

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC

SUPERIOR COURT
«Commercial Division»

Division No.: 01-Montreal
Court No.: ***_**_*****_***
Estate No.: **_*****

**IN THE MATTER OF THE PLAN OF ARRANGEMENT AND
COMPROMISE OF:**

FLIGHTHUB GROUP INC.

- and -

FLIGHTHUB SERVICE INC.

- and -

SSFP CORP.

- and -

JUSTFLY INC

- and -

JUSTFLY CORP.

- and -

11644670 CANADA INC.

Company / Debtors/ Applicants

and

MNP LTD

Proposed Monitor

PRE-FILING REPORT OF THE PROPOSED MONITOR
IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED

I. INTRODUCTION

1. MNP Ltd. ("**MNP**" or the "**Proposed Monitor**") understands that FlightHub Group Inc. ("**FlightHub**"), FlightHub Service Inc. ("**Service**"), SSFP Corp ("**SSFP**"), JustFly Inc. ("**JustFly**"), JustFly Corp. ("**JustFly USA**") and 11644670 Canada Inc. ("**11644670**", and collectively with FlightHub, Service, SSFP, JustFly, JustFly USA and 11644670, the "**Applicants**" or the "**Debtors**" or the "**Company**" or the "**FlightHub Group**"), are petitioning the Court to exercise its jurisdiction to issue an Initial Order (the "**Initial Order**") under the *Companies' Creditors Arrangement Act*, RSC 1985, c. C-36 (the "**CCA**"). The said *Application for the Issuance of an Initial Order* (the "**Application**") seeks, at this stage, *inter alia*:
 - a) To commence a proceeding under the CCA (the "**CCA Proceedings**"), to order a procedural consolidation of proceedings, and to continue pending proceedings under the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") as part of the current CCA Proceedings;
 - b) To order a stay of proceedings for an initial period of ten (10) days, at which point the Applicants intend to seek further relief, as set forth in the Application (the "**Comeback Hearing**");
 - c) To appoint MNP as monitor in the CCA proceedings; and
 - d) To declare that the Province of Quebec is the "center of main interest" of the Debtors and authorize the Applicants to apply for foreign recognition of the present CCA Proceedings in other jurisdictions, namely the United States.
2. MNP has taken cognizance of the Application and has prepared the present pre-filing report (the "**Report**"), which aims to provide the Court with information on the affairs and finances of the Debtors and to provide its recommendations in respect of the Application and the relief sought therein.

3. The Proposed Monitor's Report deals with the following topics:
 - I. Terms of reference and disclaimers;
 - II. MNP's qualification to act as Monitor;
 - III. Background;
 - IV. Historical information and causes of the financial difficulties;
 - V. Cash flow forecasts; and
 - VI. Recommendations and Conclusions.

II. TERMS OF REFERENCE AND DISCLAIMERS

4. In preparing this report and making comments herein, the Proposed Monitor has been provided with, and has relied upon, certain unaudited, draft or internal financial information, including the Debtors' books and records, discussions with management and directors of the Company (the "**Management**") and its counsel, and information from other third-party sources (collectively, the "**Information**"). MNP has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, MNP has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") or other standards established by the Chartered Professional Accountants of Canada (the "**Standards**"), and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance in respect of the Information. Additionally, none of the Proposed Monitor's procedures were intended to disclose defalcations or other irregularities. If the Proposed Monitor were to perform additional procedures or to undertake an audit examination of the Information in accordance with the Standards, additional matters may come to the Proposed Monitor's attention. Accordingly, the Proposed Monitor does not express an opinion, nor does it provide any other form of assurance on the financial or other information presented herein. The Proposed Monitor may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.
5. Some of the information referred to in this Report consists of 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 Report was prepared based on 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, and 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 Applicants.
8. The Proposed Monitor assumes no responsibility or liability for any loss or damage suffered by any party as a result of the use of this Report. Any use, which any party makes of this Report, or any reliance or decision to be made based on this Report, is the sole responsibility of such party.
9. All amounts included herein are in Canadian dollars unless otherwise stated.

III. MNP'S QUALIFICATION TO ACT AS MONITOR

10. The proposed Initial Order seeks the appointment of MNP as Monitor to the Company in the CCAA Proceedings.
11. MNP is a trustee within the meaning of subsection 2(1) of the BIA. MNP is not the auditor of the Applicants. MNP is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.
12. MNP is an independent national professional services firm providing among other things, bankruptcy, insolvency and restructuring services. The senior MNP professional personnel that are tasked with this matter include experienced insolvency and restructuring practitioners who are Chartered Professional Accountants, Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees in Canada, all of whom have acted in CCAA or BIA matters of a similar nature, business type and scale in Canada.
13. MNP first became involved with the FlightHub Group on April 21, 2020 and was engaged by the Company on April 29, 2020, to assist the Company in preparing for a potential CCAA filing. In

preparation for its potential appointment of MNP as monitor, MNP has spent time with Management and its counsel, reviewing and familiarizing itself with the Company's structure, issues, cash management systems, business model, its financial affairs and the concerns and interests of the Company's various stakeholders. MNP has reviewed some of the Company's books and records, all of which appear to have been made fully available to MNP, as necessary, in order to obtain a sufficient level of understanding of the Applicants' business, including its operations, assets and obligations for the purposes of the proposed appointment. This mandate also includes consultation with the Company's legal advisors and MNP's independent legal advisors. This involvement has enabled MNP to form certain preliminary observations related to the relief being sought by the Debtors, which observations are set out below.

14. MNP has consented to act as Monitor of the Applicants should the Court grant the Company's request to begin the CCAA Proceedings, as appears from the Consent to Act (**Appendix A**)
15. The Proposed Monitor has retained the services of Dentons Canada LLP to act as its independent legal counsel.

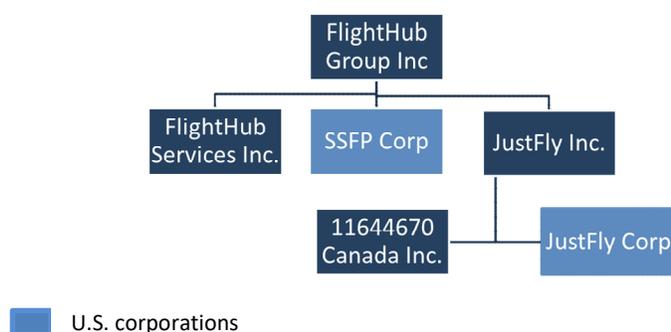
IV. BACKGROUND

16. A more detailed description of the business operations of the Company and background of its restructuring efforts to date is provided in the Application. Certain information in respect of the Company is summarized below.
17. The FlightHub Group Inc. is a flight-centric Canadian-based online travel agency offering online travel shopping powered by proprietary technology platforms. The Company has more than 200 airline partners globally and, in 2019, served more than five million passengers and sold for more than \$3B in gross merchandising volume through its websites FlightHub.com and JustFly.com.
18. The "FlightHub" brand was initially launched at the inception of the company, in 2012. The "JustFly" brand was created in 2014, when the company decided to capitalize on its Canadian success and experience to penetrate the U.S. market, offering U.S. international flights (as of 2014) and U.S. domestic flights to its offering (in 2015).

19. In 2019, the Company underwent a corporate reorganization to simplify its structure and merge some companies into its current structure, as follows:

Former Company	Merger into	Amalgamation Date	Head Office Location
Summit Services Intl Inc.	FlightHub Service Inc.	October 7, 2019	Montréal, QC
8982937 Canada Inc.	Justfly Inc.	August 1, 2018	Summerside, PEI
FLIGHTHUB Inc.	Justfly Inc.	August 1, 2018	Summerside, PEI
7513283 Canada Inc.	FlightHub Group Inc.	August 1, 2019	Montréal, QC
11365649 Canada Inc.	FlightHub Group Inc.	August 1, 2019	Montréal, QC

20. The Company is privately owned. The organisational chart of the FlightHub Group is as follows:



21. FlightHub Group is headquartered in Montreal, Quebec and maintains a few satellite offices in other North American locations. The Company currently employs 92 employees at its corporate head office under FlightHub Group Inc. and FlightHub Service Inc., and 2 employees under SSFP Corp working at its Seattle, Washington satellite office.

22. On April 30, 2020, Justfly Inc. filed a Notice of Intention to Make a Proposal pursuant to Section 50.4 of the BIA (estate 51-2642826, Prince Edward Island) (the “NOI”). MNP accepted to act as Trustee to the NOI.

23. Consideration has been given to the appropriate venue for filing purposes. The judicial district of Montreal has been selected and MNP, as Proposed Monitor, is satisfied that it is appropriate to pursue proceedings in this district, by reason, *inter alia*, of the fact that the principal operating entity has its head office in Montreal. Montreal is the centre of main interest of the Debtors, creating a strong nexus warranting the choice of the Judicial District of Montreal. Several significant stakeholders have head offices and/or significant operations in Montreal, where counsel for the principal stakeholders are also located. Moreover, the Proposed Monitor and the

Debtors anticipate that the initial filing stage as well as subsequent stages of the restructuring process will entail time-sensitive, complex, multi-party and financially significant decision-making, court filings and court hearings in respect of various relief to be sought, such that the existence and expertise of the dedicated Commercial Division of the Superior Court in the Judicial District of Montreal is essential.

V. HISTORICAL INFORMATION AND CAUSES OF FINANCIAL DIFFICULTIES

24. The financial statements of the Company are presented in **Appendix B**. They are discussed hereafter.

Financial Results

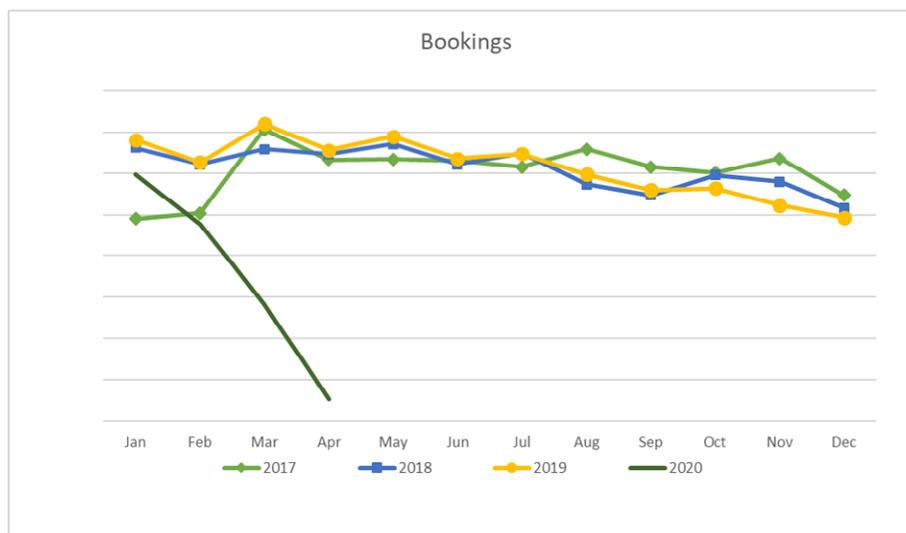
FlightHub Group
Combined Income Statement
(in '000\$ CAN)

	For the year ended July 31,			5-month period	3-month period
	2017 Audited	2018 Audited	2019 Audited	ended Dec 31, 2019 Unaudited	ended Mar 31, 2020 Internal
Revenues	\$ 228,857	\$ 228,425	\$ 250,093	\$ 84,114	\$ 32,229
Gross Margin	204,850	202,372	220,573	73,220	5,182
Operating Expenses (including income taxes and other revenue)	186,333	190,969	209,709	77,417	13,245
Net Earnings	\$ 18,517	\$ 11,402	\$ 10,863	\$ (4,198)	\$ (8,062)

25. The Company experienced significant growth since its inception in 2012, with revenues reaching \$229M in Fiscal 2017. After maintaining stable results in Fiscal 2018, the Company increased revenues by 9.6% to \$250M for the twelve-month period ending July 31, 2019.

26. During the same 3-year period, net earnings decreased from \$18.5M to \$10.9M.

27. Monthly revenues drastically decreased when the Covid-19 pandemic broke out and brought the travel industry to a standstill. Monthly revenues dropped by more than 90% in less than two months compared to historical monthly averages, as illustrated in the following graph:



28. In response to the rapid decline in revenue resulting from the widespread travel restrictions, the Company implemented several cost saving measures, including the downsizing of its workforce by 49% (90 employees) in Canada and by 90% (18 employees) in the United States. In addition, the Company reviewed ongoing advertising campaigns with search engine and social media companies and eliminated multiple programs with negative returns. The Company also renegotiated revenue sharing rates for referrals from air travel meta sites¹. Moreover, the Company reached several agreements with software and hosting service providers, agreeing on invoice reductions and payment deferrals. All these measures contributed significantly to reduce the operating expenses.

29. Despite Management's best efforts to control and limit operating expenses, the Company recorded a \$8M cumulative loss for the 3 month-period ending March 31, 2020.

¹ This refers to websites that aggregate data from multiple online travel agencies, process the data and display the prices of services at on place.

Balance sheet

30. As at March 31, 2020, the Company's combined balance sheet is as follows:

Combined Balance Sheet	
As at March 31, 2020 (unaudited, in '000CAN\$)	
Assets	
Current Assets	\$ 24,976
Advances from Company with Common Shareholders	(15,420)
Fixed Assets	2,928
Intangibles	<u>44,986</u>
	<u>32,494</u>
	<u>\$ 57,470</u>
Liabilities	
Current	\$ 28,390
Revolving Credit	42,761
Shareholder's equity	<u>(13,405)</u>
	<u>\$ 57,470</u>

31. The current assets are mainly comprised of cash on hand (\$13.8M) and accounts receivable (\$6.4M). There is a doubtful account receivable of \$1.5M for which no provision has been made.

32. The valuation of the intangible assets (goodwill) was not performed since the beginning of the COVID situation, but it is probable that the value of this asset will be significantly impaired by the current situation of the Debtors.

33. The Company's liabilities are mainly comprised of accounts payable (\$26M) and corporate taxes payable (\$2M).

34. On April 30, 2020, approximately \$15M of the accounts payable have been stayed by the filing of the NOI of JustFly Inc.

35. The revolving credit facility contracted with the Toronto-Dominion Bank ("**TD Bank**"), was a banking facility guaranteed by all of the assets of the Debtors. However:

- a. It is anticipated that 11656503 Canada Inc. (the "**Secured Creditor**"), a company controlled by shareholders of the Applicants, will replace the TD Bank as the principal secured creditor of the FlightHub Group. The Secured Creditor is in the process of

acquiring the position of the TD Bank as first ranking secured creditor. This transaction is essential to the Company's ability to file the Application and commence restructuring efforts. More details regarding this transaction and the circumstances that made it necessary are contained in the Application;

- b. In parallel to this, as part of the same transaction, a distinct entity controlled by certain shareholders of the Applicants, 11656511 Limited Partnership (the "**LP Lender**"), agreed to loan funds to the FlightHub Group in order to facilitate a restructuring of the Applicants. More details regarding this transaction are contained in the Application. (The debt restructuring transactions referred to in this sub-section and sub-section (a) above are referred to as the "**New Financing**");
 - c. The Company also maintains a number of renewable open letters of credit issued over recent years to some key suppliers in the normal course of business, for a total amount of \$2.166M (the "**Letters of credit**"). This potential liability is guaranteed by securities held by the TD Bank.
36. The Debtors are currently involved in two regulatory investigations and one lawsuit regarding certain alleged business practices of the Company, all of which are contested by the Debtors. The procedures have been initiated by the US Department of Transportation in November 2018, the City Attorney of San Francisco, in September 2019 and by the Canadian Competition Bureau, in January 2019, respectively.
37. Due to the ongoing travel restrictions and the current restructuring procedures, the Company is anticipating potential liabilities relating to flight cancellation and other restructuring costs.

VI. CASH FLOW FORECASTS

38. The Company presents to this Court its cash flow forecasts (the "**Cash Flow**" or "**Forecast**") for the thirteen-week period from May 1, 2020 to July 31, 2020 (the "**Period**") (**Appendix C**).
39. The Company's Cash flow for the Period is based on assumptions provided by Management and based on financial and other operating information available as at May 5, 2020. The Cash Flow

was prepared using probable assumptions supported and consistent with the plans of the Company for the Period and took into consideration the economic conditions that are considered most probable by Management.

40. The Proposed Monitor reports as follows with respect to the Forecast:

- a. The Proposed Monitor's review consists of inquiries, analytical procedures and discussions related to information supplied by Management and selected employees of the Company. Since hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect thereto were limited to evaluating whether they were consistent with the purpose of the Forecast. We have also reviewed the support provided by Management for said probable assumptions and the preparation and presentation of the Forecast.
- b. Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
 - i. The hypothetical assumptions are not consistent with the purpose of the Forecast;
 - ii. As of the date of this report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Forecast, given the hypothetical assumptions;
 - iii. Since the Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Forecast will materialize. The Proposed Monitor further expresses no opinion or other form of assurance with respect to the accuracy of any financial information reported with respect to the Forecast or relied upon by it in reporting on the Forecast.

41. The projected cash flow reflects the following:

- a. Given the liquidity crisis and the need to disinterest the TD Bank in order to commence a formal restructuring process, new injection of financing was required to address immediate needs. Given the urgency and the TD Bank's position, the credit facilities that were in place until now have been refinanced through new facilities contracted with two distinct companies controlled by certain shareholders of the Company, as described above and in the Application. Certain inter-creditor agreements have been put in place in order to allow the debt restructuring to occur and satisfy certain conditions of the creditors. It is a key condition of the agreement negotiated between the LP Lender and the TD Bank, that the Letters of credit be secured by a cash collateral of an equivalent amount.
- b. The Monitor is of the view that none of the Company's principal stakeholders will be materially prejudiced, if at all, by the debt restructuring through the New Financing. To the contrary, based on the Information and discussions with Management and its counsel, the New Financing, together with the relief sought in the Application, constitute the only viable alternative in the circumstances and in fact substantially enhance the prospects of a successful restructuring occurring and a plan of arrangement being filed. Without this New Financing, the Debtors were facing almost certain liquidation.
- c. The cash flow from operations is expected to be negative by an amount of approximately \$1.246M over the Period. It is expected that the operation during the Period will be funded in part by the New Financing secured through the LP Lender.

VII. RECOMMENDATIONS AND CONCLUSIONS

42. The Proposed Monitor concurs with the Company's view that it is insolvent and is facing imminent liquidity problems, which supports the need to commence the CCAA Proceedings so as to allow it to focus on restructuring efforts.

43. The Proposed Monitor also supports the selection of the judicial district of Montreal for the filing and conduct of the CCAA Proceedings. MNP, as Proposed Monitor, is satisfied that the centre of main interest of the Debtors is in Montreal and that it is appropriate to pursue proceedings in this district.
44. The Proposed Monitor considers the relief sought in the Application to be reasonable and warranted in the circumstances.
45. The Proposed Monitor considers that the Company needs the protection sought pursuant to the CCAA in order to provide a structured environment for the restructuring of its business, in a manner that preserves the Company's value for the benefit of all stakeholders and allow the Company an opportunity to seek restructuring alternatives to improve its financial posture and viability.
46. The Proposed Monitor understands that Applicants intend to seek, at the Comeback Hearing, the issuance of an amended and restated initial order, which will provide for an Administration Charge, in an amount of \$250,000, to secure any amounts owed to the Monitor, counsel to the Monitor and Canadian and US counsel to the Applicants.
47. The Monitor understands that the Applicants are also analyzing the opportunity of seeking the establishment of other super-priority charges under the CCAA. Should this be the case, the Applicants will be amending its Application accordingly, and the Monitor will report to the Court to provide its recommendations in respect thereof.
48. The Proposed Monitor supports the request by the Company to have this Court authorize the continuation, in the present proceedings, of the NOI proceedings referenced above.
49. MNP, as trustee to the NOI proceedings in question, is familiar with the progress and status of the said filing, and supports the consolidation requested, which will facilitate restructuring efforts and generally benefit the Company and its stakeholders.

All of which is respectfully submitted to this Honourable Court at Montreal, this 8th day of May 2020.

MNP LTD, in its capacity of
Proposed Monitor
and not in its personal or corporate capacity



Pierre Marchand, M.Sc, CMA, CPA, CIRP, LIT
Senior Vice-President

APPENDIX A

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

SUPERIOR COURT
Commercial Division

No.: 500-11-

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

FLIGHTHUB GROUP INC.

- and -

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- and -

11644670 CANADA INC.

Debtors/Applicants

- and -

MNP LTD

Proposed Monitor

CONSENT TO ACT

MNP Ltd consents to act as the Monitor of the Petitioner pursuant to the Companies' Creditors Arrangement Act.

Montréal, 7, 2020



MNP LTD

Per : Pierre Marchand, M.Sc, CMA, CPA, CIRP, LIT
Senior Vice-President