

**Court File No.: 500-11-052101-173**

**QUEBEC  
SUPERIOR COURT  
(COMMERCIAL DIVISION)**

**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, ARRANGEMENT AND  
REORGANIZATION OF ALLIANCE HANGER INC. ON THE APPLICATION OF ERA  
GROUP INC.**

**FIRST REPORT OF THE MONITOR  
KPMG INC.**

**DATED MARCH 9, 2017**

**TABLE OF CONTENTS**

<b>INTRODUCTION AND PURPOSE OF THE MONITOR’S SECOND REPORT</b>	<b>3</b>
<b>TERMS OF REFERENCE</b>	<b>4</b>
<b>ACTIVITIES OF THE MONITOR SINCE ITS APPOINTMENT</b>	<b>5</b>
<b>ACTIVITIES OF THE DEBTOR SINCE THE ISSUANCE OF THE INITIAL ORDER</b>	<b>6</b>
<b>ACTUAL CASH FLOWS FOR THE FOUR-WEEK PERIOD ENDING MARCH 3, 2017</b>	<b>6</b>
<b>UPDATED CASH FLOW FORECAST</b>	<b>7</b>
<b>CLAIMS PROCESS</b>	<b>9</b>
<b>PLAN OF COMPROMISE AND ARRANGEMENT</b>	<b>9</b>
<b>CREDITORS’ MEETING</b>	<b>9</b>
<b>REQUEST FOR AN EXTENSION OF THE STAY PERIOD</b>	<b>10</b>
<b>MONITOR’S OBSERVATIONS AND RECOMMENDATIONS</b>	<b>10</b>

## INTRODUCTION AND PURPOSE OF THE MONITOR'S SECOND REPORT

1. On February 16, 2017, ERA Group Inc. (the “**Applicant**”), a creditor of Alliance Hanger Inc. (the “**Debtor**”) filed an application (the “**Application**”) with regards to the Debtor before the Quebec Superior Court, Commercial Division (the “**Court**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). On the same day, KPMG Inc. (“**KPMG**”), in its then capacity as proposed monitor, provided the Court with a pre-filing report dated February 14, 2017 (the “**Pre-Filing Report**”) in connection with the Application.
2. On February 16, 2017, the Court granted an initial order (the “**Initial Order**”) which provides for, among other things, the appointment of KPMG as monitor of the Debtor (in such capacity, the “**Monitor**”) in these CCAA proceedings (the “**CCAA Proceedings**”) and a stay of proceedings until March 17, 2017, or such later date as the Court may order (the “**Stay Period**”).
3. On February 16, 2017, the Court also granted an order allowing the commencement of a claims process (the “**Claims Procedure Order**”).
4. The purpose of this Monitor's first report (the “**First Report**”) is to provide the Court with information on the following:
  - a. The Monitor's activities since the issuance of the Initial Order;
  - b. The Debtor's activities since the issuance of the Initial Order and the Claims Procedure Order;
  - c. The Debtor's actual receipts and disbursements for the 4-week period ended March 3, 2017, as compared to the corresponding period reflected in the cash flow forecast for the 6-week period ending on March 17, 2017, previously filed as part of the Pre-filing Report (the “**Original Cash Flow**”);
  - d. The Debtor's updated cash flow forecast for the period March 4 to June 2, 2017 (the “**Updated Cash Flow**”);
  - e. The Applicant's request for an extension of the Stay Period until May 31, 2017;

- f. An update on the claims process pursuant to the Claims Procedure Order (the “**Claims Process**”);
- g. The Plan of Compromise and Arrangement (the “**Plan**”) to be filed by the Applicant with the Court’s authorisation;
- h. The meeting of creditors to consider and vote on the Plan (the “**Creditors’ Meeting**”).

## TERMS OF REFERENCE

- 5. In preparing this First Report, the Monitor has been provided with and has relied upon, unaudited financial information, books and records prepared by certain senior management of the Debtor (“**Senior Management**”), and discussions with Senior Management (collectively, the “**Information**”). Except as further described in this First Report:
  - a. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
  - b. Some of the information referred to in this report consists of financial forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
- 6. Future oriented financial information referred to in this First Report was prepared based on Senior Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections. Even if the assumptions materialize, the variations could be significant.
- 7. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Debtor or the Applicant.

8. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is the Debtor's common reporting currency.

#### **ACTIVITIES OF THE MONITOR SINCE ITS APPOINTMENT**

9. The Monitor established a website for the CCAA Proceedings at [www.kpmg.com/ca/alliancehanger](http://www.kpmg.com/ca/alliancehanger) (the "**Monitor's Website**"). Copies of the Monitor's reports, issued orders to the current service list and other Court materials filed in connection with these CCAA Proceedings are available on the Monitor's Website.
10. Pursuant to paragraph 19 of the Initial Order, the Monitor:
  - a. Mailed a notice to all Stayed Parties, within five business days of the issuance of the Initial Order advising them the Order is publically available on the Website; and
  - b. Prepared and posted on the Monitor's Website a list of the Stayed Parties.
11. Pursuant to the Claims Procedure Order, the Monitor notified the Debtor's known Affected Creditors of the Claims Process. Terms not defined herein shall have the meaning attributed in the Claims Procedure Order.
12. In particular, the Monitor took the following actions in accordance with the Claims Procedure Order:
  - a. The Monitor posted a copy of the Claims Procedure Order, the Affected Creditors' List, the List of Stayed Parties and the Proof of Claim form, along with the Instruction Letter on its website; and
  - b. The Monitor sent copies of the Proof of Claim form along with the Instruction Letter to the Debtor's five known Affected Creditors by regular mail.
13. The Monitor has responded to telephone calls, emails and inquiries, addressing concerns from creditors and other stakeholders regarding the effect of the CCAA Proceedings.

**ACTIVITIES OF THE DEBTOR SINCE THE ISSUANCE OF THE INITIAL ORDER**

14. Since the date of filing, the Monitor notes that the Debtor has:
- a. acted and continues to act in good faith and with due care and diligence;
  - b. continued to provide the Monitor with its full cooperation, and access to its premises, as well as its books and records;
  - c. continued to pay its employees (and making the related government remittances) in the ordinary course; and
  - d. continued to pay Unaffected Creditors in the ordinary course.

**ACTUAL CASH FLOWS FOR THE FOUR-WEEK PERIOD ENDING MARCH 3, 2017**

15. Cash receipts and disbursements for the four-week period ending March 3, 2017 (the “**Reporting Period**”), as compared to the corresponding period of the Cash Flow Forecast (which was filed in conjunction with the Pre-filing Report) are summarized in the table below:

<b>Cintre Alliance Inc. / Alliance Hanger inc.</b>			
<b>Summary of Actual Receipts and Disbursements</b>			
<b>For the period February 4, 2017 to March 3, 2017</b>			
<b>in CAD \$000's</b>			
	<b>Actual</b>	<b>Projected</b>	<b>Variance</b>
<b>Cash Receipts</b>	<b>742</b>	<b>665</b>	<b>77</b>
<b>Cash Disbursements</b>			
Supplier Payments	315	454	140
Payroll and Benefits	261	278	17
Occupancy Costs	128	163	35
Operating Costs	97	96	(1)
Professional and Restructuring Fees	12	87	76
Interest & Capital Repayment	55	37	(18)
Capital Expenditure	29	-	(29)
<b>Total Disbursements</b>	<b>897</b>	<b>1,116</b>	<b>249</b>
<b>Net Cash Flow</b>	<b>(155)</b>	<b>(451)</b>	<b>297</b>
<b>Bank indebtedness</b>			
Opening Bank Indebtedness	(4,989)	(4,989)	-
DIP Loan Injection	3,700	3,700	-
Net Cash Flow	(155)	(451)	297
<b>Closing Bank Indebtedness</b>	<b>(1,443)</b>	<b>(1,740)</b>	<b>297</b>

16. As at March 3, 2017, the Debtor's operating bank indebtedness, which includes the amounts drawn pursuant to the DIP Facility, totaled approximately \$1.44 million.
17. The favourable variance in the Debtor's net cash flow during the Reporting Period amounts to \$297,000. The more significant variance items are summarized below:
  - a. Total cash receipts were \$77,000 higher than projected primarily due to timing in collections;
  - b. Total disbursements during the period were approximately \$249,000 lower than projected, mainly due to favourable timing differences of \$140,000 in supplier payments, occupancy cost payments and professional fees, partially offset by unexpected capital expenditures of \$29,000 and capital repayments of \$18,000.
18. The Monitor notes that the cash balance as at March 3, 2017 is fairly consistent with the projected bank indebtedness balance.
19. The Monitor also notes that the DIP Loan is in place and that it remains available to the Debtor in order to fund the ongoing operations during the CCAA Proceedings as the Debtor continues to respect the terms of the DIP Loan Term Sheet.

#### **UPDATED CASH FLOW FORECAST**

20. The Debtor, with the assistance of the Monitor, has prepared an updated 13-week cash flow forecast for the period from March 3, 2017 to June 2, 2017 (the "**Cash Flow Period**"). A copy of the Updated Cash Flow Forecast, together with notes and summary of assumptions, is attached hereto as Appendix A. A summary of the Updated Cash Flow Forecast is set out in the following table.

<b>Cintre Alliance Inc. / Alliance Hanger inc.</b>	
<b>Projected Summary Cash Flow</b>	
<b>For the period March 4, 2017 to June 2, 2017</b>	
<b>in CAD \$000's</b>	
<b>Projected Cash Receipts</b>	<b>2,949</b>
<b>Projected Cash Disbursements</b>	
Supplier Payments	2,741
Payroll and Benefits	877
Occupancy Costs	282
Operating Costs	247
Professional and Restructuring Fees	260
Interest	28
<b>Total Disbursements</b>	<b>4,434</b>
<b>Projected Net Cash Flow</b>	<b>(1,486)</b>
<b>Bank indebtedness</b>	
Opening Bank Indebtedness	(1,443)
Projected Net Cash Flow	(1,486)
<b>Projected Closing Bank Indebtedness</b>	<b>(2,929)</b>

To be read in conjunction with the attached Summary of Notes and Assumptions

21. The Monitor notes the following with respect to the Updated Cash Flow Forecast:
- As at March 4, 2017, the amount outstanding under the Debtor's operating line was approximately \$1.44 million.
  - The Cash Flow assumes that during the Cash Flow Period, the Debtor will have total receipts of approximately \$2.95 million and total disbursements of approximately \$4.43 million, resulting in a net negative cash flow of approximately \$1.49 million.
  - If required the remaining available balance of \$1.3 million pursuant to the DIP Term Sheet coupled with an increase of the TD bank Facility, which is currently under negotiation, will be sufficient to satisfy the Debtor's cash flow requirements during the Cash Flow Period.



## **CLAIMS PROCESS**

22. As noted above, the Monitor has complied with its statutory obligations pursuant to the terms of the Claims Procedure Order.
23. As per the terms of the Claims Procedure Order, the Claims Bar Date was March 3, 2017 (5:00 PM) in respect of outstanding Affected Claims in excess of the Affected Claim Amount, as at February 16, 2017 (the “**Determination Date**”).
24. As at March 3, 2017, the Monitor had not received any claims in excess of the Affected Claims Amount totaling \$3.9 million.

## **PLAN OF COMPROMISE AND ARRANGEMENT**

25. The motion for the Filing of the Plan of Compromise, Arrangement and Reorganization, the calling of a Creditors’ Meeting and the extension of the Stay Period (the “**The Plan, Meeting and Extension Motion**”) includes a request by the Applicant for authorization to file the Plan. Capitalized terms not otherwise defined in this section are as defined in the Plan.
26. Through continuous communication with the Applicant’s counsel, the Monitor has been kept abreast with the aspects of the Plan.
27. The Monitor will review the Plan and provide its comments in a report to the Affected Creditors prior to the Creditors’ Meeting further mentioned.

## **CREDITORS’ MEETING**

28. The Plan, Meeting and Extension Motion includes a request by the Applicant for an order allowing it to hold a Creditors’ Meeting to consider and vote on the Plan.
29. The Creditors’ Meeting is to be held on or before April 30, 2017, or such later date as the Court may order (the “**Meeting Call Date**”).

30. The Monitor is of the view that the proposed Creditors' Meeting should allow for the Affected Creditors to fairly express their intentions as to whether or not to accept the Plan. Prior to the Creditors' Meeting, the Monitor will provide a report to the Affected Creditors with respect to the Plan.
31. In the event of a favorable vote on the Plan by the Affected Creditors, the Applicant has requested the Court's authorization to file a motion for the issuance of a Sanction Order. The Monitor will report the results of the proposed Creditors' Meeting to the Court at the time of the hearing on the request for a Sanction Order.

### **REQUEST FOR AN EXTENSION OF THE STAY PERIOD**

32. The current Stay Period will expire on March 17, 2017. The Applicant is seeking an extension of the Stay Period to May 31, 2017.
33. The Monitor supports the Applicant's motion to extend the Stay Period to May 31, 2017 in that additional time is required for the Plan to be presented to the Affected Creditors, sanctioned by the Court should the Plan be approved by the Affected Creditors and implemented once sanctioned.

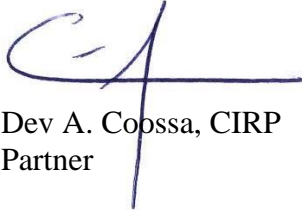
### **MONITOR'S OBSERVATIONS AND RECOMMENDATIONS**

34. The Debtor, through the efforts of the Applicant, has continued to diligently pursue its restructuring efforts since the issuance of the Initial Order and continues to operate its business in the ordinary course with the benefit of the Stay Period, which has provided stability to the business.
35. The Debtor continues to benefit from the DIP Loan which is sufficient to fund its ongoing operations during the Stay Period.
36. For the reasons set out in this First Report, the Monitor recommends that the Court grant the Order for the Filing of the Plan of Compromise, Arrangement and Reorganization, the Calling of a Creditors' Meeting and the Extension of the Stay Period.

The whole respectfully submitted.

**KPMG INC.**

in its capacity as Court-appointed  
Monitor of Alliance Hanger Inc.

A handwritten signature in blue ink, appearing to be 'Dev A. Cobssa', written over a horizontal line.

Dev A. Cobssa, CIRP  
Partner

**APPENDIX A            UPDATED CASH FLOW FORECAST, NOTES AND SUMMARY  
OF ASSUMPTIONS**

CANADA  
 PROVINCE OF QUEBEC  
 DISTRICT OF QUEBEC

Division N°: 01 - Montréal  
 Court N°: 500-11-052101-173  
 Estate N°: 0000329-2017-QC

SUPERIOR COURT  
 (Commercial Division)

IN THE MATTER OF THE PLAN OF COMPROMISE OR  
 ARRANGEMENT OF:

CINTRE ALLIANCE INC./ALLIANCE HANGER INC., body  
 politic and corporate, duly incorporated according to Law, and  
 having its head office at 2500 Guénette Street, in the city of Saint-  
 Laurent, province of Quebec H4R 2H2.

PROJECTED CASH FLOW STATEMENT

Cintre Alliance Inc. / Alliance Hanger inc.														
Projected Cash Flow for the period March 4, 2017 to June 2, 2017														
in CAD \$000's														
Week Ending	1 10-Mar	2 17-Mar	3 24-Mar	4 31-Mar	5 7-Apr	6 14-Apr	7 21-Apr	8 28-Apr	9 5-May	10 12-May	11 19-May	12 26-May	13 2-Jun	Total 13 weeks
Projected Cash Receipts	158	158	158	158	158	158	132	132	132	401	401	401	401	2,949
Projected Cash Disbursements														
Supplier Payments	189	204	204	164	119	205	222	205	153	309	266	262	239	2,741
Payroll and Benefits	-	125	-	163	-	122	-	170	-	126	-	134	36	877
Occupancy Costs	-	35	41	-	46	-	36	-	46	-	-	38	41	282
Operating Costs	33	16	32	19	12	15	30	12	12	14	23	18	12	247
Professional and Restructuring Fees	-	77	60	2	-	1	60	1	-	1	61	-	-	260
Interest	-	-	-	14	-	-	-	-	14	-	-	-	-	28
Total Disbursements	222	456	337	362	177	342	347	388	224	450	349	452	328	4,434
Projected Net Cash Flow	(64)	(298)	(179)	(203)	(19)	(184)	(215)	(256)	(92)	(49)	52	(51)	72	(1,486)
Bank indebtedness														
Opening Bank Indebtedness	(1,443)	(1,507)	(1,805)	(1,984)	(2,187)	(2,206)	(2,389)	(2,605)	(2,861)	(2,953)	(3,002)	(2,950)	(3,001)	(1,443)
Projected Net Cash Flow	(64)	(298)	(179)	(203)	(19)	(184)	(215)	(256)	(92)	(49)	52	(51)	72	(1,486)
Projected Closing Bank Indebtedness	(1,507)	(1,805)	(1,984)	(2,187)	(2,206)	(2,389)	(2,605)	(2,861)	(2,953)	(3,002)	(2,950)	(3,001)	(2,929)	(2,929)

To be read in conjunction with the attached Summary of Notes and Assumptions

Dated at Montreal, this 8<sup>th</sup> day of March, 2017.

CINTRE ALLIANCE INC./ALLIANCE HANGER INC.

Mark Schneiderman

**Cintre Alliance Inc./Alliance Hanger inc.**  
**Projected Cash Flow**  
**Summary of Notes and Assumptions**

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1. The Cash Flow has been prepared primarily based on historical trends and Debtor's management current forecast expectations. The actual timing and amount of receipts and disbursements may vary from the Cash Flow and the variances may be material.
2. The Cash Flow is presented in thousands of Canadian dollars.
3. As at February March 4, 2017, the amount outstanding under the Debtor's operating line of credit was \$1.27 million, net of outstanding cheques and wires of \$172,000.
4. The Debtor's funding requirements will be supported by 9170-9402 Québec inc. under an interim financing facility.
5. Collections are based on historical and projected sales and are assumed to be collected in accordance with the Debtor's existing terms, as well as past practice.
6. The payments to suppliers are based on projected purchases and are assumed to be paid in accordance with the Debtor's existing terms, as well as past practice.
7. Payroll and Benefits relate to the Company's sales and administrative employees and include the necessary remittances and fringe benefits.
8. Occupancy Costs include rent payments for the leased premises, as well as utility costs.
9. Operating Costs include insurance, supplies, office expenses, delivery, freight, advertising, and other miscellaneous operating expenses.
10. Restructuring fees include payments to the Company's legal counsel and other advisors, the Monitor and its counsel.

QUEBEC  
SUPERIOR COURT  
(COMMERCIAL DIVISION)

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  
CINTRE ALLIANCE INC./ALLIANCE HANGER INC. (THE "DEBTOR") on the  
application of ERA GROUP INC. (THE "CREDITOR" OR THE "APPLICANT")

MANAGEMENT'S REPORT ON CASH FLOW STATEMENT (paragraph 10(2)(b) of the  
CCAA)

The Management of the Debtor have developed the assumptions and prepared the attached statement of projected cash flows as of the 8<sup>th</sup> day of March, 2017 for the period from March 4, 2017 to June 2, 2017 (the "Cash Flow").

The hypothetical assumptions are reasonable and consistent with the purpose of the projections described in the notes to the Cash Flow, and the probable assumptions are suitably supported and consistent with the plans of the Debtor and provide a reasonable basis for the projections. All such assumptions are disclosed in in the notes to the Cash Flow.

Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projections have been prepared solely for the purpose described in Note 1 using the probable and hypothetical assumptions set out in Notes 2 to 11. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal this 8<sup>th</sup> day of March, 2017.

  
\_\_\_\_\_  
Mark Schneiderman  
CINTRE ALLIANCE INC./ALLIANCE HANGER INC.