

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

**FOURTH 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.
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.

PURPOSE OF THE FOURTH REPORT

9. In this fourth report (the “**Fourth Report**”) of the Monitor, the following will be addressed:
 - (i) The Petitioners’ operations since the Third Stay Period Order;
 - (ii) The activities of the Monitor;
 - (iii) The extension of the Stay Period; and
 - (iv) The Monitor’s conclusion and recommendation.
10. In preparing this Fourth 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 Fourth 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.
11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

Capitalized terms not defined in this Fourth Report are as defined in the previous reports and the Motion for Initial Order.

12. A copy of this Fourth 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

13. As mentioned in the Second Report and the Third 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. Meetings between the parties are planned to occur in Montreal next 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.
14. Since the Third Stay Period Order, Management has continued working towards meeting the conditions of a potential DIP Lender in an effort to secure additional DIP Financing, namely by providing information on the value of the Companies' assets and by initiating negotiations with Dundee Corporation, its main creditor, with the objective of reaching an agreement in respect of the capital structure of the Companies once they emerge from this CCAA process.
15. At the time of writing this report, the Companies have yet to secure additional DIP Financing. Refer to Appendix A for the cash flow forecasts. As per Management, discussions are ongoing with the potential DIP Lender on the possibility of providing additional funding beyond the extension period.
16. As mentioned in the Third Report, the potential DIP Lender requested information on the value of the Companies' assets and on the potential capital structure of the Companies once they emerge from this CCAA process. Management was able to provide the requested information on the value of the Companies' assets. As for the potential capital structure of the Companies once they emerge from this CCAA process, the Companies have yet to conclude, as discussions and negotiations are still ongoing with Dundee. As per Management, the Companies and Dundee should be able to conclude their negotiations during the next week and secure the additional DIP Financing during the same period.

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 4-week period ended January 11, 2015

	Actual	Budget	Variance
	(\$)	(\$)	(\$)
Receipts			
Financing (DIP)	-	-	-
Other inflows	-	7,308	(7,308)
	<u>-</u>	<u>7,308</u>	<u>(7,308)</u>
Disbursements			
Salaries	52,995	49,230	(3,765)
Insurance	5,973	2,884	(3,089)
Rent	-	27,430	27,430
Utilities	714	6,000	5,286
Operating Costs	1,043	1,000	(43)
Office and administration costs	314	2,000	1,686
Professional Fees	3,387	30,000	26,613
Others	9,212	13,258	4,046
	<u>73,637</u>	<u>131,802</u>	<u>58,164</u>
Projected bank balance variation	(73,637)	(124,494)	50,856
Bank balance - beginning	177,976	173,614	4,362
Bank balance - ending	104,338	49,120	55,218

17. The actual receipts and disbursements for the 4-week period ended January 11, 2015 show a favorable variance of \$55.2K.

18. The favorable budget-to-actual variances in the rent and professional fees are explained by timing.

ACTIVITIES OF THE MONITOR

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

20. 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.

21. 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.

22. 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.

23. 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*.

24. 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.
25. 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.
26. 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.

EXTENSION OF THE STAY PERIOD

27. Pursuant to the Third Stay Period Order, a Stay Period was granted until January 16, 2015.
28. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to January 27, 2015, to allow the Companies to conclude their negotiations with Dundee and the potential DIP Lender.
29. 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.
30. The Debtors provided the Monitor with new cash flow forecasts for the fourth extension of stay period ("**Fourth Extension Period**"), adjusting the projected cash flows for the period ending on January 25, 2015, namely the end of the Third Extension Period (refer to Appendix A).

MONITOR'S CONCLUSION AND RECOMMENDATION

31. 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.
32. It is the Monitor's opinion that an extension of the stay period to January 27, 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.
33. 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 27, 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 Fourth Report.

DATED AT MONTREAL, this 15th 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.
Two-week projected cash flow

Week ending (\$)	Amended	4th Report	Total
	Week 14 2015-01-18	Week 15 2015-01-25	
Receipts			
Financing (DIP)	-	-	-
Other inflows	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements			
Salaries	19,430	-	19,430
Insurance	194	455	649
Rent	27,429	3,616	31,045
Utilities	6,000	-	6,000
Operating Costs	1,000	-	1,000
Office and administration costs	-	-	-
Professional Fees	30,000	-	30,000
Others	10,000	-	10,000
	<u>94,053</u>	<u>4,071</u>	<u>98,124</u>
Net Cash flow	(94,053)	(4,071)	(98,124)
Opening cash	104,338	10,285	104,338
Ending cash	<u>10,285</u>	<u>6,214</u>	<u>6,214</u>