

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL
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 –

DELOITTE RESTRUCTURING INC.
(Jean-François Nadon, CPA, CA, CIRP, designated person in charge), having a place of business at 1 Place Ville Marie, Suite 3200, Montréal, Quebec, H3B 4T9

Monitor

**TENTH REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING 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, Deloitte Restructuring Inc. (formerly 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.
14. On March 16, 2015, the Monitor filed its Sixth Report. The purpose of this Sixth Report was to cover the Debtors' operations during the Fifth Stay Period Order.
15. On March 18, 2015, the stay of proceedings was extended until April 2, 2015 (the "**Sixth Stay Period Order**") in favor of the Debtors.
16. On March 31, 2015, the Monitor filed its Seventh Report. The purpose of this Seventh Report was to cover the Debtors' operations during the Sixth Stay Period Order.

17. On April 2, 2015, the stay of proceedings was extended until April 17, 2015 (the “**Seventh Stay Period Order**”) in favor of the Debtors.
18. On April 16, 2015, the Monitor filed its Eighth Report. The purpose of this Eighth Report was to cover the Debtors’ operations during the Seventh Stay Period Order.
19. On April 17, 2015, the stay of proceedings was extended until May 14, 2015 (the “**Eighth Stay Period Order**”) in favor of the Debtors.
20. On May 13, 2015, the Monitor filed its Ninth Report. The purpose of this Ninth Report was to cover the Debtors’ operations during the Eighth Stay Period Order.
21. On May 14, 2015, the stay of proceedings was extended until July 10, 2015 (the “**Ninth Stay Period Order**”) in favor of the Debtors.

PURPOSE OF THE TENTH REPORT

22. In this tenth report (the “**Tenth Report**”) of the Monitor, the following will be addressed:
 - (i) The Petitioners’ operations since the Ninth Stay Period Order;
 - (ii) The activities of the Monitor;
 - (iii) The extension of the Stay Period; and
 - (iv) The Monitor’s conclusion and recommendation.
23. In preparing this Tenth 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 (“**Management**”) 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 Tenth Report is based on assumptions of Management regarding future events, and actual results achieved will vary from this information and the variations may be material.
24. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Tenth Report are as defined in the previous reports and the Motion for Initial Order.
25. A copy of this Tenth 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 NINTH STAY PERIOD ORDER

26. Management has entered into a LOI with one of the environmental solution provider (“**ESP**”) that showed its interest. The Companies continued to entertain discussions and perform testing programs for this potential client as well as testing for other potential clients with the objective of entering into commercial agreements.

27. As mentioned in the Ninth Report, IQ received a cheque, addressed to GEI, for an amount of \$700,808 from the Canada Revenue Agency relating to the reimbursements of the federal portion of the 2013 tax credits on which IQ holds a first ranking hypothec. Management obtained from this Honorable Court on June 2, 2015 the permission to endorse the cheque to allow IQ to repay a portion of the amounts that are owed to them by GEI.
28. As mentioned in the Ninth Report, GEI received a direct deposit for the amount of \$277,505 from Revenue Quebec relating to the reimbursements of the provincial portion of the 2013 tax credits on which IQ holds a first ranking hypothec. Management and IQ reached an agreement on the use of the funds and consequently, on June 2, 2015, this Honorable Court amended the Ninth Stay Period Order by granting IQ a priority ranking ahead of the actual DIP Lenders. The funds are to be used by the Companies to launch its Capital Raise process.
29. In addition to the funds from IQ, the Companies raised an additional \$200,000 from their existing DIP Lenders. Having successfully raised a total of \$477,505, Management started, with the assistance of the Monitor, the Capital Raise process on June 8, 2015. The Companies or/and the Monitor have contacted more than 76 potential buyers since the Capital Raise process has started. Although the Capital Raise process has yet to be completed, at this stage, none of the parties contacted have demonstrated any interest in submitting a letter of intent. Several parties contacted have indicated that the amount of investment required and the lack of certainty on timing were the main reasons for them not taking into consideration the investment opportunity. As mentioned in the Ninth Report, the current environment in the oil and gas industry is creating significant challenges in raising the required capital to put forward Gradek's business plan.
30. Management has entered into discussion with a manufacturer ("**Manufacturer**") to potentially form a partnership to reduce the capital cost requirement to successfully commercialize the RHS technology. Management estimates that the negotiation can last up to a month or so.
31. In parallel of the discussions with the Manufacturer, the Companies will continue its Capital Raise process and the Monitor will contact auctioneers to provide an alternative to IQ and the DIP Lenders.

Highlights of the Petitioners' cash flows

Gradek Energy Inc. and Gradek Energy Canada Inc.
Statement of receipts and disbursements
For the 6-week period ended June 21, 2015

	Actual	Budget	Variance
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	199,925	200,000	(75)
Other inflows	7,995	34,465	(26,470)
	<u>207,920</u>	<u>234,465</u>	<u>(26,545)</u>
Disbursements			
Salaries	87,788	90,006	2,218
Insurance	6,314	6,088	(226)
Rent	53,316	49,015	(4,301)
Utilities	4,971	3,172	(1,799)
Operating Costs	-	2,536	2,536
Office and administration costs	4,689	3,000	(1,689)
Professional Fees	92,560	260,000	167,440
Others	-	10,000	10,000
	<u>249,638</u>	<u>423,817</u>	<u>174,179</u>
Projected bank balance variation	(41,718)	(189,352)	147,634
Bank balance - beginning	421,950	421,950	-
Bank balance - ending	380,232	232,598	147,634

32. The actual receipts and disbursements for the 6-week period ended June 21, 2015 show a favorable variance of \$148K.
33. The favorable budget-to-actual variance in professional fees is explained by timing and the fact that the Capital Raise process is requiring less involvement than anticipated of the professionals, given the lack of parties that have demonstrated an interest.

ACTIVITIES OF THE MONITOR

34. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
35. 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.
36. 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.
37. 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.

38. 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*.
39. 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.
40. 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.
41. 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.
42. 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.
43. 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.
44. 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.
45. On March 16, 2015, the Monitor completed the Sixth Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
46. On March 31, 2015, the Monitor completed the Seventh Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
47. On April 16, 2015, the Monitor completed the Eighth Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.
48. On May 14, 2015, the Monitor completed the Ninth Report and filed it with this Honorable Court, served it to the service list, and made it available on its website.

EXTENSION OF THE STAY PERIOD

49. Pursuant to the Ninth Stay Period Order, a Stay Period was granted until July 10, 2015.
50. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to August 21, 2015 to allow the Companies to pursue discussions with the Manufacturer in view of to potentially reducing the capital cost requirements to complete a successful Capital Raise and contact auctioneers to provide an alternative to IQ and the DIP Lenders should the Capital Raise process be unsuccessful.
51. It is the Monitor’s opinion that without the extension of the Stay Period, the Gradek Parties will not be 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 slowly progressing; however, more

time will be required to develop a restructuring plan acceptable to all stakeholders. Should the Companies fail to successfully conclude the Capital Raise process or raise additional DIP Financing during the extended Stay Period, the Debtors could be faced with a forced liquidation of their assets. As per the projected cash flow, the Companies should have sufficient funds until the end of the extended Stay Period.

MONITOR'S CONCLUSION AND RECOMMENDATION

52. 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.
53. Although it will be very challenging, it is the Monitor's opinion that an extension of the stay period to August 21, 2015 could 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.
54. 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 August 21, 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 Tenth Report.

DATED AT MONTREAL, this 3rd day of July,
2015.



Jean-François Nadon, CPA, CA, CIRP
President

DELOITTE RESTRUCTURING INC.
In its capacity as Court-appointed Monitor

APPENDIX A

**Gradek Energy Inc. and Gradek Energy Canada Inc.
Nine-week projected cash flow**

Week ending (\$)	9th Report			10th Report						Total
	Week 37 2015-06-28	Week 38 2015-07-05	Week 39 2015-07-12	Week 40 2015-07-19	Week 41 2015-07-26	Week 42 2015-08-02	Week 43 2015-08-09	Week 44 2015-08-16	Week 45 2015-08-23	
Receipts										
Financing (DIP)	-	-	-	-	-	-	-	-	-	-
Other inflows	-	-	-	18,358	-	-	-	-	-	18,358
	-	-	-	18,358	-	-	-	-	-	18,358
Disbursements										
Salaries	-	28,565	-	28,565	-	28,565	-	28,567	-	114,264
Insurance	456	2,235	-	194	456	2,235	-	194	456	6,227
Rent	-	29,634	-	-	-	29,634	-	-	-	59,268
Utilities	-	3,172	-	-	-	3,172	-	-	-	6,344
Operating Costs	-	-	-	-	-	-	-	-	-	-
Office and administration costs	-	-	-	-	-	-	-	-	-	-
Professional Fees	6,554	39,500	60,250	-	37,500	-	-	37,500	25,000	206,304
Others	-	1,000	2,000	-	-	-	-	-	-	3,000
	7,009	104,107	62,250	28,760	37,956	63,607	-	66,262	25,456	395,407
Net Cash flow	(7,009)	(104,107)	(62,250)	(10,402)	(37,956)	(63,607)	-	(66,262)	(25,456)	(377,049)
Opening cash	380,232	373,223	269,116	206,866	196,464	158,508	94,901	94,901	28,639	380,232
Ending cash	<u>373,223</u>	<u>269,116</u>	<u>206,866</u>	<u>196,464</u>	<u>158,508</u>	<u>94,901</u>	<u>94,901</u>	<u>28,639</u>	<u>3,183</u>	<u>3,183</u>