

Court File No. CV-16-11257-00CL

**PT HOLDCO, INC.,
PRIMUS TELECOMMUNICATIONS CANADA, INC.,
PTUS, INC.,
PRIMUS TELECOMMUNICATIONS, INC., and
LINGO, INC.**

FIRST REPORT OF THE MONITOR

February 9, 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
PT HOLDCO, INC., PRIMUS TELECOMMUNICATIONS CANADA, INC.,
PTUS, INC., PRIMUS TELECOMMUNICATIONS, INC., and LINGO, INC.

**FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On January 19, 2016, PT Holdco, Inc. (“**PT Holdco**”), Primus Telecommunications Canada, Inc. (“**PT Canada**”), PTUS, Inc. (“**PTUS**”), Primus Telecommunications, Inc. (“**PTI**”), and Lingo, Inc. (“**Lingo**” and together with PT Holdco, PT Canada, PTUS and PTI, the “**Applicants**”) sought and obtained an initial order (as may be amended or restated from time to time, the “**Initial Order**”) under the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended* (the “**CCAA**”) providing for, *inter alia*, a stay of proceedings against the Applicants until February 18, 2016, (the “**Stay Period**”) and appointing FTI Consulting Canada Inc. (“**FTI Consulting**”) as monitor (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
2. The purpose of this, the Monitor’s First Report is to inform the Court on the following:

- (a) The activities of the Applicants and the Monitor since the commencement of the CCAA Proceedings;
- (b) The filing of petitions under Chapter 15 of the U.S. Bankruptcy Code to commence “recognition proceedings” in the United States (the “**Chapter 15 Proceedings**”);
- (c) The receipts and disbursements of the Applicants for the period from the start of the CCAA Proceedings to February 5, 2016;
- (d) The Applicants’ revised and extended cash flow forecast for the period February 6 to March 18, 2016 (the “**February 9 Forecast**”);
- (e) The independent opinions prepared by counsel to the Monitor (collectively, the “**Security Opinion**”) on the validity and enforceability of the various security (the “**Syndicate Security**”) held by Bank of Montreal, as administrative agent (the “**Agent**”), for Bank of Montreal, HSBC Bank Canada and ATB Corporate Financial Service (collectively, the “**Syndicate**”);
- (f) The Applicants request for an Order *inter alia* authorizing the payment of \$234,512.91 plus HST to Knew Sales Group Inc. (“**Knew Sales**”) in respect of amounts to be paid by Knew Sales to its contractors for services provided by such contractors prior to the commencement of the CCAA Proceedings (the “**Contractors Hardship Payment**”) and the Monitor’s recommendation thereon
- (g) The Applicants’ request for an extension of the Stay Period to February 26, 2016 and the Monitor’s recommendation thereon.

TERMS OF REFERENCE

3. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with various parties, including senior management ("**Management**") of the Applicants (collectively, the "**Information**").
4. 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;
 - (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.
5. Future oriented financial information reported or relied upon 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 Monitor has prepared this Report in connection with the Applicants' Notice of Motion dated February 9, 2016, returnable February 10, 2016 (the "**February 10 Motion**").
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

8. Capitalized terms not otherwise defined herein have the meanings defined in the affidavit of Mr. Michael Nowlan sworn January 18, 2016 filed in support of the Initial Application (the “**Nowlan January 18 Affidavit**”), the Pre-Filing Report of FTI Consulting in its capacity as proposed monitor of the Applicants, or in the Initial Order.

EXECUTIVE SUMMARY

9. Capitalized terms used in the Executive Summary are as defined in the relevant section of the Report.

CONTRACTORS HARDSHIP PAYMENT

10. The Applicants, in consultation with the Monitor, have determined that it is in the best interests of the Applicants and their stakeholders to pay the Contractors Hardship Payment.
11. The Monitor respectfully recommends that the Applicants’ request for authorization to make the Contractors Hardship Payment be granted.

EXTENSION OF STAY PERIOD

12. The Monitor is of the view that:
 - (a) The February 9 Forecast demonstrates that, subject to the underlying assumptions thereof, the Applicants have sufficient liquidity to fund the Applicants’ operations and the CCAA Proceedings during the proposed extension of the Stay Period;
 - (b) Based on the information currently available, creditors of the Applicants would not be materially prejudiced by the proposed extension of the Stay Period.

- (c) The Applicants have acted, and are acting, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.
13. The Monitor respectfully recommends that this Honourable Court grant the Applicants' request for an extension of the Stay Period to February 26, 2016.

THE ACTIVITIES OF THE APPLICANTS AND THE MONITOR

14. To date, the Applicants and their management and staff have provided the Monitor with their full co-operation and unrestricted access to the Applicants' premises, books and records. The Monitor has implemented procedures for the monitoring of operations, receipts and disbursements and is assisting the Applicants in their dealings with employees, suppliers, creditors and other stakeholders.

NOTICES AND COMMUNICATIONS

15. The Monitor has established a website at <http://cfcanada.fticonsulting.com/primus> (the "**Monitor's Website**") on which updates on the CCAA Proceedings will be posted periodically, together with all Court materials filed in the CCAA Proceedings or the Chapter 15 Proceedings. In addition, the Monitor has established contact numbers (416-649-8062 or toll free 1-855-649-8062) and an email address (primus@fticonsulting.com) to allow stakeholders to communicate directly with the Monitor in order to address any questions or concerns in respect of the CCAA Proceedings.
16. Pursuant to paragraph 39 of the Initial Order the Monitor:
- (a) Published the initial notice containing the information prescribed under the CCAA in the Globe and Mail (National Edition) on January 23 and 29, 2016;

- (b) On January 19, 2016, made the Initial Order publicly available by posting it on the Monitor's Website;
 - (c) On January 23, 2016, sent a notice in the prescribed manner to every known creditor with a claim against the Applicants of more than \$1,000; and
 - (d) Posted a list of known creditors on the Monitor's Website on January 22, 2016.
17. Since the commencement of the CCAA Proceedings, the Applicants and the Monitor have had numerous meetings and discussions with suppliers, creditors and other parties with an interest in the CCAA Proceedings. While from time to time there has been some minor disruption to the Applicants' operations from the actions of suppliers, to date the Applicants, with the assistance of the Monitor, have been largely successful in addressing such disruptions.
18. In addition to communications with suppliers and other stakeholders, the Applicants and the Monitor have endeavoured to ensure that there is open and ongoing communication with the employees of the Applicants. A number of meetings have been held with groups of employees. A "Frequently Asked Questions" document addressing common questions arising in respect of a CCAA proceeding was made available to employees and posted on the Monitor's Website. Employees were also informed of the Monitor's Website, hotline and mailbox in order that they could obtain additional information on the CCAA Proceedings and contact the Monitor directly with any questions or concerns.

THE CHAPTER 15 PROCEEDINGS

19. On January 21, 2016, the Monitor, acting as Foreign Representative of the Applicants pursuant to paragraph 38 of the Initial Order, filed petitions in the United States Bankruptcy Court for the District of Delaware (the “**US Court**”) under Chapter 15 of the *United States Bankruptcy Code* to commence the Chapter 15 Proceedings. The Chapter 15 Proceedings have been assigned to the Honourable Judge Silverstein of the US Court.
20. The following Orders were entered in the Chapter 15 Proceedings on January 21, 2016:
 - (a) Order Granting Provisional Relief (Docket No. 9); and
 - (b) Scheduling Order (Docket No. 12).
21. On January 23, 2016, notice was provided to the Notice Parties as prescribed by the Scheduling Order.
22. On February 4, 2016, the Second Order Granting Provisional Relief (Docket No. 20) was entered in the Chapter 15 Proceedings extending the relief granted pursuant to the Provisional Order through the hearing for recognition of the CCAA Proceedings as a foreign main proceeding and extending protections in the provisional orders on a permanent basis scheduled for February 19, 2016.

RECEIPTS & DISBURSEMENTS FOR THE PERIOD TO FEBRUARY 5, 2016

23. The Applicants’ actual cash flow on a consolidated basis for the period from the commencement of the CCAA Proceedings to February 5, 2016, was approximately \$1.8 million better than the January 18 Forecast, as summarized below:

	Forecast	Actual	Variance
	\$000	\$000	\$000
Receipts	9,952	10,544	592
Disbursements:			
Payroll & Employee Benefits	(1,218)	(1,189)	29
Network & Carrier Charges	(1,671)	(3,232)	(1,561)
Other Operating Disbursements	(3,828)	(1,749)	2,079
Operating Cash Flows	3,235	4,374	1,139
Restructuring Professional Fees	(701)	(67)	634
Projected Net Cash Flow	2,534	4,307	1,773
Beginning Cash Balance	2,334	2,215	(119)
Projected Net Cash Flow	2,534	4,307	1,773
Ending Cash Balance	4,868	6,522	1,654

24. Explanations for the key variances in actual receipts and disbursements as compared to the January 18 Forecast are as follows:

- (a) The favourable variance in receipts is primarily a permanent variance as a result of hold-backs by credit card processing companies being lower than forecast;
- (b) The unfavourable variance in network and carrier charges is a result of payments being made earlier than forecast in response to requirements from major carriers;
- (c) The favourable variance in other operating disbursements is believed to be primarily a timing variance that is expected to reverse in future periods; and
- (d) The favourable variance in restructuring professional fees is believed to be primarily a timing variance that is expected to reverse in future periods.

THE FEBRUARY 9 FORECAST

25. The February 9 Forecast is attached hereto as **Appendix A**. The February 9 Forecast shows a net cash outflow of approximately \$1.9 million in the period to March 18, 2016, and is summarized below:

	\$000
Receipts	20,726
Disbursements:	
Payroll & Employee Benefits	(3,559)
Network & Carrier Charges	(9,661)
Other Operating Disbursements	(7,177)
Operating Cash Flows	329
Restructuring Professional Fees	(2,262)
Projected Net Cash Flow	(1,933)
Beginning Cash Balance	6,522
Projected Net Cash Flow	(1,933)
Ending Cash Balance	4,589

26. There are no material changes in the key underlying assumptions in the February 9 Forecast as compared to the January 18 Forecast. The February 9 Forecast assumes no sale of the Applicants' businesses and assets.

THE SECURITY OPINION

27. Counsel to the Monitor, Blake Cassels & Graydon LLP, with the assistance of local agents in New Brunswick, Manitoba, Saskatchewan and Delaware, conducted a review of the Syndicate Security and delivered the Security Opinion to the Monitor. In summary, the Security Opinion, subject to the qualifications and assumptions set out therein, opines that the Syndicate Security is valid and legally enforceable against the Applicants.
28. Specifically, the Security Opinion opines on the validity, legality and enforceability of the following documents (collectively, the "**Security Documents**"):

- (a) A general security agreement made as of July 31, 2013 by PT Canada (formerly PTCAN Inc.) in favour of the Agent;
- (b) A collateral assignment of material agreements made as of July 31, 2013 by PT Canada (formerly PTCAN Inc.) in favour of the Secured Party;
- (c) A general security agreement made as of July 31, 2013 by PT Holdco in favour of the Agent;
- (d) A securities pledge agreement made as of July 31, 2013 by PT Holdco in favour of the Agent;
- (e) A collateral assignment of intercompany debt and security made as of August 30, 2013 by PT Holdco in favour of the Agent;
- (f) A general security agreement made as of July 31, 2013 by PT Canada in favour of the Agent;
- (g) An acknowledgement and confirmation agreement made by PT Canada in favour of the Agent;
- (h) A security agreement made as of July 31, 2013 by PTI in favour of the Agent;
- (i) A security agreement made as of July 31, 2013 by PTUS in favour of the Agent;
- (j) A securities pledge agreement made as of July 31, 2013 by PTUS in favour of the Agent; and
- (k) A security agreement made as of July 31, 2013 by Lingo in favour of the Agent.

29. Subject to the customary assumptions and qualifications contained in the Security Opinion, Monitor's counsel opined that each of the Security Documents:
- (a) Constitutes a legal, valid and binding security interest in favour of the Agent in any Collateral as such term is defined therein;
 - (b) Is sufficient to secure payment and performance of the obligations described therein as being secured thereby; and
 - (c) Is properly perfected in applicable jurisdictions.

THE CONTRACTORS HARDSHIP PAYMENT

30. Capitalized terms used in this section of this Report not otherwise defined are as defined in the affidavit of Mr. Michael Nowlan sworn February 9, 2016 and filed in support of the February 10 Motion (the "**Nowlan February 9 Affidavit**").
31. As described in the Nowlan February 9 Affidavit, Knew Sales provides independent contractors that act as sales agents (the "**Contractors**") in Costco Stores on behalf of the Applicants. The Birch APA is conditional upon the assignment of Essential Contracts. Both the Costco Contract and the Agency Agreement are Essential Contracts under the Birch APA.
32. Primus Canada is indebted to Knew Sales in the amount of approximately \$327,000 in respect of services provided under the Agency Agreement prior to the commencement of the CCAA Proceedings (the "**Knew Sales Pre-filing Amount**"). Pursuant to the Initial Order, Primus Canada is prohibited from paying the Knew Sales Pre-filing Amount or any portion thereof.

33. Knew Sales has informed the Monitor and the Applicants that it does not have the ability to pay the Contractors it engaged to staff the Costco locations without receiving payment from Primus Canada of a portion of the Knew Sales Pre-Filing Amount. Knew Sales also advised that, if it does not pay the Contractors, there is a strong likelihood that the Contractors would cease working, which would cause a significant adverse impact on the Primus Entities' business.

34. In order to enable the Primus Entities and the Monitor to assess the situation further and to determine appropriate steps, Knew Sales provided the Monitor, on a confidential basis with the following information:
 - (a) Details of the amounts owing to the Contractors for pre-filing services;
 - (b) Financial statements for year ending December 2015 and the month ending January 2016;
 - (c) A summary cash flow projection, together with an analysis of the impact of non-payment of the Knew Sales Pre-filing Amount on Knew Sales' cash flow; and
 - (d) A copy of a standard form of contract between Knew Sales and the Contractors.

35. Knew Sales informed the Monitor that \$234,512.91 plus HST is owed by Knew Sales to the Contractors for services provided prior to the commencement of the CCAA Proceedings (the "**Contractors Hardship Payment**"). Knew Sales also informed the Monitor that the amounts earned by the Contractors for services provided in connection with the Agency Agreement form a significant portion of those Contractors' earnings and failure to receive such amounts could cause financial hardship to the Contractors.

36. The Monitor has reviewed the information provided by Knew Sales. Based on that information, it appears that Knew Sales would likely be unable to pay the amounts owing to Contractors for services provided by them prior to the CCAA filing in connection with the Agency Agreement unless the Contractors Hardship Payment is made.
37. The interruption or loss of the important Costco sales channel could have a significant impact on the Applicants' business and could jeopardize the closing of the Birch Transaction, if the Birch Transaction is approved by the Court.
38. The Applicants have informed the Monitor that they are unable to obtain an alternate service provider to staff the Costco stores on a reasonable timeline.
39. Accordingly, the Applicants, in consultation with the Monitor, have determined that it is in the best interests of the Applicants and their stakeholders to pay the Contractors Hardship Payment.
40. The Monitor also notes that had the Contractors been engaged directly by the Applicants rather than through Knew Sales, payment of the amounts owing to the Contractors would have been permitted pursuant to paragraph 6(a) of the Initial Order.
41. The Monitor understands that the intent of the Applicants to seek authority from the Court to make the Contractors Hardship Payment has been discussed with the Agent for the senior secured lending syndicate and that the senior secured lending syndicate does not object to the making of the Contractors Hardship Payment.
42. The Monitor notes that only the Contractors Hardship Payment, being the amount that is owed by Knew Sales to the Contractors, plus HST, would be paid by the Applicants and not the full amount of the Knew Sales Pre-Filing Amount. Furthermore, the proposed order provides safeguards to ensure that such amounts are remitted by Knew Sales to the Contractors.

43. Accordingly, the Monitor respectfully recommends that the Applicants' request for authorization to make the Contractors Hardship Payment be granted.

REQUEST FOR AN EXTENSION OF THE STAY PERIOD

44. The Stay Period currently expires on February 18, 2016. The motion for approval of the Birch Transaction is scheduled to be heard on February 23, 2106. An extension of the Stay Period is necessary to provide continued stability pending that hearing. Accordingly, the Applicants now seek a short extension of the Stay Period to February 26, 2016. The Applicants expect to seek a further extension of the Stay Period on February 23, 2016, which extension would be required for the Applicants to complete the Birch Transaction if approved or, if the Birch Transaction is not approved, to develop and implement an alternative strategy to complete a restructuring or sale of the businesses and assets.
45. The February 9 Forecast demonstrates that, subject to the underlying assumptions thereof, the Applicants have sufficient liquidity to fund the Applicants' operations and the CCAA Proceedings during the proposed extension of the Stay Period.
46. Based on the information currently available, the Monitor believes that creditors of the Applicants would not be materially prejudiced by the proposed extension of the Stay Period.
47. The Monitor also believes that the Applicants have acted, and are acting, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.
48. The Monitor therefore respectfully recommends that this Honourable Court grant the Applicants' request for an extension of the Stay Period to February 26, 2016.

The Monitor respectfully submits to the Court this, its First Report.

Dated this 9th day of February, 2016.

FTI Consulting Canada Inc.

In its capacity as Monitor of

PT Holdco, Inc., Primus Telecommunications Canada, Inc.,

PTUS, Inc., Primus Telecommunications, Inc., and Lingo, Inc.



Nigel D. Meakin
Senior Managing Director



Steve Bissell
Managing Director

Appendix A

The February 9 Forecast

Primus Entities' Cash Flow Forecast

Amounts in CAD in thousands

Week Ending Friday	12-Feb-16	19-Feb-16	26-Feb-16	4-Mar-16	11-Mar-16	18-Mar-16	
Forecast Week	1	2	3	4	5	6	Total
Cash Flow from Operations							
Receipts	3,523	3,256	3,863	3,597	3,237	3,250	20,726
Payroll & Employee Benefits	(1,207)	-	(1,145)	-	(1,207)	-	(3,559)
Network / Carrier Charges	(1,306)	(1,541)	(1,803)	(2,343)	(1,213)	(1,455)	(9,661)
Other Operating Disbursements	(1,555)	(1,366)	(1,372)	(1,435)	(635)	(814)	(7,177)
Operating Cash Flows	(545)	349	(457)	(181)	182	981	329
Restructuring Professional Fees	(1,018)	(259)	(297)	(259)	(229)	(200)	(2,262)
Projected Net Cash Flow	(1,563)	90	(754)	(440)	(47)	781	(1,933)
Beginning Cash Balance	6,522	4,959	5,049	4,295	3,855	3,808	6,522
Projected Net Cash Flow	(1,563)	90	(754)	(440)	(47)	781	(1,933)
Ending Cash Balance	4,959	5,049	4,295	3,855	3,808	4,589	4,589

Notes:

[1] The purpose of this cash flow forecast is to determine the liquidity requirements of the Primus Entities during the forecast period.

[2] Forecast Receipts are based on the Primus Entities' existing residential and commercial 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 Network / Carrier Charges include payments to certain telecommunications providers. The timing of Network / Carrier Charges disbursements is assumed to occur in the week that services are provided, or reflect the terms of specific payment schedules agreed with Network Carriers for post-filing service.

[5] 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 in advance.

[6] Forecast Restructuring Professional Fees consist of legal and financial advisor fees associated with the CCAA and Ch. 15 proceedings and are based on estimates obtained from legal and professional advisors.

[7] Forecast amounts denominated in U.S. dollars are converted to Canadian dollars at the rate of USD 0.7141 / CAD.