

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

**FIRST 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. (“**GEC**”) and Gradek Energy Canada Inc. (“**GEC**”) (collectively the “**Petitioners**” or the “**Companies**”) 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. The Initial Order provides, inter alia, for the following:
 - a. No proceedings or enforcement processes in any court or tribunal shall be commenced or continued against or in respect of the Companies or the mis-en-cause entities (collectively, the “**Gradek Parties**”) or their properties, or affecting the Gradek Parties’ business operations and activities until and including November 13, 2014 (the “**Stay Period**”).
 - b. All persons having agreements with the Gradek Parties for the supply of goods and services must continue to provide goods and services in the normal course of business.
 - c. No person shall discontinue, fail to honor, alter, interfere with, repudiate, resiliate, cancel, terminate or cease to perform any right, renewal right, contract, agreement, license or permit in favor of or held by the Gradek Parties, except for the written consent of the Gradek Parties and the Monitor, or with leave of the Court.
 - d. The appointment of Samson Bélair/Deloitte & Touche Inc. (“**Deloitte**” or the “**Monitor**”) as Monitor under the CCAA.
3. This first report of the Monitor (the “**First Report**”) covers:
 - The statement of projected cash flow for the Petitioners as of October 15, 2014 (“**Cash Flow Statement**”), as per Paragraph 23(1)(b) of the CCAA.
4. In preparing this First Report, the Monitor has relied upon unaudited financial information, the Companies’ records, the amended 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 First 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.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not defined in this First Report are as defined in the Initial Order.
6. A copy of this First Report, the Motion for an Initial Order in this CCAA proceeding 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>

THE PETITIONERS' CASH FLOW STATEMENT

7. The Cash Flow Statement, attached as Appendix A to this First Report, has been prepared by the management of the Petitioners for the purpose described in the notes to the Cash Flow Statement, using the probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.
8. The Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions on the information provided to us by the management and employees of the Petitioners. Since these hypothetical assumptions are not being supported, our involvement with respect to them was limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the supported documentation provided by the management of the Petitioners for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.
9. Based on our review and the foregoing reserves and limitations, nothing has come to our attention, at the exception of some specific elements that will be stated in the following section of this First Report, that causes us to believe that, in all material respects:
 - a) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;
 - b) As at the date of this report, the probable assumptions developed by the Petitioners are not suitably supported and consistent with the plans of the Petitioners or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or
 - c) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.
10. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no opinion as to whether the projections in the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report. Neither do we express any opinion as to the performance of the Petitioners' statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia*, the payment of wages, the government remittances, and the payroll deductions to be made by the Petitioners.
11. The Petitioners' Cash Flow Statement will be monitored on a consolidated basis since GEC does not have any assets, except for an intercompany receivable, and its debts are affected by the Stay Period. Therefore, there will not be any cash inflows or outflows in GEC for the thirteen (13) weeks from October 15, 2014 to January 11, 2015.
12. The Cash Flow Statement has been prepared solely for the purpose described in the notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.
13. The Petitioners' Cash Flow Statement is for a period of thirteen (13) weeks from October 15, 2014 to January 11, 2015. The key assumptions used in this Cash Flow Statement are based on the operating budget for the next five months prepared by the Companies and the historical results.
14. The following sections will specifically address the main assumptions of the Cash Flow Statement.

GRADEK ENERGY INC. AND GRADEK ENERGY CANADA INC.

15. The Companies' Cash Flow Statement is attached as Appendix A to this First Report.
16. The management of the Petitioners prepared a Cash Flow Statement assuming that a cash inflow of \$250K would be received in the week ending October 26, 2014. This cash inflow is related to funds raised through a debtor-in-possession financing ("**DIP Financing**"). The DIP Financing term sheet provides for a DIP Financing totaling \$700K.
17. The release of the remaining funds of the DIP Financing term sheet (\$450K) is contingent, among other things, upon a proper insurance coverage being put into place by the Companies. At the time of writing this First Report, the Companies have yet to obtain a proper insurance coverage. The Companies, with the assistance of the Monitor, have been in active communications with different insurance brokers and were able to obtain a quote from a potential insurance provider. The amounts of disbursements, regarding insurance, included in the cash flow, are based on this quote. As per the management of the Companies, the proper insurance coverage should be obtained in the coming days.
18. As demonstrated in the Cash Flow Statement, the Companies need approximately \$847K over the 13-week period ending January 11, 2014, in order to meet their obligations. As discussed previously, the Companies have secured \$700K in DIP Financing, leaving a shortfall of approximately \$147K. However, the Companies are confident to raise sufficient funds to cover the anticipated shortfall. At the time of writing this First Report, the Companies have yet to raise funds to secure this shortfall. Discussions with interested parties are presently taking place.
19. The Petitioners anticipate more restrictive payment terms from suppliers following the announcement of the CCAA proceedings. As such, the Companies have anticipated certain paid-upon delivery purchases and payment of deposits to certain utilities providers.
20. The Companies' main outflows during the period from October 15, 2014 to January 11, 2015 are forecasted to be salaries (\$187K), rent (\$114K), and professional fees (\$295K).
21. Since October 15, 2014, the Monitor has been informed of two outstanding issues that could impact negatively the Cash Flow Statement. As these issues have not yet been settled, it is difficult to provide an opinion or a recommendation on same. The issues are the following:
 - a. A proper insurance coverage has yet to be obtained by the Companies. Outflows in the Cash Flow Statement could differ depending on the outcome of the negotiation with the different parties involved. In addition, it could also impact the timing of the release of the remaining funds (\$450K) described in the DIP Financing term sheet. The Monitor is currently not in a position to quantify these potential payments or delays, but will report as soon as the complete information is made available by the management of the Companies.
 - b. The Companies anticipates a cash shortfall of \$54K in the week ending January 4, 2015 if no additional DIP Financing is obtained. Even if discussions are presently taking place, the Monitor is not currently in a position to comment on the likelihood that the funds will be raised by the Companies, but will report as soon as the complete information is made available by the management of the Companies.

22. The main changes in this Cash Flow Statement in comparison to the previous submitted to the Court for purpose of the Initial 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 the forecasted manpower;
 - c. Delayed of the receipts and disbursements from week 1 to week 2 to reflect the actual results.

23. The Companies' actual Cash Flow Statement has been prepared considering information known as of October 15, 2014. As soon as the Petitioners and the Monitor will get a better view of the potential adjustments to the Cash Flow Statement, the Monitor will report to the Court.

The Monitor respectfully submits to the Court this, its First Report.

DATED AT MONTREAL, this 24th day of
October, 2014.



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

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

Appendix A CASH FLOW STATEMENT

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

Week ending (\$)	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Total
	2014-10-19	2014-10-26	2014-11-02	2014-11-09	2014-11-16	2014-11-23	2014-11-30	2014-12-07	2014-12-14	2014-12-21	2014-12-28	2015-01-04	2015-01-11	
Receipts														
Financing (DIP)	-	250,000	-	450,000	-	-	-	-	-	-	-	200,000	-	900,000
Disbursements														
Salaries	-	27,354	-	31,888	-	31,888	-	31,888	-	31,888	-	31,888	-	186,794
Insurance	-	8,595	26,544	-	-	455	4,620	3,864	-	455	4,620	4,320	-	53,473
Rent	-	10,628	11,137	30,783	-	-	-	30,783	-	-	-	30,783	-	114,114
Utilities	-	-	16,459	-	-	6,696	-	-	-	6,696	-	-	6,696	36,547
Operating Costs	-	-	16,604	-	16,604	-	-	-	16,604	-	-	-	16,604	66,416
Office and administration costs	-	-	13,608	-	13,608	-	-	13,608	-	-	-	13,608	-	54,432
Professional Fees	-	100,000	-	-	75,000	-	-	-	-	60,000	-	-	60,000	295,000
Others	-	-	10,000	-	-	10,000	-	-	10,000	-	-	-	10,000	40,000
	-	146,577	94,352	62,671	105,212	49,039	4,620	80,143	26,604	99,039	4,620	80,599	93,300	846,776
Net Cash flow	-	103,423	(94,352)	387,329	(105,212)	(49,039)	(4,620)	(80,143)	(26,604)	(99,039)	(4,620)	119,401	(93,300)	53,224
Opening cash	-	-	103,423	9,071	396,400	291,188	242,149	237,529	157,386	130,782	31,743	27,123	146,524	-
Ending cash	-	103,423	9,071	396,400	291,188	242,149	237,529	157,386	130,782	31,743	27,123	146,524	53,224	53,224

Table A (cont.)

NOTES AND REPRESENTATIONS TO THE CASH FLOW STATEMENT

NOTE A – PURPOSE AND WARNINGS

The cash flow projections have been prepared solely for the purpose of the CCAA proceedings. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Since the cash flow projections are based on assumptions regarding future event, actual results will vary from the information presented, and the variations may be material.

NOTE B – DEFINITIONS

(1) CASH FLOW STATEMENT

A statement indicating, on a weekly basis, the projected cash flow of the Companies as defined in section 2(1) of the Act based on probable and hypothetical assumptions that reflect the Companies' planned course of action for the period covered.

(2) HYPOTHETICAL ASSUMPTIONS

Meaning assumptions with respect to a set of economic conditions or courses of action which are not necessarily the most probable in the Companies' judgment, but are consistent with the purpose of the Cash Flow Statement.

(3) PROBABLE ASSUMPTIONS

Meaning assumptions that:

- (i) The Companies' cash flow reflects the most probable set of economic conditions and planned courses of action, **Suitably Supported**, that are consistent with the plans of the Companies; and
- (ii) Provide a reasonable basis for the Cash Flow Statement.

(4) SUITABLY SUPPORTED

Meaning that the assumptions are based on either one or more of the following factors:

- (i) The past performance of the Companies;
- (ii) The performance of other industry/market participants engaged in similar activities as the Companies;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each assumption, and an assessment as to the reasonableness of each assumption, will vary according to circumstances and will be influenced by factors such as the significance of the assumption and the availability and quality of the supporting information.

NOTE C – ASSUMPTIONS

Assumptions	Source	Probable Assumption	Hypothetical Assumption
<u>Opening cash balance</u>	Based on current bank balances	X	
<u>Forecast cash receipts</u>			
DIP Financing	Based on the term sheet signed.	X	
<u>Forecast cash disbursements</u>			
Salaries	Based on previous payroll expenses	X	
Insurance	Based on previous insurance premium	X	
Rent	Rent at all three place of business	X	
Utilities	Telephone, electricity, natural gas	X	
Operating costs	Pilot plant	X	
Insurance	D&O insurance	X	
Office & administration	Bank fees, travel, IT	X	
Professional fees	Deloitte, McCarthy Tétrault	X	
Other	Contingent and deposits		X

Appendix A (cont.)

NOTES AND REPRESENTATIONS TO THE CASH FLOW STATEMENT

NOTE A – Purpose and Warnings

The cash flow projections have been prepared solely for the purpose of the CCAA proceedings. Consequently, readers are cautioned that they may not be appropriate for other purposes.

Since the cash flow projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

NOTE B – Definitions

(1) Cash Flow Statement

A statement indicating, on a weekly basis, the projected cash flow of the Companies as defined in Subsection 2(1) of the CCAA based on probable and hypothetical assumptions that reflect the Companies' planned course of action for the period covered.

(2) Hypothetical Assumptions

Meaning assumptions with respect to a set of economic conditions or courses of action which are not necessarily the most probable in the Companies' judgment, but are consistent with the purpose of the Cash Flow Statement.

(3) Probable Assumptions

Meaning assumptions that:

- (i) The Companies' cash flow reflects the most probable set of economic conditions and planned courses of action, **suitably supported**, that are consistent with the plans of the Companies; and
- (ii) Provide a reasonable basis for the Cash Flow Statement.

(4) Suitably Supported

Meaning that the assumptions are based on either one or more of the following factors:

- (i) The past performance of the Companies;
- (ii) The performance of other industry/market participants engaged in similar activities as the Companies;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the assumptions.

The extent of detailed information supporting each assumption and an assessment as to the reasonableness of each assumption will vary according to circumstances and will be influenced by factors such as the significance of the assumption and the availability and quality of the supporting information.

NOTE C – Assumptions

Assumptions	Source	Probable assumption	Hypothetical assumption
<u>Opening cash balance</u>	Based on current bank balances	X	
<u>Forecast cash receipts</u>			
DIP Financing	Based on the term sheet signed	X	
<u>Forecast cash disbursements</u>			
Salaries	Based on previous payroll expenses	X	
Insurance	Based on previous insurance premiums	X	
Rent	Rent at all three places of business	X	
Utilities	Telephone, electricity, and natural gas	X	
Operating costs	Pilot plant	X	
Insurance	D&O insurance	X	
Office and administration	Bank fees, travel, and IT	X	
Professional fees	Deloitte and McCarthy Tétrault	X	
Others	Contingency and deposits		X