Ernst & Young Inc.
800, boul. René-Lévesque Ouest
Bureau 1900
Montréal (Québec) H3B 1X9

Tél./Tel: +1 514 875 6060
Téléc./Fax: +1 514 879 2600
ey.com

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
No.: 500-11-048908-152

S U P E R I O R   C O U R T
Commercial Division
Designated tribunal under the
Companies' Creditors Arrangement Act[1]

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE AND ARRANGEMENT OF STRATECO RESOURCES INC.

DEBTOR

- and -

ERNST & YOUNG INC.

MONITOR

SECOND REPORT OF THE MONITOR
June 30, 2015

INTRODUCTION AND PURPOSE

1. We, Ernst &Young Inc. ("EY" or "Monitor"), the monitor appointed by the Superior Court of the Province of Québec for the District of Montréal ("Court") in the matter of Strateco Resources Inc ("Strateco" or the "Applicant") hereby report to the Court as follows.

2. The purpose of this report ("Report") is to provide this Court with information with respect to the following matters:

   a) The terms of reference and disclaimer for the Report;

   b) Provide an update on the Applicant's actual cash flows from June 8, 2015 to June 21, 2015 and the updated cash flow forecast from June 22, 2015 to August 28, 2015;

   c) The financial charges proposed in the proposed Amended and Restated Initial Order;

   d) The proposed extension period to the stay of proceedings; and,

   e) Conclusions and recommendations.

TERMS OF REFERENCE

3. In preparing this Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by Strateco, discussions with

---

[1] *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

management of Strateco ("Management") and information from other third-party sources (collectively, the "Information"). Except as otherwise described in this report in respect of Strateco's cash flow statement:

a) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information; and,

b) Some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

4. Future oriented financial information referred to in this Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

5. Unless otherwise stated all monetary amounts contained herein are expressed in Canadian dollars.

STRATECO'S CASH FLOW STATEMENT

6. Given the current pending motion seeking the approval of Strateco's proposed priority charges, and the expiry date of the current stay of proceedings on July 9, 2015, the Applicant has prepared with the assistance of the Monitor:

a) Actual to budget cash flow results for the period of June 8 to June 21, 2015 (the "Actual to Budget Result"), representing the expired period of the initial stay of proceedings period provided by the Court in the Initial Order. As June 20 and 21 are Saturdays and Sundays respectively, Actual Results and Budgeted Results only extend to Friday June 19, 2015. A copy of the Actual to Budget Result is attached as Exhibit 1 to this Report; and,

b) Updated cash flow projections (the "Cash Flow Statement"), for the period of June 22, 2015 to August 28, 2015 (the "Cash Flow Period"). A copy of the Cash Flow Statement is attached as Exhibit 2 to this Report.

Actual to Budgeted cash flows

7. Since the date of the CCAA filing, the Monitor has monitored the Applicant's Actual to Budget Results of operations, including:

    a) reviewing cash collections; and,

    b) reviewing supplier payments to ensure that they comply with the Initial Order.

8. Actual to Budgeted Results are provided in detail in Exhibit 1.

9. The Monitor has observed no significant issues with any of the items set out in Exhibit 1. The Monitor will continue its monitoring procedures and will report to the Court with respect thereto periodically, or upon the request of the Court.

10. Opening cash balance was favourable to budget by $5,000 and stood at $255,000 as of June 8, 2015 due to various minor timing differences that occurred between the date of the finalization of the cash flow projections and their submission to Court.

11. Cash inflows for the period were $23,000 compared to budgeted amounts of $16,000; the variance being favourable by $7,000 and is attributable to the sale of various office equipment and furniture that had not been forecasted.

12. Cash outflows for the period were $29,000 compared to budgeted amounts of $82,000, for a favourable variance of $53,000. This favourable variance is principally attributable to:

    a) payroll and consulting payments being lower than budget by $7,000;

    b) overhead and administration payments being lower than budget by $3,000; and,

    c) CCAA professional fee payments being lower than budget by $43,000.

    These variances are expected to be exclusively timing differences; these favourable variances are expected to reverse themselves in the future as service providers are paid.

13. Overall, the total cash flow variance for the period was favourable by $65,000, including the opening cash balance favourable variance of $5,000.

Revised Projected Cash Flows

14. The Cash Flow Statement for the period of June 22, 2015 to August 28, 2015 is presented on a weekly basis during the Cash Flow Period and represents Management's estimates of the projected cash flow during such period. The Cash Flow Statement has been prepared by Strateco's Management, using probable and hypothetical assumptions set out in notes to the Cash Flow Statement (the "Probable and Hypothetical Assumptions" or the "Assumptions"). It is attached as Exhibit 2 to this Report.

15. The Monitor has reviewed the Cash Flow Statement as to its reasonableness as required by Section 23(1)(b) of the CCAA.

16. Pursuant to this standard, the Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussion related to information supplied to it by certain key members of Management and employees of Strateco. Since the Probable and Hypothetical Assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Monitor also reviewed the support provided by Management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Cash Flow Statement.

17. Based on the Monitor's review, nothing has come to our attention that causes it to believe, in all material respects, that:

    a) The Probable and Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;

    b) As at the date of this Report, the Probable and Hypothetical Assumptions are not suitably supported and consistent with the plans of Strateco or do not provide a reasonable basis for the Cash Flow Statement, given the Probable and Hypothetical Assumptions; or,

    c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

18. The Strateco cash position at the commencement of the Cash Flow Period is estimated at approximately $249,000. The Strateco Cash Flow Statement estimates that during the Cash Flow Period, it will have total receipts of $95,200 and total disbursements of approximately $339,400 resulting in net cash outflow of approximately $244,200, and a closing cash balance of $4,800.

19. Further extended cash flows provided by Strateco demonstrate that unless it can successfully obtain interim financing during the week ending September 4, 2015, it will have insufficient funding to continue its operations and Legal Proceedings.

20. The Applicant has initiated a process to secure such interim financing and this Honourable Court will be advised in due course if and when such financing has been secured.

THE FINANCIAL CHARGES PROPOSED IN THE PETITION FOR AN AMENDED AND RESTATED INITIAL ORDER

21. The proposed Amended and Restated Initial Order provides for two Court-ordered priority charges (collectively, the "Charges").

Administration Charge

22. The proposed Amended and Restated Initial Order provides for a charge (the "Administration Charge") in favour of Strateco's CCAA professionals, namely its litigation legal counsel in this matter, namely Irwin Mitchell Kalichman ("IMK"), its CCAA legal advisor, Stikeman Elliott, the CCAA Monitor, Ernst & Young Inc., and the Monitor's legal counsel BLG. Note that IMK is considered as a CCAA professional for the purposes of the Administration Charge as they have been handling the resolution of Strateco's most significant asset since the Litigation Proceedings were instituted back in 2013.

23. The Administration Charge has been established at $2 million as security for the professional fees and disbursements for services rendered both before and after the issuance of the Initial Order in respect of these proceedings. The amount of $2 million was established based on discussions with the various professionals involved in the matter as noted above.

24. Of this amount, $1.7 million is attributable to IMK fees as a reasonable midpoint of the likely estimated total litigation fees and costs of the Litigation Proceedings which have been estimated at between $1 million and $3 million by IMK, depending on the duration of the proceedings and the potential for appeals. Given the magnitude of the amounts claimed by the Applicant in this matter, and that the defendant has the necessary financial resources to use all available appeals processes, if necessary, the overall litigation costs could be extended to the high side of the range identified by IMK.

25. The potential for additional intervention in the proceedings by the Cree Nation located near the Matoush project further increases the potential duration of the Litigation Proceedings and associated IMK fees and costs.

26. In addition, the Administration Charge includes estimated amounts for the CCAA professionals of $300,000, allocated evenly between: i) the CCAA Monitor and his legal advisor BLG; and, ii) Stikeman Elliott.

27. The amount of this proposed charge was established after consideration of the likely litigation costs to be incurred principally with IMK, given the complexity and likely extended duration of the said Litigation Proceedings, which represent the Applicant's principal asset.

28. The Monitor is of the view that the proposed Administration Charge is appropriate in the circumstances and the amount of the Administration Charge is reasonable given, among other things, the complexity and possible duration of the proceedings, the potential for intervention by the Cree Nation in the litigation, the work that has been done to date and the work that remains to be done during the course of the CCAA proceedings.

Directors' Charge

29. The proposed Amended and Restated Initial Order provides for an indemnity in favour of Strateco's directors and officers ("D&O") for any obligations or liabilities that may be incurred by or brought against them as directors or officers of Strateco after the commencement of the CCAA proceedings, except to the extent that such obligation or liability is incurred as a result of such directors or officers' gross negligence or wilful misconduct ("Director's Charge").

30. Such charges are typically established to cover directors' liabilities with respect to unpaid salaries, vacation pay, payroll source deductions and sales taxes, as well environmental liabilities.

31. In the matter at hand, Strateco has been, since its creation, investing in mining exploration projects which have yet to reach the commercialization stage. As such, it derives no taxable income and therefore has no sales tax liabilities.

32. In addition, the Applicant advises that its employee payroll and vacation obligations have been fully complied with as of the date of this Report, while its payroll withholdings and remittances are also fully funded and are processed by a third party payroll service. Furthermore, the Applicant has only one remaining employee on payroll, which further limits D&O potential liability with respect to payroll related obligations.

33. The Applicant's principal D&O financial exposure at this time stems from potential environmental claims and assessments that could be directed at Strateco's D&O, in light of its mining exploration effected from 2006 up until the closure of the Matoush mining exploration project and partial dismantlement in 2013, the whole as further outlined in the Petition for the Issuance of an Initial Order.

34. Notwithstanding the fact that Strateco holds a valid D&O insurance policy until February 2016 for a coverage for a maximum amount of $5 million, the Applicant seeks a $2.5 million charge in favour of its D&O, as described below.

35. The Monitor's understanding is that the D&O insurance policy may not cover losses associated with the monitoring, cleanup, removal, containment, treatment, detoxification or neutralization of pollutants. In addition, this insurance policy may not cover the costs associated with the decommissioning of the Matoush site.

36. In support of the proposed D&O charge of $2.5 million, the Applicant has provided the Monitor with a detailed schedule of decommissioning costs that had initially been prepared at the request of the Canada Nuclear Safety Commission ("CNSC") in 2010, (the "CNSC Estimate"):

a) in contemplation of full mining operations being initiated; and,

b) to establish likely future decommissioning costs that the Applicant would have been required to set aside in a trust account prior to full mining operations being initiated.

37. Since this estimate was prepared, many of the projected costs have been incurred and paid, and many of the stated decommissioning steps have been completed given the Applicant's documented inability to initiate full mining operations, or certain construction phases were never completed as Strateco never made it past the exploration phase.

38. In addition to the CNSC Estimate amounts, the Applicants are bound by its two related land leases with the Ministère des ressources naturelles et de la faune du Québec ("MDRNF") dated April 20, 2009 and August 17, 2009, respectively, to remove any constructions and improvements to the land and to return the sites in good condition.

39. Accordingly, in addition to the CNSC Estimate which extended exclusively to mining operations, the Applicant is of the view that such potential environmental D&O obligations could extend to the following additional obligations (the "Additional Environmental Obligations"):

a) Dismantling the local airplane landing strip it constructed;

b) Dismantling the sanitary drainage system that was installed and which has since been drained;

c) Burying or disposing of all the drilling sample uranium cores that are accumulated and stored on site;

d) Returning the land to its original state, including reforestation; and,

e) Having the necessary technical studies prepared to confirm the extent and sufficiency of the remediation work performed.

40. The Monitor has reviewed the calculation of the Directors' Charge prepared by Strateco, including the CNSC Estimate and the Additional Environmental Obligations, taking into consideration the estimated potential remediation costs of the Matoush Project site.

41. The estimated remediation costs are illustrated in the table below:

Estimated potential remediation costs	
1. Landing strip demolition and return to its original condition	$ 1,300,000
2. Uranium content carrot burial and/or alternate disposal for higher concentration carrots	450,000
3. Concrete slabs (2) demoliton and disposal/ transportation, underground facilities dismantlement and ground /land	650,000
4. Technical studies, sampling, reporting and revegetation	100,000
Total	$ 2,500,000

42. The Monitor notes that this indemnification is consistent with the language in the CCAA Model Order.

43. The proposed indemnification is to be secured by a charge in an amount of $2.5 million. The proposed Directors' Charge would apply only to the extent that the D&O do not have coverage under the applicable insurance policy.

44. The Monitor is of the view that the Directors' Charge is appropriate and reasonable under the circumstances.

Priority of Charges

45. The proposed Amended and Restated Initial Order provides for the establishment of the following priority of the Charges:

a) First – the Administration Charge; and,

b) Second – the Directors' Charge.

46. Under the proposed Amended and Restated Initial Order, the beneficiaries of the Charges will have a charge over all of Strateco's assets, property or undertaking (the "Charged Property"). The Administration Charge and Directors' Charge will rank in priority to any valid secured claim ("Secured Claims") including security held by Toro Energy Canada Pty. Ltd. and will rank ahead of any other existing security interests, liens, trusts, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, the "Encumbrances").

47. The Monitor understands that Toro will have the opportunity to make representations to the Court with respect to the Charges discussed herein.

EXTENDED STAY OF PROCEEDINGS

48. The Initial Order is scheduled to expire on July 9, 2015, and the Applicants previously indicated their intention to seek a further extension of the stay of proceedings contained in the Initial Order, until August 6, 2015. The Monitor notes that the cash flow projections could allow for the stay to be extended until August 28, 2015 and is prepared to recommend an extension until that date, given that the Applicant is currently in the early stages of searching for interim financing support.

49. Given that the Applicant is currently in the early stages of its process of searching for interim financial support through the CCAA and Litigation Proceedings, the Monitor supports the Company's request to extend the stay of proceedings until August 28, 2015.

50. Furthermore, in the context of its search for interim financing, it is the Monitor's view that the Charges will be central to obtaining interim financing as it will provide possible interested lenders with the peace of mind that the professionals that have been working on the Litigation Proceedings and the D&O that have all of the history behind the Litigation Proceedings will remain in place to assist in bringing such proceedings to a conclusion and have the necessary protection that their future fees and costs will be paid.

CONCLUSION AND RECOMMENDATIONS

51. Based on discussions with representatives of the Applicant, the Monitor believes that it has acted and is continuing to act in good faith and with due diligence.

52. The Monitor believes that Strateco should be granted the benefit of an extended stay of proceedings under the CCAA, so that it can continue its Legal Proceedings which at this time represents its sole material asset available to fund and file a plan of arrangement in the best interest of all stakeholders, provide time to secure interim financing and that such an extended stay of proceedings would not be prejudicial to the creditors of the Applicant.

53. Further to its review of the proposed Amended and Restated Initial Order, the Monitor supports the thresholds and priority of charges proposed in the Amended and Restated Initial Order, including:

    a) An Administration Charge of $2 million; and,

    b) A Director's Charge of $2.5 million.

54. As the DIP financing has yet to be arranged, the Monitor will report back to this Court in due course, once such interim financing has been successfully negotiated.

All of which is respectfully submitted this 30th day of June 2015.

ERNST & YOUNG INC.,
in its capacity as the Court appointed Monitor of
Strateco Resources Inc.

Per:

Michel Marleau, CPA, CA
Senior Vice President

Exhibit 1

STRATECO RESOURCES INC.

Actual to budget cash flow results

For the period of June 8 to June 19, 2015

Unaudited, in thousands of Canadian dollars

	BUDGET			ACTUAL			VARIANCE		
	June 8-12	**June 15-19**	**Total**	**June 8-12**	**June 15-19**	**Total**	**June 8-12**	**June 15-19**	**Total**
Cash Inflows									
Selling - Shares	8	8	16	10	6	16	2	-2	0
Selling - Others	0	0	0	3	4	7	3	4	7
Total Cash Inflows	8	8	16	13	10	23	5	2	7
Cash Outflows									
Administration - Personnel costs	10	20	30	8	15	23	2	5	7
Administration - Corporate and financial overheads	5	4	9	5	1	6	0	3	3
Qc. Gouv. Litigation - Professional fees	0	0	0	0	0	0	0	0	0
CCAA - Professional fees	0	43	43	0	0	0	0	43	43
Matoush project fees	0	0	0	0	0	0	0	0	0
Total Cash Outflows	15	67	82	13	16	29	2	51	53
NET CASH FLOW	**-7**	**-59**	**-66**	**0**	**-6**	**-6**	**7**	**53**	**60**
Bank balance - beginning	250	243	250	255	255	255	5	12	5
Bank balance - ending before proposed financing	**243**	**184**	**184**	**255**	**249**	**249**	**12**	**65**	**65**
Proposed financing									
DIP financing	0	0	0	0	0	0	0	0	0
Bank balance after the financing	**243**	**184**	**184**	**255**	**249**	**249**	**12**	**65**	**65**

Exhibit 2

Insolvent Person's Report on Cash-flow Forecast
(Section 10(2) of the *Companies' Creditors Arrangement Act*)

In the matter of the proposed plan of compromise and arrangement of SRATECO RESOURCES INC.

We, Strateco Resources Inc. (the **"Company")**, have developed the assumptions and prepared the attached statement of cash-flow forecast of the Company, as of the 30th day of June, 2015, consisting of a statement of cash-flow forecast for the 10 weeks ending August 28, 2015.

The probable and hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes accompanying the cash-flow forecast, and the probable and hypothetical assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the forecast. All such assumptions have been disclosed in Notes 1. to 3.

Since the forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The forecast has been prepared solely for the purpose described in the notes accompanying the statement of cash-flow forecast, using a set of probable and hypothetical assumptions set out in Notes 1. to 3. Consequently, readers are cautioned that it may not be appropriate for other purposes.

DATED AT MONTREAL, this 30th day of June, 2015.

STRATECO RESOURCES INC.

per: Guy Hébert, President

STRATECO RESOURCES INC.

Cash Flow Forecast 2015

Unaudited, in thousands of Canadian dollars

	Total	June 22-26	July 29-3	July 6-10	July 13-17	July 20-24	July 27-31	Aug. 3-7	Aug. 10-14	Aug. 17-21	Aug. 24-28
Cash Inflows											
Selling - Shares	95.2	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Selling - Others	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	95.2	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Cash Outflows											
Administration - Personnel costs	87.5	5.7	-	20.3	-	21.9	-	5.7	-	34.0	-
Administration - Corporate and financial overheads	40.5	0.8	21.1	3.2	3.2	0.8	-	7.3	0.8	1.6	1.6
Qc. Gouv. Litigation - Professional fees	40.5	-	-	-	16.2	-	-	-	24.3	-	-
CCAA - Professional fees	167.7	27.5	36.5	-	42.1	6.5	4.9	17.8	-	27.5	4.9
Matoush project fees	3.2	-	-	-	-	2.4	0.8	-	-	-	-
Total Cash Outflows	339.4	34.0	57.5	23.5	61.6	31.6	5.7	30.8	25.1	63.2	6.5
NET CASH FLOW	**- 244.2**	**- 24.5**	**- 48.0**	**- 14.0**	**- 52.0**	**- 22.1**	**3.9**	**- 21.3**	**- 15.6**	**- 53.7**	**3.0**
Bank balance - beginning	249.0	249.0	224.5	176.5	162.5	110.5	88.4	92.3	71.0	55.4	1.8
Bank balance - ending before proposed financing	**4.8**	**224.5**	**176.5**	**162.5**	**110.5**	**88.4**	**92.3**	**71.0**	**55.4**	**1.8**	**4.8**
Proposed financing											
DIP financing	-	-	-	-	-	-	-	-	-	-	-
Bank balance after the financing	**4.8**	**224.5**	**176.5**	**162.5**	**110.5**	**88.4**	**92.3**	**71.0**	**55.4**	**1.8**	**4.8**

Note: certain rows and columns may not add by immaterial amounts due to roundings.

PROBABLE AND HYPOTHETICAL ASSUMPTIONS TO THE PROJECTED STATEMENT OF CASH FLOW
For the 10 weeks ending August 28, 2015

1. **Purpose:** The attached statement of projected cash flow has been prepared by Management to present the anticipated cash inflows and outflows resulting from current operations during the period of the initial stay of proceedings in virtue of the *Companies' Creditors Arrangement Act*, namely the period from June 22, 2015 to August 28, 2015. Assumptions made in preparing the projected cash flow statement are presented hereunder.

2. **Revenues:**

   2.1 Projected revenues stem for the periodic liquidation of certain securities held and available for sale. Their realization value is based on management's estimates of a sustainable transaction volumes and market price based on recent market transactions.

3. **Disbursements:**

   3.1 Wages: The projected wages and sub-contracted consultant costs are projected to be paid every two weeks and bi-monthly respectively. Wage payments are made using an external payroll service which collects and remits employee and employer source payroll deductions and contributions on behalf of the employer;

   3.2 Fixed payment contracts: Rent payments are scheduled to be made on their due date.

   3.3 Professional fees: These are projected to be paid as issued by the various professionals;

   3.4 Other periodic suppliers are assumed to be paid on a COD basis;

   3.5 The cash flow projections do not reflect the payment of certain arrears and severance payments due to employees, nor a provision for amounts which will not become due during the projection period. Furthermore, no provision has been made in the projections for payments to creditors and employees from amounts owing prior to filing for protection under the CCAA.