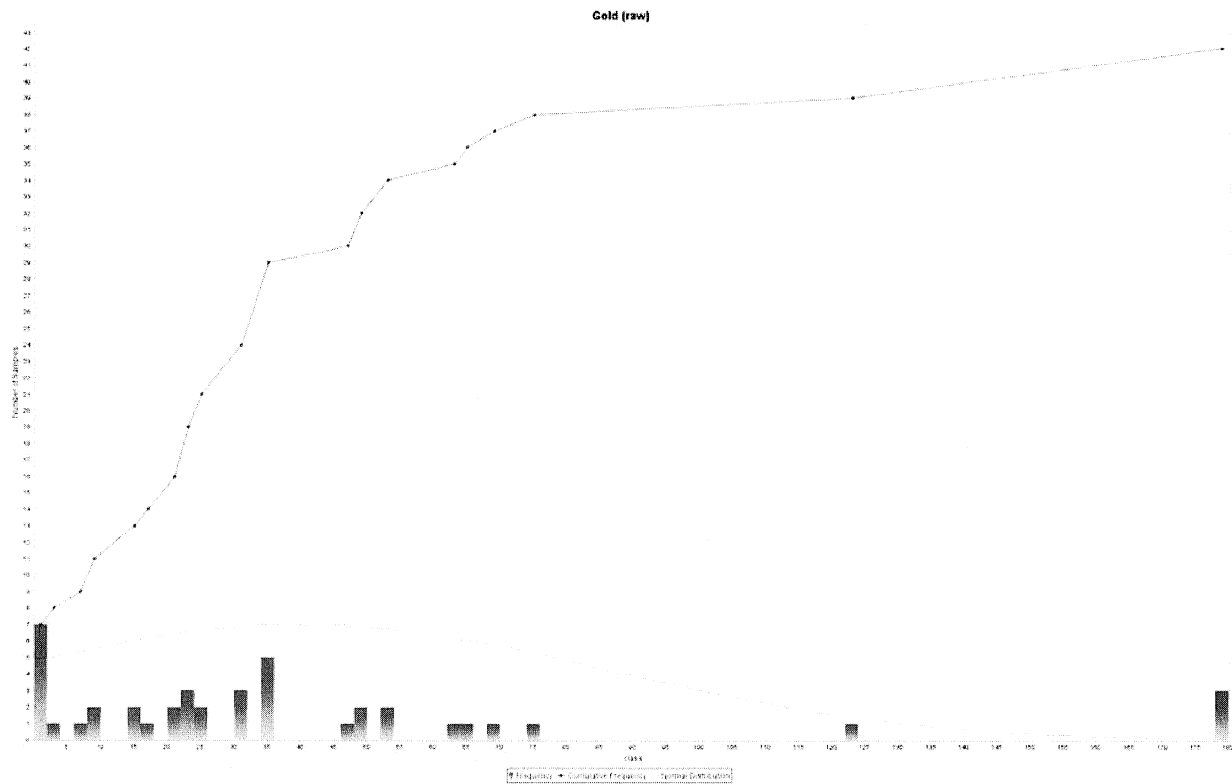
Composite samples were capped at 75 g/t at a point which excludes outliers (See Figure 5). Capping eliminates the effect of very high-grade samples having an excessive influence on the estimate. Only two samples are capped. Samples were re-composited at 5 m, which is the same as the sampling composite length for the samples sent for analyzes. Assays were capped prior to compositing. The capped grades were interpolated into the block model using the Inverse Distant Squared method.

PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



A simple disk-shaped search ellipse with a maximum search distance of 70 m was used. A maximum of 15 samples were used to estimate each block. A minimum of three samples were required to estimate a block. No variography was employed due to the small number of samples used. Surpac software was used to generate the block model.

Figure 5: Frequency Distribution



Source: JDS 2015

Table 3: Non-Compliant Resource Estimate

| COG Au g/t | Volume m ³ | Tonnes at 1.4 SG | Grade (Au g/t) | Ounces |
|------------|-----------------------|------------------|----------------|---------|
| 0 | 789,594 | 1,105,431 | 24.42 | 867,994 |
| 1 | 677,367 | 950,140 | 28.31 | 867,347 |

Source: JDS 2015

At a zero grade cut-off, the estimate results in 1.1 million tonnes of tailings at an average grade of 24.42 g/t of Au for about 860,000 oz. of contained gold (See Table 2). This high-level resource estimation is not in accordance with NI 43-101.

PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



Verification of Resource Estimation

Due to the unexpected high results of the tailings assays, and as a check for the SGS lab in Brazil, the samples stored at NACON were sent to Bureau Veritas laboratory in BC, Canada (BV) for assay validation and resource estimation verification. In total, eight composite samples were prepared following the same procedure used by SGS. The gold grade results obtained by the metallic screen gold assay method were compared to the results from SGS, and the resource estimation was re-run with the replacement of the new eight assays in the 34 composites data set. Table 4 presents the assay results comparison as performed by both laboratories, as well as the difference for each duplicate sample.

Table 4: Comparison of Assay Results from Brazil and Canada

| Sample ID | Total Au (ppm) | | |
|-----------|----------------|-------|---------|
| | SGS | BV/CA | SGS-BV |
| 1C | 0.61 | 37.85 | (37.24) |
| 2C | 0.63 | 19.58 | (18.95) |
| 2D | 25.97 | 15.26 | 10.71 |
| 3D | 53.54 | 28.13 | 25.41 |
| 4B | 64.42 | 14.94 | 49.48 |
| 6C | 23.96 | 19.56 | 4.40 |
| 7C | 68.11 | 78.04 | (9.93) |
| 8C | 17.30 | 16.06 | 1.24 |

Source: JDS 2015

The eight pairs of analyzed data show a difference of $\pm 7\%$ to $\pm 193\%$ from the average samples pairs grades.

The high-level verification of the resource estimation resulted in 1.1 million tonnes of tailings at an average grade of 23.73g/t of Au.

Although the uncertainty associated with the precision of the assay results can be as high as $\pm 200\%$, the overall head grade in the resource estimate remains virtually unchanged when about 25% of the assays were modified.

Recovery Tests

Recovery tests were performed at the BV lab in Vancouver in December 2015. Gravity, leaching and flotation tests were performed.

A scoping test was performed on a composite sample from hole #5, to assess the gold recovery by gravity concentration, followed by intensive leaching of gravity tailings and flotation only. The gravity+leaching and the flotation tests were run on two independent 1 kg sub-samples of composite #5, after a short grind to adjust the original particle size of 80% passing (P_{80}) 188 μm to a P_{80} of 118 μm , for the concentration tests.

PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



The overall gravity+leaching recovery was 99% of total gold, however gravity recovery was 90% of total gold. The head grade was calculated as 12 g/t for this test, with 73% of total gold reported as coarse gold.

The flotation recovery was about 90% of total gold for an 11% mass pull and 99% of total gold for 16% mass pull. The head grade was calculated as 27 g/t for this test. No presence of deleterious materials was identified on the full metal scan (by ICP) of the flotation concentrate.

Given the high gravity recovery observed in the scoping test, the simplicity of the gravity circuit, and the lower capital and operating costs associated with it, efforts were focused on assessing the gravity recovery for each hole independently.

Gravity Recoveries

Additional gravity recovery tests were run on six composite samples representing holes #1, #3, #4, #6, #7 and #8. These tests were run on the entire material available from each hole. Each test was run on samples ranging from 1.5 to 8 kg each, and they provide a good representation of laboratory gravity recovery and head grade by hole.

All samples were ground to the optimum range for gravity recovery. The gravity concentrate was cleaned by hand panning, the pan concentrate was photographed and assayed to extinction to mitigate the nugget effect associated with the high content of coarse gold. The gravity concentrate pictures are appended.

A sub-sample of about 500 g of each composite was submitted to size by size assay analysis in order to determine the distribution on gold into coarse and fine fractions. Figure 6 below summarizes the results for gravity testing in correlation to the content of coarse gold for each composite sample.

Overall the gold recovery by gravity observed at the lab was within 82 to 96% of total gold for samples showing coarse gold within 78% and 83% of total gold. In an industrial installation, the overall process efficiency can be expected to be 10-15% lower than results seen at the laboratory.

PLATINUM PARTNERS
 ABDALA TAILINGS STUDY REPORT

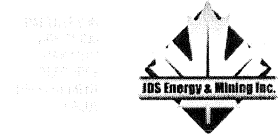
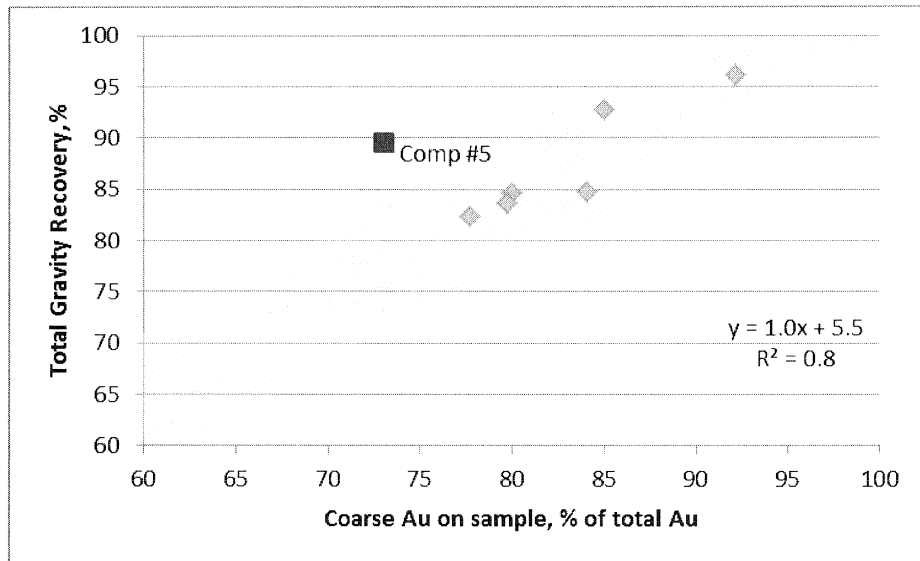


Figure 6: Summary of Gravity Recovery Tests



Source: JDS 2015

Production Forecast

The production forecast is based on test results of tested samples as received by the laboratory. In total, about 25 kg of samples were tested for gravity concentration. Assuming the average grade from the resource model for total and coarse gold as 24 g/t and 15 g/t, the average coarse gold content in the tailings facility is calculated as 62.5% of total gold. From the correlation shown in Figure 6, the estimated total recovery of gold by gravity is 68%. However, process optimization and a blending strategy is likely to improve overall process performance.

The use of a secondary gravity concentrator adjusted for recovery of finer particles will reduce the overall losses of gold. Additional benefit will be realized when processing the material from the eastern third of the tailings facility (sampling points #6, #7 and #8) which shows particle size distribution considerably below the optimum size for the tested equipment.

Risks and Opportunities

The Abdala tailings represent an exceptional opportunity for mining and extraction of gold, assuming the resource estimation and gold recovery results obtained so far are representative of the entire tailings deposit. The high average (+20 g/t) gold grades of the tailings are very unusual and, assuming samples are representative, the tailings processing would be a lucrative venture and should be pursued expeditiously.

PLATINUM PARTNERS
ABDALA TAILINGS STUDY REPORT



The main risks identified by JDS are:

- The visual observation of samples, gold assay results, the moisture and size analysis of samples from all eight sampling holes within the upper tailings facility has revealed significant variability across the deposit. Any laboratory result is only representative of the sample as tested.
- Given the nature of the samples and the high variability observed for assays of duplicated samples, caution must be used when estimating head grade and production performance of the processing facility. Due to the absence of engineering documentation of the tailings facility design, the overall volume of tailings is only an estimate.
- Additional sampling is required to produce a resource estimation in accordance with NI-43-101 standards for the project.
- The high gold values of the Abdala samples taken and tested by JDS raise a question of whether sample salting occurred to fraudulently portray the tailings to be of higher grade than they actually are. While fraud (salting) is a possibility, JDS took the following steps to endeavour to ensure sampling and testing were valid:
 - A reliable and independent JDS contractor was on site overseeing drilling, sampling and transportation of the tailings samples
 - An independent drilling contractor was used for the sampling program
 - Drill hole locations were not divulged to the property owner, although the drill was left unattended when crews were off shift
 - Samples were split and sent to two independent, accredited labs, SGS in Belo Horizonte, Brazil and BV in Vancouver, Canada with acceptable correlation of results
 - In addition to JDS's protocols, the following observations were made:
 - The overall correlation of high-grade gold and coarse gold and the variability and spread of grades across the deposit are consistent with how the tailings have been processed and are understood to have been discharged into the tailings facility
 - The landowner's processing plant and operational expertise and control are sub-standard and it is likely that recoveries were poor resulting in high tailings gold grades
 - The feed material to the landowner's processing plant comes from a region known to have very high-grade deposits which, along with a sub-optimal processing plant recoveries could lead to high tailings grades
 - Visual inspection of gold particles in the testwork samples did not appear to be unusual