

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO: 500-11-042345-120

SUPERIOR COURT
Commercial Division
*Designated tribunal under the
Companies' Creditors Arrangement Act*¹

IN THE MATTER OF THE
PROPOSED PLAN OF COMPROMISE
AND ARRANGEMENT OF AVEOS
FLEET PERFORMANCE INC. /
AVEOS PERFORMANCE
AÉRONAUTIQUE INC. AND AERO
TECHNICAL US, INC.

DEBTORS

- and -

FTI CONSULTING CANADA INC.
MONITOR

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

INTRODUCTION

1. On March 19, 2012, Aveos Fleet Performance Inc. (“Aveos”) and Aero Technical US, Inc. (“Aero US” and together with Aveos, the “Company” or the “Debtors”) made an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”) and an initial order (the “Initial Order”) was made by the Honourable Mr. Justice Schragger of the Superior Court of Quebec (Commercial Division) (the “Court”), granting, *inter alia*, a stay of proceedings against the Debtors until April 5, 2012, (as extended from time to time thereafter², the “Stay Period”) and appointing FTI Consulting Canada Inc. as monitor of the Debtors (the “Monitor”). The proceedings commenced by the Debtors under the CCAA will be referred to herein as the “CCAA Proceedings”.
2. On April 26, 2013 the Office of the Superintendent of Financial Institutions (“OSFI”) filed a motion for a declaratory judgment (the “OSFI Motion”), asking the Court to declare that approximately \$2.8 million of unpaid special payments is subject to a

¹ *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

² The Stay Period was extended five times by way of Orders dated April 5, May 4, July 19, October 19, 2012, February 1, 2013, June 26, 2013 and is set to expire on November 22, 2013.

deemed trust created by section 8(2) of the *Pension Benefits Standards Act* (1985). This motion was heard on October 21 and 22, 2013 and the Court's decision is pending.

3. On June 6, 2013, the Company filed a motion to request an order approving a process to solicit and adjudicate employee claims (the "**Employee Claims Process**") for the purposes of establishing potential eligible claims under the *Wage Earner Protection Program Act* ("**WEPPA**").
4. On September 26, 2013, the Company filed a motion to request an order authorizing the cancellation of a letter of credit and to make certain distributions (as subsequently amended on October 4, 2013, the "**LC Cancellation Motion**"). This motion was heard on October 11, 2013 and an order to cancel the letter of credit and make certain distributions was granted (the "**PBA Payments Order**").
5. On September 26, 2013, the Company filed its motion requesting the Fourth Interim Distribution to the Secured Lenders in the amount of USD\$18 million. On October 21, 2013 an order was granted approving the fourth interim distribution, (the "**Fourth Interim Distribution Order**").
6. On November 18, 2013, the Company filed a motion for the termination of the CCAA Proceedings and for the issuance of other orders, including authorization to file an assignment in bankruptcy (the "**Termination Motion**").
7. On November 19, 2013, the Agent for the Second Lien Lenders filed a motion for the appointment of a receiver, (the "**Receivership Motion**").
8. The purpose of this report is to advise the Court on:
 - a) The status of the Employee Claims Process;
 - b) The receipts and disbursements of the Company for the period from October 5, 2013 to November 22, 2013;

- c) The Company's cash position at the time of the anticipated transition from the CCAA Proceedings to bankruptcy on November 22, 2013;
 - d) The payments made in respect of the PBA Payments Order and the Fourth Interim Distribution Order;
 - e) The matters to be transitioned from the CCAA Proceedings; and
 - f) The Termination Motion.
9. In preparing this report, the Monitor has relied upon unaudited financial information of the Debtors, the Debtors' books and records, certain financial information prepared by the Debtors and discussions with Mr. Jonathan Solursh (and other principals) of R.e.I. group inc., acting as chief restructuring officer (the "CRO"). The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. 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.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the previous reports of the Monitor.

THE EMPLOYEE CLAIMS PROCESS

11. On June 26, 2013, the Court granted an Order approving the Employee Claims Process. The Employee Claims Process was established for the purpose of determining the former employees' WEPPA eligible claims. In accordance with the Employee Claims Process, notices were sent to all former employees indicating their total claim for unpaid wages, vacation, severance and termination according to Aveos' records and providing their maximum eligible WEPPA Claim.

12. The Monitor received 111 revised employee proofs of claim in response to the claims sent to employees. In addition, counsel to the IAMAW filed an omnibus claim in respect of claims for notice and termination for 157 employees with less than three months service at the start of the CCAA Proceedings as well as certain other amounts. The Company and the Monitor worked with counsel to the IAMAW to resolve claims filed by union members and to assess the omnibus claim.
13. The fifteenth report of the CRO (the “**CRO’s Fifteenth Report**”) at paragraphs 16 to 18, provides details with respect to the number of revised claims received and how the claims were resolved.
14. In accordance with the Employee Claims Process, the Monitor has responded to all claims received by issuing the required notices of revision or disallowance and posted a list of the accepted (or revised) claims on its website. The notices were sent to employees by email, where possible, and mail between October 24, 2013 and October 29, 2013.
15. In accordance with the Employee Claims Process, employees who wish to dispute their notice of revision or disallowance have 21 days from the deemed date of receipt of their notice to file a motion to appeal. The 21 day period will expire on November 19, 2013 in respect of the notices sent on October 29, 2013. The Monitor has not been served or been advised by any employee that they intend to file an appeal motion and counsel to the IAMAW has confirmed that they will not file a motion with respect to the disallowed portions of their omnibus claim.

**THE RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD
OCTOBER 5, 2013 TO NOVEMBER 22, 2013**

16. The CRO has effectively closed the accounting records for the Company for the period November 19, 2013 to November 22, 2013 as no additional receipts are expected during this period and no disbursements will be made. This allows the Company to demonstrate to the Court the cash flow up to the date of the termination of the CCAA Proceedings. The Debtors’ actual cash flow for the period October 5, 2013 to November 22, 2013 was approximately \$0.3 million less than the October 5 Cash Flow filed with the Court on October 16, 2013 as summarized below:

\$000's	Budget	Actual	Variance
Cash Receipts			
Cash Receipts from A/R	-	-	-
Proceeds from Sale of Assets	-	38	38
PBA Funding	-	5,657	5,657
Other	-	80	80
Total Receipts	-	5,775	5,775
Cash Disbursements			
Payroll & Benefits	169	273	104
Operating Expenses	110	77	(33)
Professional Fees	1,198	1,676	478
(Gain)/Loss on Foreign Exchange	-	66	66
PBA Payments	-	5,493	5,493
Net Distribution to Secured Lenders	18,000	18,000	-
Total Disbursements	19,477	25,585	6,108
Change in Cash			
	(19,477)	(19,810)	(333)
Opening Balance (Book)			
	30,507	30,507	-
Closing Balance (Book)			
	11,030	10,697	(333)

17. Explanations for the key variances in receipts and disbursements as compared to the October 5 Cash Flow are as follows:

- (a) The favourable variance in Proceeds from Sale of Assets is a result of the sale of various miscellaneous assets, which were small in nature and not reliably predictable at the time of completion of the October 5 Cash Flow;
- (b) The funds received in respect of the PBA Termination Agreement are included as receipts and offset by disbursements made in respect of the PBA Termination Agreement. These amounts were not forecast with certainty at the time of the October 5 Cash Flow

- (c) The favourable variance in Other Cash Receipts includes proceeds recovered pursuant to certain settlement agreements, and interest income;
- (d) The unfavourable variance in Payroll and Benefits expenses is related to payroll taxes associated with prior period resulting from the recent completion of payroll audits ;
- (e) The favourable variance in Operating Expenses results from permanent differences in general operating and maintenance expenses that did not materialize as budgeted;
- (f) The unfavourable variance in Professional Fees is due to higher than budgeted professional fees resulting from the PBA Termination Agreement and Termination Motion and prior period fees billed in the current period; and
- (g) The unfavourable variance in (Gain)/Loss on F/X is due to the decline in the Canadian dollar relative to the US dollar.

THE CASH FLOW POSITION AS AT NOVEMBER 22, 2013

18. The Company anticipates that it will have approximately \$10.7 million on hand at the time of the transition from the CCAA Proceedings to the proposed receivership and bankruptcy. The Company is holding sufficient funds to fund the receivership and bankruptcy proceedings and to satisfy the outcome of the OSFI Motion in the event that the Company is ordered to pay OSFI the \$2.8 million claimed.

THE PBA PAYMENTS AND THE FOURTH INTERIM DISTRIBUTION

19. The PBA Payments Order was granted by this Honourable Court on October 11, 2013. All of the payments in respect of the PBA Payments Order were made on October 30, 2013. The Letter of Credit was cancelled on the same date.

20. The Company has directed that the \$600,288 payment in respect of the defined benefit pension plan for the non-union employees entitled “Retirement Plan for Employees of Aveos”, OSFI registration # 57573, made to Aon Hewitt be applied on account of the unpaid special payment obligations with respect to a deficit which existed at the time the Initial Order was granted subject of course to the pending ruling by this Court in respect of the OSFI Motion.
21. The Fourth Interim Distribution in the amount of USD \$18.0 million was paid on November 12, 2013.

THE OPEN MATTERS IN THE CCAA PROCEEDINGS

22. The CRO’s Fifteenth Report outlines the matters which have been resolved in recent weeks in paragraphs 9 to 15 and 20. The CRO’s Fifteenth report also outlines remaining open matters of the CCAA Proceeding in paragraphs 22 to 24.

THE TERMINATION MOTION

23. The Company has filed the Termination Motion requesting:
 - (a) The termination of the CCAA Proceedings;
 - (b) The discharge of the Monitor;
 - (c) The discharge of the CRO;
 - (d) The discharge of the various charges approved in the Initial Order and the CRO Order; and
 - (e) Authorizing Aveos Fleet Performance Inc. to make an assignment in bankruptcy.
24. The Monitor concurs that the vast majority of matters arising in these CCAA Proceedings have been addressed, that the remaining matters such as the resolution of certain claims and the collection of certain accounts receivable can be dealt with efficiently through the appointment of a receiver and a trustee in bankruptcy, and that, now is an appropriate time to terminate the CCAA Proceedings.

25. The Monitor is satisfied with the process undertaken by the Company to identify post filing obligations and ensure these obligations are fully paid.
26. Furthermore, the termination of the CCAA Proceedings and the appointment of the receiver and trustee will trigger the WEPPA process to the benefit of the former employees of Aveos. The Monitor has assisted with the completion of the Employee Claims Process and is working with the proposed receiver and trustee to ensure that the employee claim information can be transferred in an efficient manner.
27. The Monitor respectfully acknowledges that the discharge of the Monitor and the CRO as officers of the court will occur concurrent with the termination of the CCAA Proceedings. The Monitor will fulfil its remaining duties and will be available as needed to provide any reasonable assistance to the receiver and trustee.
28. The Monitor confirms that an insurance policy for the protection of the Directors and Officers has been purchased by the Company as further described in the CRO Fifteenth Report and as set out in paragraph 28(a) of the Termination Motion and the Monitor concurs that it is appropriate to release the Director's Charge.
29. The Monitor has reviewed the process undertaken by the Company to ensure that all post-filing professional firm obligations have been paid and is satisfied with this process.
30. The Company has confirmed with all of the professionals involved in the CCAA Proceedings that there are no outstanding or unpaid invoices. In addition, those professionals who are holding retainers will be able to complete their duties and return unused funds to the Company. The Monitor concurs with paragraph 28(b) of the Termination Motion that the Administration Charge should be released.
31. The Monitor has been advised that the CRO has been added as a named payee with respect to the Directors and Officers insurance and agrees that there is no further requirement for the CRO Charge upon the discharge of the CRO and concurs with paragraph 28(c) of the Termination Motion that the CRO Charge should be released.

32. The Monitor concurs with the Company's proposed transition plan for Aveos Fleet Performance Inc., which contemplates the appointment of a receiver and an assignment in bankruptcy.
33. The Monitor concurs that there would be no purpose or benefit to an assignment in bankruptcy in respect of Aero Technical US Inc. and that the costs of a bankruptcy for Aero Technical US Inc, are not warranted in the circumstances.
34. The Monitor respectfully submits this Twenty Sixth Report to the Court.

Dated this 19th day of November, 2013.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Aveos Fleet Performance Inc. and Aero Technical US, Inc.



Greg Watson
Senior Managing Director



Toni Vanderlaan
Senior Managing Director