

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

**THIRD 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 dated October 24, 2014. 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.

PURPOSE OF THE THIRD REPORT

7. In this third report (the “**Third Report**”) of the Monitor, the following will be addressed:
 - (i) The Petitioners’ operations since the Second Stay Period Order;
 - (ii) The activities of the Monitor;
 - (iii) The extension of the Stay Period; and
 - (iv) The Monitor’s conclusion and recommendation.
8. In preparing this Third 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 Third 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.
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this Third Report are as defined in the First Report, the Second Report and the Motion for Initial Order.
10. A copy of this Third 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 SECOND STAY PERIOD ORDER

11. As mentioned in the Second Report, 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. 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.
12. Since the Second Stay Period Order, Management, with the assistance of the Monitor, has also prepared the documentation and information necessary for the solicitation of potential investors, namely a financial model, a confidential information memorandum and a list of potential investors.
13. At the time of writing this report, the Companies have yet to secure additional DIP Financing to cover the anticipated shortfall in the week ending January 18, 2015. Refer to Appendix A for the cash flow forecasts. As per Management, discussions are ongoing with individuals on the possibility of providing additional funding beyond the extension period.
14. Management is presently working on providing information requested by the potential DIP Lender on the value of the Companies' assets and on the potential capital structure of the Companies once they emerge from this CCAA process. Once the information is provided to the potential DIP Lender, further discussions will take place.

Highlights of the Petitioners' cash flows since the date of filing

Gradek Energy Inc. and Gradek Energy Canada Inc.
 Statement of receipts and disbursements
 For the 9-week period ended December 14, 2014

	Actual	Budget	Variance
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	700,000	700,000	-
Other inflows	4,092	-	4,092
	<u>704,092</u>	<u>700,000</u>	<u>4,092</u>
Disbursements			
Salaries	117,628	115,558	(2,070)
Insurance	26,314	22,317	(3,997)
Rent	83,541	83,278	(263)
Utilities	12,921	19,596	6,675
Operating Costs	10,936	49,811	38,875
Office and administration costs	787	40,825	40,038
Professional Fees	268,498	175,000	(93,498)
Others	5,356	20,000	14,644
	<u>525,981</u>	<u>526,386</u>	<u>405</u>
Projected bank balance variation	178,111	173,614	3,687
Bank balance - beginning	-	-	-
Bank balance - ending	<u>178,111</u>	<u>173,614</u>	<u>3,687</u>

15. The actual receipts and disbursements for the 9-week period ended December 14, 2014 show a favorable variance of \$3.7K.

16. The favorable budget-to-actual variances in the operating and office and administrations costs are explained by a lower level of operations than originally anticipated, given that additional DIP financing has yet to be raised by the Companies.
17. The unfavorable variance in professional fees is mainly explained by timing and by fees incurred for the preparation of documents to solicit potential investors upon conclusion of a commercial agreement.

ACTIVITIES OF THE MONITOR

18. Since October 15, 2014, the date of the Initial Order, the Monitor has analyzed the receipts and disbursements transacted through the bank accounts.
19. In accordance with the Initial Order, any disbursements for services rendered to the Gradek Parties prior or subsequent to the date of the Initial Order were presented to, and approved by, the Monitor.
20. 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, the creditor listings, press releases, and all Court documentation.
21. 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.
22. 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*.
23. 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.
24. 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.

EXTENSION OF THE STAY PERIOD

25. Pursuant to the Second Stay Period Order, a Stay Period was granted until December 19, 2014.
26. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to January 16, 2015, to allow the Gradek Parties to stabilize their operations and develop and eventually submit a plan of arrangement to their creditors under the CCAA.
27. 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.
28. The Debtors provided the Monitor with new cash flow forecasts for the third extension of stay period ("**Third Extension Period**"), adjusting the projected cash flows for the period ending on January 18, 2015, namely the end of the Third Extension Period. Refer to Appendix A.

29. The main changes in this Cash Flow Statement in comparison to the previous submitted to the Court for purpose of the Second Stay Period Order are as follows:
- a. Timing of the release of funds of the DIP Financing;
 - b. Reduction of the disbursements related to salaries to reflect pay deferral taken by management to preserve liquidity until a DIP Financing is obtained;
 - c. Reduction of the rent disbursements following the lease cancellation at the Calgary office;
 - d. Reduction of the disbursements related to professional fees.

MONITOR'S CONCLUSION AND RECOMMENDATION

30. 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.
31. It is the Monitor's opinion that an extension of the stay period to January 16, 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.
32. 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 January 16, 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 Third Report.

DATED AT MONTREAL, this 16th day of
December, 2014.



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 (\$)	Amended 2nd Report				3rd Report	Total
	Week 10 2014-12-21	Week 11 2014-12-28	Week 12 2015-01-04	Week 13 2015-01-11	Week 14 2015-01-18	
Receipts						
Financing (DIP)	-	-	-	-	-	-
Other inflows	-	7,308	-	-	-	7,308
	-	7,308	-	-	-	7,308
Disbursements						
Salaries	29,800	-	19,430	-	19,430	68,660
Insurance	194	455	2,235	-	-	2,884
Rent	-	-	27,430	-	-	27,430
Utilities	6,000	-	-	-	6,000	12,000
Operating Costs	1,000	-	-	-	1,000	2,000
Office and administration costs	-	-	2,000	-	-	2,000
Professional Fees	-	-	30,000	-	20,000	50,000
Others	13,258	-	-	-	-	13,258
	50,252	455	81,095	-	46,430	178,232
Net Cash flow	(50,252)	6,853	(81,095)	-	(46,430)	(170,924)
Opening cash	173,614	123,362	130,215	49,120	49,120	173,614
Ending cash	123,362	130,215	49,120	49,120	2,690	2,690