

CANADA
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

**NINTH 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.
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.

PURPOSE OF THE NINTH REPORT

20. In this ninth report (the “**Ninth Report**”) of the Monitor, the following will be addressed:
 - (i) The Petitioners’ operations since the Eighth Stay Period Order;
 - (ii) The activities of the Monitor;
 - (iii) The extension of the Stay Period; and
 - (iv) The Monitor’s conclusion and recommendation.
21. In preparing this Ninth 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 Ninth 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.
22. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Ninth Report are as defined in the previous reports and the Motion for Initial Order.
23. A copy of this Ninth 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 EIGHTH STAY PERIOD ORDER

24. As mentioned in the Monitor’s previous reports, the Companies continued 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 continued discussions on the possibility of entering into a commercial agreement. On May 12, 2015, the Management informed the Monitor that the Companies should be entering, in the coming days, into a letter of intent (“**LOI**”) with one of the environmental solution provider (“**ESP**”) that showed its interest. As mentioned in the Eighth Report, the conclusion of this commercial agreement should 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.

25. Since the Eighth Stay Period Order, the Companies did receive the interim financing amount of \$200,000 that was secured by an additional DIP Charge as per the Eighth Stay Period Order, but were not able to secure additional DIP Financing as initially planned by Management. However, securing additional DIP Financing is imperative in preparing for the launch of an investment and/or financing solicitation process (“**Capital Raise**”), as illustrated in the revised cash flow forecast prepared by Management in Appendix B. A successful Capital Raise process should allow the Companies to emerge from this CCAA process.
26. During the Eighth Stay Period, Investissement Québec (“**IQ**”), one of the Companies secured creditors, received a cheque, addressed to GEI, for the 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 has informed the Monitor that it intends to seek, from this Honorable Court, permission to endorse the cheque to allow IQ to repay a portion of the amounts that are owed to them by GEI.
27. During the Eighth Stay Period, 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 contacted IQ to inform them of the situation and formally requested permission to use the funds to finance its ongoing restructuring process. IQ formally responded that they would not allow the Companies to use these funds to finance its ongoing restructuring process and requested immediate repayment of funds. Management has informed the Monitor that it intends to seek, from this Honorable Court, permission to allow the Companies to use the funds to finance its ongoing restructuring process and to grant an interim financing charge in favor of IQ that would rank in priority of the current interim financing charge authorized by this Honorable Court.
28. The revised cash flow forecasts prepared by Management for the period ending July 12, 2015 illustrates a need for an additional DIP Financing of approximately \$200K in order to respect the contemplated process for a Capital Raise timeline attached in Appendix A. This cash flow forecast prepared by Management assumes that the Honorable Court will grant the Companies the permission to use the funds received from Revenue Quebec (\$277,505) for its restructuring process. Should the Honorable Court not grant the seek permission, the additional DIP Financing needs would be approximately \$477,505 for the period ending July 12, 2015. Refer to Appendix B 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 4-week period ended May 10, 2015

	Actual	Budget	Variance
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	199,970	200,000	(30)
Other inflows	303,774	16,911	286,863
	<u>503,744</u>	<u>216,911</u>	<u>286,833</u>
Disbursements			
Salaries	60,865	60,004	(861)
Insurance	6,314	5,895	(419)
Rent	13,182	32,056	18,874
Utilities	6,273	13,485	7,212
Operating Costs	3,896	2,536	(1,360)
Office and administration costs	874	3,000	2,126
Professional Fees	15,000	80,626	65,626
Others	-	10,000	10,000
	<u>106,404</u>	<u>207,602</u>	<u>101,198</u>
Projected bank balance variation	397,340	9,309	388,031
Bank balance - beginning	24,609	24,609	-
Bank balance - ending	421,949	33,918	388,031

29. The actual receipts and disbursements for the 4-week period ended May 10, 2015 show a favorable variance of \$388K.
30. The favorable budget-to-actual variance in other inflows is explained by the funds of \$277,505 received from Revenue Quebec for the reimbursement of the provincial portion of the 2013 Tax Credits as explained previously in this report.

ACTIVITIES OF THE MONITOR

31. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
32. 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.
33. 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.
34. 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.

35. 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*.
36. 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.
37. 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.
38. 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.
39. 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.
40. 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.
41. 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.
42. 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.
43. 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.
44. 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.

EXTENSION OF THE STAY PERIOD

45. Pursuant to the Eighth Stay Period Order, a Stay Period was granted until May 14, 2015.
46. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to July 10, 2015 to allow the Companies to conclude, in the coming days, an LOI with the ESP, raise additional DIP Financing, and put in place the Capital Raise process.
47. As per the proposed timeline for the Capital Raise (refer to Appendix A), it is currently planned that it would be run from May 15 to July 14, 2015. Although Management believes that the Capital Raise is more likely to succeed than in the past, given the important progress and changes made to the business model, it is important to mention that the current economic environment in the oil and gas industry could create some challenges in raising the required amount of funds to put forward the current business plan of the Companies.

48. 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 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.

MONITOR'S CONCLUSION AND RECOMMENDATION

49. 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.

50. It is the Monitor's opinion that an extension of the stay period to July 10, 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.

51. 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 July 10, 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 Ninth Report.

DATED AT MONTREAL, this 13th day of
May, 2015.



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

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

Appendix A

Potential M&A process and timeline

Update the list of potential interested parties	by May 20
Update the teaser	by May 20
Send the teaser to potential interested parties	May 22
Update the detailed information memorandum and update the virtual data room	by May 26
Signature of non-disclosure agreements	starting May 25
Due diligence period	by June 26
Limit for submitting offers – non-binding LOI	June 26
Approval of the short list bidders	June 28
Offer clarification process, management presentations and final detailed diligence	July 2 to 9
Limit for submitting offers – binding LOI / definitive agreements	July 9
Approval of the transaction by the board	July 10
Approval period by stakeholders and regulatory authorities, if any + vesting order	TBD
Closing	July 14

APPENDIX B

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

Week ending (\$)	9th Report									Total
	Week 31 2015-05-17	Week 32 2015-05-24	Week 33 2015-05-31	Week 34 2015-06-07	Week 35 2015-06-14	Week 36 2015-06-21	Week 37 2015-06-28	Week 38 2015-07-05	Week 39 2015-07-12	
Receipts										
Financing (DIP)	-	-	-	-	-	200,000	-	-	-	200,000
Other inflows	16,911	-	-	-	-	17,554	-	-	-	34,465
	<u>16,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>217,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>234,465</u>
Disbursements										
Salaries	-	30,002	-	30,002	-	30,002	-	25,001	-	115,007
Insurance	194	455	2,235	3,010	-	194	455	-	-	6,543
Rent	19,381	-	-	29,634	-	-	-	29,634	-	78,649
Utilities	-	-	-	3,172	-	-	-	3,172	-	6,344
Operating Costs	-	-	-	2,536	-	-	2,536	-	-	5,072
Office and administration costs	-	-	-	3,000	-	-	3,000	-	-	6,000
Professional Fees	70,000	-	50,000	-	70,000	70,000	70,000	70,000	-	400,000
Others	-	-	-	10,000	-	-	-	-	-	10,000
	<u>89,575</u>	<u>30,457</u>	<u>52,235</u>	<u>81,354</u>	<u>70,000</u>	<u>100,196</u>	<u>75,991</u>	<u>127,807</u>	<u>-</u>	<u>627,615</u>
Net Cash flow	(72,664)	(30,457)	(52,235)	(81,354)	(70,000)	117,358	(75,991)	(127,807)	-	(393,150)
Opening cash	421,949	349,285	318,828	266,593	185,239	115,239	232,597	156,606	28,799	421,949
Ending cash	<u>349,285</u>	<u>318,828</u>	<u>266,593</u>	<u>185,239</u>	<u>115,239</u>	<u>232,597</u>	<u>156,606</u>	<u>28,799</u>	<u>28,799</u>	<u>28,799</u>