

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*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-THIRD 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 March 19, 2013, the Company filed its motion requesting the Third Interim Distribution to the Secured Lenders in the amount of USD\$25 million. The Monitor prepared and filed its Twenty First Report to provide comments on this Motion. The

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 and February 1, 2013 and is set to expire on June 28, 2013.

Motion was returnable on April 5, 2013, but was adjourned on that date *sine die*. On May 9, 2013, the Company filed an amended motion requesting the Court's approval of the Third Interim Distribution. This motion is scheduled to be heard on June 26, 2013.

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**"). This motion was filed in place of the Company's original motion seeking the appointment of a Receiver for the limited purpose of triggering the WEPPA benefits for former employees.
4. On June 13, 2013, the Company filed a motion to request an order extending the Stay Period to October 31, 2013.
5. The purpose of this report is to advise the Court on:
 - (a) The Company's request for approval of the Employee Claims Process;
 - (b) The receipts and disbursements of the Company for the period from January 19, 2013 to June 7, 2013;
 - (c) The Company's cash flow forecast for the period from June 8, 2013 to November 1, 2013;
 - (d) The status of negotiations with Air Canada;
 - (e) Other matters;
 - (f) The request for a Third Interim Distribution; and
 - (g) The Debtors request for an extension of the Stay Period.
6. 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.

7. 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

8. On January 11, 2013 the Company filed a Motion for an order lifting the stay and approving the appointment of a receiver for the limited purpose of allowing the former employees of Aveos to access the benefits of WEPPA (the "**WEPPA Motion**").
9. Subsequent to the filing of the WEPPA Motion, the Monitor and the Debtors were advised that the timing of the motion could potentially impair the claims of certain IAMAW members due to the still pending payments by Air Canada under the Air Canada Heavy Maintenance Separation Program and the IAMAW requested that the WEPPA Motion be delayed. In addition, other stakeholders raised concerns with certain aspects of the relief requested in the WEPPA Motion. Accordingly, the WEPPA Motion was adjourned *sine die* pending further discussions with the IAMAW and the other stakeholders.
10. On June 6, 2013 the Debtors filed a motion for approval of the Employee Claims Process, in place of the WEPPA Motion. The Employee Claims Process motion is being brought before the Court at this time to ensure that appropriate Company resources are available to assist in processing these claims in a cost effective manner. The Employee Claims Process was discussed with Human Resources and Skills Development Canada ("**HRSDC**") as well as counsel to the IAMAW, and it has been confirmed that claims filed and adjudicated through the Employee Claims Process will be accepted by HRSDC

as WEPPA eligible claims if at a point in the future a receiver or trustee in bankruptcy is appointed, thereby triggering WEPPA as provided by law.

11. The Monitor recommends that the motion, as requested, be granted.

**THE RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD
JANUARY 19, 2013 TO JUNE 7, 2013**

12. The Debtors' actual cash flow for the period January 19, 2013 to June 7, 2013 was approximately \$0.5 million better than the Revised Cash Flow filed as Appendix A to the Twenty Second Report of the Monitor and as summarized below:

<i>\$000s</i>	Budget	Actual	Variance
Cash Receipts			
Cash receipts from A/R	-	-	-
Proceeds from Sale of Assets	100	260	160
Other	46	251	205
Total Receipts	146	511	365
Cash Disbursements			
Payroll & Benefits	413	308	(105)
Operating Expenses	572	82	(490)
D&O Insurance	550	542	(8)
Professional Fees	2,116	1,985	(131)
Sales Tax	300	-	(300)
(Gain)/Loss on F/X	-	-	-
Super Priority Payments	612	1,515	903
Net Distribution to Lender	12,543	12,543	-
Total disbursements	17,106	16,975	(131)
Change in Cash	(16,960)	(16,464)	496
Opening Balance	59,880	59,880	-
Closing Balance (excl. outstanding cheques)	42,920	43,416	496

13. Explanations for the key variances in receipts and disbursements as compared to the Revised 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 January 19 Cash Flow;
 - (b) The favourable variance in Other Cash Receipts is primarily related to interest income and other non-material miscellaneous recoveries;
 - (c) The favourable variance in Payroll and Benefits expenses is primarily related to lower than forecast costs associated with support staff to complete certain transactions under the Divestiture Process;
 - (d) The favourable variance in Operating Expenses results from permanent differences in general operating and maintenance expenses that did not materialize as budgeted;
 - (e) The favourable variance in Professional Fees is due to lower than budgeted professional fees being incurred;
 - (f) The favourable variance in Sales Taxes is due to the budgeted sales taxes payable being offset by unbudgeted input tax credits; and
 - (g) The unfavourable variance in Super Priority Payments is related to certain pre-filing related remittances with interest and penalties paid to the Canada Revenue Agency (the “CRA”) and the Agence du Revenu du Québec (the “ARQ”).

THE CASH FLOW FORECAST FOR THE PERIOD JUNE 8, 2013 TO NOVEMBER 1, 2013

14. The Company has prepared the June 8, 2013 cash flow forecast, a copy of which is attached to this report as Appendix A (the “**June 8, 2013 Cash Flow**”). The June 8, 2013

Cash Flow shows a minimum cash balance during the period of approximately \$15.0 million and is summarized below:

\$000s	21 wk Total
Cash Receipts	
Proceeds from the Sale of Assets	-
Other	-
Total Receipts	-
Cash Disbursements	
Payroll & Benefits	383
Operating Expenses	495
Professional Fees	2,564
Distribution to Secured Creditors	25,000
Total disbursements	28,442
Change in Cash	(28,442)
Opening Balance (Book)	43,416
Closing Balance (Book)	14,974

15. The major underlying assumptions used to create the June 8, 2013 Cash Flow include but are not limited to the following:
- (a) There are no forecasted receipts included in the June 8, 2013 Cash Flow, although there remains certain miscellaneous assets and accounts receivable to be recovered and any potential recoveries from the various matters subject to litigation are unknown at this time;
 - (b) The cash flow does not include forecasted proceeds under the terms of the settlement currently being negotiated with Air Canada as the anticipated receipts are not known with certainty at this time;
 - (c) The cash disbursements include the requested Third Interim Distribution to

the Secured Lenders as presented to the Court for its consideration;

- (d) The Payroll & Benefits and Operating Expenses have been forecasted to reflect the resources required to assist with on-going litigation matters as well as to assist with the implementation of the Employee Claims Process;
- (e) The Professional Fees have been forecasted in line with the remaining tasks to be completed as outlined in more detail in paragraph 33 of the Eleventh Report of the CRO.

AIR CANADA

- 16. In the Twenty First Report of the Monitor, an update was provided with respect to the status of the negotiations with Air Canada. The parties have moved significantly closer to a resolution of the outstanding matters and are in the process of attempting to finalize these matters including the exchange of draft documents. Due to a variety of reasons, these matters will not be concluded before the expiry of the current Stay Period and will require some additional time.

OTHER MATTERS

- 17. In its Twenty Second Report, the Monitor reported the Debtors intention to make a payment to extend the insurance coverage of the Directors and Officers to October 31, 2013. This payment was made, after consultation with the Monitor, on May 2, 2013.
- 18. On June 6, 2013 the Company made a payment of approximately \$467,000 to the CRA and \$436,000 to the ARQ in respect of unpaid employer portions of the required deductions for Canada Pension Plan, Employment Insurance and Quebec Pension Plan contributions. These payments included assessed interest and penalties. These payments were determined to have de facto priority over the security of the Secured Lenders. These matters and the request by the Company for a reduction in the interest and penalties charged by CRA and ARQ are discussed in greater detail in the Eleventh Report of the CRO at paragraphs 17 to 19.

19. On April 26, 2013 the Office of the Superintendent of Financial Institutions (“OSFI”) filed a motion for a declaratory judgment, asking the Court to declare that \$2.8 million of unpaid special payments is subject to a deemed trust created by section 8(2) of the *Pension Benefits Standards Act* (1985). On June 14, 2013, counsel to Aon Hewitt, the replacement administrator of the former Aveos pension plans appointed by OSFI, filed materials in support of the OSFI motion.
20. On April 30, 2013, the Company signed an agreement with Mexicana for the sale of certain parts.
21. The Company continues to address certain matters subject to litigation which are discussed in greater detail in the Eleventh Report of the CRO at paragraphs 30 to 32.
22. In late April 2013, the CRO was advised of the existence of certain excess parts resulting from the previous agreement with Aero Inventory and Air Canada that were determined to belong to Aveos. These parts are not in the possession of the Company and negotiations with Aero Inventory and Air Canada are on-going. If a settlement is reached the parts are expected to be sold in due course.

THE THIRD INTERIM DISTRIBUTION

23. The Monitor has previously reported on the Debtors’ request to make a Third Interim Distribution to the Secured Lenders in its Twenty First Report. The Monitor refers the Court to the recommendation made therein with respect to the Third Interim Distribution (at paragraph 19):

19. The Monitor recommends that this Court approve the Third Interim Distribution. In making this recommendation, the Monitor has considered numerous factors, including:

- (i) the security granted in favour of the Secured Lenders;*
- (ii) the claim of the Secured Lenders in an amount in excess of \$205 million;*
- (iii) the legal opinion received confirming the validity of said security;*

- (iv) *the funds held by the CRO in the approximate amount of \$37 million;*
- (v) *the January 19th Cash Flow;*
- (vi) *the potential priority claims identified by the Debtors in consultation with the Monitor;*
- (vii) *the notice given in advance of the presentation of the Motion for the Third Interim Distribution;*
- (viii) *the lack of contestation;*
- (ix) *the results of the Divestiture Process;*
- (x) *the expectations of the Secured Lenders who have funded the Divestiture Process; and*
- (xi) *the fact that making the Third Interim Distribution will have no negative impact on the likelihood of a viable plan of arrangement.*

24. The Monitor has reviewed the June 8, 2013 Cash Flow as presented in this report and remains satisfied that the Debtors are holding sufficient net proceeds to make the proposed Third Interim Distribution, continue to fund the on-going CCAA process and address all known priority claims and post-filing claims.

25. As discussed in the Twenty First Report of the Monitor, the Debtors, in consultation with the Monitor, have made considerable efforts to identify and review potential post filing claims against the Company. The Monitor has posted notices on its website, at the time of each Distribution Motion, advising creditors of the Debtors' request for Court approval of an Interim Distribution and requesting that any creditor wishing to assert a priority claim or post-filing claim contact the Monitor to advise of the particulars of such claims. The English version of the current notice on the Monitor's website with respect to Aveos is as follows:

Please be advised that Aveos will be seeking, on June 26, 2013, at 9:15 a.m., in room 16.12 of the Montreal Courthouse, the authorization from the Court to proceed with a third interim distribution in the amount of US\$25,000,000 in favour of Credit Suisse AG, Cayman Islands Branch, as administrative agent on behalf of the Third Party Secured Lenders (the "Agent"). The Court has already authorized, on October 24, 2012, the Chief Restructuring Officer ("CRO"), on behalf of Aveos, to proceed with a first interim distribution in the amount of US\$12,500,000 in favour of the Agent and on February 1st, 2013, to proceed with a second interim distribution in the amount of US \$ 12,500,000 again in favour of the Agent. Any creditor asserting or wishing to assert a priority over the sale proceeds currently held by the CRO, on behalf of Aveos, or a post-filing claim against Aveos, should communicate with the Monitor. Creditors should refer to the Sixteenth Report of the Monitor with respect to the first interim distribution or the Twentieth Report of the Monitor with respect to the second interim distribution. The Monitor has also prepared a new report with respect to this proposed third interim distribution, dated March 28, 2013, a copy of which is available in the "Reports" section of this website.

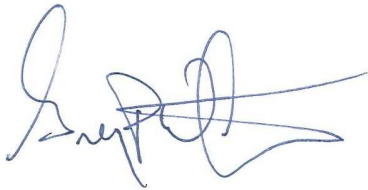
26. The Monitor has not been advised of any additional post filing claims to date which have not been accounted for by the Companies.
27. The Monitor is satisfied that there is no need in the circumstances for a post-filing claims process and supports the CRO's suggested course of action set out in greater detail in the CRO's Eleventh Report at paragraph 22.

THE REQUEST FOR AN EXTENSION

28. The Debtors have requested an extension of the Stay Period to October 31, 2013. This additional time has been requested to allow the Debtors the opportunity to conclude settlement negotiations with Air Canada, complete the sale of any remaining miscellaneous assets, complete the Employee Claims Process, conclude the various matters that are subject to litigation and finalize any other pending matters.
29. The June 8, 2013 Cash Flow demonstrates that the Company has sufficient liquidity during this period to conduct operations and meet its obligations in the ordinary course.
30. The Monitor maintains the view that it would not be more beneficial to the Company's creditors if proceedings in respect of the Company were changed to a bankruptcy at this time and that the request for an extension to October 31, 2013 is reasonable and recommends that the relief sought by the Debtors as requested be granted.
31. The Monitor respectfully submits this Twenty Third Report to the Court.

Dated this 19th day of June, 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

Appendix A

The June 8, 2013 Cash Flow

Aveos Fleet Performance Cash Flow Projections For the Period June 8 to November 1, 2013

	14-Jun	21-Jun	28-Jun	5-Jul	12-Jul	19-Jul	26-Jul	2-Aug	9-Aug	16-Aug	23-Aug	30-Aug	6-Sep	13-Sep	20-Sep	27-Sep	4-Oct	11-Oct	18-Oct	25-Oct	1-Nov	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cash Receipts																						
Proceeds from Sale of Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Disbursements																						
Payroll & Benefits	19	6	19	11	38	11	20	11	20	11	19	16	19	11	19	11	19	11	19	15	64	383
Operating Expenses	3	8	60	25	25	25	45	25	25	25	25	45	15	15	15	35	15	15	15	15	20	495
Professional Fees	209	280	175	55	61	55	61	49	61	141	144	138	55	55	61	78	55	55	213	259	305	2,564
Distribution to Secured Creditors	-	-	-	-	-	-	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,000
Total Disbursements	230	293	254	90	123	90	25,125	85	105	177	188	199	89	80	95	123	89	80	247	289	389	28,442
Change in Cash	(230)	(293)	(254)	(90)	(123)	(90)	(25,125)	(85)	(105)	(177)	(188)	(199)	(89)	(80)	(95)	(123)	(89)	(80)	(247)	(289)	(389)	(28,442)
Opening Balance (Book)	43,416	43,186	42,892	42,638	42,548	42,424	42,334	17,209	17,124	17,019	16,843	16,654	16,456	16,366	16,286	16,191	16,068	15,979	15,898	15,651	15,362	43,416
Closing Balance (Book)	43,186	42,892	42,638	42,548	42,424	42,334	17,209	17,124	17,019	16,843	16,654	16,456	16,366	16,286	16,191	16,068	15,979	15,898	15,651	15,362	14,974	14,974

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 The cash balance include both US and Canadian dollar amounts. The US dollar is assumed to be at par with the Canadian dollar.
- 5 Any additional asset sales will be negotiated and, therefore, have not been projected.
- 6 Further realizations are subject to ongoing negotiations. Since the outcome of these negotiations is uncertain, no realizations have been projected.
- 7 Includes IT and other operating expenses.
- 8 Professional fees consist of CRO, Monitor and legal fees and expenses.
- 9 Distribution is subject to approval by the Court.