

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 –

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, Montréal, Quebec, H3B 4T9

Monitor

**EIGHTH 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.
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.

PURPOSE OF THE EIGHTH REPORT

18. In this eighth report (the “**Eighth Report**”) of the Monitor, the following will be addressed:

- (i) The Petitioners’ operations since the Seventh Stay Period Order;
- (ii) The activities of the Monitor;
- (iii) The extension of the Stay Period; and
- (iv) The Monitor’s conclusion and recommendation.

19. In preparing this Eighth 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 Eighth 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.

20. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Eighth Report are as defined in the previous reports and the Motion for Initial Order.

21. A copy of this Eighth 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 SEVENTH STAY PERIOD ORDER

22. 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 enter into a definitive letter of intent (“**LOI**”) within the time line they had initially set with one of the environmental solution provider (“**ESP**”) that showed its interest. As mentioned in the Seventh 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.

23. Since the Seventh Stay Period Order, the Companies and the DIP Lenders entered into a new commitment letter for an interim financing in the amount of \$200,000 to be secured by an additional DIP charge that will hopefully allow the Companies time to attract additional DIP financing and finalize an LOI with the ESP, in view of launching an investment and/or financing solicitation process.

24. 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.
25. Needless to say that securing additional DIP Financing and entering into an LOI in the coming weeks is imperative in preparing for the launch of an investment and/or financing solicitation process that could allow the Companies to emerge from this CCAA process.
26. 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 2-week period ended April 19, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	-	-	-
Other inflows	-	-	-
	-	-	-
Disbursements			
Salaries	20,273	21,000	727
Insurance	3,429	5,245	1,816
Rent	29,664	29,634	(30)
Utilities	12,407	3,172	(9,235)
Operating Costs	888	2,536	1,648
Office and administration costs	32	3,000	2,968
Professional Fees	-	15,000	15,000
Others	-	-	-
	66,693	79,587	12,894
Projected bank balance variation	(66,693)	(79,587)	12,894
Bank balance - beginning	91,302	91,302	-
Bank balance - ending	24,609	11,715	12,894

27. The actual receipts and disbursements for the 2-week period ended April 19, 2015 show a favorable variance of \$13K.
28. The favorable budget-to-actual variance in professional fees and the unfavorable budget-to-actual variance in utilities are explained by timing.

ACTIVITIES OF THE MONITOR

29. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
30. 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.
31. 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.
32. 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.
33. 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*.
34. 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.
35. 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.
36. 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.
37. 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.
38. 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.
39. 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.
40. 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.
41. 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.

EXTENSION OF THE STAY PERIOD

42. Pursuant to the Seventh Stay Period Order, a Stay Period was granted until April 17, 2015.
43. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to May 14, 2015, to allow the Companies to continue their discussions in view of reaching a commercial agreement.
44. 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. Should the Companies fail to enter into an LOI with the ESP and raise additional DIP Financing during the extended Stay Period, the Debtors could be faced with a forced liquidation of their assets.
45. The Debtors provided the Monitor with new cash flow forecasts for the period ending on May 14, 2015 (refer to Appendix A).

MONITOR'S CONCLUSION AND RECOMMENDATION

46. 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.
47. It is the Monitor's opinion that an extension of the stay period to May 14, 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.
48. 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 May 14, 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 Eighth Report.

DATED AT MONTREAL, this 16th day of
April, 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.
 Five-week projected cash flow**

Week ending (\$)	7th Report		8th Report			Total
	Week 27 2015-04-19	Week 28 2015-04-26	Week 29 2015-05-03	Week 30 2015-05-10	Week 31 2015-05-17	
Receipts						
Financing (DIP)	200,000	-	-	-	-	200,000
Other inflows	-	-	-	16,911	-	16,911
	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>16,911</u>	<u>-</u>	<u>216,911</u>
Disbursements						
Salaries	-	30,002	-	30,002	-	60,004
Insurance	194	456	5,245	-	194	6,089
Rent	2,422	-	29,634	-	-	32,056
Utilities	-	-	13,485	-	-	13,485
Operating Costs	-	-	2,536	-	-	2,536
Office and administration costs	-	-	3,000	-	-	3,000
Professional Fees	35,626	-	45,000	-	-	80,626
Others	-	-	-	5,000	-	10,000
	<u>38,242</u>	<u>30,458</u>	<u>103,900</u>	<u>35,002</u>	<u>194</u>	<u>207,796</u>
Net Cash flow	161,758	(30,458)	(103,900)	(18,091)	(194)	9,115
Opening cash	<u>24,609</u>	<u>186,367</u>	<u>155,909</u>	<u>52,009</u>	<u>33,918</u>	<u>24,609</u>
Ending cash	<u>186,367</u>	<u>155,909</u>	<u>52,009</u>	<u>33,918</u>	<u>33,724</u>	<u>33,724</u>