

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT. No.: 500-11-047563-149

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF:**

GRADEK ENERGY INC., a legal person, duly constituted under the *Canada Business Corporations Act*, having its principal place of business at 162 Brunswick Blvd., Pointe-Claire, Quebec, H9R 5P9

– and –

GRADEK ENERGY CANADA INC., a legal person, duly constituted under the *Canada Business Corporations Act*, having its principal place of business at 162 Brunswick Blvd., Pointe-Claire, Quebec, H9R 5P9

Petitioners

- and -

R H S T DEVELOPMENT INC., a legal person, duly constituted under the *Canada Business Corporations Act*, having its principal place of business at 366 de la Roseraie Street, Rosemère, Quebec, J7A 4N2

- and -

THOMAS GRADEK., domiciled and residing at 366 de la Roseraie Street, Rosemère, Quebec, J7A 4N2

Mis-en-cause

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
(Jean-François Nadon, CPA, CA, CIRP, designated person in charge), having a place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec, H3B 4T9

Monitor

**SIXTH REPORT TO THE COURT
SUBMITTED BY SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
IN ITS CAPACITY AS MONITOR**
(*Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended)

INTRODUCTION

1. On October 15, 2014, Gradek Energy Inc. (“**GEI**”) and Gradek Energy Canada Inc. (“**GEC**”) (collectively the “**Petitioners**”, the “**Companies**” or the “**Debtors**”) filed and obtained protection from their creditors under Sections 4, 5 and 11 of the *Companies’ Creditors Arrangement Act* (“**CCAA**”) pursuant to an order rendered by this Honorable Court (the “**Initial Order**”).
2. Pursuant to the Initial Order, a stay of proceedings was granted until November 13, 2014 (the “**First Stay Period Order**”) in favor of the Debtors.
3. Pursuant to the Initial Order, Samson Bélair/Deloitte & Touche Inc. (“**Deloitte**”) was appointed as monitor to the Debtors (the “**Monitor**”) under the CCAA.
4. On October 24, 2014, the Monitor filed its First Report. The purpose of this First Report was to cover specifically the Cash Flow Statement, in accordance with Paragraph 23(1)(b) of the CCAA.
5. On November 7, 2014, the Monitor filed its Second Report. The purpose of this Second Report was to cover the Debtors’ corporate structure, operations and financial situation.
6. On November 11, 2014, the stay of proceedings was extended until December 19, 2014 (the “**Second Stay Period Order**”) in favor of the Debtors.
7. On December 16, 2014, the Monitor filed its Third Report. The purpose of this Third Report was to cover the Debtors’ operations during the Second Stay Period Order.
8. On December 17, 2014, the stay of proceedings was extended until January 16, 2015 (the “**Third Stay Period Order**”) in favor of the Debtors.
9. On January 15, 2015, the Monitor filed its Fourth Report. The purpose of this Fourth Report was to cover the Debtors’ operations during the Third Stay Period Order.
10. On January 16, 2015, the stay of proceedings was extended until January 27, 2015 (the “**Fourth Stay Period Order**”) in favor of the Debtors.
11. On January 26, 2015 the Monitor filed its Fifth Report. The purpose of this Fifth Report was to cover the Debtors’ operations during the Fourth Stay Period Order.
12. On January 27, 2015, the stay of proceedings was extended until March 19, 2015 (the “**Fifth Stay Period Order**”) in favor of the Debtors.
13. On February 5, 2015, a claims procedure order, establishing a procedure for the identification, filing, resolution and barring of claims against the Petitioners, was granted by this Honorable Court

PURPOSE OF THE SIXTH REPORT

14. In this sixth report (the “**Sixth Report**”) of the Monitor, the following will be addressed:
- (i) The Petitioners’ operations since the Fifth Stay Period Order;
 - (ii) The activities of the Monitor;
 - (iii) The extension of the Stay Period; and
 - (iv) The Monitor’s conclusion and recommendation.
15. In preparing this Sixth Report, the Monitor has relied upon unaudited financial information, the Companies’ records, the motion for an initial order dated October 14, 2014 (the “**Motion for Initial Order**”) and its discussions with the management of the Companies and their financial and legal advisors. While the Monitor has reviewed the information, some in draft format, submitted in the abridged time available, the Monitor has not performed an audit or other verification of such information. Forward looking financial information included in the Sixth Report is based on assumptions of the management of the Companies regarding future events, and actual results achieved will vary from this information and the variations may be material.
16. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Sixth Report are as defined in the previous reports and the Motion for Initial Order.
17. A copy of this Sixth Report and further reports of the Monitor will be available on the Monitor’s website at <http://www.insolvencies.deloitte.ca/en-ca/Pages/Gradek-Energy-Inc.aspx>

PETITIONERS’ OPERATIONS SINCE THE FIFTH STAY PERIOD ORDER

18. As mentioned in the Monitor’s previous reports, the Companies continue to entertain discussions and perform testing programs for potential clients in order to enter into commercial agreements. Testing results have progressed positively since the Initial Order. The Companies and potential clients are still discussing the possibility of entering into a commercial agreement. Although encouraging, the Companies were not able to reach an agreement within the time line they had initially set. As mentioned in the Fifth Report, concluding a commercial agreement would facilitate the Companies’ ability to attract an investor and obtain additional financing on a going forward basis that would allow them to submit an acceptable plan of arrangement to their creditors and to enter into the commercialization phase of the RHS technology.
19. Since the Fifth Stay Period Order, Management continues to discuss with the DIP Lenders to secure additional DIP Financing that would allow the Companies to initiate the solicitation process to attract an investor and obtain additional financing.
20. As mentioned in the Fourth Report, Management was also successful in reaching an agreement with Dundee Corporation (“**Dundee Agreement**”), its main creditor, for the treatment of its secured claim.

21. Needless to say that securing additional DIP Financing and reaching a commercial agreement in the coming weeks is imperative to prepare for the capital raise that could allow the Companies to emerge from this CCAA process.
22. Refer to Appendix A for the revised cash flow forecasts.

Highlights of the Petitioners' cash flows

Gradek Energy Inc. and Gradek Energy Canada Inc.
Statement of receipts and disbursements
For the 7-week period ended March 15, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	499,980	500,000	(20)
Other inflows	<u>496</u>	<u>-</u>	<u>496</u>
	500,476	500,000	476
Disbursements			
Salaries	163,725	148,999	(14,726)
Insurance	11,140	11,333	193
Rent	63,253	62,092	(1,161)
Utilities	13,282	12,000	(1,282)
Operating Costs	2,273	2,000	(273)
Office and administration costs	1,272	4,000	2,728
Professional Fees	132,449	180,000	47,551
Others	<u>496</u>	<u>20,000</u>	<u>19,504</u>
	387,890	440,424	52,534
Projected bank balance variation	112,586	59,576	53,010
Bank balance - beginning	<u>51,299</u>	<u>51,299</u>	<u>-</u>
Bank balance - ending	<u><u>163,885</u></u>	<u><u>110,875</u></u>	<u><u>53,010</u></u>

23. The actual receipts and disbursements for the 7-week period ended March 15, 2015 show a favorable variance of \$53K.
24. The favorable budget-to-actual variances in professional fees and others are explained by timing.

ACTIVITIES OF THE MONITOR

25. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
26. In accordance with the Initial Order, any disbursements for services rendered for the benefit of the Gradek Parties prior or subsequent to the date of the Initial Order were presented to, and approved by, the Monitor.
27. Within five (5) business days, the Monitor made available on its website all public information and documentation related to the Petitioners' restructuring process, including the notice to creditors, creditor listings, press releases, and all Court documentation.

28. Within five (5) business days, the Monitor sent a notice by regular mail to all known creditors of the Debtors. Approximately 86 creditors received the said notice.
29. On October 24, 2014 and October 31, 2014, the Monitor published a notice with respect to the Initial Order in *La Presse* and *The Gazette*.
30. On October 24, 2014, the Monitor completed the First Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
31. On November 7, 2014, the Monitor completed the Second Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
32. On December 16, 2014, the Monitor completed the Third Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
33. On January 15, 2015, the Monitor completed the Fourth Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
34. On January 26, 2015, the Monitor completed the Fifth Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
35. On February 5, 2015 the Monitor initiated the procedure for the identification, filing, resolution and barring of claims against the Petitioners (the “**Claims Process**”) as per the order granted by this Honorable Court. The Monitor transmitted the notice to creditors of the claims process, including a proof of claims and an information sheet, to all known creditors of the Companies, on February 13, 2015.

EXTENSION OF THE STAY PERIOD

36. Pursuant to the Fifth Stay Period Order, a Stay Period was granted until March 19, 2015.
37. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to April 2, 2015, to allow the Companies to continue their discussions in view of reaching a commercial agreement.
38. It is the Monitor’s opinion that it is necessary to extend the Stay Period to ensure that the Gradek Parties are able to evaluate the different options available to them for the benefit of their stakeholders. The Monitor considers the Gradek Parties’ restructuring process to be progressing; however, more time will be required to develop a restructuring plan acceptable to all stakeholders.
39. The Debtors provided the Monitor with new cash flow forecasts for the period ending on April 12, 2015 (refer to Appendix A).

MONITOR'S CONCLUSION AND RECOMMENDATION

40. It is the Monitor's view that the Gradek Parties have acted in good faith and with due diligence in accordance with the Initial Order.
41. It is the Monitor's opinion that an extension of the stay period to April 2, 2015 will allow the Gradek Parties to continue to restructure their operations and to eventually develop a viable plan of arrangement for the benefit of all stakeholders, and that the extension will not prejudice any of the Gradek Parties' creditors.
42. It is the Monitor's opinion that the Gradek Parties will likely not be able to file to this Court a plan of arrangement by April 2, 2015, the date of the proposed extension of the stay period, due to the complexity, time, and resources required to develop such a plan

The Monitor respectfully submits to the Court this, its Sixth Report.

DATED AT MONTREAL, this 16th day of
March, 2015.



Jean-François Nadon, CPA, CA, CIRP
Senior Vice-President

SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
In its capacity as Court-appointed Monitor

APPENDIX A

Gradek Energy Inc. and Gradek Energy Canada Inc.
 Four-week projected cash flow

Week ending (\$)	6th Report				Total
	Week 23 2015-03-22	Week 24 2015-03-29	Week 25 2015-04-05	Week 26 2015-04-12	
Receipts					
Financing (DIP)	-	-	-	-	-
Other inflows	-	20,943	-	-	20,943
	-	20,943	-	-	20,943
Disbursements					
Salaries	-	32,502	-	32,502	65,004
Insurance	650	-	5,245	-	5,895
Rent	-	-	29,634	-	29,634
Utilities	-	-	3,172	-	3,172
Operating Costs			2,536		2,536
Office and administration costs			3,000		3,000
Professional Fees	60,000				60,000
Others	-	-	10,000	-	10,000
	60,650	32,502	53,587	32,502	179,241
Net Cash flow	(60,650)	(11,559)	(53,587)	(32,502)	(158,298)
Opening cash	163,885	103,235	91,676	38,089	163,885
Ending cash	103,235	91,676	38,089	5,587	5,587