

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

**SEVENTH 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.

PURPOSE OF THE SEVENTH REPORT

16. In this seventh report (the “**Seventh Report**”) of the Monitor, the following will be addressed:

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

17. In preparing this Seventh 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 Seventh 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.

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

19. A copy of this Seventh 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 SIXTH STAY PERIOD ORDER

20. 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. Management has indicated that one of the potential clients should be in a position to provide an indication of its interest in the coming week. As mentioned in the Sixth 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.

21. Since the Sixth 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. DIP Lenders have indicated that the Companies need to enter into a commercial agreement with one of the potential clients for them to provide the required additional DIP Financing.

22. 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.

23. 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.
24. 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 March 29, 2015

	Actual	Budget	Variance
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	-	-	-
Other inflows	32,100	20,943	11,157
	<u>32,100</u>	<u>20,943</u>	<u>11,157</u>
Disbursements			
Salaries	37,220	32,502	(4,718)
Insurance	650	650	-
Rent	-	-	-
Utilities	-	-	-
Operating Costs	4,858	-	(4,858)
Office and administration costs	-	-	-
Professional Fees	61,954	60,000	(1,954)
Others	-	-	-
	<u>104,682</u>	<u>93,152</u>	<u>(11,530)</u>
Projected bank balance variation	(72,582)	(72,209)	(373)
Bank balance - beginning	163,884	163,885	(1)
Bank balance - ending	91,302	91,676	(374)

25. The actual receipts and disbursements for the 2-week period ended March 29, 2015 show a favorable variance of \$374.
26. The favorable budget-to-actual variances in professional fees and others are explained by timing.

ACTIVITIES OF THE MONITOR

27. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
28. 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.
29. 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.

30. 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.
31. 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*.
32. 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.
33. 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.
34. 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.
35. 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.
36. 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.
37. 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.
38. 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.

EXTENSION OF THE STAY PERIOD

39. Pursuant to the Sixth Stay Period Order, a Stay Period was granted until April 2, 2015.
40. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to April 17, 2015, to allow the Companies to continue their discussions in view of reaching a commercial agreement.
41. 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 secure a commercial agreement and raise additional DIP Financing during the extended Stay Period, the Debtors could be faced with a forced liquidation of their assets.
42. The Debtors provided the Monitor with new cash flow forecasts for the period ending on April 17, 2015 (refer to Appendix A).

MONITOR'S CONCLUSION AND RECOMMENDATION

43. 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.
44. It is the Monitor's opinion that an extension of the stay period to April 17, 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.
45. 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 17, 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 Seventh Report.

DATED AT MONTREAL, this 31st 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.
 Three-week projected cash flow**

Week ending (\$)	6th Report		7th Report	Total
	Week 25 2015-04-05	Week 26 2015-04-12	Week 27 2015-04-19	
Receipts				
Financing (DIP)	-	-	-	-
Other inflows	-	-	-	-
	-	-	-	-
Disbursements				
Salaries	-	21,000	-	21,000
Insurance	5,245	-	194	5,439
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	-	15,000	-	15,000
Others	-	-	-	-
	<u>43,587</u>	<u>36,000</u>	<u>194</u>	<u>79,781</u>
Net Cash flow	(43,587)	(36,000)	(194)	(79,781)
Opening cash	91,302	47,715	11,715	91,302
Ending cash	<u>47,715</u>	<u>11,715</u>	<u>11,521</u>	<u>11,521</u>