

Court File No. _____

FirstOnSite G.P. Inc.

PRE-FILING REPORT OF THE PROPOSED MONITOR

April 21, 2016

Court File No. _____

**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
FIRSTONSITE G.P. INC.

**PRE-FILING REPORT OF FTI CONSULTING CANADA INC.,
in its capacity as proposed Monitor**

INTRODUCTION

1. FTI Consulting Canada Inc. ("**FTI Consulting**" or the "**Proposed Monitor**") has been informed that FirstOnSite G.P. Inc. ("**FirstOnSite GP**" or the "**Applicant**") intends to make an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an initial order (the "**Proposed Initial Order**") granting certain relief, including, *inter alia*, a stay of proceedings against the Applicant until May 20, 2016, extending the relief under the Proposed Initial Order to FirstOnSite Restoration L.P. ("**FirstOnSite LP**", together with FirstOnSite GP, "**FirstOnSite**" or the "**Companies**"), and appointing FTI Consulting as the monitor (the "**Monitor**"). The proceedings to be commenced by the Applicant under the CCAA will be referred to herein as the "**CCAA Proceedings**".
2. The purpose of this pre-filing report (this "**Report**") is to provide this Court with information on the following:
 - (a) the qualifications of FTI Consulting to act as Monitor (if appointed);

- (b) the state of the business and affairs of FirstOnSite and the causes of its insolvency;
- (c) FirstOnSite's restructuring efforts to date;
- (d) a summary of FTI Consulting's activities to date;
- (e) the requested stay of proceedings and extension of relief under the Proposed Initial Order to FirstOnSite LP;
- (f) FirstOnSite's cash management system;
- (g) the funding of the CCAA Proceedings, including an overview of FirstOnSite's weekly cash flow forecast to June 10, 2016 and proposed debtor-in-possession ("**DIP**") financing;
- (h) the proposed funding of FirstOnSite's non-Applicant subsidiary, FirstOnSite Restoration, Inc. ("**FOS US**") during the course of the CCAA Proceedings;
- (i) the proposed payments of certain pre-filing amounts;
- (j) potential statutory priority in respect of certain claims;
- (k) the proposed treatment of potential lien claims;
- (l) certain employee bonus payments;
- (m) the approval of the retention of FirstOnSite's financial advisor and its engagement letter;
- (n) the approval of key employee retention plans; and
- (o) the requested Court-ordered charges.

TERMS OF REFERENCE

3. In preparing this report, the Proposed Monitor has relied upon unaudited financial information of FirstOnSite, FirstOnSite's books and records, certain financial information prepared by FirstOnSite and discussions with various parties, including senior management ("**Management**") of the Companies (collectively, the "**Information**").
4. Except as described in this Report:
 - (a) the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
 - (b) the Proposed Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
5. 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.
6. The Proposed Monitor has prepared this Report in connection with the application for the Proposed Initial Order to be filed by the Applicant. The Report should not be relied on for other purposes.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

8. To avoid unnecessary duplication, this Report will not repeat certain information contained in the affidavit of Mr. David Demos sworn April 20, 2016 and filed in support of the Proposed Initial Order (the “**Demos Affidavit**”). Accordingly, this Report should be read in conjunction with the Demos Affidavit. Capitalized terms not otherwise defined herein have the meanings given to them in the Demos Affidavit.

FTI CONSULTING’S QUALIFICATIONS TO ACT AS MONITOR

9. Paul Bishop, the individual within FTI Consulting who will have primary carriage of this matter for FTI Consulting as the Monitor (if appointed), is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended. FTI Consulting 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.
10. FTI Consulting was engaged to provide certain financial advisory and consulting services to FirstOnSite LP and to act as monitor in the event the Companies commenced proceedings under the CCAA (subject to Court approval) pursuant to an engagement letter dated February 21, 2016, which engagement letter was terminated effective as of the date of these CCAA Proceedings. The professionals of FTI Consulting who have carriage of this matter have acquired knowledge of the business and operations of the Companies, their personnel, the key issues and the key stakeholders in these CCAA Proceedings since the commencement of FTI Consulting’s engagement. FTI Consulting is therefore in a position to immediately assist the Companies in these CCAA Proceedings.
11. FTI Consulting has provided its consent to act as Monitor should this Court grant the Applicant’s request to commence the CCAA Proceedings and appoint FTI Consulting as the Monitor.

FIRSTONSITE'S BUSINESS & AFFAIRS AND CAUSES OF INSOLVENCY

12. The business and affairs of FirstOnSite and the causes of its insolvency are described in the Demos Affidavit. The Proposed Monitor has reviewed the Demos Affidavit and discussed the business and affairs of FirstOnSite and the causes of its insolvency with Management and is of the view that the Demos Affidavit provides a reasonable overall summary of matters related to the CCAA application.

FIRSTONSITE'S RESTRUCTURING EFFORTS

13. As described in the Demos Affidavit, since approximately 2012, FirstOnSite has undertaken a number of operational, cost and revenue improvement efforts and pursued a number of strategies to address its financial difficulties. Notwithstanding these efforts, given the continuing adverse economic conditions affecting FirstOnSite's business, FirstOnSite was not able to continue to fund its operations without additional and ongoing funding from its major shareholders TorQuest Partners Fund II, L.P. and TorQuest Partners Fund (U.S.) II, L.P. (collectively with other related entities, "**TorQuest**") or another third party. Based on FirstOnSite's ongoing operating losses and financial circumstances, in or around October 2015, TorQuest advised the Companies that it was no longer prepared to continue funding FirstOnSite's operating losses. As such, FirstOnSite needed to pursue strategic alternatives, including seeking a potential third party transaction.
14. In October 2015, FirstOnSite determined to conduct a sale process (the "**Sale Process**") to identify a potential purchaser of the FirstOnSite business, and engaged Alvarez & Marsal Canada Securities ULC ("**A&M**") to manage the Sale Process.
15. The Sale Process culminated in the execution of an agreement of purchase and sale dated April 20, 2016 (the "**APA**") between FirstOnSite LP (by its general

partner FirstOnSite GP) and 3297167 Nova Scotia Limited (the “**Purchaser**”) pursuant to which the Purchaser will acquire substantially all of the assets and the business of FirstOnSite (the “**Proposed Transaction**”), subject to approval of the Court.

16. If the Proposed Initial Order is granted and FTI Consulting is appointed as Monitor, FTI Consulting will provide a report to the Court with respect to the Sale Process and the Proposed Transaction in conjunction with the Applicant’s motion for approval of the Proposed Transaction.

ACTIVITIES OF THE PROPOSED MONITOR

17. Since being retained, FTI Consulting’s activities to date have included, *inter alia*:
 - (a) participating in meetings and discussions with the Companies’ senior management and the Companies’ legal and financial advisors to gain knowledge of FirstOnSite’s business;
 - (b) reviewing and assisting with the preparation of the Cash Flow Forecast (as defined below);
 - (c) participating in certain meetings of FirstOnSite’s board and special committee to the board;
 - (d) reviewing the terms of the DIP Facility (as defined below) and participating in certain discussions with the Companies, the Companies’ legal and financial advisors, the proposed DIP Lender (as defined below) and the proposed DIP Lender’s counsel in connection with the proposed DIP Facility;
 - (e) receiving updates on the Sale Process, reviewing the terms of the APA for the Proposed Transaction, and participating in certain discussions and certain meetings in connection with the Proposed Transaction;

- (f) participating in discussions with the Companies and the Companies' legal and financial advisors in connection with the Proposed Initial Order and reviewing and considering various documentation in connection with the CCAA Proceedings;
- (g) engaging Goodmans LLP, as legal counsel, who participated in certain of the above matters; and
- (h) preparing this pre-filing report.

STAY OF PROCEEDINGS AND ANCILLARY RELIEF

18. FTI Consulting understands that the objectives of these CCAA Proceedings include ensuring the ongoing operations of FirstOnSite and completing a restructuring of the business by way of a going concern sale of substantially all of FirstOnSite's assets and business pursuant to the Proposed Transaction. The Applicant is seeking a stay of proceedings under the Proposed Initial Order and to extend the stay of proceedings and other protections and authorizations under the Proposed Initial Order to FirstOnSite LP. The Companies have advised the Proposed Monitor that FirstOnSite LP carries on operations integral to FirstOnSite and that FirstOnSite GP has no source of income independent from FirstOnSite LP and is entirely dependent on the business, assets and performance of FirstOnSite LP for its continued operation. Accordingly, the Proposed Monitor supports this request.

CASH MANAGEMENT SYSTEM

19. The Applicant has advised the Proposed Monitor that the cash management system, as outlined in the Demos Affidavit, is critical to the orderly management of FirstOnSite’s business affairs. Accordingly, the Applicant is seeking to continue to operate FirstOnSite’s cash management system post-filing in substantially the same manner as before the commencement of the CCAA Proceedings. The Proposed Monitor supports this request.

CASH FLOW FORECAST

20. The Applicant, with the assistance of the Proposed Monitor, has prepared a consolidated weekly cash flow forecast (the “**Cash Flow Forecast**”) for FirstOnSite for the period from April 21, 2016 to June 10, 2016 (the “**Cash Flow Period**”). A copy of the Cash Flow Forecast, together with Management’s report on the cash-flow statement required by section 10(2)(b) of the CCAA, is attached hereto as Appendix “A”.
21. The Cash Flow Forecast shows negative net cash flows of approximately \$13.1 million in the Cash Flow Period, and is summarized below:

	\$000s
Receipts	18,070
Disbursements:	
Payroll & related payments	(8,141)
Materials, Supplies and Services	(20,660)
Net Operating Cash Flows	(10,730)
Restructuring Professional Fees	(2,400)
Projected Net Cash flow	(13,130)
Beginning DIP Balance	-
Projected Net Cash flow	(13,130)
DIP Interest	(156)
Ending DIP Balance	(13,286)

22. Section 23(1)(b) of the CCAA states that the Monitor shall:

“review the company’s cash-flow statement as to its reasonableness and file a report with the court on the monitor’s findings;”

23. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports as follows:

- (a) The Cash Flow Forecast has been prepared by Management of the Applicant for the purpose described in Note 1 of the Cash Flow Forecast, using the Probable Assumptions and the Hypothetical Assumptions set out in Notes 2 to 8 thereof.
- (b) The Proposed Monitor’s review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the Management and employees of the Companies. Since Hypothetical Assumptions need not be supported, the Proposed Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor has also reviewed the support provided by Management of the Companies for the Probable Assumptions, and the preparation and presentation of the Cash Flow Forecast.
- (c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
 - (i) the Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Forecast;

- (ii) as at the date of this Report, the Probable Assumptions developed by Management are not suitably supported and consistent with the plans of the Companies or do not provide a reasonable basis for the Cash Flow Forecast, given the Hypothetical Assumptions; or
 - (iii) the Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions.
- (d) Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Proposed Monitor in preparing this Report.
- (e) The Cash Flow Forecast has been prepared solely for the purpose described in Note 1 of the Cash Flow Forecast and readers are cautioned that it may not be appropriate for other purposes.
24. As set out in the Cash Flow Forecast, the Companies will have sufficient funds to satisfy their projected uses of cash during the Cash Flow Period, subject to approval of the DIP Facility (as defined and discussed below) and having access to amounts available under the DIP Facility.

DIP FINANCING

25. FirstOnSite will require the use of DIP financing to satisfy FirstOnSite's projected uses of cash during the Cash Flow Period, including funding working capital, general corporate expenses and professional fees during the CCAA Proceedings.

The Cash Flow Forecast identifies an immediate requirement for DIP financing in the first week of the CCAA Proceedings. It is anticipated that the Companies will require DIP financing in the amount of up to \$13.3 million during the Cash Flow Period.

26. As discussed in the Demos Affidavit, FirstOnSite's deposit accounts are subject to cash dominion in connection with their existing pre-filing senior secured asset-backed loan facility (the "**Pre-Filing ABL Facility**"). All cash, credit and debit receipts are deposited into blocked accounts, which are then transferred each day to an account designated and controlled by Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**") as agent under the Pre-Filing ABL Facility, which has the effect of reducing the amounts outstanding under the Pre-Filing ABL Facility. Effective as of April 20, 2016, pursuant to an Acknowledgment Agreement among Wells Fargo, in its capacity as agent and lender, FirstOnSite LP, FirstOnSite GP and two non-Applicant subsidiaries of FirstOnSite, Wells Fargo ceased to make available funding under the Pre-Filing ABL Facility to FirstOnSite.
27. FirstOnSite was offered DIP financing (the "**DIP Facility**") by Wells Fargo (in such capacity, the "**DIP Lender**"), who as noted above is also the agent and lender under the Pre-Filing ABL Facility, pursuant to the DIP Facility Agreement dated as of April 20, 2016 (the "**DIP Agreement**").

28. The DIP Agreement is discussed in and attached to the Demos Affidavit and is summarized in the table below. Terms capitalized in the table have the same meaning ascribed to them in the DIP Agreement.

Summary of Certain Key DIP Facility Terms	
Maximum Availability	The lesser of: (a) \$40 million and (b) the sum of the Borrowing Base, less i) Pre-Filing Obligations, less ii) the outstanding advances under the DIP Facility, plus iii) any Post-Filing Collections in the Lender’s bank account; provided that the aggregate amount advanced under the DIP Facility shall not exceed the operating cash flow requirements of the Borrower set forth in the Budget.
Effective Date	Date on which all conditions precedent under the DIP Agreement have been satisfied.
Initial Budget and Use of Funds	The Initial Budget and the proposed use of funds provided for therein shall be in substance satisfactory to the Lender.
Certain Key Terms and Conditions	<ul style="list-style-type: none"> • The Initial Order shall authorize and direct the Borrower to continue to use the cash management systems, daily cash sweep and blocked account arrangements in place between the Lender and the Borrower. • The Lender shall apply the Post-Filing Collections to repay the outstanding advances under the DIP Facility but the Lender shall not apply any Post-Filing Collections to repay the Pre-Filing Obligations. • The Borrower shall meet certain reporting requirements and participate in weekly calls with the DIP Lender, as set out in the DIP Agreement. • The Initial Order shall be satisfactory to the Lender, and shall include, among other things, approval of the DIP Facility and the DIP Charge. • Each of the Credit Parties shall strictly adhere to all of the terms, conditions and covenants of the DIP Agreement and the Financing Agreements (as modified by the DIP Agreement). • The Lender shall be reimbursed for all expenses incurred in connection with the DIP Agreement and the CCAA Proceedings. • The Lender shall be satisfied with the Budget. • All application materials and documents in connection with the CCAA Proceedings shall be in form and substance satisfactory to the Lender. • Following the date of the Initial Order, the Borrower shall: (a) take reasonable steps to repay the DIP Facility and the Pre-Filing Obligations simultaneously with the closing of the Sale Transaction; and (b) seek a distribution order from the court prior to the closing of the Sale Transaction with respect to the repayment of the DIP Facility and the Pre-Filing Obligations, such distribution order to be satisfactory to the Monitor and the Lender.
Certain Key Events of Default	<ul style="list-style-type: none"> • Events of Default under Section 9.1 of the Credit Agreement (subject to certain carve-outs relating to matters in connection with the CCAA Proceedings). • The occurrence of any negative variances in excess of ten percent (10%) in respect of the actual cumulative net cash flow against the forecasted cumulative net cash flow in the Budget. • The occurrence of any negative variances in excess of fifteen percent (15%) in respect of the net excess availability against the forecasted net excess availability in the Budget. • The Sale APA that is approved by the Court is not in form and substance satisfactory to the Lender. • The Sale Transaction has not closed and the DIP Facility has not been paid in full to

Summary of Certain Key DIP Facility Terms	
	<p>the Lender in each case by six weeks following the date of the Initial Order, as may be extended with the consent of the Lender in its sole direction.</p> <ul style="list-style-type: none">• The breach of any term, covenant or agreement by any Credit Party in the DIP Agreement.
Fees and Interest	<ul style="list-style-type: none">• Interest Rate per annum equal to the Prime Rate + 2.5% (as at March 31, 2016 the Prime Rate was 3%)• Amendment Fee of \$25,000• Monitoring Fees of \$10,000 per week• Unused Line Fee of 0.25% of \$40,000,000 less Pre-Filing Obligations less the average daily principal balance of amounts advanced under the DIP Facility during the immediately preceding week
Security and DIP Charge	<p>All obligations under the DIP Agreement shall be secured by the DIP Charge on all of the existing and after-acquired personal property of the Borrower pursuant to the Initial Order and the existing security and guarantees in favour of the Lender under the Financing Agreements. The DIP Charge shall not secure any Pre-Filing Obligations.</p>
Maturity	<p>The earlier of (a) the closing of the transaction contemplated in the Sale APA and (b) six weeks following the date of the Initial Order, as may be extended with the consent of the Lender in its sole direction.</p>

29. The Companies view the terms of the DIP Facility to be reasonable. In addition, the Companies view the following aspects of the DIP Facility as advantageous:

- (a) it was based on the terms and the structure of the existing Pre-Filing ABL Facility;
- (b) it did not require any alteration of the Companies' bank accounts or cash management system; and
- (c) the proposed DIP Lender is already familiar with FirstOnSite's business and financial profile as well as Proposed Transaction resulting from the Sale Process.

30. Accordingly, the Applicant was of the opinion that there was no commercial advantage to pursuing other options for DIP financing and as a result, the Companies did not canvas the market for other potential lenders. In addition, the board of directors of the Applicant was of the view that there would be no material prejudice to existing creditors given that the DIP Lender is the senior

secured creditor of the Companies under Pre-Filing ABL Facility, the commercial terms of the DIP Facility are reasonable and the costs and expenses of the Companies and the existing lender can be limited without an additional third party lender.

31. The Applicant is also seeking a charge on the assets, undertakings and properties of the Companies (the “**Charged Property**”) in the maximum amount of \$15 million (the “**DIP Lender’s Charge**”) to secure the post-filing advances under the DIP Facility. It is a condition of the DIP Facility that the DIP Lender’s Charge be granted by the Court. The DIP Lender’s Charge is proposed to rank behind the Administration Charge (as defined below) and ahead of the other Charges (as defined below). The DIP Lender’s Charge will not secure any obligations that exist before the Proposed Initial Order is made.
32. The Proposed Monitor has reviewed the terms of the proposed DIP Facility and the Companies’ circumstances, including, *inter alia* (a) the necessity of DIP financing to continue operations pending completion of a going concern transaction; (b) the efficiencies associated with proceeding with the lender under the existing Pre-Filing ABL Facility providing the DIP Facility based on the existing Pre-Filing ABL Facility; (c) the challenge in finding other lenders to provide DIP financing in the circumstances and in the time frame required, together with the associated costs and expenses; and (d) the proposed DIP Lender’s role as an existing senior secured lender of the Companies.
33. The Proposed Monitor has also compared the terms of the proposed DIP Facility with publicly available information pertaining to the terms of other recent DIP financings in comparable CCAA proceedings. Based on this review, the Proposed Monitor is of the view that the proposed terms of the DIP Facility appear to be within market range for DIP financings in comparable circumstances.

34. In the circumstances, the Proposed Monitor supports the Applicant's request for approval of the proposed DIP Facility to accommodate their anticipated liquidity requirements during these CCAA Proceedings.
35. As noted in the summary of DIP Facility terms above, FirstOnSite has agreed to, following the date of the Proposed Initial Order (if granted), (a) take reasonable steps to repay the DIP Facility and the outstanding obligations under the Pre-Filing ABL Facility (the "**Pre-Filing ABL Obligations**") simultaneously with the closing of the Proposed Transaction (if approved); and (b) seek a distribution order from the Court prior to the closing of the Proposed Transaction with respect to the repayment of the DIP Facility and the Pre-Filing ABL Obligations. Such distribution order to be sought by the Applicant is to be acceptable to the DIP Lender and to the Monitor, and will require providing for certain reserves, including for amounts relating to, *inter alia*, the Administration Charge (as defined below), certain priority payables, and certain potential claims given priority pursuant to Provincial Lien Legislation (as defined and further discussed below).

FUNDING FOR FOS US

36. As discussed in the Demos Affidavit, FOS US is the operating company for FirstOnSite's U.S. business and provides support to FirstOnSite's Canadian business by way of, among other things, project management support and assistance in sourcing materials and equipment. FOS US is also a guarantor under the Pre-Filing ABL Facility.
37. The Companies believe that FOS US is an integral part of FirstOnSite's business. The Proposed Monitor understands that FOS US operates at a loss and relies on direct funding from FirstOnSite LP to continue operations as a going concern. Accordingly, and as contemplated in the Cash Flow Forecast, the Applicant is seeking the ability under the Proposed Initial Order to pay the expenses and capital expenditures of FOS US reasonably necessary for the preservation of

FirstOnSite's business, subject to the consent of the Monitor and subject to availability under the DIP Facility and in accordance with the Budget (as defined in the DIP Agreement).

PAYMENTS OF CERTAIN PRE-FILING AMOUNTS

38. As discussed in the Demos Affidavit, FirstOnSite has identified a number of suppliers that it views as critical to the ongoing operation of its business (the “**Critical Suppliers**”). FirstOnSite has advised that any interruption of supply or service by the Critical Suppliers could have an immediate material adverse impact on FirstOnSite's business, operations and cash flow, and could materially impact the value of the business and jeopardize its ability to restructure and continue as a going concern.
39. The Applicant is seeking authorization from the Court to pay amounts owing for goods and services actually supplied to FirstOnSite, or to obtain the release of goods contracted for, prior to the date of the Proposed Initial Order, if in the opinion of FirstOnSite the supplier of the goods or services is a Critical Supplier, subject to availability under the DIP Facility and in accordance with the Budget (as defined in the DIP Agreement). Any such payment in an amount in excess of \$10,000 each would be subject to the consent of the Monitor.
40. The Proposed Monitor understands that the bids submitted in the Sale Process reflected that these proposed payments to Critical Suppliers would be made in the ordinary course throughout these CCAA proceedings or assumed by the bidder, with the purchase price reduced accordingly.
41. The Proposed Monitor supports this relief.

CLAIMS GIVEN PRIORITY BY STATUTE

42. Given the nature of FirstOnSite's business, certain claims against the Companies may have statutory priority over other secured claims against the Companies pursuant to various provincial construction lien or similar legislation (collectively, "**Provincial Lien Legislation**"). The Proposed Initial Order provides that nothing therein (including the granting of the Charges, as further discussed below) will affect or otherwise alter the priority of any claims in respect of any amounts owing by FirstOnSite in respect of supplied services or materials that are given priority over other Encumbrances by statute. The Proposed Monitor supports this relief.

LIEN CLAIMANTS

43. In addition to the foregoing, the Proposed Monitor understands that Provincial Lien Legislation may in certain circumstances give rise to the ability of certain parties to register liens on property that is the subject of projects being performed by FirstOnSite. As discussed in the Demos Affidavit, FirstOnSite is concerned that any lien registrations against clients' properties may jeopardize FirstOnSite's long-standing customer relationships and may negatively affect FirstOnSite's business. In addition, having to address and seek discharges of such liens individually and in various different jurisdictions would be disruptive to the Companies and result in additional costs to the business that may impair FirstOnSite's ability to successfully conclude these CCAA Proceedings.
44. Accordingly, the Applicant is seeking under the Proposed Initial Order to, *inter alia*: (a) stay the rights of any person who has supplied services and/or materials to FirstOnSite to preserve and perfect a lien under Provincial Lien Legislation (each a "**Lien Claim**") against any projects to which FirstOnSite is a contracting party; (b) provide that any person who wishes to preserve or perfect a Lien Claim (each a "**Lien Claimant**") shall be required to provide to the Monitor and FirstOnSite a notice setting the amount and particulars of its Lien Claim; and (c)

provide that upon serving a Lien Notice, the Lien Claimant shall be entitled to a charge on the Charged Property in an amount equivalent to the value that the Lien Claimant would otherwise be entitled to in connection with a lien under the applicable Provincial Lien Legislation (collectively, the “**Lien Charge**”).

45. Under the Proposed Initial Order, the Monitor would be authorized to review and reduce or disallow a Lien Claim set out in a Lien Notice, or refer such matter for determination by the Court, on notice to the applicable Lien Claimant.
46. It is proposed that the Lien Charge rank behind the other Charges, the security granted in favour of Wells Fargo in respect of the Pre-Filing ABL Facility (pursuant to which there was approximately \$17.4 million outstanding as at February 29, 2016) and the security granted in favour of Business Development Bank of Canada (“**BDC**”) in respect of the letter offer of credit entered into on November 25, 2014 (the “**Pre-Filing BDC Loan**”) (pursuant to which there was approximately \$2.5 million outstanding as at February 29, 2016).
47. The Lien Charge is intended to provide security to Lien Claimants as against the Charged Property. The Monitor will provide a notice of the Proposed Initial Order (if granted) to known creditors who have a claim against FirstOnSite of more than \$1,000 pursuant to the terms of the Proposed Initial Order, and such matters can be addressed at the comeback hearing in respect of the Proposed Initial Order.

SENIOR MANAGEMENT EMPLOYEE BONUS PAYMENTS

48. The Proposed Monitor has been advised that in December 2015, the board of directors of the Applicant approved a targeted bonus program for 2016 for certain senior management employees (the “**2016 Bonus Program**”). The 2016 Bonus Program is based on certain targets, the achievement of which is to be assessed by the board of directors on closing of the Proposed Transaction, and the 2016 Bonus Program is to be paid on or as soon as practicable following closing of the Proposed Transaction.

49. In the event that the bonuses under the 2016 Bonus Program are fully earned, the aggregate amount payable to such senior management employees under the 2016 Bonus Program is estimated by the Applicant to be approximately \$78,104 for each month in 2016 prior to closing of the Proposed Transaction (or approximately up to \$429,573 if the Proposed Transaction is completed on the outside date under the APA of June 15, 2016). The Proposed Monitor understands that FirstOnSite intends to satisfy the payments under the 2016 Bonus Program should they become payable pursuant to the terms of the 2016 Bonus Program.

FINANCIAL ADVISOR ENGAGEMENT AND AGREEMENT

50. As discussed in the Demos Affidavit, A&M was engaged by FirstOnSite LP to act as its financial advisor pursuant to an engagement letter dated October 30, 2015 (the “**Financial Advisor Engagement Letter**”) to assist with the Sale Process. It is contemplated that A&M will continue assisting FirstOnSite with the ongoing restructuring process and the pursuit of the Proposed Transaction during these CCAA Proceedings. A copy of the Financial Advisor Engagement Letter is attached as Exhibit “F” to the Demos Affidavit.
51. The Applicant is seeking Court approval of the Financial Advisor Engagement Letter and the retention of A&M pursuant to the terms thereof, including the Success Fee (as defined in the Financial Advisor Engagement Letter). The Applicant is also seeking a charge on the Charged Property in the maximum amount of \$1.1 million (the “**Financial Advisor’s Charge**”) as security for the payment of the Success Fee under the Financial Advisor Engagement Letter. The Financial Advisor’s Charge would rank behind all of the other Charges other than the Lien Charge.
52. The Companies have advised that they believe that the continued involvement of A&M is essential to the completion of the CCAA Proceedings in an as expeditious and inexpensive manner as possible. The Proposed Monitor has also

been advised that the fee structure contained in the Financial Advisor Engagement Letter was the subject of significant negotiations between FirstOnSite (with the assistance of counsel) and A&M, and was approved by FirstOnSite's board of directors. The Proposed Monitor is of the view that the terms of the Financial Advisor Engagement Letter are reasonable and commensurate with market rates for such transactions.

KEY EMPLOYEE RETENTION PLANS

53. As described in the Demos Affidavit, FirstOnSite developed and offered certain key employee retention plans (the "**KERPs**") in an effort to ensure that certain key employees were retained during the Sale Process and these CCAA Proceedings. The KERPs were reviewed and approved by the board of directors of the Applicant.
54. In particular, in December 2015, FirstOnSite developed and offered certain KERPs (the "**Initial KERP**") to certain employees identified by FirstOnSite as essential to ensuring the success of the Sale Process (the "**Initial KERP Participants**"). The Initial KERP Participants are the same senior management employees who participate in the 2016 Bonus Program. A copy of the form of the Initial KERP letter offered to Initial KERP Participants is attached to the Demos Affidavit as Exhibit "I".
55. Under the terms of the Initial KERP, each Initial KERP Participant is entitled to be paid its specified percentage of the aggregate retention amount under the Initial KERP, subject to the terms and conditions of the Initial KERP being satisfied. The Initial KERP Participants have collectively been allocated 90% of the aggregate retention amount under the Initial KERP, and 10% of such aggregate retention amount remains to be allocated pursuant to the terms of the Initial KERP, should the need arise prior to the completion of the Proposed Transaction.

56. The aggregate retention amount under the Initial KERP is determined based on the value of the transaction achieved under the Sale Process. Based on the purchase price under the APA, the maximum aggregate amount payable under the Initial KERP is approximately \$929,000, of which (i) the Initial KERP Participants would be entitled to approximately \$836,100 and (ii) approximately \$92,900 is unallocated at this time.
57. Under the terms of the Initial KERP, amounts shall be paid as soon as reasonably practicable from the closing proceeds of a qualifying transaction (including the sale of all or a substantial amount of the assets of FirstOnSite), provided, among other things, that (i) the employee cannot have resigned or notified the Companies of its resignation as at the closing date, (ii) the employee cannot have been terminated for cause as at the closing date, and (iii) the employee shall have performed the duties of its position diligently, faithfully and honestly and used its best efforts to perform any additional duties that may have been required from time to time to assist and support the Companies in consummating the transaction.
58. In addition, in March 2016, FirstOnSite developed and offered certain KERPs (the “**Supplemental KERP**”) to certain key employees identified by FirstOnSite who FirstOnSite believes occupy essential management and operational roles and considers essential to the success of the restructuring efforts and FirstOnSite’s continued operations as a going concern (the “**Supplemental KERP Participants**”) and collectively with the Initial KERP Participants, the “**KERP Participants**”), most of which have accepted the Supplemental KERP offer as at the date of this Report. A copy of the form of the Supplemental KERP letter offered to Supplemental KERP Participants is attached to the Demos Affidavit as Exhibit “J”.
59. Under the terms of the Supplemental KERP, the Supplemental KERP Participants are entitled to be paid 90% of their annual base salary (in addition to regular salary and existing benefits) as soon as practical after the closing of a transaction

- to sell all or substantially all of FirstOnSite's assets, provided, among other things, that (i) the employee cannot have resigned or notified the Companies of its resignation as at the closing date, (ii) the employee cannot have been terminated or notified of termination for any reason with cause as at the closing date, and (iii) the employee shall have performed its duties and responsibilities diligently, faithfully and honestly and in a manner that facilitated the closing, and maximized the proceeds, of the transaction. The maximum aggregate amount payable under the Supplemental KERP, provided all Supplemental KERP Participants execute their letters of offer, is approximately \$1.3 million.
60. The Applicant is seeking a charge on the Charged Property in the maximum amount of \$2.26 million (the "**KERP Charge**") as security for the payments under the KERPs. The KERP Charge would rank behind the Administration Charge and the DIP Lender's Charge and ahead of the Financial Advisor's Charge and the Lien Charge. The 2016 Bonus Program is not a part of the KERP and does not form part of the KERP Charge.
61. The Proposed Monitor concurs with FirstOnSite's view that the departure and replacement of the KERP Participants would be disruptive and difficult in the circumstances, and could impair the likelihood of a successful outcome to the CCAA Proceedings. The Proposed Monitor agrees that approval of the KERPs should provide incentive for the KERP Participants to remain in their employment for the duration of the restructuring process. The Proposed Monitor has reviewed the KERPs and is satisfied that the amounts payable are reasonable in the circumstances.
62. A list of the KERP Participants is attached as Appendix "A" to the Confidential Supplement to this Report. This list contains individually identifiable personal and financial information of the KERP Participants. In order to protect the KERP Participants and to minimize disruption during the CCAA Proceedings,

FirstOnSite is seeking an order sealing the list of KERP Participants pending further order of this Court.

ADMINISTRATION CHARGE

63. The Applicant is seeking a charge on the Charged Property in the maximum amount of \$1 million (the “**Administration Charge**”) in favour of the Monitor, counsel to the Monitor, counsel to FirstOnSite and A&M (in respect of its monthly work fees set out in the Financial Advisor Engagement Letter) as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor, counsel to the Monitor and counsel to FirstOnSite, and in the case of A&M, pursuant to the Financial Advisor Engagement Letter. The Administration Charge is proposed to rank ahead all of the other Charges.

SUMMARY OF THE PROPOSED RANKINGS OF CHARGES

64. As outlined above, it is contemplated that the priorities of the charges sought by the Applicant (collectively, the “**Charges**”) will be as follows:

- a) First – the Administration Charge to a maximum of CAD\$1 million;
- b) Second – the DIP Lenders’ Charge to a maximum of CAD\$15 million;
- c) Third – the KERP Charge to a maximum of CAD\$2.26 million;
- d) Fourth – the Financial Advisor’s Charge to a maximum of CAD\$1.1 million;
and
- e) Fifth – the Lien Charge, to the extent necessary to secure any Lien Claims that may arise (provided that the Lien Charge shall rank subordinate to the security interest granted in favour of Wells Fargo in respect of the Pre-Filing ABL Facility and to the security interest granted in favour of BDC in respect of the Pre-Filing BDC Loan).

65. The Proposed Initial Order sought by the Applicant provides that the Charges will rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, the “**Encumbrances**”) with notice of the Proposed Initial Order (other than the Lien Charge will, as noted above, rank subordinate to the security interest granted in favour of Wells Fargo in respect of the Pre-Filing ABL Facility and to the security interest granted in favour of BDC in respect of the Pre-Filing BDC Loan), provided that nothing in the Proposed Initial Order will affect or otherwise alter the priority of any claims in respect of any amounts owing by FirstOnSite in respect of supplied services or materials that are given priority over other Encumbrances by statute.
66. The Proposed Monitor believes that the proposed Charges and rankings are required and reasonable in the circumstances of the CCAA Proceedings in order to preserve going concern operations of the Companies and maintain their enterprise value and, accordingly, supports the granting and the proposed ranking of the Charges.
67. The Proposed Monitor notes that should the Proposed Initial Order be granted, the Applicant intends to return to Court on a date to be set by the Court to seek, among other relief, an order granting super-priority ranking to the Charges over all Encumbrances (other than the Monitor understands that the Applicant intends for the Lien Charge to remain subordinate to the security interest granted in favour of Wells Fargo in respect of the Pre-Filing ABL Facility and to the security interest granted in favour of BDC in respect of the Pre-Filing BDC Loan). The Proposed Monitor has been advised that the Applicant does not intend to seek to affect or otherwise alter the priority of any claims in respect of any amounts owing by the Companies in respect of supplied services or materials that are given priority over other Encumbrances by statute.

PROPOSED MONITOR'S CONCLUSIONS

68. The Proposed Monitor is of the view that the relief requested by the Applicant, including the requested Charges, is necessary, reasonable and justified, and that the requested relief will provide the Companies with the opportunity to undertake a going concern sale or other restructuring under the CCAA Proceedings thereby preserving value for the benefit of the Companies' stakeholders. Accordingly, the Proposed Monitor respectfully recommends that the Applicant's request for the Proposed Initial Order be granted by the Court.

All of which is respectfully submitted this 21th day of April, 2016.

FTI Consulting Canada Inc.
In its capacity as Proposed Monitor of
FirstOnSite G.P. Inc.



Paul Bishop
Senior Managing Director



Michael Basso
Director

Appendix A

Cash Flow Forecast

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
FIRSTONSITE G.P. INC., FIRSTONSITE RESTORATION L.P., (the "Applicants")

APRIL 21, 2016

REPORT ON CASH FLOW STATEMENT
(paragraph 10.2(b) of the CCAA)

The management of the Applicants has developed the assumptions and prepared the attached statement of projected cash flow as of April 21, 2016, consisting of a 8-week cash flow forecast for the period April 21, 2016 to June 10, 2016 (the "April 21st Forecast").

The hypothetical assumptions are reasonable and consistent with the purpose of the projections as described in Note 1 to the cash flow, and the probable assumptions are suitably supported and consistent with the plans of the Applicants and provide a reasonable basis for the April 21st Forecast. All such assumptions are disclosed in Notes 2 to 8.

Since the April 21st Forecast is based on future events, actual results will vary from the information presented and the variations may be material.

The April 21st Forecast has been prepared solely for the purpose outlined in Note 1, using the probably and hypothetical assumptions set out in Notes 2 to 8. Consequently readers are cautioned that the April 21st Forecast may not be suitable for other purposes.

Dated at Toronto, Ontario this 20th day of April, 2016.



Kevin Watson
Chief Financial Officer

FirstOnSite G.P. Inc.
FirstOnSite Restoration L.P.

FirstOnSite Cash Flow Forecast

Amounts in CAD in thousands

Forecast Week (ending Friday)	22-Apr-16	29-Apr-16	6-May-16	13-May-16	20-May-16	27-May-16	3-Jun-16	10-Jun-16	Total
Cash Flow from Operations									
Receipts	614	1,534	2,864	3,114	3,114	2,042	2,355	2,432	18,070
Disbursements:									
Payroll & related payments	0	(2,276)	0	(2,532)	0	(2,356)	(126)	(850)	(8,141)
Materials, Supplies and Services	(4,346)	(4,422)	(1,868)	(1,544)	(1,604)	(1,765)	(2,527)	(2,583)	(20,660)
Net Operating Cash Flows	(3,732)	(5,164)	996	(962)	1,510	(2,080)	(298)	(1,001)	(10,730)
Restructuring Professional Fees	(550)	(450)	(275)	(225)	(175)	(175)	(150)	(400)	(2,400)
Projected Net Cash flow	(4,282)	(5,614)	721	(1,187)	1,335	(2,255)	(448)	(1,401)	(13,130)
Beginning DIP Balance	0	(4,317)	(9,955)	(9,243)	(10,440)	(9,115)	(11,380)	(11,885)	0
Net Cash flow	(4,282)	(5,614)	721	(1,187)	1,335	(2,255)	(448)	(1,401)	(13,130)
DIP Interest	(35)	(24)	(10)	(10)	(10)	(10)	(57)	0	(156)
Ending DIP Balance	(4,317)	(9,955)	(9,243)	(10,440)	(9,115)	(11,380)	(11,885)	(13,286)	(13,286)

Notes:

- [1] The purpose of this cash flow forecast is to determine the liquidity requirements of the Applicants during the forecast period.
- [2] Forecast Receipts are based on the Applicants' existing customer base, customer credit terms and payment patterns and assumed impacts of the CCAA filing.
- [3] Forecast Payroll & Employee Benefits disbursements are based on actual payroll funding in the period leading up to the forecast period and assume no changes in staffing levels post-filing.
- [4] Forecast Other Operating Disbursements consist primarily of trade suppliers, contractors and other vendors which are assumed paid cash on delivery. Also included in Other Operating Disbursements are Property Leases and Rents which are assumed paid bi-weekly.
- [5] Forecast Restructuring Professional Fees consist of legal and financial advisor fees associated with the CCAA proceedings and are based on estimates obtained from legal and professional advisors.
- [6] Forecast amounts denominated in U.S. dollars are converted to Canadian dollars at the rate of CAD 1.4:1 USD.
- [7] Interest and other fees required by the DIP Facility are assumed to be added to the loan instead of paid in cash.
- [8] The Week 1 forecast is for the period of April 21 and April 22, 2016.

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
FIRSTONSITE G.P. INC.

Court File No: _____

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

**PRE-FILING REPORT OF THE
PROPOSED MONITOR**

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