No. S-126583
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RS.C. 1985, c. C36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF

GREAT BASIN GOLD LTD.

SECOND REPORT OF THE MONITOR, KPMG INC.

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1.0 INTRODUCTION AND PURPOSE OF MONITOR'S REPORT

1.1 KPMG Inc. ("**KPMG**" or the "**Monitor**") was appointed as Monitor pursuant to the order of the Honourable Madam Justice Fitzpatrick on September 19, 2012 in respect of the petition filed by Great Basin Gold Ltd. ("**GBGL**" or the "**Company**"), under the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended* (the "**CCAA**"). The proceedings brought by the Company under the CCAA will be referred to herein as the "**CCAA Proceedings**" and the order granted by the Court on September 19, 2012 is hereinafter referred to as the "**Initial Order**".

1.2 On September 19, 2012, KPMG filed the Pre-Filing Report of the Proposed Monitor (the "**Monitor's Pre-Filing Report**") which sets out certain of the Company's background information, its cash flow forecast, its proposed interim financing and its preliminary restructuring efforts and plans.

1.3 On September 26, 2012, the Monitor filed its first report to the Court which described background information relating to the current financial difficulties experienced by the Company, the Monitor's assessment of the Cash Flow Forecast, information regarding the Monitor's regular monitoring of the Company to date, an overview of the Company's restructuring proceedings in South Africa and status of the Company's efforts to obtain interim financing (the "**Monitor's First Report**").

1.4 The purpose of this second report (the "**Monitor's Second Report**") is to provide this Honourable Court with information regarding the Company's attempts to secure interim financing and the urgency of its short term funding requirements, in light of the recent issues encountered in securing such financing.

2.0 REPORT RESTRICTIONS AND SCOPE LIMITATIONS

2.1 In preparing this report, KPMG has necessarily relied upon unaudited financial and other information supplied, and representations made, by certain senior management of GBGL and that of its subsidiary companies **("Senior Management").** Although this information has been subject to review, KPMG has not conducted an audit, nor otherwise attempted to verify the accuracy or completeness of any of the information of GBGL or its subsidiary and affiliate companies. Accordingly, KPMG expresses no opinion and does not provide any other form of assurance on the accuracy of any information contained in this report, or otherwise used to prepare this report.

2.2 Certain of the information referred to in this report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, in accordance with standards set by the Canadian Institute of Chartered Accountants, has not been performed. Future oriented financial information referred to in this report was prepared based on Senior Management's estimates and assumptions. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variances could be material.

2.3 The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Company.

2.4 Capitalized terms not defined in this report are used as defined in the affidavit of Lou Van Vuuren sworn September 19, 2012, which was filed with the Company’s initial CCAA application, the Monitor’s Pre-Filing Report and the Monitor’s First Report.

2.5 References herein to the “**GBG Group**” are references to the consolidated group of GBGL entities.

2.6 Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is the Company's common reporting currency, except for the Cash Flow Forecast (as hereinafter defined) which is in US dollars.

3.0 AN UPDATE REGARDING THE MONITOR’S ASSESSMENT OF THE URGENCY OF THE COMPANY’S FUNDING REQUIREMENTS

Background

3.1 On September 19, 2012, the Company sought and was granted the Initial Order. The Initial Order authorized the Company to enter into the debtor-in-possession (the “**DIP**”) financing arrangement (the "**Approved DIP Facility**") with Credit Suisse AG and Standard Chartered Bank (the "**Approved DIP Lenders**").

3.2 On September 25, 2012, the ad hoc group of debenture holders (the "**Ad Hoc Group**"), after providing the Company with an alternate DIP financing term sheet for a proposed alternate DIP facility (the "**Proposed Alternate DIP Facility**"), sought an order from the Court setting aside the Approved DIP Facility and for the Company to enter into the Proposed Alternate DIP Facility.

3.3 On account of the Motion by the Ad Hoc Group, the Approved DIP Facility agreement was not finalized and did not close. The Proposed Alternate DIP Facility was also not approved. The result is that the Company is currently without interim financing.

3.4 The details of the Approved DIP Facility and the Proposed Alternate DIP Facility, along with the various positions of the parties on this matter are described in the Company's initial CCAA application, the September 25, 2012 application materials filed by the Ad Hoc Group, the Monitor's Pre-Filing Report and the Monitor's First Report.

3.5 There are many important elements regarding the future interim financing arrangements of the Company. One recurring consideration surrounds the immediacy of the Company's need for further interim funding (over and above the Emergency Burnstone Advance, as defined in the DIP Term Sheet of the Approved DIP Facility).

3.6 The following sections of this Report describe the views of various parties in relation to the urgency of the Company's funding requirements and provides the Monitor's perspective thereon.

3.7 The Cash Flow Forecast was filed with the Company's initial CCAA application and was attached to both the Monitor's Pre Filing Report and the Monitor's First Report. The consolidated opening cash position of the GBG Group at the beginning of the forecast period was approximately US$6.3 million.

3.8 The Cash Flow Forecast called for the following material levels of funding:

Week ending	Amount	Purpose
September 21, 2012	US$10.0 million	To fund payroll and severance costs of Burnstone’s mining employees and certain time-sensitive costs.
September 28, 2012	US$13.2 million	To fund significantly overdue Hollister obligations, interest costs on existing debt, professional fees and expected net cash and flows at Burnstone for the week (as described in the Monitor’s First Report).

3.9 The funding expected in the week ended September 21, 2012 through the approval and provisions of the Emergency Burnstone Advance occurred (the actual amount funded was approximately US$9.2 million).

3.10 The funding expected in the week ended September 28, 2012 has not occurred to date.

Other information regarding the Immediacy of Funding in Excess of the Emergency Advance

i. Affidavit #1 and Affidavit #2 of Mr. Lou Van Vuuren

In both Affidavits there are references to immediate funding needs that extend beyond those which were satisfied by the Emergency Burnstone Advance, including the funds which Mr. Van Vuuren indicated are required to satisfy approximately US$8.7 million in overdue supplier and other obligations at Hollister (before consideration of existing professional fee and scheduled debt services obligations of US$2.2 million and US$1.7 million, respectively).

ii. Letter from the BRP dated September 26, 2012

In his letter, the Business Rescue Practitioner in South Africa (“**BRP**”) (Mr. Peter van den Steen) stressed the urgent need for interim financing to fund the required costs and existing obligations at Southgold (the Burnstone operating company).

iii. <u>The Monitor's assessment of the Cash Flow Forecast</u>

As described in the Monitor's First Report, the Monitor has conducted its assessment of the Cash Flow Forecast and provided a report to the Court on its reasonableness (such report was appended to the Monitor's First Report). The Monitor has concluded that nothing has come to its attention that would lead it to believe that the Cash flow Forecast is not reasonable based on its stated assumptions.

The Monitor concurs with GBG Group Senior Management that immediate funding is required, particularly in respect of the well overdue Hollister supplier obligations.

iv. <u>The Monitor's letter to FMC Law dated September 30, 2012</u>

In response to a letter from FMC Law, Canadian counsel to the Ad Hoc Group, to the Monitor's counsel dated September 28, 2012 (a copy of which is attached to the report as **Schedule A**).

The Monitor's counsel responded by letter dated September 30, 2012 (the "**Gowlings Letter**") (attached as **Schedule B**) with, among other things, the following information:

a) The Company at the date of the Gowlings Letter had consolidated cash on hand of approximately US$5 million;

b) The Company's Cash Flow Forecast called for additional funding (i.e. in excess of the Emergency Burnstone Advance) of approximately US$13.2 million, an amount far in excess of its existing cash resources (such funding which includes US$2.2 million of professional fees, US$1.7 million in interest on the Term I Burnstone existing debt facility and US$1.2 million for payroll costs, which have already been funded through the Company's cash on hand);

c) Senior Management advises that Hollister's suppliers in certain cases are not willing to supply Hollister, except on cash on delivery terms;

d) There are possible retention issues with Hollister's management team, due to the current financial circumstances of the Company, and that there is now a real risk of key employee loss.

v. Implications of further delays in funding

The Monitor is of the view that additional funds are required to fund the Company's requirements, particularly and at least in terms of expected net cash outflows at Burnstone and in relation to Hollister's critical supplier obligations in the immediate term. The potential consequences of further funding delays, could result in the following:

a) Cessation of supply by Hollister's critical suppliers, causing undue production and refining delays, and potential unfavourable operating results;

b) Legal actions by Hollister's creditors which could necessitate a formal insolvency filing in the U.S., and even a costly shut down of the Hollister operation;

c) The inability of management to fund the planned care and maintenance program at the Burnstone facility in a responsible manner, which could result in excessive costs and issues with government and regulatory authorities;

d) The inability to fund a proper Business Rescue Proceeding in South Africa, potentially causing a formal liquidation proceeding and a significant risk that the Company could lose the property's mineral rights, resulting in a potentially devastating loss in value to the detriment of all affected stakeholders; and

e) Loss of the Company's key management employees due to the current uncertainty of the Company's liquidity and financial circumstances.

Concluding Observations

3.11 It is the Monitor's view that the Company requires funding without further delay.

3.12 In the Monitor's view, although the exact amount of additional funding needed to ensure the preservation of the Company's value is impossible to predict, the Monitor estimates (believes) that it is in the range of what is prescribed by the Cash Flow Forecast [revised wording].

All of which is respectively submitted to this Honourable Court this 2nd day of October, 2012.

KPMG Inc., solely in its capacity
as Monitor of Great Basin Gold Ltd.

Per: Philip J. Reynolds
Senior Vice President

FMC LAW

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September 28, 2012

Gowling Lafleur Henderson LLP
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Vancouver, British Columbia
V6C 2B5

Attention: John I. McLean

RE: Great Basin Gold

As you are aware, we are counsel to the Ad Hoc Group of Convertible Debenture Holders.

We understand that the Credit Suisse DIP Credit Facility (the "**DIP Facility**") has not closed. Would you please advise us at your earliest convenience of the status of the DIP Facility. In addition, given the representations made to the Court yesterday as to the urgency of funding would you please provide a detailed explanation as to how the company is dealing with its current obligations including those reported in the Monitor's Report as urgent payables.

In the circumstances, would you please provide a response to us by no later than noon EST on Monday, October 1, 2012.

Yours truly,
Fraser Milner Casgrain LLP

Ryan Jacobs
Partner
RJ/ cb

cc: John R. Sandrelli
R. Shayne Kukulowicz
Alex MacFarlane
Philip J. Reynolds

SCHEDULE B

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September 30, 2012

John I. McLean, Q.C.
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File No. v39661

VIA E-MAIL RYAN.JACOBS@FMC-LAW.COM

Fraser Milner Casgrain LLP
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Dear Sirs:

Re: Great Basin Gold

We acknowledge your letter of September 28, 2012. We respond to the items in your letter below.

1. **The DIP Facility.**

The Monitor understands that the Credit Suisse DIP Facility has not closed. We are advised by counsel for Credit Suisse that it has not closed to date as a result of the appeal and the stay of proceedings in respect of the guarantees to be given by the US subsidiaries.

2. **The Company's plans to deal with its existing obligations**

Through the Monitor's continued discussions with Mr. Lou Van Vuuren and Ms. Neeltjie Conrade of the Company, and from the Monitor's review of the Company's existing obligations, its latest cash flow forecast and other financial information, the Monitor notes the following:

i. The Company currently has in its bank accounts the equivalent of approximately USD$5. In order to fund its operations in the normal course, the Company typically maintains a certain amount of cash in its numerous bank accounts that are part of its cash management system. Management advises that the minimum total "float" required at any given time is approximately US$ 4 million. As a result, the Company's use of its existing cash resources could cause it to have to operate without the normal levels of cash in its cash management system;

ii. The Company's latest cash flow forecast called for significant cash funding of US$13.2 million this past week. This funding, an amount far in excess of the Company's available cash resources, did not occur. USD$10 million of last week's forecast funding was designated for the Hollister operation. The Hollister funding was to be used primarily to fund (i) overdue suppliers ($6.6 million), (ii) overdue taxes ($1.3 million), (iii) overdue royalties ($0.8 million) as well as other creditor obligations. A summary of the forecast funding and use of funds was provided in the Monitor's First Report to Court;

iii. Hollister suppliers are growing increasingly concerned about the Company's financial situation, its current lack of interim financing, and the lack of any committed source of funding on the horizon. In certain cases suppliers are not willing to supply on terms going forward and are refusing to supply in the absence of same. These include suppliers that the Monitor considers as critical to the operations such as Hollister's fuel, steel ball, ore trucking and cement suppliers.

iv. We are advised by Mr. Van Vuuren that he has had numerous discussions Hollister's senior management team over the past 48 hours. Mr. Van Vuuren indicates that there is now a real risk that Hollister will lose key members of the management team due to the continued uncertainty as to their future. It also appears that many of the concerned employees now have offers of employment with competitors. Mr. Van Vuuren is attempting to take steps to retain his key management team and is considering whether a retention bonus program is necessary under the circumstances

Under the circumstances, the Company's management is attempting to manage their suppliers in the short time the best they can, and hope that they will be patient and continue to supply for a period of time, while other time sensitive obligations such as payroll are also satisfied. The Company's current cash resources fall far short of its forecast funding. Although it is difficult to predict what all suppliers and others might do under the circumstances, it is clear that the Company simply does not have sufficient cash to pay its currently overdue bills. This is a circumstance where the Company will simply have to deal with issues as they arise and manage its inadequate cash resources in the best way it can.

The Monitor is advised by the Company and believes from the Monitor's review of the Company's existing obligations and the cash flow forecast that there is a significant risk that a lack of immediate short term funding will cause disruption in supply and severely hamper management's ability to continue operations at Hollister and complete its planned care and maintenance, and other scheduled activities at Burnstone (this is also the view of the Business Rescue Practitioner, Mr. Peter van den Steen, in South Africa).

The Monitor is of the view that disruptions in supply and the lack of interim financing will soon have significant negative implications on the Company's operation, at both properties to the detriment of all stakeholders. It is the Monitor's view that this matter needs to be resolved immediately, in order to ensure that Company value can be preserved.

Sincerely,

GOWLING LAFLEUR HENDERSON LLP

John I. McLean, Q.C.

JIM

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