CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

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.

PROPOSED MONITOR

REPORT OF THE PROPOSED MONITOR DATED JUNE 8, 2015

INTRODUCTION

1. Ernst & Young Inc. ("**EY**" or the "**Proposed Monitor**") understands that Strateco Resources Inc. ("**Strateco**" or the "**Applicant**") will bring an application before the Court, seeking an initial order (the "**Proposed Initial Order**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). The Applicant will also request that this Court exercise its jurisdiction to extend a stay of proceedings and other relief as set out in the Proposed Initial Order to Strateco. The Applicant proposes that EY be appointed as Monitor in the CCAA proceedings.

2. This report (the "**Report**") has been prepared by the Proposed Monitor prior to and in contemplation of its appointment as Monitor in the CCAA proceedings to provide information to the Court for its consideration on the Applicants' initial CCAA application.

PURPOSE

3. The purpose of this Report is to provide the following information to this Court:
   a) The terms of reference and disclaimer for the Report;
   b) EY's qualifications to act as Monitor;
   c) Strateco's CCAA application
   d) Strateco's cash-flow projections for the 5 week period from June 8, 2015 to July 10, 2015;
   e) The financial charges proposed in the Proposed Initial Order;

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

f) The restructuring alternatives; and,

g) Conclusions and recommendations;

TERMS OF REFERENCE

4. In preparing this Report and making the comments herein, the Proposed 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 ("**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 Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed 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 ("**GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Proposed 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.

EY'S QUALIFICATIONS TO ACT AS MONITOR AND RETENTION

7. EY is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act* (Canada). Further, EY is not subject to any of the restrictions on who may be appointed as Monitor as set out in section 11.7(2) of the CCAA.

8. The Proposed Monitor has retained BLG LLP to act as its independent counsel.

9. EY, as Proposed Monitor, was first introduced to Strateco in April 2015 and was formally retained on or about May 21, 2015. Since it first became

involved with Strateco, EY has been provided with regular updates as to Strateco's activities including with respect to the Legal Proceedings (as defined in Strateco's Petition for the Issuance of an Initial Order dated June 8, 2015 (the "**Petition**")) and has more recently assisted in various aspects of the Applicant's preparation for its proposed filing. This involvement has enabled EY to form preliminary observations related to some of the relief which the Applicant seeks, which observations are set out below.

STRATECO'S CCAA APPLICATION

10. A comprehensive background with respect to Strateco including recent events leading up to the CCAA application and the Applicant's current state of affairs can be found in the Petition and is therefore not repeated herein. Capitalized terms used herein and not otherwise defined have the meaning given to them in the Petition.

11. Strateco previously operated a uranium exploration mining project in Northern Quebec, 275 kilometres North-East of Chibougamau and 200 kilometres North-East of the Cree community of Mistissini.

12. For the reasons set out in the Applicants' materials filed in connection with their CCAA application, Strateco seeks protection under the CCAA. The Proposed Monitor understands that the primary purpose and intent of these proceedings is to provide stability to Strateco while it proceeds with its litigation against the Quebec government, as set out in the Petition.

STRATECO'S CASH FLOW STATEMENT

13. Strateco, with the assistance of the Proposed Monitor, have prepared a 5 week cash flow projection (the "**Cash Flow Statement**") for the period from June 8, 2015 to July 10, 2015 (the "**Cash Flow Period**") for the purpose of projecting the estimated results of Strateco's planned operating activities during the Cash Flow Period. A copy of the Cash Flow Statement and Assumptions is attached as Exhibit A to this Report.

14. The Cash Flow Statement is presented on a weekly basis during the Cash Flow Period and represents Management's estimates of the projected cash flow during the Cash Flow 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**").

15. The Proposed 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 Proposed 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 Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed 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 Proposed 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. 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 assurance as to whether 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.

19. The Cash Flow Statement has been prepared solely for the purpose described in the notes accompanying the Cash Flow Statement and readers are cautioned that it may not be appropriate for other purposes.

20. The Strateco cash position at the commencement of the CCAA proceedings is estimated at approximately $250,000. The Strateco Cash Flow Statement estimates that during the Cash Flow Period, it will have total receipts of $40,000 and total disbursements of approximately $190,000 resulting in net cash outflow of approximately $150,000, and a closing cash balance of $100,000.

21. Further extended cash flows provided by Strateco demonstrate that unless the company can successfully obtain debtor-in-possession ("**DIP**") financing by early August 2015, it will have insufficient funding to continue its operations and Legal Proceedings.

22. The Company has initiated a process to secure such DIP financing and this Honourable Court will be advised in due course if and when such financing has been identified.

THE FINANCIAL CHARGES PROPOSED IN THE PETITION FOR AN INITIAL ORDER

23. As of the date of this Report, Strateco has established its likely requirements with respect to priority charges, as provided in the Petition, but has yet to seek approval thereof pending a full hearing being called by this Court where interested parties and secured creditors will have the opportunity to voice their comments.

24. Accordingly, the Proposed Monitor outlines herein the three proposed charges (collectively, the "**Charges**") that Strateco has exposed in its Petition, but reserves his conclusions and recommendations for a subsequent hearing.

Administration Charge

25. The Proposed Initial Order provides for a charge (the "**Administration Charge**") in favour of the Company's CCAA professionals, namely its litigation legal counsel in this matter, Irving Mitchell Kalichman ("**IMK**"), its CCAA legal advisor, Stikeman Elliott, the proposed CCAA Monitor, Ernst & Young Inc., and its legal counsel BLG;

26. 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 making of the Initial Order in respect of these proceedings;

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

Directors' Charge

28. The Proposed Initial Order provides for an indemnity in favour of Strateco's directors and officers ("**D&O**") for any obligations or liabilities that they may incur or be brought against them as D&O 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 D&O's gross negligence or wilful misconduct.

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

30. 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.

31. In addition, the Company advises that its employee payroll and vacation obligations have been fully satisfied 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 Company has only one remaining employee on payroll, which further limits the D&O's potential liability

with respect to payroll related obligations.

32. The Company'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 dismantlement in 2014, the whole as further outlined in the Petition.

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

34. The proposed indemnification is to be secured by a charge in an amount a $2.5 million (the "**Directors' Charge**"). The proposed Directors' Charge would apply only to the extent that a claim is initiated and the D&O do not have coverage under its applicable insurance policies.

The Debtor in Possession charge

35. Based on the Company's current financial projections for the 13 week period ended August 31, 2015, it is estimated that it will have exhausted its cash resources required to fund ongoing obligations and the costs of its Legal Proceedings by early August 2015.

36. As such, the Company will likely be unable to realize the value of its principal asset and prepare any form of restructuring, unless it is able to secure the necessary interim funding to pursue these Legal Proceedings.

37. In order to remediate this situation, the Company recently initiated discussions with certain of its creditors, shareholders and other parties known to provide interim financing in such situations, in order to secure sufficient financing that it deems would be required to permit the Company to honour its ongoing financial obligations and to fund the legal and professional fees necessary to bring the Legal Proceedings to a conclusion;

38. While the Company has yet to secure such interim financing, it is deemed most likely that any such funding that Strateco might secure will likely require the creation of an interim financing charge (a "**DIP Charge**") in favour of such lender, considering that Strateco has no material unencumbered asset that it can pledge in favour of such a lender.

39. As of the date of this Report, the process to secure a DIP financing has been initiated and discussions held with various parties, but this process has not yet been completed.

40. The Proposed Monitor is kept abreast of the Company's research and efforts to secure a DIP financing and will periodically report to this Court with respect to related developments.

RESTRUCTURING ALTERNATIVES

41. At this stage, Strateco expects that its financial difficulties can only be resolved through the successful completion of the Legal Proceedings that would yield cash proceeds to enable it to file a formal plan of arrangement.

42. Considering Strateco's limited cash resources as of the date of this Report, it is not possible for it to unveil any restructuring strategy at this time.

43. Once the Legal Proceedings have been brought to a conclusion Strateco expects to be able to update this Court on its restructuring alternatives.

44. Based on the discussions held so far, EY has no reason to question Strateco's good faith in initiating the present proceedings under the CCAA.

CONCLUSION AND RECOMMENDATIONS

45. The Proposed Monitor has reviewed Strateco's filing materials and has consented to act as the Monitor of Strateco should the Court see fit to grant the relief sought by the Applicant.

46. The Proposed Monitor believes that Strateco should be granted the benefit of protection provided 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.

47. The Proposed Monitor further believes that Strateco requires significant additional financing during the pendency of the restructuring proceedings to enable it to bring such Legal Proceedings to a conclusion.

48. Further to EY's review of the Proposed Initial Order and related priority charges, EY will report on the reasonability of such charges upon them being submitted to this Honourable Court for approval at a later hearing.

All of which is respectfully submitted this 8th day of June 2015.

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

Per:

Michel Marleau

Michel Marleau, CPA, CA, CIRP
Senior Vice President

Exhibit A

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 8th day of June, 2015, consisting of a statement of cash-flow forecast for the 5 weeks ending July 10, 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 8th 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 8-12	June 15-19	June 22-26	July 29-3	July 6-10
Cash Inflows						
Selling - Shares	40	8	8	8	8	8
Total Cash Inflows	40	8	8	8	8	8
Cash Outflows						
Administration - Personnel costs	62	10	20	7	0	25
Administration - Corporate and financial overheads	40	5	4	20	9	2
Qc. Gouv. Litigation - Professional fees	0	0	0	0	0	0
CCAA - Professional fees	88	0	43	0	45	0
Matoush project fees	0	0	0	0	0	0
Total Cash Outflows	190	15	67	27	54	27
NET CASH FLOW	**-150**	**-7**	**-59**	**-19**	**-46**	**-19**
Bank balance - beginning	250	250	243	184	165	119
Bank balance - ending before proposed financing	**100**	**243**	**184**	**165**	**119**	**100**
Proposed financing						
DIP financing	0	0	0	0	0	0
Bank balance after the financing	**100**	**243**	**184**	**165**	**119**	**100**

PROBABLE AND HYPOTHETICAL ASSUMPTIONS TO THE PROJECTED STATEMENT OF CASH FLOW
For the 5 weeks ending July 10, 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 8, 2015 to July 10, 2015.

   The significant probable and hypothetical 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 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.