

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

**FIFTH 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.

PURPOSE OF THE FIFTH REPORT

11. In this fifth report (the “**Fifth Report**”) of the Monitor, the following will be addressed:
 - (i) The Petitioners’ operations since the Fourth Stay Period Order;
 - (ii) The activities of the Monitor;
 - (iii) The extension of the Stay Period; and
 - (iv) The Monitor’s conclusion and recommendation.
12. In preparing this Fifth 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 Fifth 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.

13. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Fifth Report are as defined in the previous reports and the Motion for Initial Order.
14. A copy of this Fifth 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 FOURTH STAY PERIOD ORDER

15. 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. Planned meetings between the parties occurred in Montreal last week to review recent results of the testing programs. 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.
16. Since the Fourth Stay Period Order, Management was successful in meeting the conditions of the potential DIP Lender and to secure additional DIP Financing for an amount of \$500,000.
17. Since the Fourth Stay Period Order, Management was also successful in reaching an agreement, with Dundee Corporation ("**Dundee Agreement**"), its main creditor, for the treatment of its secured claim.
18. Securing the additional DIP Financing and reaching the Dundee Agreement will allow the Companies to pursue their efforts in reaching a commercial agreement in the coming weeks and to prepare for the capital raise, which should both allow them to emerge from this CCAA process.
19. The secured additional DIP Financing has been reflected in the revised cash flow forecasts. 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 January 25, 2015

	Actual	Budget	Variance
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	-	-	-
Other inflows	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements			
Salaries	20,102	19,430	(672)
Insurance	650	649	(1)
Rent	27,429	31,045	3,616
Utilities	-	6,000	6,000
Operating Costs	4,554	1,000	(3,554)
Office and administration costs	304	-	(304)
Professional Fees	-	30,000	30,000
Others	-	10,000	10,000
	<u>53,039</u>	<u>98,124</u>	<u>45,085</u>
Projected bank balance variation	(53,039)	(98,124)	45,085
Bank balance - beginning	104,338	104,338	-
Bank balance - ending	51,299	6,214	45,085

20. The actual receipts and disbursements for the 2-week period ended January 25, 2015 show a favorable variance of \$45.1K.
21. The favorable budget-to-actual variances in professional fees and others are explained by timing.

ACTIVITIES OF THE MONITOR

22. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
23. 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.
24. Within five (5) business days, the Monitor made available on its website all public information and documentation related to the Petitioner's restructuring process, including the notice to creditors, creditor listings, press releases, and all Court documentation.
25. 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.
26. 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*.

27. 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.
28. 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.
29. 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.
30. On January 15, 2014, 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.

EXTENSION OF THE STAY PERIOD

31. Pursuant to the Fourth Stay Period Order, a Stay Period was granted until January 27, 2015.
32. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to March 19, 2015, to allow the Companies to continue their discussions in view of reaching a commercial agreement.
33. 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.
34. The Debtors provided the Monitor with new cash flow forecasts for the fifth extension of stay period ("**Fifth Extension Period**"), adjusting the projected cash flows for the period ending on March 19, 2015, namely the end of the Fifth Extension Period (refer to Appendix A).

MONITOR'S CONCLUSION AND RECOMMENDATION

35. 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.
36. It is the Monitor's opinion that an extension of the stay period to March 19, 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.
37. 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 March 19, 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 Fifth Report.

DATED AT MONTREAL, this 26th day of
January, 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.
 Eight-week projected cash flow

Week ending (\$)	5th Report								Total
	Week 16 2015-02-01	Week 17 2015-02-08	Week 18 2015-02-15	Week 19 2015-02-22	Week 20 2015-03-01	Week 21 2015-03-08	Week 22 2015-03-15	Week 23 2015-03-22	
Receipts									
Financing (DIP)	500,000	-	-	-	-	-	-	-	500,000
Other inflows	-	-	-	-	-	-	-	-	-
	500,000	-	-	-	-	-	-	-	500,000
Disbursements									
Salaries	59,599	-	29,800	-	29,800	-	29,800	-	148,999
Insurance	5,245	-	194	455	2,235	3,010	194	455	11,788
Rent	31,046	-	-	-	31,046	-	-	-	62,092
Utilities	-	6,000	-	-	6,000	-	-	-	12,000
Operating Costs	-	-	1,000	-	-	-	1,000	-	2,000
Office and administration costs	2,000	-	-	-	2,000	-	-	-	4,000
Professional Fees	60,000	-	60,000	-	-	-	60,000	-	180,000
Others	-	-	10,000	-	10,000	-	-	-	20,000
	157,890	6,000	100,994	455	81,081	3,010	90,994	455	440,879
Net Cash flow	342,110	(6,000)	(100,994)	(455)	(81,081)	(3,010)	(90,994)	(455)	59,121
Opening cash	51,299	393,409	387,409	286,415	285,960	204,879	201,869	110,875	51,299
Ending cash	393,409	387,409	286,415	285,960	204,879	201,869	110,875	110,420	110,420