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

SUPERIOR COURT
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

TWELTH REPORT OF THE MONITOR
August 15, 2017

INTRODUCTION AND PURPOSE

1. We, Ernst & Young Inc. ("**EY**" or the "**Monitor**"), the monitor appointed by the Superior Court of the Province of Québec for the District of Montréal (the "**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 (the "**Report**") is to provide this Court with information with respect to:

    a) Actual cash flow results in comparison to budget from April 1 to June 30, 2017;

    b) Update on the Matoush Litigation; and,

    c) Update on Strateco's claim against the Agence du Revenu du Québec (the "**ARQ**") for the reimbursement of uncontested tax credits accrued since the issuance of the stay of proceedings under the CCAA.

3. All terms beginning with a capital letter not defined in the present Report shall have the meaning ascribed in the Monitor's reports filed in the present matter.

TERMS OF REFERENCE

4. 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 management of Strateco (the "**Management**") and information from other third-

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

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.

5. 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.

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

STRATECO'S CASH FLOW STATEMENT

7. Pursuant to paragraph 8 of this honorable Court's Order of January 20, 2017 and section 23(1)(d)(ii) of the CCAA, the Monitor reports herein its findings with respect to the Company's actual cash flow results for the quarter ended June 30, 2017 ("**Q2-2017**").

Actual to Budgeted cash flows

8. 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 provisions of the Second Amended and Restated Initial Order rendered by this honorable Court on October 23, 2015.

9. Actual to Budget Results yielded various favourable and unfavourable differences in both receipts and disbursements over budgeted amounts for Q2-2017, for net favourable cash variance of $188,000 for Q2-2017, which is principally attributable to an unforecasted $205,000 sales tax refund received from the ARQ at the end of the quarter, as further described later in this report.

10. Individual cash flow variances throughout the quarter did not have a material adverse effect on the Applicant's financial position and were deemed immaterial in the context of the current proceedings. Such disbursements and related variances were submitted to the DIP Lender every second week through a systematic reporting process whereby the DIP Lender is provided with actual to budget cash flow results for the prior two weeks, and with updated 13 week cash flow projections. Furthermore, the Applicant is operating materially in line with its operating budget as periodically updated and submitted to the DIP Lender.

11. Overall, Actual to Budget Results for the period of April 1 to June 30, 2017 yielded an overall $188,000 favourable variance as:

a) Cash receipts were favourable to budget and exceeded forecast amounts by $206,000; and,

b) Cash disbursements were unfavourable to budget by $18,000.

12. Individual disbursement variances for the period were as follows:

a) Restructuring professional fees were lower than budget by $8,000;

b) Personnel staff costs were lower than budget by $9,000:

c) Litigation related costs were greater than budget by $2,000; and,

d) Administration costs exceeded budget by $33,000 which was principally attributable to the Company subscribing to a 3-year environment insurance policy to replace its former policy with a new insurer, as the previous issuer would not renew coverage. In prior years policies were for one year only.

13. Such variances are not material in the context of Strateco's overall financing facility secured with its DIP Lender to finance the Matoush Litigation, such disbursements having been approved by its DIP Lender on an ongoing basis.

14. Including the $12,000 favourable variance previously reported in the Monitor's 11th report for the period of January 1 to March 31, 2017, the cumulative

variance for the first 6-month period under the 10-month cash flow projections filed with the Court for the period of January 1 to October 31, 2017 stands at $200,000.

15. Detailed actual to budgeted cash flow results have not been included in this report given:

a) that there are no material unfavourable variances to report to the Court, in the context of the Applicant's overall litigation budget and DIP financing;

b) the sensitivity of such information in the context of the Matoush Litigation;

c) that the cash flow projections referred to in this Report have already been provided to the Court; and,

d) that filing such actual to budget detailed figures would require that a separate motion be filed seeking that such information be filed under seal.

16. Nonetheless, if the Court deems it necessary, the Monitor is available to provide this Court with additional information with respect to such Actual to Budget Results.

17. The Monitor will continue its monitoring procedures and will report to the Court with respect thereto on a quarterly basis as requested by this honorable Court in its January 20, 2017 ruling and as required under the CCAA, or sooner if there is a material adverse change in Strateco's operations or in the Matoush Litigation proceedings.

18. In addition, the Monitor continues to review all Strateco disbursements on a weekly basis and Strateco continues to report to the Monitor and the DIP Lender on a bi-weekly basis. Deviations from the Cash Flow Statement are promptly addressed by the Monitor. Should a material discrepancy or issue be identified by the Monitor, the Monitor will swiftly address the issue with Strateco, legal counsel and the DIP Lender, and if no resolution is found, the Monitor will seek directions from the Court.

PROGRESS IN THE MATOUSH LITIGATION PROCEEDINGS

19. As reported in the Monitor's 11th report to the Court, the 6 week trial in the Matoush Litigation concluded on February 24, 2017, at which time the Honourable Denis Jacques, J.S.C., took the matter under advisement.

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20. On June 21, 2017, the Court issued its judgment whereby Strateco's damage claim totalling in excess of $192 million was dismissed by the Court. The Court judgment has been posted on the Monitor's web site at www.ey.com/ca/strateco under the heading "Court Orders" and as such is available for consultation.

21. On June 27, 2017, Strateco issued a press release advising of its intent to appeal the Court's ruling. On July 19, 2017, Strateco filed its notice of appeal with the office of the Quebec Court of Appeal. Strateco's notice of appeal has also been posted on the Monitor's public website at www.ey.com/ca/strateco under the heading "Motion Material" and as such is available for consultation.

22. Strateco's legal counsel expects that the appeal will likely be heard at the beginning of the year 2019.

STRATECO'S CLAIM AGAINST THE ARQ

23. On May 8, 2017, Strateco sent a demand letter to the ARQ seeking the reimbursement of $201,920.06 of uncontested credits for sales taxes accrued since the issuance of the stay of proceedings under the CCAA, and for which the ARQ had been performing compensation against pre-filing debts.

24. Strateco took the position that the compensation of pre-filing debts with uncontested tax credits accrued since the issuance of a stay of proceedings under the CCAA was illegal, based on recent related jurisprudence.

25. In mid-June 2017, the ARQ acquiesced to Strateco's request and issued it a $205,000 sales tax refund (representing sales tax credits and interest thereon).

CONCLUSION

26. The current stay of proceedings is scheduled to expire on October 31, 2017.

27. The Monitor believes that the Applicant has acted and is continuing to act in good faith and with due diligence.

28. Strateco has been granted the benefit of an extended stay of proceedings under the CCAA to October 31, 2017 so as to allow it to continue the Matoush Litigation, as this litigation represents the Applicant's principal asset available to fund and file a plan of arrangement, in the best interest of all stakeholders.

29. The Quebec Superior Court rejected the Company's motion on June 21, 2017. With the continued support of its DIP Lender the Company filed an appeal with the Quebec Court of Appeal on July 19, 2017.

30. As of the date of this Report, Strateco has been operating materially within the cash flow projections filed with this honorable Court, and deviations therefrom have been immaterial in the context of the global financing agreement with the DIP Lender, and have been disclosed on an ongoing basis to the DIP Lender.

All of which is respectfully submitted this 15th day of August 2017.

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

Per:

Michel Marleau, CPA, CA, CIRP
Senior Vice President