Samson Bélair / Deloitte & Touche Inc.
1 Place Ville Marie
Suite 3000
Montreal QC H3B 4T9
Canada

Tel.: 514-393-7115
Fax: 514-390-4103
www.deloitte.ca

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT. No.: 500-11-047563-149

S U P E R I O R C O U R T
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

SECOND 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.

PURPOSE OF THE SECOND REPORT

5. In this second report (the "**Second Report**") of the Monitor, the following will be addressed:

    (i) Corporate structure of the Companies;
    (ii) Companies' operations;
    (iii) Companies' financial situation;
    (iv) The Petitioners' operations since the Initial Order;
    (v) Activities of the Monitor;
    (vi) Extension of the Stay Period; and
    (vii) Monitor's conclusion and recommendation.

6. In preparing this Second 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 Second 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.

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

8. A copy of this Second 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

CORPORTE STRUCTURE OF THE COMPANIES

9. R S H T Development Inc. ("**RSHT**") is a privately held company and was formed on December 2, 1993 under the *Canada Business Corporations Act* ("**CBCA**"). Thomas Gradek, the founder, is the sole beneficial shareholder of RHST.

10. RHST is a holding company which owns the intellectual property being licensed to GEI ("**RHST Licensing Agreement**") and does not conduct any operations relating to the Companies' businesses.

11. GEI is a privately held company and was formed on May 15, 2001 under the CBCA. The principal shareholder of GEI is RHST.

12. GEC is a privately held company and was formed on June 13 2007 under the CBCA. The principal shareholder of GEC is GEI.

13. As discussed in the First Report, GEC is not currently operating. From an operational standpoint, GEC and GEI are ran as a single unit. Management and operational decisions are made at the Companies' headquarters located in Pointe-Claire, Quebec.

14. GEC's primary objective is to become an oil sands waste tailings stream management service provider, and therefore no activities are ongoing at the moment in this legal entity as all the technology research and development and marketing services are currently performed through GEI.

15. GEC holds a license from GEI to distribute, sell and commercialize the RHS technology in Canada.

16. Refer to Appendix A for the organizational structure of the Gradek Parties.

COMPANIES' OPERATIONS

17. The Companies' businesses focus mainly on the development, marketing and, eventually, the commercialization of a bi-polymer bead called the "Re-usable Hydrocarbon Sorbent" ("**RHS**"). The Companies are still in the development stage of the RSH technology and, since its inception, have not generated any revenues.

18. The primary application of the RHS technology is the recovery of hydrocarbons upon physical contact of the beads with any aqueous or solid mixtures containing hydrocarbons.

19. The RHS technology can primarily designed to be used in the context of Canadian oil sands tailings remediation, oil waste recovery, produced water treatment filtration, and oil spill cleanup technology.

20. In collaboration with Syncrude Canada, one of Canada's largest oil sands operators, the Companies built a pilot plant ("**Pilot Plant**") in August 2012 to test the proprietary bitumen recovery process using the RHS technology. The Pilot Plant is located at 3500, Broadway Avenue, in Eastern Montreal, Quebec.

21. On January 31, 2014, Hatch Ltd., an independent engineering company, issued a positive process performance report ("**Hatch Report**") on the effectiveness of the RHS technology in extracting hydrocarbons and improving tailing solids and water quality, which validated the RSH technology in connection with the extraction of bitumen and fines from a reconstituted oil sands tailing.

22. Since the issuance of the Hatch Report, the Companies have been conducting tests for other commercial applications of the RHS technology to address the specific needs of potential clients.

23. In addition to the premises in Eastern Montreal, where the Pilot Plan is located, GEI leases two other premises: one located in Pointe-Claire, headquarter of the Companies, and the other located in Calgary, Alberta. The premises in Calgary are mainly used for business development purposes given their proximity to the main Canadian oil sands producers.

COMPANIES' FINANCIAL SITUATION

24. The Companies are still in the development stage of the RSH technology and, since its inception, have never generated any revenues. The capital raised was used to develop and test the RSH technology in order to potentially sign commercial agreements with clients.

25. As described earlier in this report, GEC is not currently operating, therefore the majority of the creditors affected by this First Stay Period Order are creditors of GEI.

26. According to the non-consolidated financial statements as at June 30, 2014, GEI owns assets with a book value of approximately $5.9M and has total liabilities of approximately $10.9M. The assets are mainly composed of property, plant and equipment ($4.1M), and investment tax credits ($1.2M).

27. The following table illustrates the liabilities of GEI as of October 7, 2014, as per Management:

Gradek Energy Inc. Estimated liabilities As of October 7, 2014	$
Secured creditors	
Dundee Corporation	9,971,005
Investissement Quebec	1,260,805
Labrosse Development	77,525
National Bank	72,961
Revenue Quebec - D.A.S.	115,840
	11,498,136
Unsecured creditors	
Employees	15,617
Management	493,321
Trade payables	2,344,652
	2,853,590
	14,351,726

28. Dundee Corporation ("**Dundee**") holds a first $7.5M convertible secured debenture issued on November 25, 2011 as amended from time to time. Dundee also holds a second $1.5M convertible secured debenture issued on May 14, 2012. Both debentures have maturity dates of April 30, 2018.

29. The convertible debentures ("**Debentures**") are secured by:

    a. A movable hypothec on all of GEI's and GEC's present and future movable properties;
    b. A hypothec with delivery granted by GEI in favor of Dundee on all the issued and outstanding shares that GEI holds in the capital of GEC; and
    c. A limited recourse guarantee by Thomas Gradek of the obligations of GEI and GEC under the Debentures. The obligations of Thomas Gradek are guaranteed by a hypothec

with delivery granted by Thomas Gradek in favor of Dundee on all the issued and outstanding shares that Thomas Gradek holds in the share capital of RSHT.

30. RHST has also granted Dundee a conditional perpetual and exclusive license (i) to use, develop, manufacture, produce, sell, distribute and commercialize the process and the know-how in the world, and (ii) to use, manufacture produce, sell, distribute and commercialize the RHS technology in the world. The license granted by RHST to Dundee is only effective in the event that the RHST Licensing Agreement is terminated and any amount owing under the Debentures are outstanding.

31. Investissement Québec ("**IQ**") has issued two loans to the Petitioners which are secured in the amount of $1M and $900K, respectively, and holds a first ranking hypothec on the 2013 tax credits.

32. Labrosse Development ("**Labrosse**") is the landlord of the Companies' headquarters located in Western Montreal. Labrosse holds a hypothec of all of GEI's present and future moveable properties in the amount of $100K.

33. National Bank of Canada ("**NBC**") is owed approximately $73K. NBC holds a hypothec on all of GEI's present and future accounts receivable in the amount of $480K plus interest at a yearly rate of 25%.

PETITIONERS' OPERATIONS SINCE THE INITIAL ORDER

34. Since the Initial Order, 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 having discussions on 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, to their creditors, an acceptable plan of arrangement and to enter into the commercialization phase of RHS.

35. As mentioned in the First Report, the release of the remaining funds of the DIP Financing term sheet ($450K) was contingent upon a proper insurance coverage being put into place by the Companies. On October 31, 2014, the Companies signed a proper insurance coverage policy. Consequently, the release of the remaining DIP Financing funds should occur in the coming days according to Management.

36. 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 4, 2015. Refer to Appendix B for the amended 13-week period cash flow forecasts. As per Management, discussions are ongoing with the individuals that have provided the DIP Financing on the possibility of providing additional funding. As per Management, entering into a commercial agreement in the coming weeks should help the Companies obtaining additional funding.

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 3-week period ended November 2, 2014

	Actual	Budget	Variance
	($)	($)	($)
Receipts			
Financing (DIP)	250,000	250,000	-
Disbursements			
Salaries	25,891	27,354	1,463
Insurance	-	35,139	35,139
Rent	10,628	21,765	11,137
Utilities	-	16,459	16,459
Operating Costs	-	16,604	16,604
Office and administration costs	-	13,608	13,608
Professional Fees	100,000	100,000	-
Others	-	10,000	10,000
	136,519	240,929	104,410
Projected bank balance variation	**113,481**	**9,071**	**104,410**
Bank balance - beginning	**-**	**-**	**-**
Bank balance - ending	**113,481**	**9,071**	**104,410**

37. After several discussions, GEI and NBC concluded, in view of avoiding any confusion regarding the usage of funds of the DIP Financing, that the best option for GEI was to open a new bank account at NBC.

38. The procedures around opening a new account at NBC took longer than initially anticipated. The Companies were only granted access to a new operating bank account on October 31, 2014, and hence did not have access to the DIP Financing funds held in trust by the Petitioners' legal advisor McCarthy Tétrault ("**McCarthy**").

39. Consequently, the actual receipts and disbursements for the 3-week period ended November 2, 2014 were done directly from McCarthy's trust account on behalf of the Petitioners, except for the salaries which transacted through the old NBC bank account.

40. The favorable budget-to-actual variances illustrated above are temporary. The Companies plan to disburse the initially forecasted disbursements in the coming weeks. Refer to Appendix B for the amended 13-week period cash flow forecasts.

ACTIVITIES OF THE MONITOR

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

42. 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.

43. 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.

44. 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.

45. 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*.

46. 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.

EXTENSION OF THE STAY PERIOD

47. Pursuant to the Initial Order, a Stay Period was granted until November 13, 2014.

48. The Gradek Parties notified the Monitor of their intention to request an extension of the Stay Period to December 19, 2014, to allow the Gradek Parties to stabilize their operations and develop and eventually submit a plan of arrangement to their creditors under the CCAA.

49. 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.

50. Upon further investigation into the business and operations of the Debtors, and with additional information provided by and learned through discussions with Management, some changes to the cash flow statements of GEI and GEC, as originally provided in the Initial Order, are required to accurately reflect the financial situation of the Debtors.

51. The amended 13-week period cash flow forecasts still pertain to the same 13-week period as originally provided; however, the cash inflows and outflows for Weeks 1, 2 and 3 have been updated based on actual results. In addition, the originally forecasted disbursements in Weeks 2 and 3 have been delayed to Weeks 4 and 5 due to the issue with opening a new bank account with NBC. As these are mainly timing adjustments, there are no material changes to the quantum of disbursements initially presented in the previous cash flow statement of GEI and GEC. Refer to Appendix B for the amended 13-week period cash flow forecasts.

MONITOR'S CONCLUSION AND RECOMMENDATION

52. 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.

53. It is the Monitor's opinion that an extension of the Stay Period to December 19, 2014 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.

54. 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 December 19, 2014, 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 Second Report.

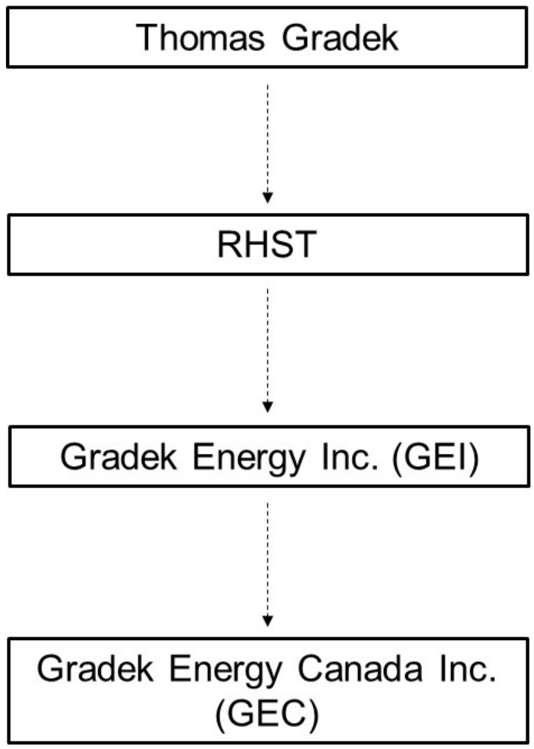
DATED AT MONTREAL, this 7th day of November, 2014.

Jean-François Nadon

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

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

APPENDIX A


Thomas Gradek
RHST
Gradek Energy Inc. (GEI)
Gradek Energy Canada Inc. (GEC)

APPENDIX B

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

	Actual			1st report AMENDED										
Week ending ($)	**Week 1 2014-10-19**	**Week 2 2014-10-26**	**Week 3 2014-11-02**	**Week 4 2014-11-09**	**Week 5 2014-11-16**	**Week 6 2014-11-23**	**Week 7 2014-11-30**	**Week 8 2014-12-07**	**Week 9 2014-12-14**	**Week 10 2014-12-21**	**Week 11 2014-12-28**	**Week 12 2015-01-04**	**Week 13 2015-01-11**	**Total**
	Actual	Actual	Actual											
Receipts														
Financing (DIP)	-	**250,000**	**-**	**450,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**200,000**	**-**	**900,000**
Disbursements														
Salaries	-	25,891	-	25,891	-	31,888	-	31,888	-	31,888	-	31,888	-	**179,334**
Insurance	-	-	-	18,690	455	936	2,235	-	-	194	455	2,235	-	**25,200**
Rent	-	10,628	-	41,867	-	-	-	30,783	-	-	-	30,783	-	**114,061**
Utilities	-	-	-	12,900	-	6,696	-	-	-	6,696	-	-	6,696	**32,988**
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	-	**30,000**
	-	**36,519**	**100,000**	**139,560**	**105,667**	**39,520**	**2,235**	**86,279**	**16,604**	**98,778**	**455**	**88,514**	**83,300**	**797,431**
Net Cash flow	**-**	**213,481**	**(100,000)**	**310,440**	**(105,667)**	**(39,520)**	**(2,235)**	**(86,279)**	**(16,604)**	**(98,778)**	**(455)**	**111,486**	**(83,300)**	**102,569**
Opening cash	-	-	213,481	113,481	423,921	318,254	278,734	276,499	190,220	173,616	74,838	74,383	185,869	-
Ending cash	**-**	**213,481**	**113,481**	**423,921**	**318,254**	**278,734**	**276,499**	**190,220**	**173,616**	**74,838**	**74,383**	**185,869**	**102,569**	**102,569**