

COURT FILE NUMBER 1301-02432

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANTS 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 RS TECHNOLOGIES INC.

DOCUMENT **THIRD REPORT OF FTI CONSULTING CANADA
INC., IN ITS CAPACITY AS MONITOR OF RS
TECHNOLOGIES INC.**

June 21, 2013

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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**THIRD REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS
MONITOR OF RS TECHNOLOGIES INC.**

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INTRODUCTION

- 1) By Order of this Court dated March 14, 2013 (the “**Initial Order**”), RS Technologies Inc. (the “**Applicant**”, “**RS**” or the “**Company**”) obtained protection from its creditors under the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36*, as amended (the “**CCAA**”).
- 2) The Initial Order, among other things, granted a stay of proceedings until April 12, 2013, (the “**Stay Period**”), and appointed FTI Consulting Canada Inc. (“**FTI Consulting**”) as monitor (the “**Monitor**”) of the Applicant in these proceedings (the “**CCAA Proceedings**”).
- 3) On March 27, 2013 this Honourable Court granted an Order approving a key employee retention plan and allowing RS with approval from the Monitor to make certain payments to critical suppliers on account of pre-filing obligations. Two other Orders were also granted on this date. The first was an Order (the “**Reverse Claims Order**”) authorizing the Monitor in consultation with the Company to implement a reverse claims procedure (the “**Reverse Claims Procedures**”). The second was an Order (the “**SISP Approval Order**”) approving the proposed sales and investor solicitation procedures (“**SISP**”) and accompanying asset and share purchase agreement (the “**Credit Bid Purchase Agreement**”) put forth by Werklund Capital Corporation (“**Werklund**”) and Melbye Skandinavia AS (“**Melbye**”) (collectively “**Werklund/Melbye**” or the “**Stalking Horse Credit Bidder**”).
- 4) By Order of this Court dated April 11, 2013 (the “**Stay Extension Order**”) the Applicant’s Stay Period was extended until and including June 28, 2013.
- 5) Further background information regarding the Applicant and the CCAA Proceedings (including Monitor’s reports and affidavits filed in support of the various applications by the Applicant) has been posted on the Monitor’s website for the CCAA Proceedings at <http://cfcanada.fticonsulting.com/RS>.

PURPOSE OF THIS REPORT

- 6) The purpose of this third report of the Monitor (the “**Third Report**”) is to:
- (a) provide this Honourable Court with an update with respect to the operational and financial performance of RS since the Second Report of the Monitor, dated April 10, 2013, including the Applicant’s budget to actual cash flow results for the period from March 14, 2013 to June 15, 2013 (the “**Reporting Period**”);
 - (b) provide this Honourable Court with an update with respect to the disclaimer notice issued by RS to Armor Utility Pty Limited (“**Armor**”) pursuant to section 32 of the CCAA ;
 - (c) provide an update with respect to the Reverse Claims Procedure;
 - (d) summarize the Monitor’s execution of the approved SISP and the results thereof;
 - (e) an update as to the status of negotiations with the Stalking Horse Credit Bidder with respect to the anticipated closing of the Credit Bid Purchase Agreement;
 - (f) comment on the Applicant’s request to extend the stay of proceedings to July 31, 2013 and updated cash flow projections to July 31, 2013; and
 - (g) advise of the extension of the expiry date of the Interim Financing Facility from June 15, 2013 to June 28, 2013.

TERMS OF REFERENCE

- 7) In preparing this report, the Monitor has relied upon unaudited financial information of the Applicant, RS's books and records, certain financial information prepared by the Applicant and discussions with the Applicant's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
- 8) Capitalized terms not otherwise defined herein have the meaning given to them in the Elliott Initial Order Affidavit, Initial Order, Reverse Claims Order, SISP Approval Order and SISP.
- 9) Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

UPDATE ON THE ACTIVITIES OF THE MONITOR**OPERATIONAL UPDATE**

- 10) Since the granting of the Initial Order, the Applicant's operations have continued with no material changes. Since the Monitor's Second Report, the Applicant has been able to arrange for continuation of services from suppliers and the Applicant's employees and the majority of their suppliers have been supportive of RS's restructuring efforts. Throughout the CCAA Proceedings, RS has been in communication with its customers and to date RS has not experienced any significant delays or cancellation of customer orders.
- 11) The general support from RS's employees, suppliers and customers has allowed RS to operate in the normal course since the granting of the Initial Order.

UPDATE ON THE CCAA PROCEEDINGS

- 12) The Monitor continues to work closely with the Applicant's management and its legal counsel with respect to the continuation of this proceeding. The Monitor has been provided appropriate access to information relevant to the CCAA Proceedings to allow it to complete its duties as set out in the Initial Order. The Monitor has also implemented certain review procedures to ensure appropriate oversight over the Applicant's business. These review procedures include, but are not limited to:
- (a) continuing review of disbursements on a bi-weekly basis;
 - (b) continuing review of variance analysis on a bi-weekly basis; and
 - (c) monitoring of operational matters which may directly or indirectly affect the business of RS.
- 13) RS has continued to work cooperatively with the Monitor with respect of these issues.

FINANCIAL UPDATE

- 14) The table below summarizes receipts and disbursements from March 14, 2013 to June 15, 2013 (the “**Reporting Period**”) as compared to the cash flow forecast presented in the Elliott Initial Order Affidavit (the “**Original Cash Flow Forecast**”):

| Period: March 14, 2013 to June 15 | Forecast | Actual | Variance |
|--|--------------------|--------------------|------------------|
| Opening Cash Balance | 219,498 | 158,807 | (60,691) |
| Cash Receipts | 1,683,750 | 2,271,592 | 587,842 |
| Overhead Expenses | (1,387,780) | (1,321,850) | 65,930 |
| Operating Expenses | (559,822) | (566,507) | (6,685) |
| Capital Expenditures | (130,000) | (58,231) | 71,769 |
| Material Costs | (1,240,000) | (991,266) | 248,734 |
| Interim Financing Fees | (149,500) | - | 149,500 |
| Professional/Legal Fees | (425,000) | (393,454) | 31,546 |
| Cash Disbursements | (3,892,102) | (3,331,309) | 560,793 |
| Change in Cash | (2,208,352) | (1,059,717) | 1,148,636 |
| Ending Cash from operations | (1,988,854) | (900,910) | 1,087,945 |
| Interim Financing Beginning outstanding | | - | |
| Interim Financing draws | | 1,150,000 | |
| Interim Financing Ending outstanding | | 1,150,000 | |
| Total cash on hand including cash from financing | | 249,090 | |

- 15) Opening cash was \$60,691 less than expected. This variance was due to a timing difference. RS expected to receive approximately \$60,000 from one of its customers immediately prior to filing however this cash receipt was delayed received subsequent to the granting of the Initial Order.

- 16) Actual cash receipts for the Reporting Period totaled \$2,271,592 which was approximately \$587,842 greater than projected cash receipts. The variance resulted from a combination of the Applicant's diligent efforts to collect on outstanding receivables and stronger than expected demand for the Applicant's product in Ontario throughout the CCAA Proceedings.
- 17) Actual cash disbursements for the Reporting Period totaled \$3,331,309 which was \$560,793 less than projected. The main reasons for the variance are as follows:
- (a) a positive variance in the capital expenditures category of \$71,769 mainly due to timing as capital repairs of approximately \$101,000 have been committed to and costs accrued however only \$58,000 of this has been paid. The original cash flow forecast contemplated \$130,000 of capital expenditures for the CCAA to date. Material costs are \$248,000 less than expected for the CCAA to date. These variances are a result of timing and are expected to reverse in future weeks (see discussion of revised forecast below);
 - (b) a positive variance of \$149,500 in the debtor-in-possession fee category. The Original Cash Flow Forecast contemplated a commitment fee of 5% on the total facility which was contemplated to be \$2.75 million paid upon approval, however, the final approved Interim Financing Facility called for the commitment fee to be payable upon repayment of the facility, as such no commitment fee was paid during the Reporting Period; and
 - (c) a positive variance of \$31,546 in the professional fee category. The positive variance CCAA to date is due to timing and expected to reverse in future weeks (discussed in further detail below).
- 18) Overall throughout the Reporting Period, RS's net cash flow was \$1,087,945 greater than projected in the Original Cash Flow Forecast. As of June 15, 2013 there has been \$1,150,000 drawn on the Interim Financing Facility.

- 19) The Original Cash Flow Forecast demonstrated cash flow needs of \$1,988,854 throughout the Reporting Period. Therefore, overall the draw on the Interim Financing Facility was less than cash needs estimated in the Original Cash Flow Forecast.

DISCLAIMER OF ARMOR CONTRACT

- 20) Prior to the CCAA Proceedings RS entered into a distribution agreement (the “**Armor Agreement**”) with Armor dated March 30, 2012.
- 21) On April 5, 2013 RS, with the approval of the Monitor, provided Armor with notice of its intent to disclaim the Armor Agreement pursuant to section 32 of the CCAA. On April 22, 2013, Armor filed an application to oppose the disclaimer notice. This application was subsequently adjourned *sine die*.
- 22) The Monitor understands that additional materials have been filed in relation to the disclaimer notice and that the Company’s legal counsel has questioned Armor’s affiant.
- 23) The Monitor understands that the Company’s counsel is moving forward expeditiously in seeking a formal resolution with respect to the disclaimer of the Armor Agreement. The Monitor notes that final determination of the disclaimer notice will likely be required prior to completing the transaction with the Stalking Horse Credit Bidder, as discussed in further detail below.

REVERSE CLAIMS PROCESS

- 24) On April 11, 2013 this Honourable Court approved the Reverse Claims Procedure. Pursuant to the Reverse Claims Order the Monitor:
- (a) Sent, by ordinary mail, a Claims Document Package to all known creditors on or around April 18, 2013. The Claims document Package included;
- i. a Claims Notice advising the claim each creditor has against the Applicant as determined by the Applicant with the assistance of the Monitor;

- ii. a Proof of Claim form;
 - iii. a copy of the Reverse Claims Order;
- (b) Caused a Notice to Creditors substantially in the form outlined in the Reverse Claims Order to be published in the Calgary Herald on April 23, 2013 and April 26, 2013 and in the Globe and Mail on April 22, 2013 and April 26, 2013; and
- (c) On April 17, 2013, the Notice to Creditors, Claims Document Package and Reverse Claims Order was posted on the Monitor's website.
- 25) The Claims Notice advised creditors that if they agreed with the amount and type of claim stated in the Claims Notice they need not respond, however, if they disagreed with the amount or type of claim they were to fill out a Proof of Claim form and return it to the Monitor. The Monitor accepted the Proof of Claims on behalf of the Company as prescribed by the Reverse Claims Procedure. All Proof of Claims were collected and delivered to the Company to be analyzed.
- 26) 17 parties filed Proof of Claim forms with the Monitor that differed from the amounts set out as owing in the Claims Notice. The Company has since accepted the claims as set out in the Proof of Claim in their entirety and/or reconciled the claims of 16 parties. The Monitor, in conjunction with the Company, is attempting to consensually resolve the Proof of Claim relating to the remaining outstanding claim; however, the Monitor notes that the variance is not material.
- 27) The Monitor also sent Proof of Claim Packages to three individuals who held unsecured promissory notes and to six individuals who were owed amounts relating to a deferred share unit plan that was in place to compensate the Applicant's directors in respect to their work as directors. The Monitor understands that the Proof of Claims related to these matters have been agreed upon.

- 28) The Monitor, in consultation with the Company, has provided Proof Claim Packages to the guarantors (the “**Guarantor Group**”) of the secured debt held by the Canadian Western Bank (“**CWB**”). The Monitor was advised by the counsel to the Guarantor Group and CWB that the Guarantor Group had acquired the majority of the CWB debt and accordingly, the Proof of Claim Packages were completed to reflect this fact.
- 29) Accordingly, the Monitor does not anticipate any unresolved issues with respect to the Reverse Claims Procedure, other than the determination of the notice to disclaim the Armor Agreement and the related claim amount, if any.
- 30) The claims filed by the Claims Bar Date summarized are summarized below:

| Category | Filed | | Unresolved | |
|-----------|-------|--------------|------------|---------|
| | No. | Value | No. | Value |
| Secured | 9 | \$13,518,594 | 0 | \$0 |
| Unsecured | 113 | \$1,307,889 | 1 | \$7,000 |

SISP PROCESS

Overview

- 31) On April 11, 2013, the Court approved the SISP and Credit Bid Purchase Agreement. The Monitor, on behalf of RS, was tasked with soliciting interest in the acquisition of RS’s assets and/or operations by way of a share or assets purchase in excess of the offer contemplated in the Credit Bid Purchase Agreement. The timeline for that process is outlined below.

| | | | | |
|---|--|---|---|---|
| Approval of the SISP including the proposed SISP Procedures | Potential Bidder Deadline 5 PM Mountain time | Phase 1 Qualifying Bids deadline 5 PM Mountain Time | Phase 2 Qualifying Bids deadline 5 PM Mountain Time | Auction date 9:30 AM Mountain Time, if required |
| * The timeline presented above is in respect of the proposed SISP only and does not reflect all activities of the Company or the Court during the CCAA process. | | | | |

Advertisement of the SISP

- 32) On April 12, 2013, the Applicant issued press releases relating to the Court Order approving the SISP and the related terms. The press releases were made via Canada Newswire and a United States Newswire for dissemination in Canada and major financial centers in the United States, Europe and Asia Pacific.
- 33) On April 12, 2013, the Applicant posted a material change report on SEDAR and a press release was posted on the Monitor's website.
- 34) On April 17, 2013, the Monitor arranged for newspaper advertisements to be placed in the National Post (National Edition) and Globe and Mail (National Edition) to cause notice of the solicitation process.

Known Potential Bidders

- 35) The Monitor, with assistance from the Company, developed a list of Known Potential Bidders for the Property available for sale, the opportunity for the acquisition of the Shares of the Company, and/or completing a reorganization transaction with the Company. The list of Known Potential Bidders was developed by:
 - (a) leveraging the historical industry experience of management including their knowledge of potential strategic buyers and parties who had been approached or had approached the Applicant with respect to its efforts to refinance in the past;
 - (b) using a proprietary program which has the capability to screen for potential strategic buyers who are in a similar industry as RS or financial companies who have investment in these similar industries; and

- (c) reviewing various trade information websites to identify further potential bidders.
- 36) The Monitor also identified various manufacturers in Ontario and Alberta who utilize resin or polymers in their respective manufacturing processes who would potentially be interested in the Company's corporate attributes.
- 37) The Company also advised the Monitor as to various parties who had previously expressed interest in the Company's operations, as well as former parties who assisted RS in raising equity in the past.
- 38) The list of Known Potential Bidders was delivered to both the Guarantor Group and Applicant in order to determine if additional parties should be added to the list of Known Potential Bidders. The Monitor was informed that the Guarantor Group was continuing to seek interested parties to participate in the SISP throughout the process and several additional Known Potential Bidders were brought forward which the Monitor included in the SISP process.
- 39) The list of Known Potential Bidders included parties, to the Monitor's best reasonable judgment, that may be interested in acquiring the shares or the assets of RS.

Marketing Teaser, Confidential Information Memorandum and Data Room

- 40) The Monitor developed a marketing teaser letter summarizing information about the acquisition opportunity that was distributed to list of Known Potential Bidders. The Monitor sought input on the marketing teaser from the Applicant, Stalking Horse Credit Bidder and Guarantor Group prior to finalizing. The marketing teaser was sent via regular mail, email and/or fax to approximately 200 Known Potential Bidders on or about April 18, 2013.

- 41) The Monitor, with the assistance of the management of the Company, prepared a confidential information memorandum (the “**CIM**”) describing the opportunity to make an Asset Bid, Restructuring Proposal or a Hybrid Bid.
- 42) The Monitor, with the assistance of management, compiled an electronic data room which included, among other things:
- (a) presentations describing RS’s business and nature of the industry;
 - (b) historical financial information;
 - (c) financial forecasts;
 - (d) tax loss information;
 - (e) listing of current assets;
 - (f) listing of equipment;
 - (g) information on RS’s manufacturing plant;
 - (h) product information including technical studies;
 - (i) listing of RS’s patents; and
 - (j) details with respect to the steps that needed to be completed as set out in the SISP.

Potential Bidder Deadline

- 43) As at 5:00 PM (Mountain Time) on April 29, 2013, the Potential Bidder Deadline, the Monitor received solicitations of interest from 10 Potential Bidders with respect to the Teaser Letter. Potential Bidders were required to deliver the participation requirements outlined below to the Monitor;
- (a) an executed confidentiality agreement;
 - (b) a specific indication of the anticipated source of capital and preliminary evidence of the availability of such capital;
 - (c) a letter setting out the Potential Bidder's identity, contact information, direct and indirect owners and principals; and
 - (d) an executed letter acknowledging and accepting to be bound by the provisions contained in the SISP Approval Order including the SISP. A copy of the SISP Approval Order and SISP was attached to the letter provided by the Monitor.
- 44) The Monitor deemed a Potential Bidder a Qualified Phase 1 Bidder if they met the requirements set out above and in the Monitor's opinion such Potential Bidder had the financial capability to consummate a transaction.
- 45) The Monitor in consultation with the Company and the Monitor's counsel allowed for additional parities to submit the necessary participant requirements after the Potential Bid Deadline, but advised that the Phase 1 Bid Deadline was firm.

Phase 1

- 46) On April 29, 2013, after receiving the required materials listed above from Potential Bidders, the Monitor notified seven Potential Bidders of their status as Qualified Phase 1 Bidders via email, delivered a copy of the CIM and provided such parties with access to the Company's electronic data room.
- 47) In addition to the above information the Monitor arranged, as requested, for Qualified Phase 1 Bidders to meet with RS's management and the Monitor as part of their due diligence process.
- 48) Qualified Phase 1 Bidders were required to submit Non-Binding Indications of Interest by 5:00 pm MST on May 21, 2013 in order to be deemed a Qualified Phase 2 Bidder. The Non-Binding Indications of Interest were required to include:
- (a) a description of the bid and whether it is a Restructuring Proposal, Asset Bid or a Hybrid Bid;
 - (b) the purchase price, including liabilities being assumed;
 - (c) the property of RS being included or excluded from the offer;
 - (d) the structure and source of financing, including timing necessary to consummate the transaction and any related financing contingencies;
 - (e) the proposed treatment of employees;
 - (f) any anticipated corporate, shareholder or regulatory approvals required to close the transaction and the anticipated timeline of obtaining such approvals;
 - (g) additional due diligence required; and

- (h) any other terms or conditions material to the transaction
- 49) Throughout the SISP the Monitor continually followed up with Qualified Phase 1 Bidders via phone and email correspondence to alert them of the impending Phase 1 Bid Deadline and to inquire if the Monitor could be of assistance with respect to the SISP Procedures.

Phase 1 Bid Deadline

- 50) As of 5:00 PM Mountain Time on May 21, 2013 the Monitor did not receive any Non-Binding Indications of Interest and as a result the Monitor terminated the SISP Procedures as it was obliged to do in the circumstances as mandated by the SISP Procedures.
- 51) On May 22, 2013, the Monitor notified all Qualified Phase 1 Bidders that the SISP had been terminated and the Monitor would be filing an application seeking the Court's approval of the implementation of the Credit Bid Purchase Agreement.
- 52) Subsequent to the Phase 1 Bid Deadline, the Monitor received a non-compliant bid (the "**Non-Compliant Bid**" and "**Non-Compliant Bidder**"). The Monitor analyzed and considered the Non-Compliant Bid with respect to various issues including fairness to the overall sale process, transactional risk and potential recoveries to all stakeholders as compared to the bid of the Stalking Horse Credit Bidder. After such analysis and discussions with the Company, the Stalking Horse Credit Bidder and the Guarantor Group, the Monitor advised the Non-Compliant Bidder that it intended to proceed with the process as contemplated in the SISP and seek the approval of the implementation of the Credit Bid Purchase Agreement. The Monitor has been advised by the Non-Compliant Bidder that it does not intend to proceed with the Non-Compliant Bid.

- 53) The Monitor advises that negotiations are continuing between the Monitor, the Company, the Stalking Horse Credit Bidder and various stakeholders groups (including the Guarantor Group) regarding the outstanding items in relation to the completion of an Asset Bid or Share Bid as contemplated under the Credit Bid Purchase Agreement. The Monitor is hopeful that negotiations will be completed in the near term and that an application for approval of the implementation of the Credit Bid Purchase Agreement will be brought forward in the near future.

STAY EXTENSION AND UPDATED CASH FLOW FORECAST

- 54) In order to complete the negotiations regarding the finalization of the Credit Bid Purchase Agreement and the filing of a plan of arrangement or compromise, if applicable, the Company is requesting an extension of the stay of proceedings to and including July 31, 2013.
- 55) The Monitor has prepared a projected cash flow statement for the period of June 17 to August 3, 2013 to reflect the cash needs during the requested extended stay period. This cash flow statement is attached as Appendix "A". The cash flow forecast indicates that the Company will have sufficient liquidity to fund its ongoing obligations such that it will not require an increase in Interim Financing in order to operate during the requested Stay Period.
- 56) The Interim Financing is not to exceed \$2,750,000 and the facility was to expire on June 15, 2013. The Interim Financing was extended to June 28, 2013 pursuant to an amending agreement dated June 14, 2013 between the Interim Lender and the Monitor.
- 57) The Monitor has requested that a further amendment be made to the Interim Financing to extend the maturity to July 31, 2013.

RECOMMENDATIONS

58) Based on the above, the Monitor recommends that this Honourable Court to approve the extension of the Stay Period to July 31, 2013.

All of which is respectfully submitted this 21st day of June, 2013.

FTI Consulting Canada Inc.
in its capacity as the Court-Appointed Monitor
of RS Technologies Inc.



Deryck Helkaa CA●CIRP
Senior Managing Director

APPENDIX A

RS Technologies Inc.
 Projected Cash Flow Statement for the period
 June 16, 2013 to August 3, 2013
 CDN \$

| Notes | Week Ending | | | | | | | Total |
|-------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | June 22 | June 29 | July 6 | July 13 | July 20 | July 27 | August 3 | |
| 1 | (900,910) | (1,032,913) | (1,304,469) | (1,952,791) | (2,150,791) | (2,387,306) | (2,403,116) | (900,910) |
| 2 | 334,209 | 77,000 | 30,000 | 30,000 | 70,000 | 238,945 | 30,000 | 810,154 |
| 3 | (120,212) | (123,326) | (154,093) | (131,000) | (18,000) | (118,900) | (50,143) | (715,674) |
| 4 | (66,000) | (25,000) | (104,661) | (3,000) | (51,500) | (25,000) | (73,000) | (348,161) |
| 5 | (47,000) | (25,000) | - | - | - | - | - | (72,000) |
| 6 | (233,000) | (54,000) | (219,568) | (94,000) | (87,015) | (110,855) | (24,810) | (823,248) |
| 7 | - | - | - | - | - | - | - | - |
| 8 | - | (121,230) | (200,000) | - | (150,000) | - | - | (471,230) |
| | (466,212) | (348,556) | (678,322) | (228,000) | (306,515) | (254,755) | (147,953) | (2,430,313) |
| | (132,003) | (271,556) | (648,322) | (198,000) | (236,515) | (15,810) | (117,953) | (1,620,159) |
| | (1,032,913) | (1,304,469) | (1,952,791) | (2,150,791) | (2,387,306) | (2,403,116) | (2,521,069) | (2,521,069) |
| | 1,150,000 | 1,500,000 | 1,500,000 | 2,000,000 | 2,200,000 | 2,400,000 | 2,450,000 | 1,150,000 |
| | 350,000 | - | 500,000 | 200,000 | 200,000 | 50,000 | 100,000 | 1,400,000 |
| | 1,500,000 | 1,500,000 | 2,000,000 | 2,200,000 | 2,400,000 | 2,450,000 | 2,550,000 | 2,550,000 |
| | 1,250,000 | 1,250,000 | 750,000 | 550,000 | 350,000 | 300,000 | 200,000 | 200,000 |
| 9 | 467,087 | 195,531 | 47,209 | 49,209 | 12,694 | 46,884 | 28,931 | 28,931 |
| | 2,750,000 | 2,750,000 | 2,750,000 | 2,750,000 | 2,750,000 | 2,750,000 | 2,750,000 | 2,750,000 |
| | 1,500,000 | 1,500,000 | 2,000,000 | 2,200,000 | 2,400,000 | 2,450,000 | 2,550,000 | 2,550,000 |
| | 1,250,000 | 1,250,000 | 750,000 | 550,000 | 350,000 | 300,000 | 200,000 | 200,000 |

Notes:

Management of RS Technologies Inc. ("RS") has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of RS during the CCAA Proceedings. The Projected Cash Flow Statement is based on the probable and hypothetical assumptions detailed in Notes 1 - 8. Consequently, actual results will likely vary from performance projected and such variations may be material.

- 1 - Opening cash balance based on Canadian and US cash at June 17, 2013. US cash has been converted to Canadian on a 1:1 basis.
- 2 - Cash receipts based on the estimated receipt date of receivables from orders shipped prior to June 1, 2013 and expected future orders based on historical results.
- 3 - Overhead expenses are based on historical trends and include, accounting, sales and head office payroll, operations and sales consultants, rent, finance charges, travel, insurance and other general administrative expenses.
- 4 - Operating expenses are based on historical trends and include payroll for operations and manufacturing plant employees, manufacturing plant utilities, equipment leases, property taxes and repairs and maintenance.
- 5 - Capital expenditures based on current need to update the Company's production equipment.
- 6 - Materials costs are based off of raw material purchases required to manufacture projected customer orders for the next 2 months.
- 7 - Fees related to the proposed interim financing are expected to be repaid after the forecast period.
- 8 - Professional/legal fees include fee estimates provided by the proposed monitor, the proposed monitors counsel, the Interim lender's counsel and RS's counsel.
- 9 - Negative cash flow balance does not exceed the total remaining Interim Financing available and as such it is expected that RS will have sufficient financing from the existing approved Interim Financing facility to fund RS's operations to the end of July 2013.