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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

EIGHTEENTH REPORT OF THE MONITOR
April 21, 2020

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. On April 29, 2019, the Court extended Strateco's stay of proceedings, which was set to expire on April 30, 2019, for a further 12 months, to April 30, 2020, under the following circumstances:

   a) The appeal by Strateco of the June 21, 2017 decision of the Superior Court of the Province of Québec for the District of Québec (the "Superior Court, District of Québec") in the Matoush litigation matter ("Matoush Litigation") was to be heard by the Québec Court of Appeal ("QCA") on June 10 and 11, 2019. Accordingly, the Court extended the stay of proceedings to enable Strateco to participate in such appeal process; and,

   b) The Court further extended the stay beyond such court dates to provide the necessary time for the QCA to render its judgment, and to enable either party sufficient time to determine if a further appeal to the Supreme Court of Canada is to be filed, pursuant to the anticipated QCA ruling.

3. 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 for the semester from October 1, 2019 to March 31, 2020; and,

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

b) Update on the Matoush Litigation;

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

TERMS OF REFERENCE

5. 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-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.

6. 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.

7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. As operating results are reported in thousands of dollars, certain reported figures have been rounded and accordingly may not add specifically, with such rounding impacts being immaterial for purposes of this report.

STRATECO'S CASH FLOW STATEMENT

8. Pursuant to paragraph 9 of this honorable Court's Order of April 29, 2019 and section 23(1)(d)(ii) of the CCAA, the Monitor reports herein its findings with respect to the Applicant's actual cash flow results and updated financial projections covering the period ending August 31, 2020, being the proposed end date of the extended stay of proceedings.

9. Given the ongoing Matoush Litigation proceedings and the expiry of the current stay of proceedings on April 30, 2020, the Applicant has prepared the following information with the assistance of the Monitor:

a) Actual to budget cash flow results for the recent period of October 1, 2019 to March 31, 2020 (the "Q4-2019 & Q1-2020 Actual to Budget Results"), attached as Exhibit 1 to this Report, which is produced under confidential seal.

b) Actual to budget cumulative cash flow results for the period of April 1, 2019 to March 31, 2020 (the "Q2-2019 to Q1-2020 Actual to Budget Results"), as Exhibit 2 to this Report, which is also produced under confidential seal;

- Actual to budget cash flow results for the period of Q2-2019 to Q3-2019 were previously reported on separately to the Court by the Monitor in its 17th Report; and,

c) Additional cash flow projections (the "Cash Flow Statement"), for the period of April 1, 2020 to August 31, 2020 (the "Cash Flow Period"). A copy of the Cash Flow Statement is attached as Exhibit 3 to this Report, which is also produced under confidential seal.

Actual to Budgeted cash flows (semester of Q4-2019 & Q1-2020)

10. 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.

11. Actual to Budget Results for Q4-2019 & Q1-2020 yielded differences in both receipts and disbursements compared to budgeted amounts, for a net unfavourable cash variance of $58,000, which is principally attributable to multiple unfavourable variances, none of which are material in the context of the

current proceedings and whose funding was approved by the DIP Lender, as further described in this Report.

12. Overall, the Actual to Budget Results unfavourable variance of $58,000 for the period of Q4-2019 & Q1-2020 can be summarized as follows:

    a) Cash receipts were unfavourable to budget and were lower than forecast amounts by $1,000; and,

    b) Cash disbursements were unfavourable to budget by $57,000.

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

    a) Personnel staff costs were higher than budget by $10,000;

    b) Administration costs were higher than budget by $6,000;

    c) Restructuring professional fees were higher than budget by $33,000;

    d) Litigation costs were higher than budget by $4,000; and

    e) Mining claims related cost were greater than budget by $4,000.

14. These overall unfavourable 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 and related variances have also been approved by its DIP Lender on an ongoing basis.

15. The Monitor will continue its monitoring procedures and will report to the Court with respect thereto every semester as requested by this honorable Court in its April 29, 2019 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.

16. 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 monthly. 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.

<u>Actual to Budgeted cumulative 12-month cash flow results (Q2-2019 to Q1-2020)</u>

17. The Monitor reported to the Court in its 17th Report on an $18,000 favourable variance on Actual to Budget Results for the 6-month period of Q2-2019 & Q3-2019.

18. Such period represented the first 6 months of the 12-month cash flow projections submitted to the Court in April 2019, as Strateco sought a 12-month extension to its stay of proceedings, to April 30, 2020.

19. On a cumulative basis, including the most recent actual to budget operating results of Q4-2019 to Q1-2020 reported herein, Strateco's operating results have resulted $40,000 unfavourable variance on a cumulative basis.

20. Such cumulative unfavourable variances are also not material in the context of Strateco's overall financing facility secured with its DIP Lender to finance the Matoush Litigation. Such variances are for the most part the result of particular initiatives and requests made at the DIP Lender's request and were approved by the DIP Lender on an ongoing basis.

Projected Cash Flows

21. The Cash Flow Statement prepared by the Applicant for the period of April 1, 2020 to August 31, 2020 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 3 to this Report, under confidential seal.

22. This Cash Flow Statement assumes the continued financial support of the DIP Lender, as per the DIP financing approved by this honourable Court on October 23, 2015.

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

24. 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 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.

25. Based on the Monitor's review, nothing has come to its 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.

26. The Court will note that the Cash Flow Statement prepared by the Applicant provides for consistent and predictable payments throughout the Cash Flow Statement period due to the predictable nature of such ongoing payments which are principally represented by:

a) Strateco's ongoing administration costs, including Management's support to the Matoush Litigation as well as financial reporting functions, including to report to this honorable Court and to the DIP Lender;

b) the Matoush Litigation legal counsel's projected billings which are limited, for the current period, to disbursements exclusively based on the agreed upon fee structure negotiated between the parties;

c) the payment of professionals currently involved in these CCAA proceedings, including the Monitor, its legal counsel and the Applicant's CCAA counsel; and,

d) the Company has included an amount of $25,000 to initiate a sale process to dispose of its rights to the mining claims. Subject to the market interest in the claims, the Monitor will come back before this Court to seek any required approvals.

PROGRESS IN THE MATOUSH LITIGATION PROCEEDINGS

27. On June 21, 2017, the Superior Court, District of Québec issued its judgment whereby Strateco's damage claim totaling in excess of $192 million was dismissed. The Superior Court, District of Québec's judgment was 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.

28. On June 27, 2017, Strateco issued a press release advising of its intent to appeal the Superior Court, District of Québec's ruling. On July 19, 2017, Strateco filed its notice of appeal with the QCA. 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.

29. The parties' appeal factums were produced in October 2017 (for Strateco), December 2017 (for the Attorney-General of Quebec) and February 2018 (for the impleaded parties), respectively.

30. The QCA hearing was held in Quebec City on June 10, 2019, at which time the QCA took the matter under advisement.

31. On January 13, 2020, the QCA issued its judgment whereby Strateco's appeal was dismissed. This unfavorable judgment left Strateco with 60 days to file leave to appeal to the Supreme Court of Canada ("SCC"), should it choose to do so.

32. On March 13, 2020, Strateco filed for leave to appeal to the Supreme Court of Canada along with its reasons thereof. On April 6, 2020, the SCC issued a letter to Strateco's legal counsel confirming the acceptance of the filing and the SCC file number. Both the application seeking leave to appeal, and the SCC acknowledgment are filed as appendices to Strateco's April 14, 2020 court motion seeking an extension to the stay of proceedings, which has also been posted on the Monitor's website at www.ey.com/ca/strateco under the heading "Motion Material" and as such is available for consultation.

33. As of the date of this Report, no decision has been rendered by the SCC.

MONITOR REPORTING TO THE COURT UNDER THE CCAA

34. Since its 13th Report, the Monitor has reported to this Court the Applicant's actual cash flow results, compared to budgeted amounts, every semester, as required under section 23(1)(d)(ii) of the CCAA and as per the Court's rulings of October 27, 2017 and April 29, 2019. The Monitor proposes to continue such reporting frequency going forward unless the circumstances would require the Monitor to report to the Court sooner.

EXTENDED STAY OF PROCEEDINGS

35. The current stay of proceedings is scheduled to expire on April 30, 2020. The Monitor notes that in light of the current proposed motion, the cash flow projections could allow for the stay to be extended until August 31, 2020, considering the DIP lending facility currently in place.

36. Accordingly, the Monitor supports the extension of the stay until August 31, 2020 and the Monitor's reporting to the Court under section 23(1)(d) being extended to reporting to the Court every 6 months only, and upon issuing a report to the Court, if sooner.

CONCLUSION AND RECOMMENDATIONS

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

38. As of the date of this Report, Strateco has been operating materially within the cash flow projections filed with this honourable 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.

39. Strateco should be granted the benefit of an extended stay of proceedings up to August 31, 2020 under the CCAA to allow it to continue the Matoush Litigation in the Supreme Court of Canada. This litigation represents the principal asset available to fund and file a plan of arrangement in the best interest of all stakeholders. Such an extended stay of proceedings would not be prejudicial to the creditors of the Applicant.

40. The Monitor should be authorized to continue to report to this Court as to actual to budgeted cash flow results every 6 months hereinafter.

The Monitor is of the opinion that the documents in Exhibits 1, 2 and 3 should be filed under seal in order to ensure a level playing field between the litigants in the Matoush Litigation.

All of which is respectfully submitted this 21st day of April 2020.

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

Per:

Michel Marleau

Michel Marleau, CPA, CA, CIRP, LIT
Senior Vice President

SUPERIOR COURT
Commercial Division
District of Montréal
File No.: 500-11-048908-152

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE AND ARRANGEMENT OF :

STRATECO RESOURCES INC.

Debtor

-and-

ERNST & YOUNG INC.

Monitor

EIGHTEENTH REPORT OF THE MONITOR

Amount: $
Nature:
Code:

ORIGINAL

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