

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

S U P E R I O R C O U R T  
Commercial Division  
*Designated tribunal under the  
Companies' Creditors Arrangement Act*<sup>1</sup>

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

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

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**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 thereafter<sup>2</sup>, 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 October 10, 2012, the Company filed its motion requesting an interim distribution in the amount of USD\$12.5 million, (the “**Interim Distribution**”). This distribution was paid in full on November 30, 2012.

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

<sup>2</sup> The Stay Period was extended four times by way of Orders dated April 5, May 4, July 19, and October 19, 2012 and is set to expire on February 1, 2013.

3. On December 12, 2012, the Company filed its motion requesting a second interim distribution to the Secured Lenders in the amount of USD\$12.5 million, (the “**Second Interim Distribution**”).
4. On January 11, 2013, the Company filed its motion requesting an appointment of a receiver (the “**Receiver**”) for the sole purpose of triggering the benefits to employees of the Wage Earner Protection Program Act (“**WEPPA**”).
5. On January 11, 2013, the Company received a sale approval and vesting order approving the sale of the EMC Building and certain ancilliary assets to Lockheed Martin Canada Inc. (the “**LMC Transaction**”). The closing of the LMC Transaction occurred on January 15, 2013 and the Monitor’s Certificate was filed forthwith into the Court record.
6. On January 23, 2013, the Company filed its motion requesting an extension of the Stay Period to June 21, 2013.
7. On January 23, 2013, the CRO published its tenth report to the Court, (the “**CRO’s Tenth Report**”).
8. The purpose of this report is to advise the Court on:
  - (a) The request for a Second Interim Distribution;
  - (b) The request for the appointment of a Receiver to trigger WEPPA benefits for the former employees of Aveos;
  - (c) The receipts and disbursements of the Company for the period October 13, 2012 to January 18, 2013;
  - (d) The Company’s cash flow forecast for the period January 19, 2013 to June 21, 2013, (the “**January 19<sup>th</sup> Cash Flow**”);
  - (e) The matters being addressed with Air Canada;
  - (f) Other matters; and
  - (g) The Company’s request for an extension of the Stay Period.

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 the Debtors' management. 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 SECOND INTERIM DISTRIBUTION**

11. The Monitor is satisfied that the Debtors are holding sufficient net proceeds to address all known priority claims and post filing claims and are in a position to proceed with an Interim Distribution.
12. The Debtors, in consultation with the Monitor, intend to continue to identify all other claims of parties asserting priority over the Secured Lenders and intend to address such claims as they become known prior to the payment of any distribution that would affect such claims. The Debtors will seek the direction of the Court as appropriate with respect to resolving any such claims. The Debtors will seek a further order of the Court prior to any further distribution.
13. The Maynards Charge created by the Order of the Court dated July 26, 2012 is now cancelled and extinguished as Maynards has sold the assets covered by the Maynards LSA and received the proceeds thereof.
14. The Debtors, in consultation with the Monitor, will continue to hold proceeds of realization in an amount in excess of the total of the Administration Charge, the D&O Charge, and the CRO Charge (collectively, the "**CCAA Charges**"), the known amounts

asserted by third parties as potential priority claims, and current and projected post-filing claims.

15. To date, the Monitor has not been made aware that any creditor, including creditors asserting potential priority claims, wishes to contest the Second Interim Distribution.
16. The Monitor recommends that this Court approve the Second Interim Distribution. In making this recommendation, the Monitor has considered numerous factors, including:
  - (a) the security granted in favour of the Secured Lenders;
  - (b) the claim of the Secured Lenders in an amount in excess of \$205 million;
  - (c) the legal opinion received confirming the validity of said security;
  - (d) the funds held by the CRO in the approximate amount of \$60 million, including the proceeds of the LMC Transaction;
  - (e) the January 19th Cash Flow;
  - (f) the potential priority claims identified by the Debtors in consultation with the Monitor;
  - (g) the notice given in advance of the presentation of the Motion for the Second Interim Distribution;
  - (h) the lack of contestation;
  - (i) the results of the Divestiture Process;
  - (j) the expectations of the Secured Lenders who have funded the Divestiture Process; and
  - (k) the fact that making the Second Interim Distribution will have no negative impact on the likelihood of a viable plan of arrangement.

#### **TRIGGERING WEPPA BENEFITS FOR THE FORMER EMPLOYEES**

17. On January 11, 2013 the Company filed a motion for orders and directions in respect of WEPPA for the benefit of the former employees of Aveos (the “**WEPPA Motion**”). WEPPA is legislation enacted for the purpose of compensating eligible workers for

unpaid wages in the event that their employer becomes bankrupt or subject to a receivership under the Bankruptcy and Insolvency Act (“**BIA**”). The maximum available payment per employee for 2013 is \$3,646.

18. The Company’s motion seeks the lifting of the stay of proceedings for the purposes of appointing a receiver (the “**WEPPA Receiver**”), with a limited mandate to enable the former Aveos employees to access the benefit of payments available through the WEPPA.
19. Section 243 (1) of the BIA states:
  - (i) Court may appoint Receiver - ... on application by a Secured Lenders, a court may appoint a receiver...
20. The Monitor is advised that while the WEPPA Motion has been brought by the Company directly, it is with the consent of the Secured Lenders and that the Secured Lenders who are aware that the costs associated with meeting the filing and administrative requirements of the WEPPA will directly reduce their overall recovery.
21. The CRO has demonstrated throughout the CCAA proceedings an unwavering commitment to respect the rights of the former employees of Aveos, all of which has been accomplished with the support of the Secured Lenders. The CRO, with the support of the Secured Lenders has arranged for payroll resources to be made available to assist and facilitate the process for accurately filing the WEPPA claims. In the event that this process were delayed to the end of the CCAA proceeding it is unlikely that this resource would be made available or that the Secured Lenders would consent to further funding for this purpose.
22. The CRO has been dealing with a number of issues and questions raised by the Union, Justice Canada and Chubb Insurance Company of Canada acting as insurer pursuant to the provisions of an executive protection policy issued on June 28, 2011 with respect to the WEPPA Motion. As of the time of filing the present report, certain of these issues remain unresolved and will require further discussions, such that the Monitor will need to update this Court and present its recommendation at the hearing of the WEPPA Motion.

**THE RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD  
OCTOBER 13, 2012 TO JANUARY 18, 2013**

23. The Debtors actual cash for the period October 13, 2012 to January 18, 2013 was approximately \$2.9 million better than the October 13 Cash Flow filed as Appendix B to the Sixteenth Report of the Monitor, as summarized below:

<b>\$000s</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Cash Receipts</b>			
Cash receipts from A/R	-	580	580
Proceeds from Sale of Assets	1,300	26,733	25,433
Other	-	247	247
<b>Total Receipts</b>	<b>1,300</b>	<b>27,560</b>	<b>26,260</b>
Payroll & Benefits	850	931	81
Operating Expenses	2,476	670	(1,806)
Professional Fees	1,882	2,471	589
Sales Tax	-	-	-
(Gain)/Loss on F/X	-	(393)	(393)
Super Priority Payments	1,012	428	(584)
Net Distribution to Lender	-	12,500	12,500
<b>Total disbursements</b>	<b>6,220</b>	<b>16,607</b>	<b>10,387</b>
<b>Change in Cash</b>	<b>(4,920)</b>	<b>10,953</b>	<b>15,873</b>
<b>Opening Balance</b>	<b>48,928</b>	<b>48,928</b>	<b>-</b>
<b>Closing Balance</b> (excl. outstanding cheques)	<b>44,008</b>	<b>59,881</b>	<b>15,873</b>
<b>Closing Balance Excluding Proceeds from Asset Sale &amp; Distribution to Lender</b>	<b>(4,181)</b>	<b>(1,242)</b>	<b>2,939</b>

24. Explanations for the key variances in receipts and disbursements as compared to the October 13 Cash Flow are as follows:

- (a) The favourable variance in Cash Receipts from A/R results from the settlement and collection of various customer accounts receivable not previously budgeted to be collectable;
- (b) The favourable variance in the proceeds from the sale of assets is a result of the closing and realization of asset sales including those related to the EMC Division;
- (c) The favourable variance in Other Cash Receipts is primarily related to interest income and other non-material miscellaneous recoveries;
- (d) The unfavourable variance in Payroll & Benefits disbursements is primarily due to actual costs of temporary staff, employee expenses and contractors being more than budgeted to support the sale of the EMC division;
- (e) The favourable variance in Operating Expenses results from permanent differences in actual versus budgeted site clean-up costs and general operating and maintenance expenses that did not materialize as budgeted;
- (f) The unfavourable variance in Professional Fees is due to actual fees being greater than forecast due to the sale of the EMC division as well as certain on-going litigation matters;
- (g) The gain from foreign exchange resulted from the conversion of Canadian dollar denominated deposits into US dollar denominated deposits;
- (h) The favourable variance in Super Priority Payments is a temporary timing difference due to the postponement of payments related to certain pension contributions. These payments have been included in the January 19 Cash Flow; and
- (i) The distribution to the senior lenders was not included in the October 13 Cash Flow budget as the motion to approve same had not been presented to the Court for its consideration at the time of the request for an extension of the stay period.

**THE CASH FLOW FORECAST FOR THE PERIOD JANUARY 19 2013, TO JUNE 21, 2013**

25. The Company has prepared the January 19, 2013, a copy of which is attached to this report as Appendix A. The January 19 Cash Flow shows a minimum cash balance during the period of \$42.4 million and is summarized below:

<b>\$000s</b>	<b>22 wk Total</b>
<b>Cash Receipts</b>	
Proceeds from the Sale of Assets	100
Other	46
	146
<b>Total Receipts</b>	<b>146</b>
<b>Cash Disbursements</b>	
Payroll & Benefits	442
Operating Expenses	1,232
Professional Fees	2,534
Super Priority Payments	612
Loss on F/X	-
Distribution to Secured Creditors	12,543
Sales Taxes	300
	17,663
<b>Total disbursements</b>	<b>17,663</b>
<b>Change in Cash</b>	<b>(17,517)</b>
<b>Opening Balance (Book)</b>	<b>59,881</b>
<b>Closing Balance (Book)</b>	<b>42,363</b>

26. The major underlying assumptions used to create the January 19 Cash Flow include but are not limited to the following:

- (a) The cash disbursements include the requested Second Interim Distribution to the Secured Lenders as presented to the Court for its consideration. As evidenced by the minimum cash balance projected over the period the



Company is forecasting to hold funds in excess of the Second Interim Distribution amount requested while retaining an adequate reserve amount for the total of the CCAA Charges, the known amounts asserted by third parties as potential priority claims, and current and projected post-filing claims;

- (b) The cash collections from the proceeds of the sales of assets include amounts that have already been determined and are projected to be collected in the short term as well as conservative estimates for additional immaterial realizations from certain other miscellaneous assets;
- (c) The Payroll & Benefits, and Operating Expenses have been forecast to reflect the reduction in the Company's work force as well as the elimination of facilities costs due to the previously approved asset sales and include the costs associated with the payroll resource retained to process and assist with the filing of the employee WEPPA claims;
- (d) The Professional Fees have been forecast in line with the remaining tasks to be completed as outlined in more detail in the Tenth Report of the CRO;
- (e) The Super Priority Payments have been forecast to include a potential payment with respect to liabilities for unpaid employer current service costs identified by the pension plan administrators for the pension plan for Aveos unionized employees. These amounts are pending confirmation from the actuarial firm engaged to perform an independent review of the plan by the CRO.

#### **AIR CANADA**

27. The Company has substantially completed the return of Air Canada's assets pursuant to the terms of the Air Canada Retrieval Agreement and related supplements. The CRO and Air Canada are actively engaged in discussions on how best to resolve the remaining outstanding matters between the Company and Air Canada which include:

- (a) The disposition of approximately \$23 million held in escrow in the Monitor's counsel trust account;

- (b) The settlement of amounts due to and from the parties as a result of pre-filing and post-filing transactions; and
  - (c) The resolution of any other matters that remain unresolved as between the parties.
28. The Monitor is hopeful that these outstanding issues may be resolved and settled before June 21, 2013.

#### **OTHER MATTERS**

29. As previously reported, Aon Hewitt (“**Aon**” or the “**Plan Administrator**”) previously appointed by the Office of the Superintendent of Financial Institutions (“**OSFI**”) is in the process of winding up the Aveos pension plans. Aon has identified that there is potentially an unpaid employer portion of current service costs owed with respect of the plan for Aveos unionized employees. This would represent a super-priority claim in the amount of approximately \$612,000. The CRO agrees with this position but is awaiting the Aon final wind-up report expected shortly and a report from a third party actuarial firm that has been hired to perform a review of the deficit or surplus position in the plan. Under the plan, any surplus belongs to Aveos. Accordingly, the CRO has determined that it would be appropriate to await the completion of this review before committing to payment of the claim. The payment of the super-priority claim has been incorporated into the January 19 Cash Flow as a precautionary measure and will be paid upon confirmation from the third party independent actuarial firm’s report that the plan is in fact in a deficit position.
30. Furthermore, as detailed in the CRO’s Tenth Report, the Department of Justice, acting as legal counsel to OSFI has claimed that an additional \$2.8 million in unpaid special payments owed under the plan for non-unionized employees is subject to a deemed trust under the *Pension Benefits Standards Act (Canada)*. OSFI has indicated that it will be asserting a priority claim for these amounts in the CCAA proceedings and the Third Party Secured Lenders have advised that they will be challenging this claim. No motion has been filed to date in this matter to determine the priority question.

31. The Canada Revenue Agency has given notice of a claim for interest and employer's share of certain payroll source deductions which are not covered by the deemed trust but would be payable under a plan of arrangement. The payment of these amounts may be resolved when the GST claims are determined.
32. The Company is currently engaged in several litigation matters as detailed in the CRO's Tenth Report. At this time these matters are at various stages of the litigation process and the Monitor continues to work with the CRO and monitor each matter.
33. There are no further 30-day goods claims to resolve since the last report of the Monitor. In any event, the Monitor is of the view that Aveos no longer holds any assets that would likely be subject to a 30-day goods claim.
34. The Monitor continues to monitor the various matters addressed in the CRO's Tenth Report and assist as necessary. The Monitor continues to receive the full co-operation and support of the Company and the CRO in respect of the fulfilment of the Monitor's duties.

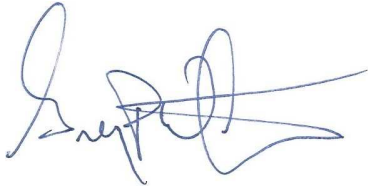
#### **THE REQUEST FOR AN EXTENSION**

35. The Company has requested an extension of the Stay Period to June 21, 2013. This additional time will allow the Company the opportunity to complete any remaining miscellaneous transactions that may arise, investigate the potential for a realization in respect of the Company's tax losses as well as the various other initiatives as detailed in the CRO's Tenth Report.
36. The January 19 Cash Flow demonstrates that the Company has sufficient liquidity during this period to conduct operations and meet its obligations in the ordinary course.
37. The Monitor is of the view that an extension of the CCAA to June 21, 2013 is reasonable and will allow the Company to conclude a number of matters where the timeline is not dictated by the Company.
38. The Monitor is satisfied at this time that it would not be more beneficial to company's creditors if proceedings in respect of the Company were taken under the BIA. The Monitor will advise the court without delay should its view change and recommends that the relief sought by the Debtors as requested be granted.

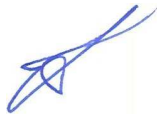
39. The Monitor respectfully submits this Twentieth Report to the Court.

Dated this 29<sup>th</sup> day of January, 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  
Managing Director

# Appendix A

## The January 19 Cash Flow

### Aveos Fleet Performance Cash Flow Projections

	25-Jan	1-Feb	8-Feb	15-Feb	22-Feb	1-Mar	8-Mar	15-Mar	22-Mar	29-Mar	5-Apr	12-Apr	19-Apr	26-Apr	3-May	10-May	17-May	24-May	31-May	7-Jun	14-Jun	21-Jun	Total	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	
<b>Cash Receipts</b>																								
Proceeds from Sale of Other Assets	Note 4	-	25	-	25	-	25	-	25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100
Other	Note 5	-	26	-	-	-	10	-	-	-	10	-	-	-	-	-	-	-	-	-	-	-	-	46
Total Receipts		-	51	-	25	-	35	-	25	-	10	-	-	-	-	-	-	-	-	-	-	-	-	146
<b>Cash Disbursements</b>																								
Payroll & Benefits		40	11	24	32	23	22	22	11	22	21	23	11	28	11	40	11	24	6	30	6	19	11	442
Operating Expenses	Note 6	60	60	66	60	60	60	61	55	53	53	53	58	53	53	53	53	58	53	53	53	53	58	1,232
Professional Fees	Note 7	322	252	179	144	115	115	115	115	115	81	74	74	55	55	55	50	50	50	50	50	209	209	2,534
Super Priority Payments	Note 8	-	-	-	-	-	-	-	612	-	-	-	-	-	-	-	-	-	-	-	-	-	-	612
Loss on F/X		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution to Secured Creditors	Note 9	-	-	-	43	12,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,543
Sales taxes	Note 10	-	-	-	-	300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	300
Total disbursements		422	323	268	278	12,698	497	198	793	190	154	150	142	136	118	148	113	131	108	132	108	280	277	17,663
<b>Change in Cash</b>		(422)	(272)	(268)	(253)	(12,698)	(462)	(198)	(768)	(190)	(154)	(140)	(142)	(136)	(118)	(148)	(113)	(131)	(108)	(132)	(108)	(280)	(277)	(17,517)
<b>Opening Balance (Book)</b>		59,881	59,458	59,186	58,918	58,665	45,967	45,505	45,307	44,540	44,350	44,196	44,056	43,914	43,778	43,659	43,512	43,399	43,268	43,160	43,028	42,921	42,640	59,881
<b>Closing Balance (Book)</b>		59,458	59,186	58,918	58,665	45,967	45,505	45,307	44,540	44,350	44,196	44,056	43,914	43,778	43,659	43,512	43,399	43,268	43,160	43,028	42,921	42,640	42,363	42,363

#### Notes:

- 1 The purpose of this cash flow projection is to determine the liquidity requirements for the Company during the proposed extension of the CCAA proceedings.
- 2 The cash flow projection is presented on a consolidated basis for Aveos Fleet Performance Inc. and Aero Technical US, Inc.
- 3 The cash flow projection is based on the assumption that the Company will operate in accordance with the Orders of the Court.
- 4 Based on estimated realizations from miscellaneous asset sales.
- 5 Includes miscellaneous recoveries from various sources, excluding amounts relating to any settlement with Air Canada, collections from litigation matters or other miscellaneous receivables that are being pursued.
- 6 Includes IT and other operating expenses.
- 7 Professional fees consist of CRO, Monitor and legal fees and expenses.
- 8 Payment relating to pension contributions.
- 9 Includes a residual payment from the prior Court approved distribution to the Secured Lenders. Additional distribution is subject to approval by the Court.
- 10 Remittance of sales taxes in the normal course.