Court File No. CV-17-580840-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF INDEX ENERGY MILLS ROAD CORPORATION

Applicant

FIRST REPORT OF THE MONITOR

SEPTEMBER 6, 2017

GrantThornton

Grant Thornton Limited,
Proposed Monitor of the Applicant
under the *Companies' Creditors Arrangement Act*

200 King Street West, 11th Floor
Toronto, Ontario, M5H 3T4

TABLE OF CONTENTS

APPENDICES

Appendix 1	Monitor’s Pre-Filing Report dated August 15, 2017
Appendix 2	The Affidavit of Derek Blais sworn September 1, 2017
Appendix 3	SISP Solicitation Letter and NDA
Appendix 4	Letter from Counsel to HMI Construction Inc. dated September 5, 2017
Appendix 5	Cash Flow Projection from September 2, 2017 to December 31, 2017
Appendix 6	Pre-Filing Cash Flow Projection Comparison

Court File No. CV-17-580840-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF INDEX ENERGY MILLS ROAD CORPORATION

Applicant

FIRST REPORT OF THE MONITOR

SEPTEMBER 6, 2017

INTRODUCTION

1. On August 16, 2017, Index Energy Mills Road Corporation (the "**Applicant**" or "**Index Energy Ajax**") made an application to the Ontario Superior Court of Justice (Commercial List) (the "**Court**") to commence proceedings under the *Companies' Creditors Arrangement Act* (the "**CCAA Proceedings**"). On that day, the Court issued an Order (the "**Initial Order**") granting the Applicant's requested relief and appointing Grant Thornton Limited ("**GTL**") as monitor (the "**Monitor**") in the CCAA Proceedings.

2. The Initial Order, among other things:

   (a) granted a stay of proceedings in favour of Index Energy Ajax until and including September 15, 2017, or such later date as the Court may order (the "**Stay Period**"); and

(b) authorized Index Energy Ajax to borrow the maximum sum of $5,000,000 pursuant to a credit facility (the "**DIP Facility**") as interim financing from Index Equity US LLC ("**Index US**", and, in this capacity, the "**DIP Lender**") with a maximum amount of $1,600,000 permitted to be borrowed under the DIP Facility prior to the approval of a SISP acceptable to the Agent or further order of the Court.

3. The affidavit of Mr. Rickard Haraldsson, a director of Index Energy Ajax and Index Equity Sweden AB, the parent company of Index Energy Sweden AB ("**Index Sweden**"), a majority shareholder of the Applicant, sworn on August 15, 2017 (the "**Haraldsson Affidavit**") and filed in connection with the CCAA Proceedings, describes, *inter alia*, the Applicant's background, including the reasons for the requested CCAA Proceedings.

4. In its capacity as proposed monitor, GTL filed a report with the Court dated August 15, 2017 (the "**Pre-Filing Report**"), which provided information on certain aspects of the Applicant's requested relief and the proposed Initial Order. A copy of the Pre-Filing Report, without appendices, is attached hereto as **Appendix "1"**.

5. The Initial Order, the endorsement of Regional Senior Justice G.B. Morawetz released August 23, 2017, the Haraldsson Affidavit, the Pre-Filing Report, and all other materials filed with the Court in the CCAA Proceedings are accessible on the Monitor's website at: www.GrantThornton.ca/IndexEnergy (the "**Monitor's Website**").

PURPOSE OF THE FIRST REPORT

6. The purpose of this First Report of the Monitor (the "**First Report**") is to advise the Court with respect to:

(a) the Monitor's activities since its appointment (the "**Activities Report**");

(b) the Applicant’s operations, communications with stakeholders, and other activities conducted since the issuance of the Initial Order;

(c) a description of the proposed sale and investment solicitation process (the “**SISP**”); and

(d) Index Energy Ajax’s motion (the “**Extension and SISP Approval Motion**”) to seek Orders, *inter alia*:

(i) extending the Stay Period to and including December 22, 2017;

(ii) authorizing and empowering Index Energy Ajax to obtain and borrow up to a maximum principal amount of $5,000,000 pursuant to the DIP Facility;

(i) approving this First Report and the Monitor’s activities as described in this First Report;

(ii) approving the SISP and the Stalking Horse Agreement (defined below); and

(iii) approving the Escrow Agreement (defined below) and extending the protections of the Monitor contained in the Initial Order to the Escrow Agent (defined below).

SCOPE AND TERMS OF REFERENCE

7. In preparing this First Report, the Monitor has relied upon unaudited financial information, the Applicant’s records, financial information and projections, and discussions with the Applicant’s current and past management (the “**Management**”), including Joseph Aletto (Chief Executive Officer), Derek Blais (President), Gordon Kerr

(previous President), Raymond Habets (previous Secretary), and Russell Kerr (previous Vice-President). While the Monitor reviewed various documents provided by the Applicant (including, among other things, unaudited internal financial statements and financial projections) and believes that the information therein provides a fair summary of the transactions as reflected in the documents, such work does not constitute an audit or verification of such information for accuracy, completeness or compliance with Generally Accepted Assurance Standards ("**GAAS**"), Generally Accepted Accounting Principles ("**GAAP**"), or International Financial Reporting Standards ("**IFRS**"). Accordingly, the Monitor expresses no opinion or other form of assurance pursuant to GAAS, GAAP or IFRS with respect to such information.

8. Some of the information used in preparing this First Report consists of financial projections, including the Cash Flow Projection (as defined herein). The Monitor cautions that these projections are based upon assumptions about future events and conditions that are not ascertainable. The Applicant's actual results may vary from the Cash Flow Projection, even if the hypothetical and probable assumptions set forth in the Cash Flow Projection contained therein materialize, and the variations could be significant. The Monitor's review of the future oriented information used to prepare this First Report did not constitute an audit of such information under Generally Accepted Auditing Standards, GAAP or IFRS.

9. In the course of its mandate, the Monitor has assumed the integrity and truthfulness of the information and explanations presented to it by the Applicant and its Management, within the context in which such information was presented. To date, nothing has come to the Monitor's attention that would cause it to question the reasonableness of these assumptions. The Monitor has requested that Management bring to its attention any

significant matters which were not addressed in the course of the Monitor's specific inquiries. Accordingly, the Monitor has relied upon the information (financial or otherwise) made available to the Monitor by the Applicant and its Management in connection with the preparation of this First Report.

10. This Report has been prepared for the use of this Court and the Applicant's stakeholders as general information relating to the Applicant and to assist the Court in determining whether to grant the relief sought by the Applicant. Accordingly, the reader is cautioned that this Report may not be appropriate for any other purpose. The Monitor will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this First Report contrary to the provisions of this paragraph.

11. Capitalized terms not defined in this First Report have the meanings ascribed to them in the Haraldsson Affidavit, or the affidavit of Mr. Derek Blais sworn on September 1, 2017 (the "**Blais Affidavit**"). The Blais Affidavit, without exhibits, is attached hereto as **Appendix "2"**.

12. All references to dollars are in Canadian currency unless otherwise noted.

ACTIVITIES OF THE MONITOR

13. Pursuant to the Initial Order, the following notices have been posted on the Monitor's Website and/or sent to the Applicant's stakeholders since the date of the Initial Order:

    (a) On August 16, 2017, the Monitor posted a copy of the Pre-Filing Report, the Initial Order, the Haraldsson Affidavit, and other application materials filed by the Applicant on the Monitor's Website;

(b) On August 17, 2017, the Monitor placed on the Monitor's Website a copy of the Service List as required by the Initial Order which has been updated regularly;

(c) On August 18, 2017, the Monitor mailed a notice of the CCAA Proceedings to every creditor appearing in the Applicant's books and records with a balance greater than $1,000 as at the date of the Initial Order, this notice was subsequently placed on the Monitor's Website;

(d) On August 21, 2017, the Monitor posted a listing of all creditors, with their respective addresses and amounts owing as at the date of the Initial Order;

(e) On August 23, 2017, the Monitor posted the endorsement of Regional Senior Justice G.B. Morawetz dated August 23, 2017; and

(f) On September 5, 2017, the Monitor posted the Applicant's motion record returnable September 11, 2017, including among other things, the Blais Affidavit.

14. On August 18, 2017, to fulfill the requirements of 23(1)(f) of the CCAA, the Monitor filed with the Superintendent of Bankruptcy, the prescribed documents outlined in the CCAA Regulations.

15. Pursuant to the Initial Order, the Monitor placed notices regarding the CCAA Proceedings in *The Globe and Mail* (National Edition) on August 22, 2017 and August 29, 2017.

16. In addition to the above, the Monitor's activities since the date of the Initial Order have included, among other things:

(a) corresponding and meeting with the Applicant, their management, and their legal counsel;

(b) corresponding and meeting with the Monitor's legal counsel, Goodmans LLP;

(c) reviewing the receipts and disbursements of the Applicant in accordance with the Initial Order;

(d) comparing the actual receipts and disbursements to the Pre-Filing Cash Flow Projection (as defined herein) and documenting reasons for variances, if any;

(e) assisting the Applicant to revise the Cash Flow Projection;

(f) corresponding with certain of the Applicant's unsecured creditors and other stakeholders;

(g) communications with the Applicant's creditors, suppliers and other stakeholders;

(h) reviewing all materials filed with the Court in respect of the CCAA Proceedings;

(i) maintaining the Monitor's Website as required;

(j) assisting with the preparation and negotiation of the proposed SISP, including the Stalking Horse Agreement, the Escrow Agreement and materials required for the proposed SISP as outlined in detail later in this First Report;

(k) working with the Applicant, the Applicant's legal counsel and the Monitor's legal counsel in connection with the Extension and SISP Approval Motion; and

(l) preparing this First Report.

ACTIVITIES OF THE APPLICANT

17. Since the date of the Initial Order, the Applicant's activities have included, among other things:

(a) operating the Biomass Facility;

(b) continuing its efforts to improve the operations of the Biomass Facility;

(c) communicating with various stakeholders and creditors regarding the CCAA Proceedings, in consultation with the Monitor;

(d) corresponding with its legal counsel and the Monitor;

(e) making payments to vendors as contemplated by the Pre-Filing Cash Flow Projection (as defined herein) filed with the Applicant's application materials in support of the Initial Order;

(f) ongoing communications with certain creditors and/or their advisors;

(g) reporting to the Monitor on a weekly basis in respect of the Applicant's receipts and disbursements;

(h) working with its legal counsel, the Monitor, the Agent, the Stalking Horse Purchaser and their advisors to develop and negotiate the proposed SISP;

(i) working with the Monitor in preparing the Cash Flow Projection (as defined herein) to December 31, 2017;

(j) providing notice to the IESO with respect to the FIT Contract and advising them of the CCAA Proceedings; and

(k) with the assistance of the Monitor, distributing notices and frequently asked questions to all employees as well as every known creditor.

THE DIP ADVANCE

18. Although the Initial Order permitted Index Energy Ajax to obtain up to a maximum of $5,000,000 (the "**Principal Amount**"), a maximum amount of $1,600,000 (the "**Initial Advance**") was permitted to be advanced prior to the approval of a SISP acceptable to the Agent, or a further order of the Court.

19. Consistent with the provisions of the DIP Facility and the Initial Order, Index Energy Ajax requested the Initial Advance which was subsequently received on August 18, 2017.

20. If the proposed SISP is approved by the Court, the conditions under the Initial Order for an advance of the full Principal Amount will have been met and therefore, Index Energy Ajax is seeking authority to obtain and borrow up to the maximum Principal Amount pursuant to the DIP Credit Agreement.

21. As discussed below, the Monitor understands that the SISP is acceptable to the Agent (as well as its counsel and financial advisor) and the Stalking Horse Purchaser (as defined and discussed herein). The Monitor therefore supports the Applicant's request to obtain the full Principal Amount of the DIP Facility.

PROPOSED SALE AND INVESTMENT SOLICITATION PROCESS

22. At the commencement of the CCAA Proceedings, the Applicant advised that it intended to return to court to seek approval of a SISP. As set out in the Blais Affidavit, the Applicant seeks approval of a SISP which was developed in consultation with the Monitor and the Agent to solicit offers from Bidders (defined below) on an "as is, where

is” basis to purchase the Property of Index Energy Ajax (a “**Sale Proposal**”) and/or make an investment in the business of Index Energy Ajax (an “**Investment Proposal**”) which is superior to the offer contemplated in the Stalking Horse Agreement (the “**Opportunity**”). A copy of the SISP is attached as Exhibit “D” to the Blais Affidavit. A summary of relevant terms of the SISP is set out below:

(a) The SISP is supported by a stalking horse bid submitted by Index Residence AB (Publ) (in such capacity, the “**Stalking Horse Purchaser**”) in the form of an asset purchase agreement entered into between Index Energy Ajax and the Stalking Horse Purchaser dated as of September 1, 2017 (the “**Stalking Horse Agreement**”), a copy of which is attached as Exhibit “E” to the Blais Affidavit with Schedule 7.6(a), being a listing of employee names and positions, redacted.

(b) Given that the Stalking Horse Purchaser is a related party to Index Energy Ajax, it is contemplated that the SISP will be carried out by the Monitor with the cooperation of, and in consultation with, the Applicant and the Agent. The Monitor is qualified to administer the proposed SISP for the following reasons:

   (i) the Monitor has considerable experience conducting a SISP and will utilize the expertise of its corporate finance professionals, as necessary, in carrying out its duties as outlined in the SISP;

   (ii) the Monitor has extensive contacts in the industry who it will ensure are made aware of the SISP;

   (iii) if a party other than the Monitor was engaged to run the SISP, the Monitor would be required to maintain oversight of the third party, thus duplicating certain efforts and costs;

(iv) the proposed SISP has been designed to be a thorough and efficient process which will reduce professional fees associated with administering same, if it is administered by the Monitor; and

(v) the Monitor will not charge a success fee, but instead will charge its standard hourly rates based on actual hours spent.

(c) The proposed SISP sets out, among other things:

(i) the manner in which the Opportunity will be made available to interested parties;

(ii) the manner in which a Known Potential Bidder (as defined below) may gain access to due diligence materials;

(iii) the manner in which Known Potential Bidders become Bidders and submit Bids (both as defined herein);

(iv) the manner in which Bidders become Qualified Bidders (as defined below), if any;

(v) if necessary, the Auction (as defined below) process; and

(vi) the process for applying for the Court's approval of an agreement of purchase and sale and/or investment agreement, if any.

<u>Identification of Known Potential Bidders and Solicitation of Interest</u>

23. The Monitor, in consultation with the Applicant and the Agent, has prepared a list of potential bidders including: (i) parties that have approached the Applicant or the Monitor indicating an interest in the Opportunity, and (ii) local and international strategic and

financial parties who the Monitor, in consultation with the Applicant and the Agent, believe may be interested in the Opportunity (collectively, "**Known Potential Bidders**").

24. The SISP will be advertised in *The Globe and Mail* (National Edition) and any other newspapers and/or publications, as the Monitor, in consultation with the Applicant, considers appropriate.

25. The Monitor, in consultation with the Applicant, has prepared: (i) a form of solicitation letter summarizing the Opportunity, the SISP, and soliciting parties to express their interest in same (the "**Solicitation Letter**"); and (ii) a form of non-disclosure agreement (the "**NDA**") to be executed for further participation in the SISP. The Solicitation Letter and the NDA substantially in the forms that will be provided to Known Potential Bidders are both attached hereto as **Appendix "3"**.

<u>Selection of Bidders</u>

26. Any Known Potential Bidder who wishes to participate in the SISP (an "**Interested Party**") must provide the Monitor with:

   (a) an executed NDA with a letter setting forth the identify, contact information, and disclosure of the direct and indirect principals of the Interested party;

   (b) an acknowledgement of the SISP (in the form outlined in Schedule "A" included in the SISP); and

   (c) such financial disclosure and credit quality support or enhancement that allows the Monitor to make a reasonable determination as to the Interested Party's financial and other capabilities to consummate a Sale Proposal or Investment Proposal, as applicable.

27. If the Monitor is satisfied with the above noted documentation provided by the Interested Party, such party will be deemed to be a "**Bidder**" and will be provided with:

(a) a confidential information memorandum ("**CIM**"), prepared by the Monitor, in consultation with Index Energy Ajax, describing in greater detail, the SISP and the Opportunity; and

(b) access to an electronic data room (the "**Data Room**"), containing confidential information to perform due diligence in addition to a template asset purchase agreement ("**APA**") and investment agreement ("**IA**").

<u>Submission of Final Bids and Selection of Qualified Bidders</u>

28. Bidders that wish to submit a Sale Proposal or an Investment Proposal must submit such an offer to the Monitor in the form of a duly authorized and executed APA or IA, with any changes disclosed in a comparison against the APA or IA (a "**Final Bid**"). The SISP contemplates a ten week marketing and diligence period, with the deadline for submission of the Final Bids to the Monitor of not later than 5:00 PM, Eastern Standard Time on November 21, 2017 or as such date may be modified by the Monitor, in consultation with and with the approval of the Agent (the "**Bid Deadline**") and include the Final Bid Criteria (as defined in the SISP).

29. Final Bids must, among other things, (i) be submitted in the form of an executed APA or IA, (ii) be binding, and irrevocable until the earlier of 30 days following the Bid Deadline and approval of the Court of the Accepted Bid (as defined below); (iii) be accompanied by a refundable deposit in the amount of 10% of the purchase price or investment amount contemplated by the bid, to be held by the Monitor; (iv) contemplate closing the transaction by no later than January 12, 2018 (the "**Closing Date Deadline**"), and (v)

provide for the payment of the Expense Reimbursement and Transaction Fee (as defined below) to the Stalking Horse Purchaser.

30. Following the Bid Deadline, the Monitor, in consultation with the Agent, will determine if each Final Bid satisfies the criteria in the SISP in order to constitute a "**Qualified Bid**" and notify the Bidder of such determination on or before November 24, 2017. In order to constitute a Qualified Bid, a Final Bid must, among other things, provide value to the creditors and other stakeholders of the Debtor that is equal to or greater than the Value of the Stalking Horse Agreement, which is defined in the SISP as to the sum of:

(a) $20,000,000, plus

(b) the amount outstanding under the DIP Facility (assumed for the purposes of the SISP to be $5,000,000) at the closing date under the Stalking Horse Agreement (the "**SH Transaction Closing Date**"), plus

(c) the amount outstanding under the Administration Charge and the Directors' Charge as at the SH Transaction Closing Date, plus

(d) the amount (assumed for the purposes of the SISP to be $nil) of any indebtedness secured by a lien or charge against the Debtor's property which ranks in priority to the debts outstanding under the Syndicate Credit Agreement (the "**Syndicate Debt**"),

(the "**Minimum Bid Amount**").

31. The Stalking Horse Agreement is deemed to constitute a Qualified Bid pursuant to the SISP.

Selection of Successful Bid

32. If one or more Qualified Bids is received by the Bid Deadline or so designated by the Monitor, all such Bidders (each a "**Qualified Bidder")** and the Stalking Horse Purchaser shall be invited to an auction to identify the Successful Bidder and the Accepted Bid (both as defined in the SISP) to be conducted by the Monitor on November 28, 2017 (the "**Auction**"). The Auction Procedures (as defined and set out in Schedule "C" of the SISP) provide that the Auction will be conducted in one or more rounds during which Qualified Bidders may increase their Qualified Bids in minimum increments of $200,000.

33. The Accepted Bid will either be (i) the Stalking Horse Agreement if no other Qualified Bid is received by the Bid Deadline, or (ii) the highest and best bid as determined by the Monitor, in its reasonable business judgment, after consultation with its advisors and the Agent. If an Auction is conducted, the next highest or otherwise best Qualified Bid after the Accepted Bid will be designated as a backup bid and must remain open and irrevocable until the closing of the transaction contemplated by the Accepted Bid.

34. Within 7 days of the selection of the Accepted Bid, the Applicant shall file a motion with the Court seeking approval of the Accepted Bid

35. The following chart summarizes the relevant milestones for the proposed SISP:

Milestone	**Approximate Date**
Commencement of SISP	September 12, 2017
Solicitation Letter Distribution	September 12, 2017
Bid Deadline	November 21, 2017
Selection of a Qualified Bid(s)	November 24, 2017
Auction (if required)	November 28, 2017
Closing Date Deadline	January 12, 2018

The dates set out in the SISP may be extended by the Monitor, with the consent of the Agent, or by order of the Court.

36. The SISP was developed by way of negotiations among the Applicant, the Agent, the Stalking Horse Purchaser and their respective legal advisors. The Monitor and its legal counsel were also involved in discussions regarding the SISP. The SISP and its timeline are supported by the aforementioned parties and were developed to balance the time required to administer a commercially reasonable sale and investment process with the available financial resources of the Applicant. The Monitor believes that the SISP provides for a process that is reasonable in the circumstances.

37. On the evening of September 5, 2017, the Monitor received a letter from counsel to HMI Construction Inc., a party of interest in these proceedings and the holder of the HMI Lien Claim, regarding the SISP and the Stalking Horse Agreement. A copy of this letter is attached as **Appendix "4"**. The Monitor is currently considering its response to this letter.

THE STALKING HORSE AGREEMENT

38. The SISP provides for the inclusion of the Stalking Horse Agreement, which contemplates a transaction (the "**SH Transaction**") involving the sale of substantially all of the assets of the Applicant to the Stalking Horse Purchaser, unless a higher or better offer is received in accordance with the SISP. The Stalking Horse Agreement will act as a "floor" bid in the SISP. The following is a summary only of certain elements of the Stalking Horse Agreement and reference should be made to the Stalking Horse Agreement itself for the full terms and conditions thereof. Defined terms used in this section and not otherwise defined have the meaning ascribed to them in the Stalking Horse Agreement. The main components of the Stalking Horse Agreement are described below.

SH Transaction and Purchase Price

39. The Stalking Horse Purchaser will acquire substantially all of the Applicant's assets and business and assume certain of the Applicant's liabilities on an "as is, where is" basis.

40. The purchase price (the "**Purchase Price**") to be paid by the Stalking Horse under the Stalking Horse Agreement consists of:

    (a) $20 million in cash ($10 million of which shall be satisfied by the Escrow Funds (defined below));

    (b) amounts outstanding under the DIP Facility on SH Transaction Closing Date;

    (c) amounts in respect of the Administration Charge or the Directors' Charge (each as defined in the Initial Order) outstanding on the SH Transaction Closing Date;

(d) amounts secured by any encumbrances (other than Permitted Encumbrances) which rank in priority to the Syndicate Debt; and

(e) the assumption of the Assumed Liabilities other than the DIP Facility (described below).

41. While the Stalking Horse Agreement contemplates that the assumption of certain debt that is subordinate to the Syndicate Debt will comprise part of the Purchase Price, for purposes of the SISP, the Minimum Bid Amount only includes the cash portion of the Purchase Price and the assumption of amounts outstanding under the DIP Facility, being items (a) through (d) above.

Assumption of Liabilities

42. The Stalking Horse Purchase will assume the Assumed Liabilities, which include trade obligations, accrued expenses, liabilities under assumed contracts, the amounts outstanding under the DIP Facility on SH Transaction Closing Date and the amounts owing by the Applicant to Index Residence pursuant to the Index Residence Credit Agreement.

43. The Stalking Horse Purchaser will not assume responsibility for the Excluded Liabilities, which include certain intercompany debts, claims against the Applicant for infringements of intellectual property rights, claims related to the Excluded Assets, the Syndicate Debt, the liabilities associated with the HMI Lien, certain tax liabilities and certain other liabilities in connection with the conduct of the Applicant's business or in respect of any environmental conditions existing prior to the SH Transaction Closing Date.

Conditions to Closing and Termination

44. Key conditions to closing under the Stalking Horse Agreement include:

(a) the Stalking Horse Purchaser being selected as the Successful Bidder under the SISP;

(b) the Court granting an approval and vesting order in respect of the SH Transaction, vesting all of the Purchased Assets in the Stalking Horse Purchaser free and clear of all encumbrances (other than Permitted Encumbrances) on the Stalking Horse Closing Date;

(c) the approval of the IESO to the assignment to the Stalking Horse Purchaser of the FIT Contract; and

(d) that no Material Adverse Change has occurred.

45. The Stalking Horse Agreement may not be terminated by the Stalking Horse Purchaser unless:

(a) certain termination rights arise, including mutual agreement of the Applicant and the Stalking Horse Purchaser with the consent of the Monitor, the entry of a final order prohibiting the SH Transaction, the material breach of the Applicant under the Stalking Horse Agreement and the failure of IESO to provide its consent to the assignment of the FIT Contract by February 28, 2018,

(b) the closing of another transaction for the purchase of the Biomass Facility with a party other than the Stalking Horse Purchase pursuant to the SISP has occurred (an “**Alternate Transaction**”), or

(c) the date that is the latest of the following has occurred: (A) the closing of the Syndicate Debt Purchase Offer (as defined below), (B) the Agent has delivered notice of its election not to accept the Syndicate Debt Purchase Offer.

<u>Expense Reimbursement and Transaction Fee</u>

46. The Stalking Horse Agreement contemplates certain protections in favour of the Stalking Horse Purchaser, in consideration for its acting as the stalking horse in the SISP. These protections include an entitlement to reimbursement for its expenses and a transaction fee in an aggregate amount of $300,000 (the "**Expense Reimbursement and Transaction Fee**") in the event that the Stalking Horse Purchaser is not the Successful Bidder in the SISP. The amount of the Expense Reimbursement and Transaction Fee was actively negotiated between the Stalking Horse Purchaser and the Agent.

47. The Monitor believes that the Expense Reimbursement and Transaction Fee is on the lower end of the range of break fees typical for this type of transaction and is reasonable in the circumstances.

ESCROW AGREEMENT

48. As a condition of the Syndicate's support for the proposed SISP, the Agent, Index Energy Ajax, the Stalking Horse Purchaser and the Monitor, as escrow agent (in such capacity, the "**Escrow Agent**") have also entered into an escrow agreement dated September 1, 2017 (the "**Escrow Agreement**"), a copy of which, with certain commercially sensitive information redacted, is attached as Exhibit "F" to the Blais Affidavit. Pursuant to the Escrow Agreement, the Stalking Horse Bidder has agreed to deposit $10 million (the "**Escrow Funds**") with the Monitor in its capacity as Escrow Agent.

49. In accordance with the Escrow Agreement:

(a) in the event that the Stalking Horse Purchaser is selected as the Successful Bidder in the SISP, the Escrow Funds will be applied to satisfy a portion of the purchase price contemplated by the Stalking Horse Agreement; and

(b) in the event that the Applicant completes an Alternate Transaction, the Escrow Funds will be released to the Stalking Horse Purchaser (subject to certain funds which may be remitted to the Agent in the event that the purchase price of the Alternative Transaction is below an agreed threshold).

50. The Escrow Agreement also provides that, in the event that a sale transaction for the assets of the Applicant has not closed by February 28, 2018, the Stalking Horse Purchaser is required to make an offer to the Syndicate to purchase the Syndicate Debt (the "**Syndicate Debt Purchase Offer**"). In the event that the Syndicate accepts the Syndicate Debt Purchase Offer, the Escrow Funds will be applied towards the purchase price of the Syndicate Debt.

EXTENSION OF THE STAY PERIOD

51. The Initial Order granted a stay of proceedings against the Applicant up to and including September 15, 2017.

52. The Applicant seeks an extension of the stay period to and including December 22, 2017 to allow Index Energy Ajax to: (i) continue to operate the Biomass Facility, and; (ii) assist the Monitor in administering the proposed SISP.

53. The Monitor is of the view that an extension of the Stay Period is appropriate for the following reasons, among others:

(a) Management has continued to operate the Biomass Facility and has focused its efforts on improving the operations of same;

(b) Management continues to seek further supply of Wood Fuel in order to increase the maximum capacity output of the Biomass Facility;

(c) the Applicant has assisted in developing the proposed SISP and the Monitor requires time to administer same in accordance with the SISP; and

(d) the Applicant continues to operate in good faith and with due diligence since the date of the Initial Order.

54. A stay of proceedings is necessary to allow the Applicant to maintain their business and to allow the proposed SISP to be conducted in a stabilized environment.

CASH FLOW PROJECTION

55. The Applicant has prepared a revised cash flow projection, on a weekly basis, from September 2, 2017 to December 31, 2017 (the "**Cash Flow Period**") (the "**Cash Flow Projection**"). The Cash Flow Projection is attached to this First Report as **Appendix "5"**. The Cash Flow Projection has been prepared by Management using probable and hypothetical assumptions set out therein (the "**Probable and Hypothetical Assumptions**").

56. The Proposed Monitor has reviewed the Cash Flow Projection to the standard required of a Court-appointed Monitor by s. 23(1)(b) of the CCAA. The Proposed Monitor's review of the Cash Flow Projection consisted of inquiries, analytical procedures, and discussions related to information supplied to the Proposed Monitor by management and employees of the Applicant. Since the Probable and Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to same were limited to

evaluating whether they were consistent with the purpose of the Cash Flow Projection. The Proposed Monitor has also reviewed the support provided by management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Cash Flow Projection. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:

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

(b) as at the date of this Report, the Probable and Hypothetical Assumptions developed by management are not suitably supported and consistent with the Applicant's plans or do not provide a reasonable basis for the Cash Flow Projection, given the Probable and Hypothetical Assumptions; or

(c) the Cash Flow Projection does not reflect the Probable and Hypothetical Assumptions.

Monitor's Comments

57. The Monitor recognizes that the Applicant has made the following material adjustments from the cash flow projection filed with the Pre-Filing Report ("**Pre-Filing Cash Flow Projection**"):

(a) receipts to be collected during the week ending September 29, 2017 have been decreased to $880,291 from an initially forecasted amount of $998,775 based on the actual production results for August 1, 2017 to August 31, 2017;

(b) the expected disbursement during the week ending September 22, 2017 for Critical Supplier payments has been decreased from $440,000 to $200,000 as only a few suppliers have claimed Critical Supplier status and the Monitor is assessing these requests;

(c) cumulative bi-weekly payroll and source deductions have been increased to $125,500 from $118,918 as the source deduction payments are greater than previously forecasted; and

(d) disbursements in relation to Joseph Aletto (Chief Executive Officer), paid as a contractor, were not included in the Pre-Filing Cash Flow Projection. These have now been included under “Consulting”.

58. The Cash Flow Projection estimates that during the Cash Flow Period, the Applicant is projecting total receipts of $3,785,476 (excluding DIP Facility advances), total operating disbursements of $5,319,406 (excluding interest and professional fees), and total disbursements of $8,457,118.

PERFORMANCE COMPARED TO PRE-FILING CASH FLOW

59. In accordance with the Initial Order, the Monitor has reviewed the Applicant’s receipts and disbursements since the date of the Initial Order.

60. The Applicant has remained current in respect of their obligations that have arisen since the issuance of the Initial Order.

61. A comparison of Index Energy Ajax’s receipts and disbursements compared to the Pre-Filing Cash Flow Projection, with commentary, is attached to this First Report as **Appendix “6”**.

Monitor's Comments

62. The Monitor recognizes the following material variances in expected receipts and disbursements outlined in the Pre-Filing Cash Flow Projection against actual receipts and disbursements:

(a) proceeds from the Initial Advance were not forecast as a lump sum payment in the Pre-Filing Cash Flow Projection which resulted in a positive cash variance in the week ending August 18, 2017 (this is when the Initial Advance was received);

(b) the Pre-Filing Cash Flow Projection provided for the possibility of maintenance contractors requiring cash on delivery payments and utility suppliers requiring deposits of $275,000 during the week of August 25, 2017. Two utility suppliers have now written to request deposits, which the Monitor is considering;

(c) cash on delivery payments were conservatively forecasted to be required to wood suppliers; weekly payment terms have been negotiated; and

(d) payments for source deduction arrears were larger than forecasted in the Pre-Filing Cash Flow Projection.

CONCLUSION AND RECOMMENDATION

Recommendation for DIP Extension

63. If the proposed SISP is approved by the Court, the conditions under the Initial Order for an advance of the full Principal Amount under the DIP Facility will have been met. The Monitor understands that the SISP is acceptable to the Agent and the Stalking Horse Purchaser. In the Monitor's view, it is appropriate for the Applicant to be permitted to

obtain and borrow up to the maximum Principal Amount pursuant to the DIP Credit Agreement.

Recommendation for Stay Extension

64. The Applicant has requested that the Court extend the Stay Period to and including December 22, 2017. Among other things, the extension of the Stay Period is required for the Monitor, with the assistance of Index Energy Ajax, to conduct the SISP and bring a transaction contemplated by the SISP to Court for approval.

65. In the Monitor's view, the Applicant has acted in accordance with the Initial Order. Accordingly, the Monitor is satisfied that: (i) the Applicant has sufficient funds (as demonstrated in the Cash Flow Projection) to continue operations and the CCAA Proceedings until December 22, 2017; (ii) Management and the Applicant are acting in good faith and with due diligence; and (iii) no stakeholder of Index Energy Ajax will suffer any material prejudice if the Stay Period is extended as requested by the Applicant.

Recommendation for the SISP, Stalking Horse Agreement and Related Agreements

66. The Monitor believes that the SISP and the Stalking Horse Agreement, supported by the Escrow Agreement, provide for a broad, open and fair process for seeking interested buyers or investors in the property, assets and operations of the Applicant, has appropriate independent oversight as it is being conducted by the Monitor and is the best viable alternative for identifying a going-concern transaction for the benefit of the Applicant's stakeholders.

67. The Monitor recommends that this Court grant the relief sought by the Applicant in the Extension and SISP Approval Motion. The Monitor's recommendation regarding the approval of the Stalking Horse Agreement and the Escrow Agreement was conditioned

on the Monitor receiving the Escrow Funds and such financial disclosure or other credit quality support to satisfy the Monitor that the Stalking Horse Purchase has the financial capability to consummate the SH Transaction. The Monitor received such financial disclosure on September 5, 2017 but has not yet received the Escrow Funds. The Monitor's recommendation regarding the approval of the Stalking Horse Agreement and the Escrow Agreement therefore remains conditional upon the Monitor receiving the Escrow Funds, and if the Monitor has not received the Escrow Funds in advance of the return date for the Extension and SISP Approval Motion, the Monitor will serve and file a supplement to this First Report to update its recommendation in respect of these matters.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 6th day of September, 2017.

GRANT THORNTON LIMITED,
SOLELY IN ITS ROLE AS COURT-APPOINTED
MONITOR OF THE APPLICANT, AND NOT IN
ITS PERSONAL OR CORPORATE CAPACITY

Per: ______________________________
Michael Creber, CPA, CA, CIRP, LIT
Senior Vice-President

APPENDIX “1”

[Attached]

Court File No. CV-17-580840-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF INDEX ENERGY MILLS ROAD CORPORATION

Applicant

REPORT TO COURT OF GRANT THORNTON LIMITED, PROPOSED MONITOR OF THE APPLICANT UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*

AUGUST 15, 2017

GrantThornton

Grant Thornton Limited,
Proposed Monitor of the Applicant under the *Companies' Creditors Arrangement Act*

200 King Street West, 11th Floor
Toronto, Ontario, M5H 3T4

TABLE OF CONTENTS

APPENDICES

Appendix 1	The Haraldsson Affidavit to be dated and notarized August 16, 2017
Appendix 2	Cash Flow Projection for the period of August 11, 2017 to December 31, 2017

CONFIDENTIAL APPENDICES

Confidential Appendix 1	Interested Party Listing
Confidential Appendix 2	Preliminary Term Sheet Summary
Confidential Appendix 3	Optimization Plan prepared by the Applicant

Court File No. CV-17-580840-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF INDEX ENERGY MILLS ROAD CORPORATION

Applicant

REPORT TO COURT OF GRANT THORNTON LIMITED, PROPOSED MONITOR OF THE APPLICANT UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*

AUGUST 15, 2017

INTRODUCTION

1. Grant Thornton Limited ("**GTL**" or the "**Proposed Monitor**") understands that Index Energy Mills Road Corporation (the "**Applicant**" or "**Index Energy Ajax**") has brought an application before this Honourable Court for an initial order (the "**Proposed Initial Order**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**") in order to restructure its business and affairs (the "**CCAA Proceedings**").

2. The Applicant has proposed that GTL be appointed as Monitor in the CCAA Proceedings, to which GTL has consented.

3. 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 initial hearing in the CCAA Proceedings.

PURPOSE OF THE REPORT

4. The purpose of this Report is to provide the Court with further information related to the relief sought by the Applicant in the Proposed Initial Order. This Report specifically discusses:

   (a) GTL's qualification to act as a Monitor;

   (b) background information with respect to Index Energy Ajax;

   (c) Index Energy Ajax's capital structure;

   (d) Index Energy Ajax's operational challenges and current liquidity situation;

   (e) Index Energy Ajax's decision to commence the CCAA Proceedings;

   (f) Index Energy Ajax's proposed Debtor-in-Possession ("**DIP**") financing and its efforts in securing same;

   (g) the Proposed Monitor's comments and report on the Applicant's cash flow projection (the "**Cash Flow Projection**");

   (h) a discussion of the proposed Charges (defined herein) and such Charges' effect on the Applicant's stakeholders;

   (i) comments on the proposed authorization for payment of certain pre-filing amounts; and

   (j) the Proposed Monitor's conclusions and recommendation with respect to the proposed CCAA Proceedings.

SCOPE AND TERMS OF REFERENCE

5. GTL was retained by the Applicant as its financial advisor on January 4, 2017. Since that time, GTL, in its capacity as the financial advisor, has worked with Index Energy Ajax's management and its legal advisors to analyze the Applicant's financial position and other circumstances in order for the Applicant to determine its restructuring plan.

6. In preparing this Report, the Proposed Monitor has relied upon unaudited financial information, the Applicant's records, financial information and projections, and discussions with the Applicant's current and past management (the "**Management**"), being Gordon Kerr (previous President), Joseph Aletto, (Chief Executive Officer), Derek

Blais (Plant Manager), Raymond Habets (previous Secretary), and Russell Kerr (previous Vice-President). While the Proposed Monitor reviewed various documents provided by the Applicant (including, among other things, unaudited internal financial statements and financial projections) and believes that the information therein provides a fair summary of the transactions as reflected in the documents, such work does not constitute an audit or verification of such information for accuracy, completeness or compliance with Generally Accepted Accounting Principles ("**GAAP**") or International Financial Reporting Standards ("**IFRS**"). Accordingly, the Proposed Monitor expresses no opinion or other form of assurance pursuant to GAAP or IFRS with respect to such information.

7. Some of the information used in preparing this Report consists of financial projections, including the Cash Flow Projection. The Proposed Monitor cautions that these projections are based upon assumptions about future events and conditions that are not ascertainable. The Applicant's actual results may vary from the Cash Flow Projection, even if the Hypothetical and Probable Assumptions (defined herein) contained therein materialize, and the variations could be significant. The Proposed Monitor's review of the future oriented information used to prepare this Report did not constitute an audit of such information under Generally Accepted Auditing Standards, GAAP or IFRS.

8. In the course of its mandate, the Proposed Monitor has assumed the integrity and truthfulness of the information and explanations presented to it by the Applicant and its Management, within the context in which such information was presented. To date, nothing has come to the Proposed Monitor's attention that would cause it to question the reasonableness of these assumptions. The Proposed Monitor has requested that Management bring to its attention any significant matters which were not addressed in the course of the Proposed Monitor's specific inquiries. Accordingly, this Report is based solely on the information (financial or otherwise) made available to the Proposed Monitor by the Applicant and its Management.

9. This Report has been prepared for the use of this Court and the Applicant's stakeholders as general information relating to the Applicant and to assist the Court in determining whether to grant the relief sought by the Applicant. Accordingly, the reader is cautioned that this Report may not be appropriate for any other purpose. The Proposed Monitor will not assume responsibility or liability for losses incurred by the reader as a result of the

circulation, publication, reproduction or use of this Report contrary to the provisions of this paragraph.

10. Capitalized terms not defined in this Report have the meanings ascribed to them in the affidavit of Rickard Haraldsson, a director of Index Energy Ajax and Index Equity Sweden AB the parent company of Index Energy Sweden AB ("**Index Sweden**"), a majority shareholder of the Applicant, to be dated and notarized August 16, 2017 (the "**Haraldsson Affidavit**") and filed in connection with the CCAA Proceedings. The Haraldsson Affidavit is attached hereto (without exhibits) as **Appendix "1"**.

11. This Report should be read in conjunction with the Haraldsson Affidavit as such affidavit contains additional background information concerning the Applicant, its structure, the business activities, and its stakeholders.

12. All references to dollars are in Canadian currency unless otherwise noted.

GRANT THORNTON LIMITED'S QUALIFICATIONS TO ACT AS MONITOR

13. GTL is a licensed insolvency trustee within the meaning of section 2(1) of the *Bankruptcy and Insolvency Act* (Canada). In addition, GTL is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

14. GTL has been retained by the Applicant as its financial advisor since January 4, 2017. Since its engagement, GTL has worked extensively with Management to understand the Applicant's financial position and other circumstances in order for the Applicant to determine its restructuring plan. Further, GTL has worked with Management and the Applicant's legal counsel in the preparation of materials for the CCAA application.

15. In addition to its role as financial advisor, GTL was also engaged to commence a process to secure DIP financing for the Applicant (discussed in greater detail later in this Report).

16. GTL has consented to act as Monitor should the Court grant the Applicant's request to commence the CCAA Proceedings.

17. The Proposed Monitor has retained Goodmans LLP ("**Goodmans**") to act as its independent legal counsel ("**Monitor's Counsel**").

BACKGROUND INFORMATION WITH RESPECT TO THE APPLICANT

18. Index Energy Ajax was incorporated under the laws of the *Ontario Business Corporations Act* on November 7, 2006. The Applicant's registered office is located at 170 Mills Road, Ajax, Ontario.

19. Index Energy Ajax is owned by three shareholders:

    (a) Index Sweden is the owner of 70% of the issued common shares and certain non-voting second preferred shares in the capital stock of Index Energy Ajax;

    (b) R. Andrews Investment Applicant, LLC is the owner of 10% of the issued common shares in the capital stock of Index Energy Ajax; and

    (c) Jacqueline Kerr is the owner of 20% of the issued common shares in the capital stock of Index Energy Ajax.

20. Index Sweden acquired its interest in Index Energy Ajax from Index Residence AB (formerly Index International AB (publ)) ("**Index Residence**") pursuant to a share purchase agreement dated March 31, 2016. Index Residence and Index Sweden are part of an affiliated global real estate, energy and investment group based in Sweden (collectively, the "**Index Group**").

21. Index Energy Ajax operates a wood biomass-fired generating station located at 176 Mills Road, Ajax, Ontario (the "**Biomass Facility**") that is fueled by chipped wood derived from construction waste (the "**Wood Fuel**"). The Biomass Facility generates electricity by burning the Wood Fuel to produce steam that ultimately drives the installed turbines.

22. Index Energy Ajax has a total of five (5) wood suppliers that it obtains Wood Fuel from. Of these wood suppliers, one (1) of them, Simtor Environmental Ltd. ("**Simtor**"), has been responsible for providing approximately 29% of the total Wood Fuel for the seven months ending July 31, 2017. Members of the Index Group are minority shareholders of Simtor but Simtor is not majority controlled by any member of the Index Group.

23. Durham Disposable Services Ltd. ("**Durham Disposable**") is another supplier in which members of the Index Group hold a minority interest with no majority control. Durham Disposable is responsible for removing the "fly ash" and "bottom ash" (the by-products created during the power generation cycle) created by the Facility.

24. The Biomass Facility, which began construction in 2013 and achieved commercial operation on June 12, 2015, supplies power to the local distribution system under a 17.8MW Feed In Tariff Contract with the Independent Electricity System Operator ("**IESO**") dated May 5, 2010 (the "**FIT Contract**"). The Biomass Facility began supplying power in July 2015; however, as described below and in the Haraldsson Affidavit, Index Energy Ajax encountered difficulties in retrofitting the Biomass Facility and actual energy output has been lower and operational costs have been higher than anticipated as a result of various design, construction and related operational issues, which are the subject of protracted litigation with Index Energy Ajax's former engineering procurement and construction contractor and have led to numerous construction liens that Index Energy Ajax has been forced to deal with.

25. The Applicant currently has approximately 38 non-unionized employees, including Index Energy Ajax's current management, and two freelance workers as required. Of the 38 employees, seven (7) are paid an annual salary while the remaining 31 are paid an hourly wage. The Applicant does not have a defined benefit pension plan but does make matching contributions to a company registered retirement savings plan for certain employees.

CURRENT CAPITAL STRUCTURE

26. As outlined in the Haraldsson Affidavit, in addition to shareholder loans in excess of $4,000,000 in the aggregate, Index Energy Ajax has total funded debt obligations of approximately $146,583,486 as at the date hereof, consisting of the following:

(a) a variable rate Canadian Dollar Offered Rate (CDOR) plus 3% secured syndicated term loan provided by the following secured lenders (the "**Syndicate**"):

(i) National Bank of Canada;

(ii) Canadian Western Bank;

(iii) Laurentian Bank of Canada; and

(iv) Business Development Bank of Canada

(the "**Syndicate Loan**") made available under a credit agreement dated as of July 15, 2013 (the "**Syndicate Credit Agreement**") among Index Energy Ajax and the Syndicate with National Bank of Canada designated as the agent of the Syndicate Loan (in that capacity, the "**Agent**") and an interest hedging facility with National Bank of Canada and Laurentian Bank of Canada as lenders (the "**Interest Hedging Facility**"), with the principal amount owing under the Syndicate Loan and remaining amounts outstanding under the Interest Hedging Facility totaling $44,086,832;

(b) credit facilities made available to Index Energy Ajax by Index Residence (the "**Index Residence Facilities**", together with the Syndicate Loan, the "**Credit Facilities**") under a loan letter dated May 10, 2008, as amended and thereafter amended and restated as of July 7, 2013 (the "**Index Residence Credit Agreement**") as follows:

(i) a demand loan in the principal sum of $5,000,000;

(ii) a demand loan in the original principal sum of $25,366,348;

(c) additional advances from Index Residence totaling $30,657,170 (the "**Index Advances**"); and

(d) accrued interest on the Index Residence Facilities and the Index Advances owed to Index Residence totaling $41,473,136.

27. Each of the Credit Facilities is secured by security interests on all of the Applicant's personal property and charges on the Applicant's real property located at 170 Mills Road, Ajax and 176 Mills Road, Ajax.

28. As outlined in the Haraldsson Affidavit, pursuant to a Subordination and Assignment Agreement dated July 15, 2013, Index Residence fully subordinated and assigned the Index Residence Facilities and the security granted in respect thereof to, and as security for, obligations owing to the Syndicate under the Syndicate Credit Agreement and the security granted in respect thereof.

29. As counsel to the Proposed Monitor, Goodmans has undertaken a security review of: (a) the security granted by the Applicant to the Agent to secure the amounts owing under the Syndicate Credit Agreement; and (b) the security granted by the Applicant to Index Residence to secure the amounts owing under the Index Residence Credit Agreement (the "**Syndicate Security Review**" and the "**Index Residence Security Review**", respectively, and the "**Security Reviews**", collectively). The Security Reviews were

conducted to assess the validity and enforceability under the laws of the Province of Ontario of the security granted by the Applicant to the Agent and to Index Residence, respectively.

30. Goodmans has advised the Proposed Monitor that it is of the view that, subject to the standard assumptions and qualifications typically contained in security opinions of this nature:

   (a) the personal property security granted in favour of the Agent is valid and enforceable and creates valid security interests in the personal property of the Applicant secured;

   (b) the mortgage granted in favour of the Agent is valid and enforceable and creates a good and valid fixed charge of the interest of the Applicant in the real property secured;

   (c) the personal property security granted in favour of Index Residence is valid and enforceable and creates valid security interests in the personal property of the Applicant secured; and

   (d) the mortgage granted in favour of Index Residence is valid and enforceable and creates a good and valid fixed charge of the interest of the Applicant in the real property secured.

If GTL is appointed as Monitor, Goodmans will deliver to the Monitor formal security opinions in respect of the Syndicate Security Review and the Index Residence Security Review, respectively, shortly after the commencement of the CCAA Proceedings. The Monitor will provide an update on these security opinions in due course.

OPERATIONAL CHALLENGES AND LIQUIDITY SITUATION

Construction of the Facility

31. The construction of the Biomass Facility began in 2013 under an Engineering, Procurement, and Construction Contract with HMI Construction Inc. (“**HMI**”) (the “**EPC Contract**”).

32. Under the EPC Contract, HMI was responsible for the design, supply, installation, and commissioning of the Biomass Facility to generate 17.8 MW from two wood fired boilers

and one gas-fired boiler. By the end of 2014, most of the plant construction and equipment installation was complete.

33. As outlined in greater detail in the Haraldsson Affidavit, the Applicant advised that it had terminated the EPC Contract, by way of a letter issued on July 28, 2015, as Index Energy Ajax believed that HMI failed, among other things, to coordinate design work for the Biomass Facility, to design and construct the foundation properly, to comply with the EPC Contract's design criteria and specifications, to construct the plant properly, to install the boilers properly and to meet project milestones set out in the EPC Contract (collectively, the "**Deficiencies**"). Beginning in May 19, 2015, prior to the eventual termination of the EPC Contract, the Applicant undertook activities to address the Deficiencies to achieve commercial operation by mid-2015.

Operational Issues

34. Since the date of commercial operation, the Biomass Facility has encountered many challenges with limited availability and capacity. Although Index Energy Ajax has been able to meet its requirements under the FIT Contact, it has been unable to produce consistent levels of sufficient electricity to allow for the Biomass Facility to be a financially sustainable operation.

35. Index Energy Ajax has continued to implement improvements which have steadily increased the available generating capacity from approximately 2-3 MW per hour in 2015 up to a maximum of 14-15 MW per hour in 2016. Between January 1, 2017 and June 30, 2017, the Biomass Facility's output averaged 8.3 MW per hour with peaks as high as 17.5 MW per hour.

36. Notwithstanding the gains in production output, producing such output on a consistent daily basis has remained a challenge as a result of periods of significant downtime.

Liquidity Situation

37. Low and inconsistent production has resulted in significant operating losses since the Biomass Facility was commissioned. The Applicant has had net losses of approximately $20.28M for the 12 months ending December 31, 2016 and $7.34M for the 6 months ending June 30, 2017. Significant improvements in the level of output and the consistency of same are key to generating positive cash flow.

38. In addition, significant capital expenditures to correct the Deficiencies and improve the Biomass Facility's performance have resulted in additional cash outflow since the Biomass Facility was commissioned. Although these capital expenditures were necessary and have resulted in improved performance, the outflow from these expenditures coupled with the significant operating losses has created a liquidity issue for the Applicant.

39. The Applicant has not been able to generate sufficient cash to meet its obligations. The increasingly tight liquidity has resulted in an accumulation of trade payables with many critical vendors requiring advanced payment prior to work being performed.

CCAA PROCEEDINGS

40. As outlined previously, without a stay of proceedings and debtor-in-possession financing contemplated as part of these proceedings, the Applicant lacks the liquidity required to purchase adequate raw materials (i.e. Wood Fuel) from suppliers and to meet its current obligations with respect to vendors, debt servicing requirements, and payroll as they generally become due.

41. As outlined in the Haraldsson Affidavit, it is viewed that a liquidation or receivership of the Biomass Facility would result in a disruption in the operations and remediation, a loss of value, and materially lower returns to the creditors.

42. Protection under the CCAA will allow Index Energy Ajax to continue operating its business in the long-term interests of its stakeholders while it explores a restructuring plan and commences a sales and investment solicitation process (a "**SISP**") to maximize value for the stakeholders.

PROPOSED DEBTOR-IN-POSSESSION FINANCING

43. In April 2017, as a result of the Applicant's consideration of strategic alternatives, including a potential filing under the CCAA, GTL was engaged to commence a process to solicit and secure debtor-in-possession financing for Index Energy Ajax as part of a potential CCAA process (the "**DIP Financing Process**").

44. Prior to commencing the DIP Financing Process, GTL worked with Index Energy Ajax to prepare an updated financial forecast model. The updated financial forecast model was

utilized in determining the Applicant's financing needs required to potentially support a CCAA filing.

45. During the DIP Financing Process, the Agent, Index Residence, and Index Sweden were kept apprised of the process being conducted and the status of each of the three stages discussed below. The Applicant also obtained the input of the Agent, Index Residence, and Index Sweden throughout the process and with respect to the selection of the successful DIP financing.

Stage 1: Identification and Contact of Interested Parties

46. On April 27, 2017, in addition to three (3) lenders contacted by the Applicant and its counsel, GTL contacted nine (9) additional prospective lenders to discuss, on a "no names" basis and at a high level, the DIP financing needs of the Applicant and potential interest in providing this financing under a potential CCAA filing. The Syndicate was approached to provide the DIP financing but declined to participate in the DIP Financing Process.

47. GTL provided all 12 interested parties (the "**Interested Lenders**") with a non-disclosure agreement prior to any additional conversations occurring. A list of the Interested Lenders is attached to this Report as **Confidential Appendix "1"**.

48. By May 1, 2017, eight (8) Interested Lenders executed, and provided to GTL, non-disclosure agreements (the "**Prospective Lenders**"). Subsequent to receiving executed non-disclosure agreements, GTL provided Prospective Lenders with various documentation to perform due diligence, including but not limited to, historical financial information, historical production results, cash flow forecasts, valuation reports, the FIT Contract, wood supply agreements, engineer reliance letters and reports, and the Applicant's updated business plan.

49. On May 8, 2017, GTL advised Prospective Lenders that the deadline to submit non-binding indicative term sheets that outlined pricing and the key terms and conditions of debtor-in-possession financing that the Prospective Lenders were willing to provide, was May 15, 2017, 5:00 pm EST (the "**Indicative Term Sheet Deadline**").

50. From May 1, 2017 to the Indicative Term Sheet Deadline, GTL engaged in numerous discussions with Prospective Lenders regarding the information that had been provided,

as well as the status, timing and process to be followed regarding the selection of a lender and the potential CCAA filing.

Stage 2: Review and Negotiations of Indicative Term Sheets

51. On the Indicative Term Sheet Deadline, four (4) Prospective Lenders (the "**Qualified Lenders**") submitted term sheets (the "**Preliminary Term Sheets**"). A summary of the Preliminary Term Sheets was prepared by GTL and provided to the Applicant for review. A copy of the Preliminary Term Sheet summary is attached to this Report as **Confidential Appendix "2"**.

52. Subsequent to receiving the summary of the Preliminary Term Sheets, the Applicant, with the assistance of its counsel and GTL, engaged in discussions with Index Sweden, Index Residence, and the Agent with respect to the Preliminary Term Sheets.

53. On the week of May 29, 2017, the Applicant, through its counsel, instructed GTL to obtain updated and improved term sheets from the Qualified Lenders. On May 31, 2017, GTL contacted the Qualified Lenders to advise them that revised term sheets ("**Revised Term Sheets**") were to be submitted by June 5, 2017, 5:00 pm EST; all Qualified Lenders submitted Revised Term Sheets to GTL.

Stage 3: Selection of DIP Lender and DIP Facility Agreement

54. On June 14, 2017, after discussions with its counsel, GTL, the Agent, Index Sweden and Index Residence, the Applicant selected its preferred lender from the Qualified Lenders (the "**Potential DIP Lender**"). The Potential DIP Lender was chosen after considering the qualitative and quantitative aspects of the Revised Term Sheets including, but not limited to: ability to close a potential transaction, funding available, and cost of funds.

55. After numerous subsequent discussions between the Applicant, its counsel, GTL and the Potential DIP Lender, an executed copy of the Potential DIP Lender's term sheet was issued on July 10, 2017 and subsequently executed by the Applicant on July 12, 2017.

56. Subsequent to the Potential DIP Lender conducting additional due diligence and through negotiations of the Potential DIP Credit Agreement, it became apparent that the terms and conditions of the Potential DIP Credit Agreement would not satisfy the Applicant's requirements. As a result, Index Equity US LLC ("**Index US**") has agreed to act as the DIP lender (the "**DIP Lender**") with the consent of the Syndicate on terms more

favourable to the Applicant than those offered by the Potential DIP Lender (referred to as the "**DIP Facility**").

57. On August 15, 2017 the DIP Lender provided the Applicant with an executed credit agreement for the DIP Facility dated August 14, 2017 (the "**DIP Credit Agreement**") which is attached to the Haraldsson Affidavit as Exhibit "Q". The Applicant has agreed with the Syndicate that a maximum amount of $1,600,000 will be advanced prior to the CCAA comeback hearing (the "**Comeback Hearing**") and approval of a mutually acceptable SISP or a further order of the Court.

58. The key terms of the DIP Facility, if approved, are as follows:

(a) **Principal:** $5,000,000.

(b) **Interest:** Index Energy Ajax will pay interest at 6% per annum, calculated daily, compounded monthly, and payable on maturity, on all advances commencing on August 31, 2017.

(c) **Fees:** Index Energy Ajax will pay all of the DIP Lender's costs and expenses, including those incurred for due diligence, transportation, computers, copying, appraisals, inspections, audits, insurance, consultants, searches, filing and recording fees, collateral auditing fees, and all other out-of-pocket costs and expenses incurred by the DIP Lender (including the fees and expenses of its legal counsel) on maturity.

(d) **Term:** The term of the DIP Facility is the earlier of: a) 6 months after the Closing Date (as defined in the DIP Credit Agreement) b) the date the stay of proceedings granted under the Initial Order is terminated without the consent of the DIP Lender, c) the date on which the Applicant commences or becomes subject to proceedings under the *Bankruptcy and Insolvency Act* (Canada), or a receiver or receiver manager is appointed in respect of the Applicant or its assets or property, in each case without the consent of the DIP Lender, and d) the date on which the DIP Lender demands repayment of the DIP Facility after the occurrence of an Event of Default (as defined in the DIP Credit Agreement).

(e) **Security:** The DIP Facility will be secured by a priority charge (the "**DIP Lender's Charge**"), over all assets of Index Energy Ajax, other than the Holdback Funds (as defined and discussed in the Haraldsson Affidavit) to the extent they are subject to valid lien claims, and having priority over all secured and unsecured creditors and all security, interests, trusts, liens, claims and encumbrances, statutory or otherwise, subject only to the Administration Charge (discussed below) and the security registered by Caterpillar Financial Services Limited, the lessor of a 2014 Caterpillar 950K wheel loader (the "**Caterpillar Security**").

59. The DIP Credit Agreement also contains various affirmative covenants, negative covenants and events of default and conditions that in the Proposed Monitor's view, are reasonable and customary for this type of financing.

60. Index US and the Syndicate are in continuing discussions regarding an accommodation that would provide some comfort to the Syndicate and allow for further advances under the DIP Facility (beyond the initial permitted draw) to be made on a consensual basis. Although the parties did not have time to document a formal agreement prior to the commencement of the CCAA Proceedings, the Monitor understands that these discussions were sufficiently advanced such that the Syndicate is supporting this filing on the understanding that the Applicant intends to return to Court for approval of a SISP that would involve a stalking horse bid by an entity related to the Applicant supported by an escrow arrangement that has been requested by the Syndicate.

61. GTL understands that both the Agent and Index Residence support the proposed DIP Facility and the priority to be granted thereto subject, in the case of the Agent, to the understanding described above and the payment of interest on the Syndicate Loan during the CCAA Proceedings as reflected in the Cash Flow Projection.

<u>Proposed Monitor's Recommendation</u>

62. GTL is of the view that the process conducted by GTL and the Applicant, in consultation with the Agent and Index Residence, leading to the selection of the DIP Lender was extensive, comprehensive and competitive. Based on this robust competitive process, GTL is of the view that the terms and pricing of the DIP Credit Agreement are more favourable than were available in the market and reasonable in the circumstances.

63. The Proposed Monitor recommends that the Court approve the DIP Credit Agreement, including the up to $1.6 million proposed to be advanced prior to the Comeback Hearing. In arriving at this recommendation, the Proposed Monitor considered (i) the facts and

circumstances of the Applicant; (ii) the financial terms of the DIP Facility relative to comparable facilities and other proposals received from Qualified Lenders, (iii) the stability and flexibility the DIP Credit Agreement will provide to the Applicant to ensure there is sufficient liquidity to facilitate the CCAA proceedings and a SISP, and (v) the interests of the Applicant's stakeholders.

CASH FLOW PROJECTION

64. The Cash Flow Projection has been prepared solely for the purpose described above and readers are cautioned that it may not be appropriate for other purposes.

65. In order to fulfill the requirements of section 10(2)(a) of the CCAA, the Applicant has prepared the Cash Flow Projection, on a weekly basis, beginning the week ending August 11, 2017 to December 31, 2017 (the "**Cash Flow Period**"). The Cash Flow Projection is attached hereto as **Appendix "2".** The Cash Flow Projection has been prepared by management using probable and hypothetical assumptions set out therein (the "**Probable and Hypothetical Assumptions**").

66. The Proposed Monitor has reviewed the Cash Flow Projection to the standard required of a Court-appointed Monitor by s. 23(1)(b) of the CCAA. The Proposed Monitor's review of the Cash Flow Projection consisted of inquiries, analytical procedures, and discussions related to information supplied to the Proposed Monitor by management and employees of the Applicant. Since the Probable and Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to same were limited to evaluating whether they were consistent with the purpose of the Cash Flow Projection. The Proposed Monitor has also reviewed the support provided by management for the Probable and Hypothetical Assumptions and the preparation and presentation of the Cash Flow Projection. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:

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

(b) as at the date of this Report, the Probable and Hypothetical Assumptions developed by management are not suitably supported and consistent with the Applicant's plans or do not provide a reasonable basis for the Cash Flow Projection, given the Probable and Hypothetical Assumptions; or

(c) the Cash Flow Projection does not reflect the Probable and Hypothetical Assumptions.

67. The Applicant's cash position at the commencement of the CCAA Proceedings is estimated to be approximately $10,730. The Cash Flow Projection estimates that during the Cash Flow Period, the Applicant is projecting total receipts of $4,633,025 with total disbursements of $9,505,709. The Cash Flow Projection demonstrates that the Applicant is expected to draw a total of $4,829,898 from the proposed DIP Facility during the Cash Flow Period.

General Comments

68. In addition, the Proposed Monitor makes the following general comments on the Cash Flow Projection:

(a) expenses appear to be consistent with the level of operations contemplated by management for the Applicant during the Cash Flow Period;

(b) the Cash Flow Projection contemplates servicing interest obligations on the Syndicate Loan during the CCAA Proceedings;

(c) the Cash Flow Projection does not contemplate servicing interest obligations on the Index Residence Loans or the Shareholder Loans during the CCAA Proceedings;

(d) the Cash Flow Projection contemplates paying employee wage obligations in the ordinary course, whether such obligations are incurred pre-filing or post-filing;

(e) the Cash Flow Projection contemplates paying Canada Revenue Agency approximately $33,201.61 in employee source deductions due August 10, 2017 that were not paid due to the Applicant's liquidity constraints;

(f) the Cash Flow Projection contemplates paying outstanding amounts owing to Grant Thornton Limited and Cassels Brock & Blackwell LLP (the Applicant's counsel under these proceedings); and

(g) the Cash Flow Projection contemplates paying outstanding and future amounts owing to Critical Suppliers (as defined herein).

CASH FLOW PROJECTION – REQUIRED CAPEX

69. The Cash Flow Projection contemplates total capital expenditures of $250k during the Cash Flow Period which consists of expenditures to replenish a currently depleted inventory of spare parts deemed critical to the Biomass Facility (the "**Critical Parts**") and necessary to be on hand to minimize the impact of inevitable interruptions (the "**Critical Parts Purchases**").

70. As a result of the Applicant's deteriorating liquidity position, the inventory of Critical Parts has been reduced (through its inability to purchase) to what management describes as an unsustainable level. Management of the Applicant has advised that the low level of Critical Parts inventory has created an absence of most Critical Parts in the Biomass Facility. The absence of such Critical Parts has resulted in numerous occasions where a repair and/or replacement of a failed Critical Part could not be performed, causing prolonged avoidable downtime due to lead-times in obtaining replacement Critical Parts not on hand. Index Energy Ajax's management and plant manager strongly believe that the replenishment of Critical Parts inventory is required to avoid unnecessarily prolonged interruptions.

71. Management of the Applicant has advised that, in addition to the Critical Parts Purchases, the following additional capital expenditures would allow the Applicant to address the remaining Deficiencies and allow the Biomass Facility to generate the electricity required to become financially viable:

(a) the commencement and completion of three (3) projects to allow the Biomass Facility to generate 17.8 MW per hour with minimal interruptions totaling $470K (the "**Capacity Projects**");

(b) the commencement and completion of two (2) projects to reduce direct operating costs of the Biomass Facility totaling $125K (the "**Utility Optimization Projects**"); and

(c) the commencement and completion of two (2) projects to increase the availability of the Biomass Facility totaling $350K (the "**Availability Projects**")

(collectively, the "**Deferred Capex**").

72. The Critical Parts Purchases and the Deferred Capex and the projected costs of same are outlined in an optimization plan dated July 20, 2017, prepared by the Applicant (the

"**Optimization Plan**"). A copy of the Optimization Plan is attached hereto as **Confidential Appendix "3"**. The Proposed Monitor has been provided with a copy of the Optimization Plan which it has reviewed and discussed with Management. The table below outlines the projected capital cost, gross annual benefit, estimated yearly cost, and net annual benefit for each of the project types and sub-projects contained therein. Due to the financial constraints during the Cash Flow Period, Index Energy Ajax has chosen to defer the commencement of the Capacity Projects, Utility Optimization Projects, and Availability Projects to begin in 2018 (i.e. not included in the Cash Flow Period). These projects are labelled as "deferred" in the table below.

Project	Sub-Project Description	Status	Projected Cost	Gross Annual Benefit	Estimated Annual Cost	Net Annual Benefit
Critical Parts Purchase	Critical Parts Inventory Replenishment	*Active*	**250,000**	**466,704**	**-**	**466,704**
Capacity Projects	Optimization Stabilization Burner	*Deferred*	$ 220,000	$ 1,749,613	$ 500,000	$ 1,249,613
	Flue Gas Heat Exchanger	*Deferred*	200,000	547,544	-	547,544
	Thermal Coil Burner	*Deferred*	300,000	821,316	250,000	571,316
	Commissioning of Turbine Cascade Mode	*Deferred*	50,000	720,568	-	720,568
			770,000	**3,839,040**	**750,000**	**3,089,040**
Utility Optimization Projects	Evaporation Credits on Cooling Towers	*Deferred*	100,000	498,000	-	498,000
	Sewer Water Project	*Deferred*	125,000	360,000	50,000	310,000
	Cycle Increase at Cooling Towers	*Deferred*	25,000	90,000	-	90,000
			250,000	**948,000**	**50,000**	**898,000**
Availability Projects	Bottom Ash Testing	*Deferred*	10,000	72,000	-	72,000
	Second Wood Feed System	*Deferred*	340,000	1,200,000	20,000	1,180,000
			350,000	**1,272,000**	**20,000**	**1,252,000**
Total			**$ 1,620,000**	**$ 6,525,744**	**$ 820,000**	**$ 5,705,744**

<u>Conclusion</u>

73. As noted above, GTL understands from Management that although the Critical Parts Purchases and Deferred Capex are crucial to improve the performance of the Biomass Facility and thus the profitability and ultimate value of same in the interests of the Applicant's stakeholders, at this time only the Critical Parts Purchases are absolutely necessary with all other Deferred Capex being delayed until financial resources are available to pursue same. The DIP Lender is aware of the Critical Parts Purchases and the Deferred Capex, as are the Agent and Index Residence. Based on the above, the Proposed Monitor is of the view that including the Critical Parts Purchases in the Cash Flow Projection is reasonable in the circumstances.

COURT ORDERED CHARGES SOUGHT IN THE PROPOSED INITIAL ORDER

74. The Proposed Initial Order provides for a number of charges that rank as follows:

(a) first – the Administrative Charge;

(b) second – the DIP Lender's Charge; and

(c) third – the D&O Charge

(collectively, the "**Charges**"). The Proposed Initial Order states that the Charges are to rank ahead of all security, interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (the "**Encumbrances**") in favour of any Person other than the Holdback Funds and the Caterpillar Security.

Administrative Charge

75. The Proposed Initial Order contemplates the Monitor, the Monitor's Counsel, and the Applicant's counsel, be granted a court-ordered charge on the assets of Index Energy Ajax as security for professional fees and disbursements relating to services rendered in respect of the Applicant at the standard rates and charges in an amount not to exceed $1,000,000 (collectively, the "**Administration Charge**").

76. The Administration Charge threshold has been established based on the various professionals' previous history and experience with restructurings of similar magnitude and complexity. If an Initial Order under the CCAA is granted, the Proposed Monitor believes that the proposed Administration Charge, as well as the proposed quantum of the said charge, is required and reasonable in the circumstances.

DIP Facility Charge

77. It is a condition of the DIP Facility that it be secured by a charge over the assets of the Applicant in priority to all Encumbrances to the extent permitted under the CCAA, subject only to the Administrative Charge, the Holdback Funds, and the Caterpillar Security.

78. As outlined previously, the Proposed Monitor is of the view that the DIP Facility is appropriate and was obtained through a competitive and commercially reasonable process; the DIP Lender's Charge is therefore reasonable and necessary given the circumstances.

D&O Charge

79. The Proposed Initial Order also contemplates the indemnification of the directors and officers of the Application (the "**D&Os**") and the creation of a charge on the assets of the Applicant (the "**Directors' Charge**"), to the maximum amount of $250,000, to protect such individuals from all obligations and liabilities that they may incur as D&Os of the Applicant post filing.

80. Rickard Haraldsson, in the Haraldsson Affidavit, advises that the ongoing involvement of the D&Os with the restructuring of the Applicant is conditional upon the granting of an Initial Order under the CCAA, which grants a charge on the Property of the Applicant. Such charge would be provided in favour of the D&Os as security for the Applicant's indemnification for possible liabilities that may be incurred by the D&Os as directors and officers of the Applicant after the date of the Proposed Initial Order, which would rank in third priority behind the DIP Lender's Charge.

81. GTL understands that there is currently no insurance policy in place that provides coverage to existing D&Os for the above noted obligations.

82. The quantum of the D&O Charge has been established based on these particular circumstances and is commensurate with D&O Charges granted in the context of restructurings of similar magnitude and complexity. If the Proposed Initial Order is granted, the Proposed Monitor believes that the D&O Charge, and the proposed quantum of same, is required and reasonable in the circumstances.

PAYMENTS OF PRE-FILING AMOUNTS

83. The Proposed Initial Order provides the Applicant with the authority to pay certain specified expenses whether incurred prior to or after the commencement of the CCAA Proceedings. Specifically, such payments would include:

(a) outstanding wages, salaries and other employee-related payments;

(b) fees and disbursements of Assistants (as defined in the Proposed Initial Order) retained in respect of the CCAA Proceedings;

(c) expenses reasonably necessary for the preservation of the Applicant's property and business; and

(d) payment for goods or services actually supplied to the Applicant, provided that, to the extent the expenses set out in clauses (c) and (d) above were incurred prior to the date of the Proposed Initial Order, the Applicant is only permitted to pay such amounts up to a maximum aggregate amount of $450,000 if they are determined by the Applicant, in consultation with the Monitor, to be necessary to the continued operation of the business or the preservation of the property and such payments are approved in advance by the Monitor or by further Order of the Court.

84. GTL has reviewed the Applicant's accounts payable and believes that authorizing the Applicant to pay certain pre-filing amounts as contemplated in the Proposed Initial Order, along with the oversight and, in certain instances, consent of the Monitor, is reasonable and necessary in the circumstances to allow for the operations to continue uninterrupted throughout the CCAA Proceedings. An interruption of supply or service, including under certain related party arrangements, could have a significant immediate adverse impact on the Applicant's operations and jeopardize the Applicant's ability to execute on its restructuring plan and a SISP. The control proposed by the involvement of the Proposed Monitor will also ensure consideration of stakeholder interests when payment of pre-filing amounts is considered on a case-by-case basis. Accordingly, the Proposed Monitor supports the Applicant's requested relief.

CONCLUSIONS

85. The granting of the relief requested would provide a single forum for the Applicant and the Applicant's stakeholders to address claims in an orderly manner, under the supervision of the Court and with a Court-appointed monitor in place to facilitate the restructuring.

86. The proposed CCAA Proceedings, including the stay of proceedings and DIP Facility, will allow Index Energy Ajax to stabilize its business and continue in operation while making necessary operational improvements to the Biomass Facility to realize greater consistent production volumes, as well as commence a SISP and develop a restructuring plan, all in the interests of the stakeholders.

PROPOSED MONITOR'S RECOMMENDATION

87. For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicant is reasonable and respectfully recommends that this Court make the Order granting the Applicant's requested relief.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 15th day of August, 2017.

GRANT THORNTON LIMITED,
SOLELY IN ITS PROPOSED ROLE AS COURT-APPOINTED MONITOR OF THE APPLICANT, AND NOT IN ITS PERSONAL CAPACITY

Per: ______________________

Michael Creber, CPA, CA, CIRP, LIT
Senior Vice-President

APPENDIX “2”

[Attached]

Court File No. CV-17-580840-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF INDEX ENERGY MILLS ROAD CORPORATION

(the "**Applicant**")

AFFIDAVIT OF DEREK BLAIS
(Sworn September 1, 2017)

I, Derek Blais, of the City of Napanee, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the President and Secretary of Index Energy Mills Road ("**Index Energy Ajax**" or the "**Applicant**"), the Applicant in these proceedings (the "**CCAA Proceedings**"), which are positions I have held since August, 2017. I was previously the Plant Manager of Index Energy Ajax from June 2016 until June 2017. As such, I have personal knowledge of the facts to which I depose, except where I have indicated that I have obtained facts from other sources, in which case I verily believe those facts to be true.

2. This affidavit is sworn in support of a motion pursuant to the *Companies' Creditors Arrangement Act* (Canada), as amended (the "**CCAA**") brought by Index Energy Ajax for:

(a) an Order substantially in the form attached as Schedule "A" to the Notice of Motion to, among other things,

(i) extend the Stay Period (as defined below) to and including December 22, 2017;

(ii) authorize and empower Index Energy Ajax to obtain and borrow up to a maximum principal amount of $5,000,000 pursuant to the DIP Financing (as defined below); and

(iii) approve the activities of Grant Thornton Limited ("**GTL**") in its capacity as court appointed monitor of Index Energy Ajax ("**Monitor**") as set out in the first report of the Monitor, to be filed (the "**First Report**");

(iv) sealing **Confidential Exhibit "A"** (as discussed below) attached hereto; and

(b) an Order substantially in the form attached as Schedule "B" to the Notice of Motion (the "**SISP Approval Order**") *inter alia*:

(i) approving the sales and investment solicitation process ("**SISP**") and the Stalking Horse Agreement (defined below); and

(ii) approving the Escrow Agreement (defined below) and extending the protections of the Monitor contained in the Initial Order (defined below) to the Escrow Agent (defined below).

3. Except where so stated, capitalized terms used in this affidavit but not defined herein have the meaning given to them in the affidavit of Rickard Haraldsson sworn on August 15, 2017 (the “**Haraldsson Affidavit**”), a copy of which, without exhibits, is attached hereto as **Exhibit “A”**. Unless otherwise indicated, all amounts in this affidavit are in Canadian dollars.

BACKGROUND

4. Index Energy Ajax owns and operates an electrical co-generation facility located in Ajax, Ontario that generates electricity by burning wood waste from the construction industry to produce steam to drive turbine generators (the “**Biomass Facility**”).

5. I am informed by the Haraldsson Affidavit and do verily believe that:

(a) Index Energy Ajax entered into a feed-in-tariff contract with the Ontario Power Authority, now the Independent Electricity System Operator of Ontario (**“IESO**”) dated May 5, 2010 (the “**FIT Contract**”) with certain contract capacity which required the retrofitting of the Biomass Facility (the “**Retrofit**”).

(b) Index Energy Ajax encountered difficulties in retrofitting the Biomass Facility, has been engaged in litigation with its former contractor, HMI

Construction Inc., and has been forced to deal with numerous liens arising from the construction associated with the Biomass Facility.

(c) Index Energy Ajax is in default of various obligations to a syndicate of lenders composed of National Bank of Canada, Canadian Western Bank, Laurentian Bank of Canada and Business Development Bank of Canada (collectively, the "**Syndicate**"). National Bank of Canada is also the agent of the Syndicate (in that capacity, the "**Agent**"). The Syndicate has made demand for payment of amounts in excess of $45 million.

(d) Index Residence AB (publ), ("**Index Residence**") a party related to the majority shareholder of Index Energy Ajax, is also owed approximately $102 million on a secured basis.

6. On August 16, 2017 (the "**Filing Date**"), Index Energy Ajax was granted protection under the CCAA pursuant to an order of the Honourable Regional Senior Justice Morawetz (the "**Initial Order**"). A copy of the Initial Order, is attached hereto as **Exhibit "B"** and a copy of the endorsement of Regional Senior Justice G.B Morawetz in connection with the Initial Order, released on August 23, 2017 is attached hereto as **Exhibit "C"**.

7. The Initial Order, among other things:

(a) granted a stay of proceedings in favour of Index Energy Ajax until and including September 15, 2017, or such later date as the Court may order (the "**Stay Period**"); and

(b) authorized Index Energy Ajax to borrow the maximum sum of $5,000,000 pursuant to a credit facility (the "**DIP Financing**") as interim financing from Index Equity US LLC (the "**DIP Lender**") with a maximum amount of $1.6 million permitted to be advanced by the DIP Lender prior to approval of a SISP acceptable to the Agent or further order of the Court.

8. Index Energy Ajax sought protection under the CCAA in order to allow it a period of time to develop and implement the SISP, and to access urgently required interim financing on a priority basis to preserve value for all stakeholders and ensure its viability as a going-concern.

9. The Initial Order, together with the Monitor's reports and all other filings in the CCAA proceeding will be available on the Monitor's Website at: https://www.grantthornton.ca/IndexEnergy.

10. Further details regarding the background to this CCAA proceeding are set out in the Haraldsson Affidavit.

OVERVIEW OF INDEX ENERGY AJAX'S ACTIVITIES SINCE THE INITIAL ORDER

11. Since the Initial Order was granted, Index Energy Ajax has continued its efforts to improve the operations of the Biomass Facility and the running of the Biomass Facility in the ordinary course of business. Index Energy Ajax with the assistance of the Monitor, has engaged with vendors, employees and other stakeholders to ensure a smooth transition into these proceedings and to minimize disruption to the business.

12. As I understand will be outlined in the First Report, Index Energy Ajax's stakeholders have been notified of the CCAA proceedings by Index Energy Ajax and the Monitor as required.

13. Since the Filing Date, Index Energy Ajax advised all of its employees that Index Energy Ajax had applied for protection under the CCAA and provided them with information about the CCAA proceedings. On August 17, 2017 and August 21, 2017, Index Energy Ajax terminated the employment of approximately 3 employees whom management determined were not required in respect of the restructuring and since the Filing Date Index Energy Ajax has hired an employee in the role of supply chain manager.

14. On August 25, 2017, Index Energy Ajax contacted the IESO with respect to the FIT Contract and advised them that Index Energy Ajax has obtained protection under the CCAA. I am advised by counsel to Index Energy Ajax that they have been in contact with counsel to the IESO regarding the CCAA proceedings and the FIT Contract.

15. As disclosed in the Haraldsson Affidavit, Index Energy Ajax recently underwent certain management changes. On August 31, 2017, Index Energy Ajax held a shareholders' meeting to, among other things, ratify those changes. Despite objections by representatives of the minority shareholders, the shareholders ratified such changes including the ratification of the current board of directors and officers.

DIP ADVANCE

16. As detailed in the Haraldsson Affidavit, the DIP Lender agreed to provide Index Energy Ajax with DIP Financing, subject to certain conditions. Although the Initial Order permitted Index Energy Ajax to obtain up to a maximum of $5,000,000 (the "**Principal Amount**"), a maximum amount of $1.6 million (the "**Initial Advance**") was permitted to be advanced prior to the Comeback Hearing, and approval of a SISP acceptable to the Agent or a further order of the Court.

17. Consistent with the provisions of the DIP Financing and the Initial Order, following the granting of the Initial Order, Index Energy Ajax requested and on August 17, 2017 received the Initial Advance.

18. If the proposed SISP, which I understand is acceptable to the Agent, is approved by the Court, the conditions under the Initial Order for an advance of the full Principal Amount will have been met and therefore, Index Energy Ajax is seeking authority to obtain and borrow up to the maximum Principal Amount pursuant to the DIP Financing.

THE SISP

19. The purpose of the SISP is to seek competing offers on an "as is, where is" basis to purchase the Property of Index Energy Ajax and/or make an investment in the business of Index Energy Ajax which is superior to the offer contemplated in the Stalking Horse Agreement. Attached hereto and marked as **Exhibit "D"** is a true copy of the proposed SISP.

20. The proposed SISP contemplates a ten week marketing/diligence period.

21. The deadline for the submission of final bids under the SISP is proposed to be 5:00 p.m. (Eastern Time) on November 21, 2017 (the "**Bid Deadline**"). Given the Stalking Horse Purchaser (as defined below) is a related party to Index Energy Ajax, the proposed SISP will be run by the Monitor. I understand the proposed SISP will be described in greater detail in the First Report.

THE STALKING HORSE AGREEMENT

22. Index Energy Ajax and Index Residence (in its capacity as purchaser under the Stalking Horse Agreement, the "**Stalking Horse Purchaser**") have entered into, subject to the Court's approval, a stalking horse asset purchase agreement dated as of September 1, 2017 (the "**Stalking Horse Agreement**") which forms part of the SISP.

23. I am advised by counsel to Index Energy Ajax that the Monitor supports and the Syndicate has consented to the approval of the Stalking Horse Agreement. I also understand that key terms of the Stalking Horse Agreement will be described in the First Report. Attached hereto and marked as **Exhibit "E"** is a true copy of the Stalking Horse Agreement with Schedule 7.6(a), being a listing of employees names and positions redacted.

THE ESCROW AGREEMENT

24. I am advised that as a condition of the Syndicate's support for the proposed SISP, the Syndicate, Index Energy Ajax, Index Residence, and the Monitor, as escrow agent (in such capacity, the "**Escrow Agent**"), have also entered into an escrow agreement dated September 1, 2017 (the "**Escrow Agreement**"). Pursuant to

the Escrow Agreement, Index Residence has agreed to deposit $10 million (the "**Escrow Funds**") with the Escrow Agent to be released in accordance with the Escrow Agreement. Pursuant to the Escrow Agreement, the Escrow Funds will be released, among other things, to Index Residence on the closing of a sale or investment transaction to a purchaser other than the Stalking Horse Purchaser, or will be applied to the purchase price to be paid by the Stalking Horse Purchaser if the Stalking Horse Agreement is the Accepted Bid (as defined in the SISP).

25. I am advised that the Escrow Agreement also provides the Agent with an option to require Index Residence or an affiliate thereof to purchase the debt owing to the Syndicate by Index Energy Ajax if a sale transaction for the assets of the Applicant has not closed by February 28, 2018 in which case the Escrow Funds will be applied to the purchase of the Syndicate debt.

26. Attached hereto and marked as **Exhibit "F"** is a copy of the Escrow Agreement with certain commercially sensitive information redacted. An unredacted copy of the Escrow Agreement is attached hereto as **Confidential Exhibit "1"** which will be provided on a confidential basis to the Court, subject to a sealing order request, given that it contains information which may affect the market valuation of Index Energy Ajax's assets.

STAY EXTENSION

27. The Initial Order granted a Stay Period up to and including September 15, 2017 in order to preserve the status quo among the stakeholders of Index Energy Ajax while Index Energy Ajax stabilized operations and designed and implemented the SISP. The

Stay Period was a requirement of the DIP Facility, and it would also have been detrimental to Index Energy Ajax's ability to restructure if proceedings were commenced or continued or rights and remedies were exercised against Index Energy Ajax.

28. In this motion Index Energy Ajax is seeking an extension of the Stay Period up to and including December 22, 2017. The extension of the Stay Period is required for the Monitor, with the assistance of Index Energy Ajax, to move forward with the SISP and bring a transaction contemplated by the SISP to Court for approval.

29. The cash flow of Index Energy Ajax appended to the Haraldsson Affidavit (and attached again hereto as **Exhibit "G"**) shows that Index Energy Ajax is forecast to have sufficient funds to pay post-filing service and supplies until December 22, 2017.

30. It is my belief that Index Energy Ajax has acted, and continues to act, in good faith and with due diligence in developing the SISP and the Stalking Horse Agreement and I do not believe that any stakeholder will suffer any material prejudice if the Stay Period is extended as requested. The SISP offers the best opportunity to expose the business of Index Energy Ajax to the market while balancing the request of the Agent that the matter be completed expeditiously. This is in the interest of all stakeholders, and offers a fair compromise to all involved.

SWORN/AFFIRMED BEFORE me at the City of Ajax in the Province of Ontario this 1st day of September, 2017. A commissioner for taking affidavits, etc. **Taschina Haye-Ashmeade, a Commissioner, etc., Province of Ontario, while a Student-at-Law. Expires April 13, 2019**	**DEREK BLAIS**

APPENDIX “3”

[Attached]

Purpose and Background Information

The purpose of this letter is to provide preliminary information on Index Energy Mills Road Corporation ("**Index Energy Ajax**" or the "**Company**"). This solicitation letter is being sent to parties potentially interested in participating in a sale and investment process involving the Company (each an "**Interested Party**").

On August 16, 2017, Index Energy Ajax obtained relief under the *Companies' Creditors Arrangement Act* (the "**CCAA**") pursuant to an Order (the "**Initial Order**") of the Ontario Superior Court of Justice (Commercial List) (the "**Court**"). Also pursuant to the Initial Order, Grant Thornton Limited was appointed monitor (the "**Monitor**") of the business and financial affairs of Index Energy Ajax with powers and obligations set out in the CCAA and as set forth in the Initial Order.

On September ●, 2017, the Court issued an Order (the "**SISP Approval Order**") approving a sale and investment solicitation process in respect of the Company (the "**SISP**"). The SISP will be conducted by the Monitor with the assistance of the Company, as outlined in a prepared SISP document (the "**SISP Document**"). A copy of the SISP Approval Order, the SISP Document, and Initial Order can be obtained on the Monitor's case website at: www.grantthornton.ca/IndexEnergy (the "**Monitor's Case Website**"). Capitalized terms used herein and not otherwise defined have the meaning ascribed to them in the SISP Approval Order and the SISP Document.

The SISP allows for Interested Parties who satisfy certain conditions described below to make a formal offer to acquire all, substantially all or a portion of the Property (a "**Sale Proposal**") or make an investment in, restructure, reorganize or refinance the Company and/or the Company's business operations (the "**Business**") (an "**Investment Proposal**"). The SISP is supported by a stalking horse bid in the form of an asset purchase agreement (the "**Stalking Horse Agreement**") entered into between Index Energy Ajax and Index Residence AB (Publ) (the "**Stalking Horse Purchaser**") dated September 1, 2017. A copy of the Stalking Horse Agreement is available on the Monitor's Case Website.

Company Background

Index Energy Ajax operates a wood biomass-fired generating station located at 176 Mills Road, Ajax, Ontario (the "**Biomass Facility**") that is fueled by chipped wood derived from construction waste (the "**Wood Fuel**"). The Biomass Facility

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

generates electricity by burning the Wood Fuel to produce steam that ultimately drives the installed turbines.

Index Energy Ajax was incorporated to retrofit an existing energy production facility located at 170 Mills Road and 176 Mills Road, Ajax, Ontario (the "**Existing Facility**"). The Existing Facility was originally built in 1941 to provide the steam required for the nearby Defence Industries Limited's shell filling plant. This business grew, and eventually the plant was providing steam to a number of industries and others in the vicinity.

Index Energy Ajax acquired the Existing Facility in 2008, with a plan to retrofit it by replacing the Existing Facility with the Biomass Facility that would supply steam to industrial clients and generate electricity for delivery to Ontario's power grid. Prior to construction, the Company entered into a 20-year, 17.8 MW Feed-In-Tariff Contract with the Independent Electricity System Operator ("**IESO**") dated May 5, 2010.

Biomass Facility Overview

The construction of the Biomass Facility (pictured below) began in 2013 under an Engineering, Procurement, and Construction Contract (the "**EPC Contract**") for the design, supply, installation and commissioning of the Biomass Facility to generate 17.8 MW from two wood fired boilers and one gas-fired boiler. The Biomass Facility achieved commercial operation on June 12, 2015 and began supplying power to IESO in July 2015.

The Process

The Biomass Facility is a biomass fired steam plant designed to store and feed chipped Wood Fuel to four (4) boilers of which only two (2) have been installed.

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

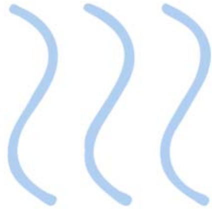
Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

The Biomass Facility uses renewable biomass as the fuel for our furnaces. An advanced system of ash filtration traps any harmful pollutants.



The Biomass Facility's furnaces then heat water to create a high pressure steam. This trapped steam is then directed through two highly efficient turbines.

The final output of the Biomass Facility's steam turbines is in the form of electricity which is distributed to the surrounding city of Ajax, Ontario.

Increased Capacity Potential

The Biomass Facility was constructed to allow for a further expansion of both steam and power generation capacity. The Biomass Facility currently has a third back-pressure turbine generator installed that can increase the installed capacity to 25 MW; the commissioning of this third turbine is still subject to IESO approval. In addition to IESO approval, a third combustor and associated equipment are required to operate the installed back-pressure turbine.

Steam Distribution Potential

The Biomass Facility currently has an existing 6 km steam distribution network to nearby business that were previous customers of the Existing Facility prior to its cessation in 2012. Index Energy Ajax has prepared preliminary plans to re-commission the existing steam distribution system to begin selling steam within the network. A recent independent engineering study has noted that there is sufficient space within the Biomass Facility to accommodate the new equipment.

Wood Fuel Supply

To ensure a consistent and sufficient supply of Wood Fuel, Index Energy Ajax has secured long-term Wood Fuel supply contracts with five (5) entities in the recycling and waste management space. Through these Wood Fuel supply contracts, Index Energy Ajax has secured up to 149,500 GMT/year of Wood Fuel which is sufficient to cover its Fuel Requirements.

Developments and Improvements

Index Energy Ajax has continued to implement improvements which have steadily increased the available generating capacity in 2017.

To further improve the Biomass Facility's capacity, optimization, and availability, the Company has developed a detailed optimization plan (the "**Optimization Plan**"). The Optimization Plan outlines the projects required as well as the capital cost, annual benefit, and the estimated yearly cost of same. In order to complete the Optimization Plan and continue as a going concern, the Company seeks to restructure its financial obligations through this SISP.

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

Participation in the SISP

Initial Requirements

Enclosed with this solicitation letter is a form of confidentiality agreement ("**CA**") and a form of acknowledgement of the SISP (the "**SISP Acknowledgement**"). To further participate in the SISP, Interested Parties must:

(i) execute and return the CA and the SISP Acknowledgement to the Monitor; and

(ii) provide the Monitor with such financial disclosure and credit quality support so as to allow the Monitor to make a reasonable determination as to the Interested Party's financial capability to consummate a Sale Proposal or Investment Proposal.

Each Interested Party that delivers the items described in (i) and (ii) above and who the Monitor determines has the financial capability to consummate a Sale Proposal or Investment Proposal will be deemed to be a "**Bidder**" under the SISP, will be provided with a confidential information memorandum regarding the Company and, upon request to the Monitor, will be granted access to an electronic data room containing confidential information to perform due diligence.

Submission of Bids

Bidders must submit their Final Bid to the Monitor by no later than **5PM (Toronto time) on November 21, 2017** (the "**Bid Deadline**"). In order to be considered a Final Bid, a Sale Proposal or Investment Proposal shall:

(i) be binding and irrevocable until the earlier of (i) 30 days after the Bid Deadline and (ii) approval by the Court of the Accepted Bid (as defined in the SISP Document);

(ii) include an acknowledgement that if such Final Bid is selected by the Monitor as the Backup Bid at the Auction, such Final Bid shall remain binding, irrevocable and open for acceptance by the Company until the closing of the transaction with the Successful Bidder;

(iii) include a refundable cash deposit in the form of a wire transfer (to a bank account specified by the Monitor) or such other form of deposit as is acceptable to the Monitor, payable to the Order of the Monitor, in trust, in an amount equal to 10% (the "**Deposit**") of the purchase price or investment amount contemplated by the Bidder's Final Bid;

(iv) if in respect of an Investment Proposal, also include a description of the type and amount of consideration to be allocated to secured creditors, preferred creditors, unsecured creditors and, if any, to the shareholders of the Company;

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

(v) include details of any liabilities to be assumed by the Bidder;

(vi) disclose the identity of each entity (including its ultimate shareholders and/or sponsors) that will be bidding for the Property or making an investment in the Company and/or the Business or otherwise participating in a Final Bid and the complete terms of any such participation;

(vii) include written evidence of a firm, irrevocable commitment for financing or other evidence of an ability to consummate the proposed transaction or transactions comprising the Final Bid, that will allow the Monitor to make a determination as to the Bidder's financial and other capabilities to consummate the proposed transaction;

(viii) include acknowledgments and representations of the Bidder that: (i) it has had an opportunity to conduct any and all due diligence regarding the Property, Business, the Company or otherwise prior to making its bid; (ii) it has relied solely upon its own independent review, investigation and/or inspection of the Property or the Business (including, without limitation, any documents in connection therewith) in making its bid; and (iii) it did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory or otherwise, regarding the Business, Property, or the Company or the completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by the Company and approved by the Court;

(ix) include written evidence, in form and substance reasonably satisfactory to the Monitor, of authorization and approval from the Bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the transaction contemplated by the bid;

(x) not be subject to further due diligence;

(xi) not be subject to financing;

(xii) include a description of any regulatory or other third-party approvals required for the Bidder to consummate the sale or investment transaction, and the time period within which the Bidder expects to receive such regulatory and/or third-party approvals, and those actions the Bidder will take to ensure receipt of such approvals as promptly as possible;

(xiii) not be subject to any conditions precedent except those that are customary in a transaction of this nature;

(xiv) not be conditional upon approval by the Court of any bid protection, such as a break-up fee, termination fee, expense reimbursement or similar type of payment;

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

(xv) contain full details of the proposed number of the Company's employees who will become employees of the Bidder in the case of a Sale Proposal or remain employees of the Company in the case of an Investment Proposal and the proposed terms and conditions of employment of such employees;

(xvi) be received by the Bid Deadline;

(xvii) provide for the payment of the $300,000 expense reimbursement and transaction fee contemplated by the Stalking Horse Agreement; and

(xviii) contemplate closing the transaction set out therein on or before January 12, 2018.

Final Bids must be submitted to the Monitor at the addresses specified below (including by email or fax transmission):

Grant Thornton Limited
in its capacity as Court-appointed Monitor of Index Energy Mills Road Corporation
200 King Street West, 11th Floor
Box 11
Toronto, ON M5H 3T4

Attention:	Michael Creber / Harbir Gill
Email:	michael.creber@ca.gt.com / harbir.gill@ca.gt.com
Fax:	1-416-360-4949

Qualified Bids and Auction

In order for a Final Bid to constitute a "**Qualified Bid**" under the SISP, it must provide value to the creditors and other stakeholders of Index Energy Ajax that is equal to or greater than the Minimum Bid Amount, as defined in the SISP Document.

If one or more Qualified Bids is received in addition to the Stalking Horse Agreement, an auction to will held on November 28, 2017 among those with Qualified Bids. Following selection of the Successful Bid, the Company will apply to the Court for an order approving and authorizing the transaction contemplated by such Successful Bid (the "**Approval and Vesting Order**"). The Approval and Vesting Order is a necessary condition precedent to the completion of the transaction contemplated by the Successful Bid.

Questions Regarding the Process

All communications and inquiries regarding this Solicitation Letter or the SISP should be directed to the Monitor by contacting: **Jason Knight via email (Jason.Knight@ca.gt.com) or by telephone at (416) 369-7017 or Harbir Gill via email (Harbir.Gill@ca.gt.com) or by telephone at (416) 369-7087.**

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

The above is a summary only of the terms and conditions of the SISP and Interested Parties should refer to the SISP Document itself for the complete terms and conditions of the SISP. The SISP Document may be amended in accordance with the terms thereof and the Monitor reserves the right to amend any information which has been made available under this Solicitation Letter in accordance with the terms of the SISP Document.

Yours truly,

GRANT THORNTON LIMITED,
in its capacity as Court-appointed Monitor of
Index Energy Mills Road Corporation and
not in its personal or corporate capacity

Dated at Toronto, Ontario, this ● day of September, 2017

Notice and Disclaimer

This document and the contents of it do not, and are not intended to constitute an offer for sale or an invitation to treat offers to purchase any company, its shares other securities or assets. For the avoidance of doubt there is no intention to create a legal relationship and such relationship will not come into existence unless and until a formal written contract, reviewed by lawyers for each of the parties, has been entered into. The information herein has been provided to Grant Thornton Limited as Court-appointed monitor of Index Energy Mills Road Corporation and the contents are not to be relied upon by Bidders as an inducement to enter into a formal agreement of purchase and sale. All Bidders must carry out their own due diligence in respect of the matters referred to and satisfy themselves as to the accuracy of all matters. While care is taken in the preparation of this document and the information contained in it, the Monitor hereby gives you notice that the Monitor cannot and does not accept any responsibility and/or liability for any loss or damage of whatsoever nature that may occur by reliance on it and howsoever arising. Any disputes or claims arising under or in connection with this document shall be subject to the jurisdiction of the Ontario Superior Court of Justice (Commercial List).

All enquiries regarding this sale and investment solicitation process should be directed to the Monitor:

Grant Thornton Limited

Attention:
Jason Knight, CPA, CA
Manager
T 416.369.7017
F 416.360.4949
E Jason.Knight@ca.gt.com

Harbir Gill, CPA, CA
Senior Associate
T 416.369.7087
F 416.360.4949
E Harbir.Gill@ca.gt.com

200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Website: www.GrantThornton.ca

A Confidential Information Memorandum will be issued following execution of a confidentiality agreement.

<@>, 2017

By email (<@>.com)

[Name]
[Address]
[City, Province/State]
[Postal Code/ZIP]

Dear Sirs/Mesdames:

Re: Non-Disclosure Agreement – Index Energy Mills Road Corporation (the "Company")

On August 16, 2017, the Company was granted protection by the Ontario Superior Court of Justice (Commercial List) (the "**Court**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**"). On September 11, 2017, the Court made an order approving, among other things, the sale and investment solicitation process attached as Schedule "A" thereto (the "**SISP**"), which sets out the procedures that govern the solicitation of offers from third parties interested in investing in or acquiring all or part of the business or assets of the Company and any transactions consummated as a result thereof.

Grant Thornton Limited in its capacity as court-appointed Monitor of the Company (the "**Monitor**"), in consultation with the Company and National Bank of Canada in its capacity as agent for a syndicate of lenders to the Company, is soliciting offers from third parties interested in investing in or acquiring all or part of the business or assets of the Company in accordance with the SISP (a "**Potential Transaction**"). The Monitor or the Company may make Information (as defined below) available to you and/or your Representatives (as defined below) for the purpose of evaluating a Potential Transaction as the Monitor deems appropriate in its reasonable business judgment.

In consideration of the Monitor or the Company making available the Information to you or your Representatives, as well as the mutual covenants contained in this Agreement and other consideration, you agree with the Company and the Monitor as follows:

1. **Definitions**. In this Agreement:

"**Affiliate**" when used to indicate a relationship with a specified Person, means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person and a Person shall be deemed to be controlled by another Person if controlled in any manner whatsoever that results in control in fact by that other Person whether directly or indirectly and whether through share ownership, a trust, a contract or otherwise.

"**Agreement**" means this letter agreement, as it may be amended or supplemented by the parties in writing from time to time.

“**Business Day**” means any day other than a Saturday, Sunday or day on which Canadian chartered banks in Toronto, Ontario are authorized or obligated by law to close or are generally closed.

“**Information**” means information which is non-public, confidential or proprietary in nature relating to the Company or its Affiliates, whether provided or made available before or after the date of this Agreement, whether given orally or in writing or gathered by inspection, and regardless of whether specifically identified as “confidential” and includes all analyses, compilations, data, studies or other documents or records (whether in writing, or stored in computerized, electronic, disk, tape, microfilm or other form) prepared by you or your Representatives containing or based, in whole or in part, upon any such information provided or made available, and each item thereof, and each copy thereof and includes any of the facts or information referred to in Section 2 of this Agreement.

“**Person**” shall be broadly interpreted and shall include any individual, body corporate (with or without share capital), partnership, limited partnership, syndicate, sole proprietorship, joint venture, association, unincorporated organization, trust, trustee, executor, administrator or other legal representative, the Crown or any agency or instrumentality thereof and any other entity.

“**Personnel**” means the directors, officers and employees of the party being referred to.

“**Representatives**” means the directors, officers, employees, agents, solicitors, accountants, consultants, financial or legal advisers, financing sources, shareholders and all other representatives of the party being referred to.

2. **Non-Disclosure of Potential Transaction**. Except as permitted in Section 4, you will not, and you will direct your Representatives not to, make any public comment, statement or communication or otherwise disclose to any Person (i) that Information is being made available to you and your Representatives, (ii) that discussions or negotiations are taking place concerning a Potential Transaction, or (iii) any of the terms, conditions or other facts relating to any Potential Transaction, including the existence or status of this Agreement.

3. **Confidentiality Obligation**. You agree:

(a) to keep the Information confidential;

(b) not to disclose the Information, except as permitted in Section 4 or Section 5, without the prior written consent of the Company and the Monitor;

(c) not to use the Information, directly or indirectly, for any purpose other than to evaluate, negotiate and document or advise on a Potential Transaction (the “**Purpose**”);

(d) not to communicate directly or indirectly in connection with any matter which is the subject of the Information or relating to the Company, with any Person that has any agreement or relationship with the Company or any of its Affiliates, outside the ordinary course of business of you or your Affiliates;

(e) not to copy or reproduce any of the Information, except for your Representatives who need to know the Information for the purpose of evaluating or advising on the Potential Transaction; and

(f) to keep confidential all discussions and negotiations with respect to a Potential Transaction.

4. **Disclosure**. You may disclose the Information to your Representatives and Affiliates, but only to the extent that they:

(a) need to know the Information for the Purpose; and

(b) are informed by you of the confidential nature of the Information and the terms of this Agreement.

You agree to notify the Company and the Monitor in writing of the name of any Representative (other than your Personnel) to whom any Information has been disclosed, prior to such disclosure.

5. **Limited Exceptions**. For the purposes of this Agreement, Information does not include any Information that:

(a) is or becomes generally available to the public, other than as a result of a disclosure in breach of this Agreement, although no Information shall be deemed to be public merely because it forms part of more general information that is public;

(b) becomes available to you on a non-confidential basis from a source other than the Company or the Monitor or their Representatives, so long as that source is not bound by a confidentiality agreement with respect to the Information or otherwise prohibited from transmitting the Information to you by a contractual, legal or fiduciary obligation;

(c) you are able to demonstrate was known to you on a non-confidential basis before it was provided or otherwise made available to you by the Company or the Monitor or their Representatives; or

(d) you independently develop without the use of any Information.

6. **Responsibility for Representatives**. You shall cause your Affiliates and Representatives to comply with this Agreement. You shall be liable for any breach of the provisions of this Agreement by any of your Affiliates, Personnel or Representatives. You hereby indemnify the Company, the Monitor and their respective Affiliates and Representatives and save each of them harmless from and against any loss, cost, damage, expense or liability suffered or incurred by

any of them arising as a result of or in connection with any breach by you or any of your Affiliates, Personnel or Representatives of any provision of this Agreement.

7. **Non-Solicitation**. For a period of three (3) years from the date of execution of this Agreement you shall not directly or indirectly, communicate with, hire, contract with, seek to employ, or in any manner retain any employees, officers or agents of the Company or any of its Affiliates or induce, or attempt to induce any of them to leave their employment with the Company or any of its Affiliates, provided however, that this restriction will not prohibit you from (i) considering and accepting applications made by any employee, officer or agent as a result of general media advertising not directed primarily or exclusively at the employees, officers or agents of the Company or any of its Affiliates, (ii) responding to candidates forwarded by a personnel recruiter, provided that neither you nor the personnel recruiter used the Information to target such employee, officer or agent, or (iii) making offers of employment to employees or officers of the Company pursuant to a definitive agreement in respect of a Potential Transaction when, as and if such a definitive agreement is executed and binding, and subject to such limitations and restrictions as may be specified in such definitive agreement.

8. **Obligations when Compelled to Disclose**. If you or any of your Affiliates or Representatives become legally compelled (by law, rule, regulation, subpoena, civil investigative demand or similar process having force of law or under the rules of any securities exchange on which you or your Affiliates are traded) (i) to disclose any of the Information or (ii) to make any comment, statement or communication regarding any of the facts or information referred to in Section 2 of this Agreement, you will, to the extent legally permissible, promptly provide the Company with particulars and you shall consent to and assist the Company (at the Company's expense) in obtaining any protective order or other appropriate remedy that the Company or any of its Affiliates may seek for the purpose of preventing disclosure of any of the Information to the public. If such protective order or other remedy is not obtained, or if the Company waives compliance with the provisions of this Agreement, you and the Person to whom you disclosed the Information will furnish only that portion of the Information which you are advised by your counsel is legally required and you will exercise your commercially reasonable efforts (at the Company's expense) to obtain a protective order or other reliable assurance that confidential treatment will be accorded the Information.

9. **Return or Destruction of Information**. If you decide not to enter into a Potential Transaction, you will promptly advise the Company and the Monitor of your decision. In that case, or if no transaction between you and the Company is completed after the Information is furnished to you, or if the Company, the Monitor or one of their Representatives so request at any time prior to the completion of the Potential Transaction for any reason whatever, you and your Representatives will promptly and, in any event, within five Business Days, deliver to the Company or destroy, delete or erase (and promptly confirm such destruction, deletion and erasure to the Company and the Monitor, in writing), if so requested by the Company or the Monitor, all documents and materials provided by the Company, the Monitor or their Representatives to you or your Representatives constituting Information, without retaining copies thereof except as provided in Section 10 of this Agreement. You will also ensure that all other documents or records (whether in writing or stored in computerized, electronic, disk, tape, microfilm or any other form) constituting or containing Information created by or for you or your Representatives are destroyed, deleted or erased, as the case may be, except that you may retain

Information you have prepared exclusively from publicly available information contemplated in Section 5 hereof.

10. **Electronic Retention**. Notwithstanding Section 9 of this Agreement, you may retain (i) all internal management or board presentations and related materials prepared by you or your Representatives containing or based on Information and (ii) one copy of the Information in a secure location not accessible in the ordinary course of business solely for the purpose of (x) complying with the laws, rules and regulations of any governmental agency or self-regulatory organization to which you (or your Affiliates) are subject, including without limitation, FINRA and the Securities and Exchange Commission, (y) identifying your obligations under this Agreement, and (z) defending against any claim or allegation that you or your Representatives have breached this Agreement. Your confidentiality obligations hereunder shall continue to apply to any Information retained pursuant to this Section 10.

11. **Property of Disclosing Parties**. The Information (except such portion thereof constituting analyses, compilations, studies, forecasts, data or other documents or materials prepared by you or your Representatives) is and shall, at all times, remain the property of the Company, and the Company and the Monitor and their Representatives may, at any time and from time to time, disclose such Information to other Persons in connection with a Potential Transaction or other possible transactions.

12. **No Representation or Warranty Regarding Information**. Although the Company and the Monitor have endeavoured and will endeavour to include in the Information those materials which are believed to be reliable and relevant for the purpose of your evaluation, you acknowledge that neither the Company nor the Monitor, their Affiliates nor any of their respective Representatives makes any representation or warranty as to the accuracy, completeness, reliability or relevance of the Information or as to the non-occurrence of any changes in the Company' affairs since the dates as of which Information is provided. You agree that neither the Company nor the Monitor, their Affiliates nor any of their Representatives shall have any liability to you or to any of your Representatives as a result of the use of the Information by you and your Representatives. You must rely on your own investigations, due diligence and analysis in satisfying yourself as to all matters relating to the Company and its assets, liabilities and business. You agree that only those particular representations and warranties which may be made to you by the Company in a definitive agreement, when, as and if such a definitive agreement is executed and binding, and subject to such limitations and restrictions as may be specified in such definitive agreement, shall have any legal effect.

13. **Right to Injunctive Relief and Specific Performance**. You acknowledge that a breach of any of the covenants or provisions contained herein will cause the Company and/or any of its Affiliates to suffer loss which will not be adequately compensated for by damages and that the Company and its Affiliates may, in addition to any other remedy or relief, enforce the performance of this Agreement by seeking an injunction or specific performance upon application to a court of competent jurisdiction.

14. **General Provisions**.

(a) **Entire Agreement**. This Agreement sets out the entire agreement between us pertaining to the subject matter hereof and supersedes all prior negotiations, discussions, understandings, undertakings, statements, arrangements, promises, representations and agreements, both written or oral, between us relating to the subject matter hereof.

(b) **Amendment**. This Agreement may only be amended, modified or supplemented by a written agreement signed by each party.

(c) **Interpretation and Construction**. The division of this Agreement into sections and subsections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. In this Agreement, words in the singular include the plural and vice-versa and words in one gender include all genders. Time is of the essence of each provision of this Agreement. The language used in this Agreement is the language chosen by us to express our mutual intent, and no rule of *contra proferentem* or strict construction shall be applied against any party.

(d) **Waiver**. No waiver of or consent to depart from the requirements of any provision of this Agreement shall be binding unless it is in writing and is signed by the party giving it. Such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it has been given. No failure on the part of a party to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver of such right. No single or partial exercise of any such right shall preclude any other or further exercise of such right or the exercise of any other right.

(e) **Governing Law and Choice of Forum**. This Agreement shall be governed by and interpreted, construed and enforced in accordance with the laws of the Province of Ontario and the laws of Canada in force in such Province, excluding any rule or principle of the conflict of laws which might refer such interpretation, construction or enforcement to the laws of another jurisdiction. Each party irrevocably submits and attorns to the non-exclusive jurisdiction of the courts of the Province of Ontario, with respect to any matter arising under this Agreement or related to this Agreement.

(f) **Invalidity**. If there is a Final Determination that any term or provision of this Agreement is illegal, invalid or unenforceable in any jurisdiction, such illegality, invalidity or unenforceability of that term or provision will not affect (a) the legality, validity or enforceability of the remaining terms and provisions of this Agreement and (b) the legality, validity or enforceability of such term or provision in any other jurisdiction. For the purposes of this Section 14(f), the term "**Final Determination**" means either (i) a decision of a court of competent jurisdiction, from which no appeal lies or in respect of which all appeal rights have been exhausted or all time periods for appeal have expired without appeals having been taken, or (ii) a written agreement between the parties as to a determination of the matter in issue.

(g) **Notice**. Any notice, demand or other communication (a "**notice**") required or permitted to be given or made hereunder shall be in writing and shall be sufficiently given or made if:

(i) delivered in person (including by commercial courier) during normal business hours on a Business Day and left with a receptionist or other responsible employee at the relevant address set forth below; or

(ii) sent by facsimile transmission or email ("**Electronic Transmission**"), during normal business hours on a Business Day, but notice by Electronic Transmission shall only be sufficient if the notice includes or is accompanied by the sender's name, address, telephone number and facsimile number or email address, the date and time of transmission and the name and telephone number of a person to contact in the event of transmission problems;

in the case of a notice to you addressed to you at the address set out below the name of the Potential Purchaser on the signature page of this Agreement;

and in the case of a notice to the Company, addressed to it at:

Index Energy Mills Road Corporation
170 Mills Road
Ajax, ON L1S 2H1

Attention: ●
Email: ●@indexenergy.com

with a copy to counsel for the Company:

Cassels Brock & Blackwell LLP
Scotia Plaza
40 King Street West
Toronto, ON M5H 3C2

Attention: Shayne R. Kukulowicz/ Jane Dietrich
Email: skukulowicz@casselsbrock.com/ jdietrich@casselsbrock.com

and in the case of a notice to the Monitor, addressed to it at:

Grant Thornton Limited
200 King Street West, 11th Floor
Toronto, ON M5H 3T4

Attention: Michael Creber
Email: michael.creber@ca.gt.com

with a copy to counsel for the Monitor:

Goodmans LLP
333 Bay Street, Suite 3400
Toronto, ON M5H 2S7

Attention: Brian Empey / Ryan Baulke
Email: bempey@goodmans.ca / rbaulke@goodmans.ca

Each notice sent in accordance with this Section shall be deemed to have been received:

(iii) in the case of personal delivery, if delivered before 5:00 p.m. on the day of delivery, otherwise on the following Business Day; or

(iv) in the case of Electronic Transmission, on the same day that it was sent by Electronic Transmission if sent before 5:00 p.m. (recipient's time) on a Business Day, otherwise on the following Business Day.

Notice of change of address shall also be governed by this Section.

(h) **No Assignment**. No party may assign any rights or benefits of this Agreement to any Person, except that the Company may assign this Agreement and its rights hereunder to any Person who completes a Potential Transaction. This Agreement shall enure to the benefit of and be binding upon each of the parties hereto and their respective successors and permitted assigns.

(i) **Authorization**. You represent and warrant to the Company that the execution and delivery of this Agreement has been duly authorized by all necessary corporate action on your part and that the individuals signing this Agreement on your behalf are duly authorized to do so.

(j) **Counterparts and Facsimile Execution**. This Agreement may be executed in any number of counterparts. Each executed counterpart shall be deemed to be an original. All executed counterparts taken together shall constitute one and the same original agreement. To evidence the fact that it has executed this Agreement, a party may send a copy of its executed counterpart to the other party by Electronic Transmission and if by email in Portable Document File (PDF) format. That party shall be deemed to have executed and delivered this Agreement on the date it sent such Electronic Transmission. In such event, such party shall forthwith deliver to the other party the counterpart of this Agreement executed by such party.

(k) **Language**. The Parties have expressly required that this Agreement and all documents and notices relating hereto be drafted in English. Les parties aux présentes ont expressément exigé que la présente convention et tous les documents et avis qui y sont afférents soient rédigés en anglais.

If you are in agreement with the foregoing, please so indicate by signing and returning one copy of this Agreement, whereupon this letter will constitute our agreement with respect to its subject matter.

Yours truly,

INDEX ENERGY MILLS ROAD CORPORATION	**and**	**GRANT THORNTON LIMITED**
By: ______________________________ Name: Title:		By: ______________________________ Name: Title:

Accepted and agreed to this __ of ________, 2017

●

____

By: ______________________________
Name:
Title:

Address of Potential Investor:

●

Attention: ●
Facsimile Number: 905-619-0210
Email: ●

APPENDIX “4”

[Attached]

NORTON ROSE FULBRIGHT

Barristers & Solicitors / Patent & Trade-mark Agents

Norton Rose Fulbright Canada LLP
Royal Bank Plaza, South Tower, Suite 3800
200 Bay Street, P.O. Box 84
Toronto, Ontario M5J 2Z4 Canada

F: +1 416.216.3930
nortonrosefulbright.com

Evan Cobb
+1 416.216.1929
Evan.Cobb@nortonrosefulbright.com

Your reference

Our reference
01000446-0132

September 5, 2017

Sent By E-mail

Goodmans LLP
Bay Adelaide Centre
Suite 3400
333 Bay Street
Toronto, ON M5H 2S7

Attention: Brian F. Empey and Melaney Wagner

Dear Sir/Madam:

Index Energy Mills Road Corporation ("Index Energy")

We are counsel to HMI Construction Inc. ("**HMI**") and we write to you in connection with the proceedings commenced by Index Energy under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA Proceedings**").

We have received a copy of the motion record of Index Energy for a motion returnable September 11, 2017 seeking approval of: (i) a sale and investment solicitation process (the "**SISP**"); and (ii) a stalking horse asset purchase agreement to be used in connection with the SISP (the "**Stalking Horse APA**").

Capitalized terms used herein and not otherwise defined have the meanings given to them in the SISP or the Stalking Horse APA.

The purpose of this letter is to seek clarification of certain matters relating to the SISP and the Stalking Horse APA on behalf of HMI.

<u>HMI Claim and Priority Issues</u>

HMI currently has an outstanding claim against Index Energy in an amount of not less than $32,807,468.11 (including HST) (the "**HMI Claim**"). That claim is secured by two liens against the property of Index Energy located in Ajax, Ontario (the "**HMI Lien**"). The HMI Lien claims were registered in April 2015 and August 2015 and the HMI Lien claims were perfected in time. Copies of evidence of the HMI Lien registrations and the statements of claim asserting the HMI Claim to which the liens relate are enclosed herewith.

HMI takes the position that the HMI Lien registrations securing the HMI Claim have priority over all or a portion of the Index Secured Debt and the Index Residence Security (other than the obligations under the DIP Credit Agreement).

Based upon the information available to HMI at this time, it appears that the HMI Lien claim has priority pursuant to Sections 78(5) and 78(6) of the *Construction Lien Act* over those portions of the Index Secured Debt advanced after April 28, 2015, being the date on which the first HMI Lien was registered on title to the relevant property. According to information received by HMI from Index Residence AB, not less than $20,456,902.95 of the advances under the Index Secured Debt occurred after April 28, 2015.

CAN_DMS: \108588017\2

NORTON ROSE FULBRIGHT

HMI may have other bases upon which to assert the priority of the HMI Lien claim over the Index Secured Debt and the Index Residence Security and reserves all rights with respect to such matters.

The Stalking Horse APA

HMI understands that at this stage of the CCAA Proceedings neither Index Energy nor the Monitor are seeking an order approving the sale or the vesting of the Purchased Assets under the Stalking Horse APA to the bidder under the Stalking Horse APA.

HMI does not wish to impede the SISP and does not intend to oppose the approval of the SISP. However, HMI wishes to ensure that both Index Energy and the Monitor understand that HMI's decision not to oppose the approval of the SISP and the use of the Stalking Horse APA as part of the SISP is not intended to prejudice arguments that HMI may make on any motion for an approval and vesting order in connection with the Stalking Horse APA including, among other things, arguments that challenge the approval of the transaction contemplated by the Stalking Horse APA, on the basis that it appears to:

(a) provide value or potential value to holders of claims secured by liens similar to the HMI Lien and to holders of claims subordinate to the HMI Claims and the HMI Liens while seeking to extinguish the HMI Claim and the HMI Lien; and

(b) preserve certain litigation against HMI and associated parties that may be pursued by the purchaser under the Stalking Horse APA while at the same time seeking to eliminate any right of HMI to pursue its related claims against the purchaser.

The foregoing is not intended to be an exhaustive list of all of HMI's possible concerns about the Stalking Horse APA.

HMI does not believe these issues need to be argued at the current time based on the terms of the draft SISP order that appear to defer any such issues to a later date. However, HMI believes it is important that Index Energy, the Monitor and the syndicate of lenders to Index Energy understand HMI's concerns at the earliest possible stage. If Index Energy or the Monitor believe that any of the foregoing issues must be determined at this time or will take the position in the future that these matters should have been dealt with at the SISP approval stage, please advise.

The SISP

As a result of the priority issues raised earlier in this letter and the treatment of the HMI Claim under the Stalking Horse APA, HMI is very interested in the process for evaluating the Stalking Horse Bid against any other bids that may be presented in the SISP.

It appears from the SISP that a bid will be considered a Qualified Bid if that bid provides cash consideration sufficient to: (i) satisfy all obligations under the court-ordered charges, (ii) satisfy any obligations secured by encumbrances ranking ahead of the Syndicate Security, (iii) satisfy the Expense Reimbursement and Transaction Fee obligations in the amount of $300,000; and (iv) provide further cash consideration in the amount of not less than $20,000,000 that is not reserved for any specific creditor group and would be included in the pool of consideration to be available to pay liabilities that are not assumed by the purchaser in accordance with the applicable priorities of the non-assumed creditors.

HMI expects that any bids received through the SISP are likely to provide various combinations of cash consideration and assumption of liabilities. In HMI's view, the interests of secured creditors and the recoveries available having regard to the relative priorities of these secured creditors are key considerations. To the extent any bid provides cash recoveries that may flow to secured creditors, such as HMI, or provides for the assumption of liabilities of secured creditors such as HMI, any such transaction should be preferred over a transaction, such as the Stalking Horse APA, that seeks to leave some secured creditors without recoveries while assuming and providing recoveries to subordinate or unsecured obligations.

HMI requests the following information and confirmations on the SISP:

(i) The fact that a particular bid may not assume or provide any recoveries for any of the Index Secured Debt or any other subordinate obligations does not appear to disqualify such bid from being a Qualified Bid. Please advise if HMI's understanding on this point is not correct.

(ii) HMI also seeks the Monitor's confirmation that no determination has been made at this time regarding the priority of the HMI Claim and the HMI Lien.

(iii) HMI requests information on the bids received through the SISP that would allow HMI to determine if any bids would provide greater recoveries to HMI than the Stalking Horse APA provides. HMI would be willing to enter into necessary confidentiality arrangements to ensure that this information can be provided without impacting the integrity of the SISP.

HMI emphasizes that it does not wish to disrupt the SISP or to take steps that impair the ability of the SISP to generate maximum value. HMI is interested only in ensuring that the priority rights of creditors are respected.

Yours truly,

Evan Cobb

Evan Cobb

EC/ls

Copies to: (By Email)
Shayne Kukulowicz, Cassels Brock & Blackwell LLP
Jane Dietrich, Cassels Brock & Blackwell LLP

APPENDIX "5"

[Attached]

Index Energy Mills Road Corporation
Cash Flow Projection
September 2, 2017 to December 31, 2017

For the week ending, In $	8-Sep-17	15-Sep-17	22-Sep-17	29-Sep-17	6-Oct-17	13-Oct-17	20-Oct-17	27-Oct-17	3-Nov-17	10-Nov-17	17-Nov-17	24-Nov-17	1-Dec-17	8-Dec-17	15-Dec-17	22-Dec-17	29-Dec-17	Partial 31-Dec-17	September 2, 2017 to December 31, 2017
Opening Cash	2,013,476	942,358	3,938,988	2,927,749	3,679,670	2,786,088	2,307,912	1,749,663	2,580,350	1,851,739	1,723,369	1,047,620	1,910,525	1,228,914	1,100,416	268,135	139,765	700,573	2,013,476
Receipts																			
Sales Receipts	-	-	-	880,291	-	-	-	966,557	-	-	-	998,775	-	-	-	-	966,557	-	3,812,180
DIP Facility Advances	-	3,400,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,400,000
HST Refund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts	-	3,400,000	-	880,291	-	-	-	966,557	-	-	-	998,775	-	-	-	-	966,557	-	7,212,180
Disbursements																			
Opening A/P	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Critical Supplier - Arrears	-	-	200,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200,000
Deposits	-	275,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	275,000
Supplies & Testing	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	571	34,571
Wood Fuel & Fly Ash	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	84,957	1,529,228
Equipment Parts & Maintenance	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	360,000
Equipment Rentals	-	-	-	-	120	-	-	-	150	-	-	-	-	129	-	-	-	-	399
Labour	66,838	-	66,838	-	66,838	-	66,838	-	66,838	-	66,838	-	66,838	-	66,838	-	66,838	-	601,542
Hydro & Gas	160,000	-	-	-	-	160,000	-	-	-	-	167,500	-	-	-	195,500	-	-	-	683,000
Water & Sewage Costs	-	-	-	-	-	189,806	-	-	-	-	-	-	-	-	213,532	-	-	-	403,338
Chemical & Fuel Supplies	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	1,071	64,821
Salary & Wages	13,162	-	13,162	-	13,162	-	13,162	-	13,162	-	13,162	-	13,162	-	13,162	-	13,162	-	118,458
Payroll Expenses	45,500	-	45,500	-	45,500	-	45,500	-	45,500	-	45,500	-	45,500	-	45,500	-	45,500	-	409,503
Tools & Supplies Expense	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	3,607	1,031	62,358
Insurance	-	-	-	-	36,213	-	-	-	36,213	-	-	-	36,213	-	-	-	-	-	108,638
Rent Expense	809	809	809	809	809	809	809	809	809	809	809	809	809	809	809	809	809	809	14,570
Shipping - Freight	286	286	286	286	286	286	286	286	286	286	286	286	286	286	286	286	286	82	4,942
Audit & Accounting Exp.	7,500	-	-	-	-	-	-	7,500	-	-	-	7,500	-	-	-	-	7,500	-	30,000
Consulting	-	-	-	-	53,000	-	-	-	53,000	-	-	-	53,000	-	-	-	-	-	159,000
Meals & Entertainment	157	157	157	157	157	157	157	157	157	157	157	157	157	157	157	157	157	157	2,824
Office Supplies/Services	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	400	24,181
Building & Yard Maint.	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	2,347	671	40,570
Travel	693	693	693	693	693	693	693	693	693	693	693	693	693	693	693	693	693	693	12,476
Realty Tax Expense	-	-	15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000
Training	497	497	497	497	497	497	497	497	497	497	497	497	497	497	497	497	497	497	8,942
Telephone Expense	-	621	-	621	-	621	-	621	-	621	-	621	-	621	-	621	-	621	5,590
Lease Expense	-	-	-	-	8,400	-	-	-	8,400	-	-	-	8,400	-	-	-	-	-	25,200
R&M Unusual	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	7,246	2,070	125,253
Total Operating Disbursements	420,749	403,370	468,249	128,370	350,982	478,176	253,249	135,870	351,012	128,370	420,749	135,870	350,862	128,498	662,281	128,370	260,749	113,630	5,319,406
Operating Cash Flow	(420,749)	2,996,630	(468,249)	751,921	(350,982)	(478,176)	(253,249)	830,687	(351,012)	(128,370)	(420,749)	862,905	(350,862)	(128,498)	(662,281)	(128,370)	705,808	(113,630)	1,892,774
Capex/Mitigation																			
Critical Parts Inventory Replenishment	100,000	-	50,000	-	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	200,000
Utility Optimization Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capex	100,000	-	50,000	-	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	200,000
Free Cash Flow	(520,749)	2,996,630	(518,249)	751,921	(400,982)	(478,176)	(253,249)	830,687	(351,012)	(128,370)	(420,749)	862,905	(350,862)	(128,498)	(662,281)	(128,370)	705,808	(113,630)	1,692,774
Other Disbursements																			
Interest - Syndicate Loan	132,600	-	-	-	132,600	-	-	-	132,600	-	-	-	165,750	-	-	-	-	165,750	729,298
Interest - DIP Facility	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees	417,770	-	492,990	-	360,000	-	305,000	-	245,000	-	255,000	-	165,000	-	170,000	-	145,000	-	2,555,760
Total Other Disbursements	550,369	-	492,990	-	492,600	-	305,000	-	377,600	-	255,000	-	330,750	-	170,000	-	145,000	165,750	3,285,058
Total Disbursements	1,071,118	403,370	1,011,239	128,370	893,581	478,176	558,249	135,870	728,611	128,370	675,749	135,870	681,611	128,498	832,281	128,370	405,749	279,380	8,804,463
Net Cash Flow	(1,071,118)	2,996,630	(1,011,239)	751,921	(893,581)	(478,176)	(558,249)	830,687	(728,611)	(128,370)	(675,749)	862,905	(681,611)	(128,498)	(832,281)	(128,370)	560,808	(279,380)	(1,592,283)
Closing Cash	942,358	3,938,988	2,927,749	3,679,670	2,786,088	2,307,912	1,749,663	2,580,350	1,851,739	1,723,369	1,047,620	1,910,525	1,228,914	1,100,416	268,135	139,765	700,573	421,193	421,193

APPENDIX “6”

[Attached]

Index Energy Mills Road Corporation
Pre-Filing Cash Flow Projection Comparison
August 4, 2017 to September 1, 2017

Week 1

For the week ending, in $	11-Aug-17	Actual Results	Variance	Comments
Opening Cash	32,055	13,333	(18,722)	
Receipts				
Sales Receipts	-	-	-	
DIP Facility Advances	-	-	-	
HST Refund	-	-	-	
Total Receipts	-	-	-	
Disbursements				
Opening A/P	-	-	-	
Critical Supplier - Arrears	-	-	-	
Deposits	-	-	-	
Supplies & Testing	-	-	-	
Wood Fuel & Fly Ash	-	-	-	
Equipment Parts & Maintenance	-	-	-	
Equipment Rentals	-	-	-	
Labour	-	-	-	
Hydro & Gas	-	-	-	
Water & Sewage Costs	-	-	-	
Chemical & Fuel Supplies	-	-	-	
Salary & Wages	-	-	-	
Payroll Expenses	21,325	-	(21,325)	Payment not released until the week ending Aug 18th
Tools & Supplies Expense	-	-	-	
Insurance	-	-	-	
Rent Expense	-	-	-	
Shipping - Freight	-	-	-	
Audit & Accounting Exp.	-	-	-	
Consulting	-	-	-	
Meals & Entertainment	-	-	-	
Office Supplies/Services	-	-	-	
Building & Yard Maint.	-	-	-	
Travel	-	-	-	
Realty Tax Expense	-	-	-	
Training	-	-	-	
Telephone Expense	-	-	-	
Lease Expense	-	-	-	
R&M Unusual	-	-	-	
Total Operating Disbursements	21,325	-	(21,325)	
Operating Cash Flow	(21,325)	-	21,325	
Capex/Mitigation				
Critical Parts Inventory Replenishment	-	-	-	
Utility Optimization Projects	-	-	-	
Total Capex	-	-	-	
Free Cash Flow	(21,325)	-	21,325	
Other Disbursements				
Interest - Syndicate Loan	-	-	-	
Interest - DIP Facility	-	-	-	
Professional Fees	-	-	-	
Total Other Disbursements	-	-	-	
Total Disbursements	21,325	-	(21,325)	
Net Cash Flow	(21,325)	-	21,325	
Closing Cash	10,730	13,333	2,603	

Filing
Week 2

For the week ending, in $	18-Aug-17	Actual Results	Variance	Comments
Opening Cash	10,730	13,333	2,603	
Receipts				
Sales Receipts	-	-	-	
DIP Facility Advances	-	1,599,980	1,599,980	DIP Financing not forecasted as lump sum in the Pre-Filing Cash Flow Projection
HST Refund	-	-	-	
Total Receipts	-	1,599,980	1,599,980	
Disbursements				
Opening A/P	-	-	-	
Critical Supplier - Arrears	-	-	-	
Deposits	-	-	-	
Supplies & Testing	4,000	-	(4,000)	
Wood Fuel & Fly Ash	254,871	-	(254,871)	Pre-Filing Cash Flow Projection forecasted monthly COD terms; weekly terms now in place
Equipment Parts & Maintenance	61,070	-	(61,070)	COD payment to maintenance contractors have not yet been required
Equipment Rentals	-	-	-	
Labour	-	-	-	
Hydro & Gas	-	-	-	
Water & Sewage Costs	-	-	-	
Chemical & Fuel Supplies	7,500	-	(7,500)	
Salary & Wages	-	-	-	
Payroll Expenses	-	39,919	39,919	Payments of source deduction arrears were larger than forecasted
Tools & Supplies Expense	3,607	-	(3,607)	
Insurance	-	-	-	
Rent Expense	-	-	-	
Shipping - Freight	572	-	(572)	
Audit & Accounting Exp.	-	-	-	
Consulting	9,590	-	(9,590)	
Meals & Entertainment	-	-	-	
Office Supplies/Services	2,798	-	(2,798)	
Building & Yard Maint.	4,694	-	(4,694)	
Travel	-	-	-	
Realty Tax Expense	-	-	-	
Training	-	-	-	
Telephone Expense	621	-	(621)	
Lease Expense	8,400	-	(8,400)	
R&M Unusual	14,492	-	(14,492)	
Total Operating Disbursements	372,216	39,919	(332,297)	
Operating Cash Flow	(372,216)	1,560,061	1,932,277	
Capex/Mitigation				
Critical Parts Inventory Replenishment	-	-	-	
Utility Optimization Projects	-	-	-	
Total Capex	-	-	-	
Free Cash Flow	(372,216)	1,560,061	1,932,277	
Other Disbursements				
Interest - Syndicate Loan	-	-	-	
Interest - DIP Facility	-	-	-	
Professional Fees	271,532	-	(271,532)	Payment of professional invoices will likely occur the week ending Sept 8th
Total Other Disbursements	271,532	-	(271,532)	
Total Disbursements	643,748	39,919	(603,829)	
Net Cash Flow	(643,748)	1,560,061	2,203,809	
Closing Cash	(633,018)	1,573,394	2,206,412	

Week 3

For the week ending, in $	25-Aug-17	Actual Results	Variance	Comments
Opening Cash	(633,018)	1,573,394	2,206,412	
Receipts				
Sales Receipts	702,361	702,355	(6)	
DIP Facility Advances	-	-	-	
HST Refund	-	-	-	
Total Receipts	702,361	702,355	(6)	
Disbursements				
Opening A/P	-	-	-	
Critical Supplier - Arrears	-	-	-	
Deposits	275,000	-	(275,000)	Deposits to utility companies have not yet been provided
Supplies & Testing	2,000	-	(2,000)	
Wood Fuel & Fly Ash	-	-	-	
Equipment Parts & Maintenance	20,000	-	(20,000)	COD payment to maintenance contractors have not yet been required
Equipment Rentals	-	-	-	
Labour	85,000	78,686	(6,314)	
Hydro & Gas	-	-	-	
Water & Sewage Costs	-	-	-	
Chemical & Fuel Supplies	3,750	-	(3,750)	
Salary & Wages	13,162	-	(13,162)	
Payroll Expenses	20,756	32,228	11,472	
Tools & Supplies Expense	3,607	-	(3,607)	
Insurance	-	-	-	
Rent Expense	809	-	(809)	
Shipping - Freight	286	-	(286)	
Audit & Accounting Exp.	-	-	-	
Consulting	9,590	1,853	(7,737)	Payment to purchasing contractor
Meals & Entertainment	157	-	(157)	
Office Supplies/Services	1,399	20	(1,379)	
Building & Yard Maint.	2,347	-	(2,347)	
Travel	693	-	(693)	
Realty Tax Expense	-	-	-	
Training	497	-	(497)	
Telephone Expense	-	-	-	
Lease Expense	-	-	-	
R&M Unusual	7,246	-	(7,246)	
Total Operating Disbursements	446,300	112,788	(333,513)	
Operating Cash Flow	256,061	589,568	333,507	
Capex/Mitigation				
Critical Parts Inventory Replenishment	25,000	-	(25,000)	
Utility Optimization Projects	-	-	-	
Total Capex	25,000	-	(25,000)	
Free Cash Flow	231,061	589,568	358,507	
Other Disbursements				
Interest - Syndicate Loan	-	-	-	
Interest - DIP Facility	-	-	-	
Professional Fees	55,000	-	(55,000)	
Total Other Disbursements	55,000	-	(55,000)	
Total Disbursements	526,300	112,788	(413,513)	
Net Cash Flow	176,061	589,568	413,507	
Closing Cash	(456,957)	2,162,962	2,619,919	

Week 4

For the week ending, in $	1-Sep-17	Actual Results	Variance	Comments
Opening Cash	(456,957)	2,162,962	2,619,919	
Receipts				
Sales Receipts	-		-	
DIP Facility Advances	-		-	
HST Refund	-		-	
Total Receipts	-	-	-	
Disbursements				
Opening A/P	-	-	-	
Critical Supplier - Arrears	-	-	-	
Deposits	-	-	-	
Supplies & Testing	2,000	-	(2,000)	
Wood Fuel & Fly Ash	339,828	94,295	(245,533)	Pre-Filing Cash Flow Projection forecasted monthly COD terms; weekly terms now in place
Equipment Parts & Maintenance	20,000		(20,000)	
Equipment Rentals	150		(150)	
Labour	-		-	
Hydro & Gas	-		-	
Water & Sewage Costs	-		-	
Chemical & Fuel Supplies	3,750		(3,750)	
Salary & Wages	-	5,295	5,295	
Payroll Expenses	-	6,474	6,474	
Tools & Supplies Expense	3,607		(3,607)	
Insurance	36,213	36,213	-	
Rent Expense	809		(809)	
Shipping - Freight	286		(286)	
Audit & Accounting Exp.	-		-	
Consulting	3,000	1,923	(1,077)	
Meals & Entertainment	157		(157)	
Office Supplies/Services	1,399	916	(483)	
Building & Yard Maint.	2,347		(2,347)	
Travel	693		(693)	
Realty Tax Expense	-		-	
Training	497		(497)	
Telephone Expense	621		(621)	
Lease Expense	8,400	4,369	(4,031)	
R&M Unusual	7,246		(7,246)	
Total Operating Disbursements	431,003	149,486	(281,517)	
Operating Cash Flow	(431,003)	(149,486)	281,517	
Capex/Mitigation				
Critical Parts Inventory Replenishment	25,000		(25,000)	
Utility Optimization Projects	-		-	
Total Capex	25,000	-	(25,000)	
Free Cash Flow	(456,003)	(149,486)	306,517	
Other Disbursements				
Interest - Syndicate Loan	-		-	
Interest - DIP Facility	-		-	
Professional Fees	-		-	
Total Other Disbursements	-	-	-	
Total Disbursements	456,003	149,486	(306,517)	
Net Cash Flow	(456,003)	(149,486)	306,517	
Closing Cash	(912,960)	2,013,476	2,926,436	

Court File No. CV-17-580840-00CL

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF INDEX ENERGY MILLS ROAD CORPORATION

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
Proceeding commenced at Toronto

FIRST REPORT OF THE MONITOR
DATED SEPTEMBER 6, 2017

GOODMANS LLP
Barristers & Solicitors
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Brian Empey LSUC#: 30640G
bempey@goodmans.ca

Melaney Wagner LSUC#: 44063B
mwagner@goodmans.ca

Ryan Baulke LSUC#: 66189O
rbaulke@goodmans.ca

Tel: (416) 979-2211
Fax: (416) 979-1234

Lawyers for the Monitor