

Court File No. CV-16-11358-00CL

FirstOnSite G.P. Inc.

**SUPPLEMENTAL REPORT
TO THE SECOND REPORT OF
FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS THE MONITOR**

May 16, 2016

**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.

**SUPPLEMENTAL REPORT TO THE SECOND REPORT
OF FTI CONSULTING CANADA INC.,
in its capacity as Monitor**

INTRODUCTION

1. On April 21, 2016 (the “**Filing Date**”), FirstOnSite G.P. Inc. (“**FirstOnSite GP**” or the “**Applicant**”) filed for and obtained protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to the Order of this Court granted April 21, 2016 (as amended and restated, the “**Initial Order**”), FTI Consulting Canada Inc. (“**FTI**”) was appointed as the Monitor in these proceedings (the “**Monitor**”). The Initial Order provided, *inter alia*, a stay of proceedings against the Applicant through to and including May 20, 2016 (the “**Stay Period**”) and extended the relief under the Initial Order to FirstOnSite Restoration L.P. (“**FirstOnSite LP**”, together with FirstOnSite GP, “**FirstOnSite**” or the “**Companies**”). The Stay Period was subsequently extended by an Order of the Court to May 31, 2016. The proceedings commenced by the Applicant under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
2. On May 9, 2016, the Court granted an Approval and Vesting Order (the “**Approval and Vesting Order**”), among other things, approving the sale

transaction contemplated by the asset purchase agreement 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 has agreed to acquire substantially all of the assets and the business of FirstOnSite (the “**Transaction**”). The Companies currently expect the Transaction to be completed on or around May 31, 2016 (the “**Expected Closing Date**”).

3. Further background information regarding FirstOnSite and the CCAA Proceedings is provided in the affidavit of Mr. David Demos sworn April 20, 2016 and filed in support of the Initial Order, and the pre-filing report of FTI, in its capacity as proposed monitor, dated April 21, 2016 (the “**Pre-Filing Report**”). Copies of these materials, the Court orders granted in these CCAA Proceedings and other documentation relating to these CCAA Proceedings have been posted on the Monitor’s Website at <http://cfcanada.fticonsulting.com/firstonsite> (the “**Monitor’s Website**”).

PURPOSE OF REPORT

4. The purpose of this report (this “**Report**”) is to provide this Court with information on the following:
 - (a) a summary of FTI’s activities to date;
 - (b) the Companies’ receipts and disbursements for the period from April 21, 2016 to May 6, 2016;
 - (c) the Companies’ updated cash flow forecast;
 - (d) the Applicant’s request for an order, *inter alia*, assigning the rights and obligations of FirstOnSite under certain agreements to the Purchaser (the “**Assignment Order**”);

- (e) the Applicant's request for an order, *inter alia*, authorizing the Monitor to make certain distributions from the net proceeds of the Transaction and other funds that may be transferred by the Companies to the Monitor following completion of the Transaction (the "**Distribution Order**");
- (f) the results of the Monitor's counsel's review of the security granted by FirstOnSite in favour of Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**") as agent under FirstOnSite's pre-filing senior secured asset-backed loan facility (the "**Pre-Filing ABL Facility**"), Business Development Bank of Canada ("**BDC**") as lender under the letter offer of credit entered into on November 25, 2014 (the "**Pre-Filing BDC Loan**"), and BDC Capital Inc. ("**BDC Capital**") as lender under the letter offer of credit entered into on November 25, 2014 (the "**Pre-Filing BDC Capital Loan**");
- (g) an update on lien claims being asserted in connection with FirstOnSite pursuant to the process set out in the Initial Order; and
- (h) the Applicant's request for an extension of the stay of proceedings granted under the Initial Order to June 24, 2016 (the "**Stay Extension**").

TERMS OF REFERENCE

5. In preparing this report, the 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**").

6. Except as described in this Report:
 - (a) the 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 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.
7. 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. The Monitor has prepared this Report in connection with the Applicant's motion for the Assignment Order, the Distribution Order and the Stay Extension. This Report should be read in conjunction with the affidavit of Kevin McElcheran sworn April 26, 2016 (the "**McElcheran Affidavit**"), the affidavit of Kevin McElcheran sworn May 5, 2016 (the "**Supplemental McElcheran Affidavit**") and the affidavit of Kevin McElcheran sworn May 12, 2016 (the "**Second Supplemental McElcheran Affidavit**") in support of, *inter alia*, the Assignment Order, the Distribution Order and the Stay Extension, the affidavit of Jeff Johnson sworn May 12, 2016 in support of the Assignment Order (the "**Johnson Affidavit**"), and the Second Report of the Monitor dated May 4, 2016 (the "**Second Report**").
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings given to them in the Pre-Filing Report, the Second Report or the APA, as applicable.

ACTIVITIES OF THE MONITOR

10. The Initial Order appointed FTI as the Monitor in these CCAA Proceedings. In addition to the activities described in the First Report of the Monitor dated April 27, 2016, the Monitor's activities to date have included, *inter alia*:
- (a) making materials available on the Monitor's Website;
 - (b) reviewing disbursements made by the Companies during the CCAA Proceedings;
 - (c) assisting the Companies with the preparation of the Cash Flow Forecast (as defined below) and reporting thereon;
 - (d) assisting the Companies in connection with their reporting requirements under the DIP Agreement;
 - (e) responding to inquiries from customers, creditors and other interested parties received by the Monitor;
 - (f) providing assistance to the Companies in connection with discussions and matters relating to suppliers and customers of the FirstOnSite business;
 - (g) participating in discussions with the Companies, the Companies' legal and financial advisors, and other interested parties in connection with the Applicant's motions for approval of the Transaction, the proposed Assignment Order, the proposed Distribution Order and the proposed Stay Extension, and reviewing and considering various documentation in connection with the foregoing;
 - (h) assisting the Companies in connection with working towards completing the Transaction;
 - (i) assisting with the review of contracts to be assigned to the Purchaser;

- (j) assisting the Companies with the reconciliation of contract cure amounts in connection with the assignment of contracts;
- (k) conducting a review of the security granted by FirstOnSite in favour of Wells Fargo, BDC and BDC Capital;
- (l) reviewing Lien Notices (as defined below) submitted to the Monitor pursuant to the Initial Order; and
- (m) preparing the Second Report and this Report.

RECEIPTS AND DISBURSEMENTS FOR THE PERIOD FROM APRIL 21, 2016 TO MAY 6, 2016

11. As discussed in the Pre-Filing Report, the Companies, with the assistance of the Monitor, prepared a consolidated weekly cash flow forecast for the Companies for the period from April 21, 2016 to June 10, 2016 (the “**Initial Application Cash Flow Forecast**”), a copy of which was attached as Appendix “A” to the Pre-Filing Report.
12. Since the Filing Date, the Monitor has been working with the Companies to review disbursements and manage their cash spending during the CCAA Proceedings. The table below presents the actual results versus forecast results of the Companies’ Initial Application Cash Flow Forecast for the period of April 21, 2016 to May 6, 2016 (the “**Current Period**”):

\$000s	Budget	Actual	Variance
Receipts	5,012	7,276	2,264
Disbursements:			
Payroll & related payments	(2,276)	(2,072)	204
Materials, Supplies and Services	(10,636)	(4,248)	6,388
Net Operating Cash Flows	(7,900)	956	8,856
Restructuring Professional Fees	(1,275)	(1,200)	75
Net Cash flow	(9,175)	(244)	8,931
Beginning DIP Balance	-	-	-
Advances Net of Receipts	9,175	859	8,315
DIP Interest	69	69	(0)
Ending DIP Balance	9,243	928	8,315

13. Actual net cash flows for the Current Period were approximately \$8.9 million higher than forecast. The positive variance in cash was primarily the result of the following:
 - (a) receipts during the Current Period were approximately \$2.3 million higher than forecast. The Initial Application Cash Flow Forecast took into account potential delays associated with the CCAA filing; however, receipts for the Current Period have continued to follow normal collection patterns; and
 - (b) disbursements in respect of Materials, Supplies and Services during the Current Period were approximately \$6.4 million lower than forecast due mainly to timing variances, as further discussed below.

14. As also discussed in the Second Report, the Initial Application Cash Flow Forecast included certain vendor payments for the Current Period which have not materialized in the same time frame as estimated in the Initial Application Cash Flow Forecast. Since the commencement of the CCAA Proceedings, the Companies have been making post-filing vendor payments promptly on receipt of invoices, certain of which invoices have not been delivered or received as soon as had been anticipated in the preparation of the Initial Application Cash Flow Forecast. In addition, the Initial Application Cash Flow Forecast had contemplated certain potential critical vendor payments during the first weeks of the CCAA Proceedings in the event they were required, which payments are occurring over a longer period of time than anticipated in Initial Application Cash Flow Forecast.

CASH FLOW FORECAST

15. The Applicant, with the assistance of the Monitor, has updated the Initial Application Cash Flow Forecast for FirstOnSite for the period between May 7, 2016 and June 24, 2016 (the “**Cash Flow Period**”). A copy of the updated Initial

Application Cash Flow Forecast (the “**Cash Flow Forecast**”) is attached hereto as Appendix “A”.

16. The Cash Flow Forecast shows negative net cash flows of approximately \$12.2 million in the Cash Flow Period, and is summarized below:

	\$000s
Receipts	16,035
Disbursements:	
Payroll & related payments	(8,297)
Materials, Supplies and Services	(17,592)
Net Operating Cash Flows	(9,853)
Restructuring Professional Fees	(2,393)
Projected Net Cash flow	(12,246)
Beginning DIP Balance	928
Advances Net of Receipts	11,841
DIP Interest	93
Ending DIP Balance	12,862

17. 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;”

18. 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 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 7 thereof.
- (b) The 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 Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The 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 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 Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The 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 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.
19. 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 having access to amounts available under the DIP Facility. The Cash Flow Period extends for a short period of time beyond the Expected Closing Date of the Transaction in the event of any delay in completing the Transaction by the Expected Closing Date.
20. As further discussed below, the Monitor notes that pursuant to the terms of the DIP Agreement, the DIP Facility shall terminate on the earlier of (a) the closing of the Transaction and (b) the date that is 6 weeks following the date of the Initial Order (being June 2, 2016), as such date may be extended with the consent of the DIP Lender in its sole discretion (the “**DIP Termination Date**”).
21. The Monitor understands that the Companies are working to complete the transaction on or prior to the Expected Closing Date. If the Transaction is not completed prior to the DIP Termination Date, but is expected to close shortly thereafter, the Companies may seek an extension of the DIP Termination Date from the DIP Lender to allow them to continue to satisfy their projected uses of cash while they work to complete the Transaction. The Monitor notes that the DIP Lender is under no obligation, nor has at this time agreed, to extend the DIP Termination Date.
22. Following completion of the Transaction, the Monitor would be in receipt of the Sale Proceeds (as defined below) on behalf of the Companies pursuant to the APA, and would retain and distribute such Sale Proceeds on behalf of the Companies, including in respect of the Companies’ remaining post-filing obligations not assumed by the Purchaser and professional fees incurred during the remainder of these CCAA Proceedings, in all cases pursuant to the terms of

the proposed Distribution Order (if approved) and as further discussed below. Subject to the granting of the Distribution Order, it is the Companies' intention to repay amounts due to the DIP Lender upon closing of the Transaction, or as soon thereafter as practicable.

AGREEMENTS PROPOSED TO BE ASSIGNED

23. As discussed in the Second Report, pursuant to the terms of the APA, the Purchaser will assume all of the contracts and other written agreements to which FirstOnSite is a party in connection with the Purchased Assets and the FirstOnSite business, including leases of real or personal property or equipment, and any unfilled purchase orders, except for the Excluded Contracts (the “**Assumed Contracts**”), provided that the Purchaser has the right up to closing to include additional contracts to the list of Excluded Contracts under the APA.
24. In the event any Assumed Contracts are not assignable without the consent, approval or waiver of another party and such contracts are set out in a list provided by the Purchaser to the Companies in the timeframe set out under the APA, as extended on agreement of the parties (the “**Consent Required Contracts**”), and the applicable consent, approval or waiver was not obtained in the timeframe set out under the APA, as extended on agreement of the parties, the Companies are required pursuant to the APA to bring a motion seeking the Assignment Order, which Assignment Order shall be satisfactory to the Purchaser and provide for, *inter alia*, the approval of the assignment of the Consent Required Contracts for which the required consent, approval or waiver has not been obtained.
25. The assignment to the Purchaser of certain of the Assumed Contracts that are set out in Appendix 5 to Schedule A of the APA (the “**Essential Contracts**”) is a condition precedent to the closing of the Transaction. As discussed in the Second Supplemental McElcheran Affidavit, there are a total of 14 Essential Contracts, of which 11 require the relevant counterparty's consent to assignment of the

agreement. Including the Essential Contracts that require consent to be assigned, the list of Consent Required Contracts includes approximately 80 agreements.

26. The Monitor understands that between April 27, 2016 and May 4, 2016, FirstOnSite distributed letters to counterparties of the Consent Required Contracts requesting their consent to the assignment of the applicable Consent Required Contract to the Purchaser and advising the counterparties that absent their consent to the requested assignment, FirstOnSite would seek a Court order assigning their contract to the Purchaser pursuant to Section 11.3 of the CCAA. A copy of the form of letter distributed to counterparties to the Consent Required Contracts is attached as an exhibit to the Second Supplemental McElcheran Affidavit.
27. Following the distribution of such letters, FirstOnSite and its counsel, with the assistance of the Monitor, engaged in discussions with counterparties to Consent Required Contracts in an attempt to obtain executed consent agreements. As discussed in further detail in the Second Supplemental McElcheran Affidavit, FirstOnSite has unsuccessfully attempted to establish contact with approximately five counterparties to Consent Required Contracts for which consents remain outstanding and will continue its efforts to obtain consents to assignment in respect of such Consent Required Contracts.
28. The Monitor is advised that as at May 13, 2016, the Companies have obtained consents for assignment in respect of 30 Consent Required Contracts, and that consents for assignment in respect of 50 Consent Required Contracts remain outstanding. FirstOnSite and its counsel, with the assistance of the Monitor, are continuing to communicate with counterparties to Consent Required Contracts for which consents remain outstanding in an effort to obtain executed consent agreements from such parties. The Monitor understands that the Applicant will provide an update on additional consents for assignment obtained by the Companies prior to the hearing of the motion in respect of the Assignment Order.

29. In parallel with its discussions with counterparties to the remaining Consent Required Contracts, the Applicant is seeking the Assignment Order in respect of any Consent Required Contracts for which consents are not obtained prior to the hearing of the Assignment Order. A list of the Consent Required Contracts for which the required consent, approval or waiver had not been obtained as at the time of service of the Applicant's proposed Assignment Order (the "**Proposed Assigned Contracts**") are set out on Schedule A of the Applicant's proposed Assignment Order. The Monitor is reviewing the Proposed Assigned Contracts with the Companies.
30. The Companies, with the assistance of the Monitor, have worked to estimate based on the Companies' books and records the monetary defaults as at the commencement of the CCAA Proceedings ("**Cure Costs**") in relation to the Proposed Assigned Contracts. The Cure Costs in respect of the Proposed Assigned Contracts are set out at Schedule A of the Applicant's proposed Assignment Order.
31. The CCAA requires that all monetary defaults in relation to any agreement proposed to be assigned under section 11.3 of the CCAA be remedied on or before the day fixed by the Court. The proposed Assignment Order provides that the Purchaser shall pay the Cure Costs with respect to each applicable Proposed Assigned Contracts that is a Purchased Asset on closing of the Transaction, in full and final satisfaction of any Cure Costs owing to the counterparty to the applicable Proposed Assigned Contract, by no later than the day that is five business days from the date that the Purchaser receives wire remittance instructions or other payment instructions from the applicable counterparty. Pursuant to the APA, such Cure Costs are to be paid by the Purchaser without any inclusion of such costs in Working Capital under the APA.
32. The assumption of the Assumed Contracts, including the Proposed Assigned Contracts, by the Purchaser is part of the overall Transaction pursuant to which

the Purchaser will acquire the ongoing business of FirstOnSite. As set out in the Second Supplemental McElcheran Affidavit, the Purchaser advises that the Essential Contracts and other Assumed Contracts are critical to the continued operations of FirstOnSite's business by the Purchaser.

33. As set out in the Johnson Affidavit on behalf of the Purchaser, Mr. Johnson, the Secretary and a Director of the Purchaser, and the Chairman of Bellwether International Group LLC (doing business as Interstate Restoration) ("**Interstate**"), states that, if assigned, the Purchaser would perform its obligations under the Proposed Assigned Contracts (provided that such contracts are not designated by the Purchaser prior to the closing of the Transaction as Excluded Contracts). Among other things, Mr. Johnson also states that:

- (a) contemporaneously with the closing of the Transaction, the Purchaser will enter into a management services agreement with Interstate, one of the largest wholly-owned disaster recovery and reconstruction companies in the United States, pursuant to which Interstate will provide operational resources and management oversight to the Purchaser and its business;
- (b) the Purchaser will be able to leverage the financial resources and capital markets expertise of Delos Capital Management, L.P., a private equity fund formed in 2013 that has executed a commitment letter to make a significant capital investment in cash of \$30 million in equity in the Purchaser (which amount may only be reduced to the extent that (a) it is not required to fund payment of the purchase price and other expenses relating to the Transaction or (b) another party also invests under the same commitment);
- (c) the Purchaser has an open commitment for new financing pursuant to a \$45 million asset-based revolving facility;

- (d) as part of the Transaction, the Purchaser will acquire and continue operating substantially the same business as currently operated by FirstOnSite with substantially the same assets with less debt than the current FirstOnSite Business; and
 - (e) the Purchaser is willing, able and motivated to perform its obligations under the Proposed Assigned Contracts.
34. For the reasons set out in the Second Supplemental McElcheran Affidavit, the Johnson Affidavit and herein, the Monitor agrees that the Purchaser is an appropriate party to the Proposed Assigned Contracts and supports the assignment of the Companies' rights and obligations under the Proposed Assigned Contracts for which consents for assignment are not obtained prior to the hearing of the motion for the Assignment Order as part of the completion of the Transaction, subject to the Monitor completing its final review of the Proposed Assigned Contracts with the Companies.

DISTRIBUTION OF SALE PROCEEDS

35. As noted above, FirstOnSite is working to complete the Transaction by the Expected Closing Date of May 31, 2016.
36. As discussed in the Second Report, pursuant to the DIP Agreement, FirstOnSite has agreed to (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 Transaction, and (b) seek a distribution order from the Court, acceptable to the DIP Lender and to the Monitor, prior to the closing of the Transaction with respect to the repayment of the DIP Facility and the Pre-Filing ABL Obligations.
37. The Applicant is seeking the proposed Distribution Order authorizing, *inter alia*, the Monitor to make certain distributions on behalf of, and in consultation with,

the Companies from the Sale Proceeds and any further amounts that may be delivered to the Monitor by the Companies following completion of the Transaction, subject to the maintenance by the Monitor of certain reserves, all as set out in the proposed Distribution Order and further discussed below.

Sale Proceeds

38. As discussed in the Second Report, in connection with the execution of the APA, and pursuant to the terms of the APA, the Purchaser delivered to the Monitor, in its capacity as escrow agent under the APA (the “**Escrow Agent**”), a \$2,000,000 deposit (the “**Deposit**”) to be held in escrow pending the closing of the Transaction, subject to the terms of the APA and the Escrow Agreement between FirstOnSite LP, by its general partner FirstOnSite GP, the Purchaser and FTI in its capacity as Escrow Agent dated April 21, 2016 (the “**Escrow Agreement**”), the form of which is attached as Schedule G to the APA.
39. Pursuant to the APA, on closing of the Transaction, the amount of the Deposit and interest accrued thereon shall be credited against the Closing Cash Purchase Price and the Purchaser will pay the remainder of the Closing Cash Purchase Price to the Monitor on behalf of FirstOnSite.
40. Pursuant to the Approval and Vesting Order, the Monitor is authorized and empowered to hold the net proceeds from the sale of the Purchased Assets delivered to it pursuant to the APA (the “**Sale Proceeds**”) pending further order of the Court.

Charges and Priority Claims

41. Pursuant to the Initial Order, the following Court-ordered charges (collectively, the “**Charges**”) were granted:
 - (a) First – the Administration Charge to a maximum of \$1 million;

- (b) Second – the DIP Lenders’ Charge to a maximum of \$15 million;
 - (c) Third – the KERP Charge to a maximum of \$2.26 million;
 - (d) Fourth – the Financial Advisor’s Charge to a maximum of \$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).
42. Pursuant to the Initial Order, the Charges rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, the “**Encumbrances**”) in favour of any person, notwithstanding the order of perfection or attachment except any claims of any person against FirstOnSite for amounts owing for services and/or materials supplied that have priority over Encumbrances by statute, 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.
43. The Initial Order further provides that, notwithstanding anything contained in the Initial Order, nothing in the Initial Order shall 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.

Security Granted in Favour of Wells Fargo, BDC and BDC Capital

44. The Monitor’s counsel, Goodmans LLP (“**Goodmans**”) conducted a security review of the security granted by FirstOnSite in personal property to secure the

amounts owing under the Pre-Filing ABL Facility, the Pre-Filing BDC Loan, and the Pre-Filing BDC Capital Loan and rendered opinions with respect to the validity and perfection thereof under the laws of the Province of Ontario. These opinions state that, subject to the assumptions and qualifications contained therein:

- (a) the personal property security granted in favour of (i) Wells Fargo as agent for the lenders under the Pre-Filing ABL Facility, (ii) BDC as lender under the Pre-Filing BDC Loan, and (iii) BDC Capital as lender under the Pre-Filing BDC Capital Loan, is valid and enforceable and creates valid security interests in the personal property of the Companies secured to which the *Personal Property Security Act* (Ontario) (the “**Ontario PPSA**”) applies;
- (b) based on a review of the searches conducted against FirstOnSite set out in Schedule D to the Goodmans opinions for other registered security interests under the Ontario PPSA, in accordance with the intercreditor agreements and subordination agreements relating to the Pre-Filing ABL Facility, the Pre-Filing BDC Loan and the Pre-Filing BDC Capital Loan, and pursuant to the laws of the Province of Ontario, subject to, *inter alia*, the Court-ordered Charges, certain registrations of secured parties made prior to the registration by Wells Fargo, purchase money security interests, and liens, encumbrances and other rights of third parties in respect of which registration against the Companies may not be required under personal property security legislation, including security interests perfected by possession or control, statutory trusts, liens and encumbrances, and claims that have priority by operation of law:
 - (i) Wells Fargo, as agent for the lenders under the Pre-Filing ABL Facility, has a first ranking security interest in the

personal property of the Companies secured to which the Ontario PPSA applies, other than the machinery and equipment of the Companies (the “**BDC Priority Assets**”);

- (ii) BDC, as lender under Pre-Filing BDC Loan, has a first ranking security interest against the BDC Priority Assets to which the Ontario PPSA applies and a second ranking security interest in the other personal property of the Companies secured to which the Ontario PPSA applies; and
- (iii) BDC Capital, as lender under the Pre-Filing BDC Capital Loan, has a third ranking security interest in the personal property of the Companies secured to which the Ontario PPSA applies.

45. Based on collateral descriptions and certain acknowledgements provided by certain secured parties, it appears that all of the prior registered security interests under the Ontario PPSA set out in the summary of searches conducted against FirstOnSite attached as Schedule D to the Goodmans opinions relate either to equipment or vehicle leases, or to debenture holders that are subject to subordination agreements, with the exception of two registrations, one of which has been discharged and one of which relates to cancelled debentures.
46. Similar opinions were obtained by the Monitor from BCF Business Law under the laws of the Province of Quebec. Based on discussions with counsel to the Companies, the nature of the security and related documents, and the facts and circumstances of the Companies and the Transaction, the Monitor did not obtain separate opinions in respect each of the other provinces and states in which the Companies have operations or assets.
47. The Monitor reviewed the searches conducted against FirstOnSite set out in Schedule E to the Goodmans opinions for other registered security interests under

the *Personal Property Security Act* (British Columbia) (the “**BC PPSA**”), *Personal Property Security Act* (Alberta) (the “**Alberta PPSA**”), *Personal Property Security Act* (Saskatchewan) (the “**Saskatchewan PPSA**”), *Personal Property Security Act* (Manitoba) (the “**Manitoba PPSA**”), *Personal Property Security Act* (New Brunswick) (the “**NB PPSA**”), *Personal Property Security Act* (Nova Scotia) (the “**NS PPSA**”), *Personal Property Security Act* (Prince Edward Island) (the “**PEI PPSA**”), *Personal Property Security Act* (Newfoundland) (the “**Newfoundland PPSA**) and the *Uniform Commercial Code* (the “**UCC**”) in the State of Delaware and the State of Tennessee. Based on collateral descriptions and certain acknowledgements provided by certain secured parties, it appears that all of the prior registered security interests under the BC PPSA, the Alberta PPSA, the Saskatchewan PPSA, the Manitoba PPSA, the NB PPSA, the NS PPSA, the PEI PPSA, Newfoundland PPSA and the UCC for the State of Delaware and the State of Tennessee (if any) set out in the summaries of searches conducted against FirstOnSite attached as Schedule E to the Goodmans opinions relate either to equipment or vehicle leases, or to debenture holders subject to subordination agreements, with the exception of one registration which relates to cancelled debentures.

Proposed Distributions

48. The proposed Distribution Order provides that the distributions made by the Monitor on behalf of FirstOnSite pursuant to the Distribution Order would be subject to the Monitor retaining from the Sale Proceeds a reserve of funds (the “**Reserve**”) in an amount satisfactory to the Monitor, in consultation with FirstOnSite, or in an amount determined by the Court, sufficient for the payment of the Professional Expenses and Post-Filing Expenses (each as defined below) and to secure the obligations under the Administration Charge, the KERP Charge, the Financial Advisor’s Charge, any other obligations of FirstOnSite that rank in priority to the Charges, the security granted in respect of the Pre-Filing ABL Facility, the Pre-Filing BDC Loan and the Pre-Filing BDC Capital Loan,

including any statutory deemed trust claims that may arise under provincial legislation and including, with respect to the secured obligations under the Pre-Filing BDC Capital Loan, any outstanding claims secured by the Lien Charge, and any other contingent amounts appropriate under the circumstances (the “**Priority Claims**”).

49. The proposed Distribution Order would authorize and direct the Monitor to make distributions on closing of the Transaction to Wells Fargo, as DIP Lender and agent under the Pre-Filing ABL Facility, BDC and BDC Capital up to the maximum amounts outstanding under the DIP Facility, the Pre-Filing ABL Facility, the Pre-Filing BDC Loan and the Pre-Filing BDC Capital Loan, respectively, subject in each case to the relative priority of the security granted by FirstOnSite (or pursuant to the Initial Order, as applicable) in favour of the DIP Lender, the ABL Agent, BDC and BDC Capital, respectively, and subject to the Reserve. The proposed Distribution Order would also authorize the Monitor to make additional distributions, if needed, to these parties from time to time following closing, without further Order of the Court, up to the amounts owing to them, also subject in each case to the relative priority of the security granted in favour of such parties, and subject to the Reserve.

50. The proposed Distribution Order would also authorize the Monitor to, in consultation with FirstOnSite, distribute on behalf of FirstOnSite from the Sale Proceeds and any further amounts that may be delivered to the Monitor by the Companies following completion of the Transaction:
 - (a) amounts, as confirmed by FirstOnSite, owing to the KERP Participants (as the term is defined in the Initial Order) pursuant to the KERP (as the term is defined in the Initial Order) and secured by the KERP Charge;

 - (b) amounts owing by FirstOnSite to Alvarez & Marsal Canada Securities ULC (the “**Financial Advisor**”) under the engagement letter with

FirstOnSite dated October 30, 2015 (the “**Engagement Letter**”) up to the maximum amount owing to the Financial Advisor under the Engagement Letter;

- (c) amounts owing by FirstOnSite in respect of fees and expenses of the Monitor and the Monitor’s legal counsel and of legal counsel to FirstOnSite (collectively, the “**Professional Expenses**”);
- (d) amounts owing by FirstOnSite in respect of obligations incurred by FirstOnSite since the commencement of the CCAA Proceedings (collectively, the “**Post-Filing Expenses**”); and
- (e) amounts owing by FirstOnSite in respect of Priority Claims and any other amounts owing by FirstOnSite with the consent of the Monitor.

Purchaser’s Charge

- 51. The APA provides that a portion of the Closing Cash Purchase Price shall be retained by the Monitor, in an amount determined by the Monitor (which amount shall not be less than \$3,000,000), to satisfy potential trust claims which may be asserted against FirstOnSite pursuant to Applicable Lien Legislation, and FirstOnSite’s potential payment obligations, if any, arising in connection with the working capital adjustment under the APA (the “**Trust Claim Reserve**”).
- 52. The APA requires that the Trust Claim Reserve be subject to a first ranking \$2,000,000 charge in favour of the Purchaser (the “**Purchaser’s Charge**”) subject only to (i) an amount sufficient to repay all amounts owing by FirstOnSite to Wells Fargo in respect of Pre-Filing ABL Facility, and (ii) the Monitor’s ability to pay or settle trust claims made against FirstOnSite pursuant to Applicable Lien Legislation (as defined below) out of the Trust Claim Reserve after first seeking recourse to the Potential Trust Claimant Reserve (as defined below) to the extent available for such trust claim.

53. The proposed Distribution Order would grant such Purchaser's Charge, subject to such charge being released automatically upon receipt by the Purchaser of amounts it may be entitled to in connection with the working capital adjustment pursuant to section 3.5(d)(ii) of the APA.

Potential Trust Claimant Reserve

54. As discussed in the Second Report, on closing of the Transaction, the Purchaser shall also deliver to the Monitor in its capacity as Escrow Agent, at the option of the Purchaser, either \$5,000,000 or one or more unconditional, irrevocable standby letters of credit in an aggregate face amount of \$5,000,000 (the "**Potential Trust Claimant Reserve**") to satisfy, subject to the terms and process set out in the APA, potential trust claims ("**Potential Trust Claims**") which may be asserted against FirstOnSite by a person owed funds by FirstOnSite (each a "**Potential Trust Claimant**") under the Construction Lien Act (Ontario), the Mechanics Lien Acts of New Brunswick and Prince Edward Island or the Builders Lien Acts of Nova Scotia, Manitoba, British Columbia, Saskatchewan and Alberta ("**Applicable Lien Legislation**") and that are reflected on the list of Potential Trust Claimants who may, in the judgment of FirstOnSite, acting reasonably, be entitled to assert a Potential Trust Claim against FirstOnSite, which list shall not include amounts that are not Assumed Liabilities and shall be delivered to the Purchaser on closing.
55. Pursuant to the Approval and Vesting Order, the Monitor, in its capacity as Escrow Agent, is authorized and empowered to hold the Potential Trust Claimant Reserve delivered to it pursuant to the APA and to release the Potential Trust Claimant Reserve, or any portion thereof, at such times and in such amounts as are contemplated by the Escrow Agreement or as otherwise ordered by the Court.
56. For clarity, the Potential Trust Claimant Reserve is not the sole reserve amount to be retained following closing of the Transaction in respect of potential trust claims against the Companies pursuant to applicable construction lien and similar

legislation. As discussed above, the proposed Distribution Order provides for a Reserve to be retained by the Monitor from the Sale Proceeds in an amount satisfactory to the Monitor, in consultation with FirstOnSite, or in an amount determined by the Court, sufficient to secure payment of a number of priority amounts as discussed above, including potential statutory deemed trust claims that may arise under provincial legislation.

LIEN CLAIMS

57. As reported in the Second Report, since the commencement of the CCAA Proceedings, certain suppliers of materials and/or services have submitted to the Monitor notices of lien claims under certain provincial construction lien and similar legislation in connection with projects to which FirstOnSite is a contracting party (“**Lien Notices**”) pursuant to the process set out in the Initial Order. Since the date of the Second Report, the Monitor has received a number of additional Lien Notices. The Monitor is in the process of reviewing the Lien Notices received to date, and working with the Companies and the parties who have submitted Lien Notices to obtain additional information where necessary. The Monitor will report further on such matters as appropriate.

REQUEST FOR THE STAY EXTENSION

58. As discussed above, the Stay Period currently expires on May 31, 2016.

59. The Applicant is seeking a further extension of the Stay Period to June 24, 2016 for the Companies to pursue their restructuring efforts, including implementation of the Transaction, which is currently expected by the Companies to be completed on or around the Expected Closing Date of May 31, 2016, and completion of related closing, post-closing, distribution and other related matters. The continuation of the stay of proceedings is necessary to provide the stability needed during that time.

60. As discussed above, and as set out in the Cash Flow Forecast, the Companies are expected to have sufficient funds to satisfy their projected uses of cash during the Cash Flow Period, subject to having access to amounts available under the DIP Facility. The Cash Flow Period extends for a short period of time beyond the Expected Closing Date in the event of any delay in completing the Transaction by the Expected Closing Date.
61. If the Transaction is not completed by the DIP Termination Date, and the DIP Lender does not consent to extending the DIP Termination Date such that the Companies do not have the funding necessary to continue to carry on operations through the expiry of the proposed Stay Extension, the Monitor will advise the Court and work with the Companies and the DIP Lender to determine next steps.
62. Based on the information presently available, the Monitor believes that creditors will not be materially prejudiced by the proposed extension of the Stay Period.
63. The Monitor is not aware of any non-compliance by the Companies with requirements under the CCAA or pursuant to any Order issued by this Court in the CCAA Proceedings. The Monitor believes that the Companies have acted, and are continuing to act, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.
64. The Monitor is advised by the Applicant that Wells Fargo, BDC and BDC Capital support the proposed Stay Extension.

MONITOR'S CONCLUSIONS

65. For the reasons discussed above, the Monitor supports the proposed assignment of the Companies' rights and obligations under the Proposed Assigned Contracts to the Purchaser in connection with the Transaction, subject to the Monitor's final review with the Companies.

66. For the reasons discussed above, the Monitor respectfully recommends that the proposed Distribution Order and proposed Stay Extension be granted by the Court.

All of which is respectfully submitted this 16th day of May, 2016.

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



Paul Bishop
Senior Managing Director



Michael Basso
Director

Appendix A

Cash Flow Forecast

FirstOnSite Cash Flow Forecast

Amounts in CAD in thousands

	13-May-16	20-May-16	27-May-16	3-Jun-16	10-Jun-16	17-Jun-16	24-Jun-16	
Forecast Week (ending Friday)	1	2	3	4	5	6	7	Total
Cash Flow from Operations								
Receipts	1,983	2,360	2,042	2,355	2,432	2,432	2,432	16,035
Disbursements:								
Payroll & related payments	(2,532)	0	(2,356)	(126)	(850)	(1,582)	(850)	(8,297)
Materials, Supplies and Services	(2,559)	(2,619)	(2,780)	(2,786)	(2,141)	(2,566)	(2,141)	(17,592)
Net Operating Cash Flows	(3,108)	(259)	(3,094)	(557)	(559)	(1,717)	(559)	(9,853)
Restructuring Professional Fees	(208)	(650)	(540)	(385)	(203)	(203)	(203)	(2,393)
Projected Net Cashflow	(3,316)	(909)	(3,634)	(942)	(763)	(1,920)	(763)	(12,246)
Beginning DIP Balance	928	3,849	4,768	8,412	9,386	10,159	12,089	928
Net Advances/(Repayments)	2,911	909	3,634	942	763	1,920	763	11,841
DIP Interest	10	10	10	33	10	10	10	93
Ending DIP Balance	3,849	4,768	8,412	9,386	10,159	12,089	12,862	12,862

[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 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.

[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.

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: CV-16-11358-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

**SUPPLEMENTAL REPORT TO THE
SECOND REPORT OF THE MONITOR**

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