

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

**TWENTY-FIFTH 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 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

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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 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.

*Pension Benefits Standards Act* (1985). This motion is scheduled to be heard on October 21 and 22, 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**”).
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. This motion is scheduled to be heard on October 21, 2013.
6. 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 June 8, 2013 to October 4, 2013;
  - c) The Company’s cash flow forecast for the period from October 4, 2013 to November 22, 2013;
  - d) The pending payment by the Company in respect of the non-union retirement plan deficit to be made pursuant to the PBA Payments Order and the status of the other distributions to be made in connection with this Order; and
  - e) The request for a Fourth Interim Distribution.

7. 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.
8. 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**

9. 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.
10. In accordance with the Employee Claims Process, an employee who agreed with the claim as provided in the notice needed to take no action and an employee who disagreed with the claim as it was provided in the notice was required to file a revised claim with the Monitor. The Monitor received 110 employee claims and one omnibus claim from the IAMAW representing unionized employees.
11. The Monitor, with the assistance of the Company, has nearly concluded its review of the claims filed and expects to communicate the results of its review to affected employees in the week ending October 25, 2013. A list of employees whose revised claims have been

accepted by the Monitor will be posted on the Monitor’s website, under the section “Employee Claims Process”. Employees whose revised claims have been disallowed by the Monitor (in whole or in part) will receive a notice of revision or disallowance in accordance with the Employee Claims Process and will have 21 days from the date of delivery or deemed delivery of the notice to file an Employee Appeal Motion.

12. The Monitor will provide a further update to the Court with respect to the Employee Claims Process, including the number of claims allowed and disallowed in its next report.

**THE RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD  
JUNE 8, 2013 TO OCTOBER 4, 2013**

13. The Debtors’ actual cash flow for the period June 8, 2013 to October 4, 2013 was approximately \$14.5 million better than the Revised Cash Flow filed with the Court on June 26, 2013 and as summarized below:

<b>\$000's</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Cash Receipts</b>			
Cash Receipts from A/R	-	690	690
Proceeds from Sale of Assets	-	152	152
Other	-	13,284	13,284
<b>Total Receipts</b>	<b>-</b>	<b>14,125</b>	<b>14,125</b>
<b>Cash Disbursements</b>			
Payroll & Benefits	275	222	(53)
Operating Expenses	430	57	(373)
D&O Insurance	-	-	-
Professional Fees	1,732	1,470	(262)
Sales Taxes	-	-	-
(Gain)/Loss on F/X	-	285	284
Super Priority Payments	-	-	-
Net Distribution to Secured Lenders	25,000	25,000	-
<b>Total Disbursements</b>	<b>27,437</b>	<b>27,034</b>	<b>(404)</b>
<b>Change in Cash</b>	<b>(27,437)</b>	<b>(12,909)</b>	<b>14,529</b>
<b>Opening Balance (Book)</b>	<b>43,416</b>	<b>43,416</b>	<b>-</b>
<b>Closing Balance (Bank)</b>	<b>15,979</b>	<b>30,507</b>	<b>14,529</b>

14. Explanations for the key variances in receipts and disbursements as compared to the June 8 Cash Flow are as follows:

- (a) The favourable variance in Cash Receipts from AR results from the collection of amounts from the settlement with Canadian North which had not been included in the June 8 2013 Cash Flow forecast;
- (b) 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 June 8, 2013 Cash Flow;
- (c) The favourable variance in Other Cash Receipts includes proceeds recovered pursuant to the settlement agreement reached with Air Canada which resulted in a payment to the Company from the funds held in trust in respect of the various Air Canada retrieval agreements;
- (d) The favourable variance in Payroll and Benefits expenses is primarily related to lower than forecast costs associated with support staff;
- (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 favourable variance in Professional Fees is due to lower than budgeted professional fees being incurred; 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 FORECAST FOR THE PERIOD OCTOBER 5, 2013 TO NOVEMBER 22, 2013**

15. The Company has prepared the October 5, 2013 cash flow forecast, a copy of which is attached to this report as Appendix A (the “**October 5, 2013 Cash Flow**”). The October 5, 2013 Cash Flow shows a minimum cash balance during the period of approximately \$11.0 million and is summarized below:

<b>\$000's</b>	<b>7wk total</b>
<b>Cash Receipts</b>	
Cash Receipts from A/R	-
Proceeds from Sale of Assets	-
Other	-
Total Receipts	-
<b>Cash Disbursements</b>	
Payroll & Benefits	169
Operating Expenses	110
Professional Fees	1,198
Net Distribution to Secured Lenders	18,000
Total Disbursements	19,477
<b>Change in Cash</b>	<b>(19,477)</b>
<b>Opening Balance (Book)</b>	<b>30,507</b>
<b>Closing Balance (Bank)</b>	<b>11,030</b>

16. The major underlying assumptions used to create the October 5, 2013 Cash Flow include but are not limited to the following:

- (a) There are no forecasted receipts included in the October 5, 2013 Cash Flow, although there remains outstanding a significant tax reimbursement owing from the federal and provincial tax authorities and a potential recovery from an as

yet unresolved litigation matter;

- (b) The cash disbursements include the requested Fourth Interim Distribution to the Secured Lenders as presented to the Court for its consideration;
- (c) The Payroll & Benefits and Operating Expenses have been forecasted to reflect the resources required to assist with finalizing matters as well as to assist with the completion of the Employee Claims Process; and
- (d) The Professional Fees have been forecasted in line with the remaining tasks to be completed.

#### **THE PBA PAYMENTS**

17. The PBA Payments Order was granted by this Honourable Court on October 11, 2013. The payments to be made pursuant to the PBA Payments Order include a payment of \$600,288.00 to the defined benefit pension plan for the non-union employees entitled “Retirement Plan for Employees of Aveos”, OSFI registration # 57573. The Monitor has been advised by the CRO that Aveos intends to make this payment on account of the unpaid special payment obligations with respect to a deficit which existed at the time the Initial Order was granted. The Monitor sees no objection to such a proposed imputation of payment.
18. The various payments under the PBA Payments Order, including the payment in respect of the pension deficit, will be made as soon as possible after the funds have been received from Air Canada. This is currently scheduled to occur on October 25, 2013. The Monitor will provide a further update on the PBA Payments Order at the time of its next report.

#### **THE FOURTH INTERIM DISTRIBUTION**

19. The Company has filed a motion requesting approval of the Fourth Interim Distribution to the Third Party Secured Lenders in the amount of USD \$18.0 million. The October 5, 2013 Cash Flow demonstrates that the Company has sufficient funds on hand to make the

proposed Fourth Interim Distribution, continue to fund the on-going CCAA process and address all known priority claims and post-filing claims.

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

- (a) The security granted in favour of the Third Party Secured Lenders;
- (b) The remaining claim of the Third Party Secured Lenders in an amount in excess of USD\$60 million (ignoring the effect of any subrogation rights);
- (c) The legal opinion received confirming the validity of said security;
- (d) The funds held by the CRO in the approximate amount of \$30.5 million;
- (e) The October 5, 2013 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 Fourth Interim Distribution;
- (h) The lack of contestation; and
- (i) The expectations of the Secured Lenders who have funded this CCAA process.

21. The Monitor has previously advised the Court of the notices posted 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.

22. The Monitor has not been advised of any additional priority or post filing claims to date which have not been accounted for by the Companies.
23. The Monitor respectfully submits this Twenty Fifth Report to the Court.

Dated this 16<sup>th</sup> day of October, 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 October 5, 2013 Cash Flow

## Appendix A

### Aveos Fleet Performance Cash Flow Projections For the Period October 5 to November 22, 2013

	Oct 11	Oct 18	Oct 25	Nov 1	Nov 8	Nov 15	Nov 22	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Cash Receipts</b>								
Proceeds from Sale of Other Assets	Note 5	-	-	-	-	-	-	-
Return of Retrieval Security Deposit		-	-	-	-	-	-	-
Other	Note 6	-	-	-	-	-	-	-
<b>Total Receipts</b>		-	-	-	-	-	-	-
<b>Cash Disbursements</b>								
Payroll & Benefits		11	19	15	64	20	20	169
Operating Expenses	Note 7	15	15	15	20	15	15	110
Professional Fees	Note 8	89	248	241	276	115	115	1,198
Distribution to Secured Lenders	Note 9	-	-	-	-	18,000	-	18,000
<b>Total Disbursements</b>		115	282	271	360	18,150	150	19,477
<b>Change in Cash</b>		(115)	(282)	(271)	(360)	(18,150)	(150)	(19,477)
Opening Balance (Book)		30,507	30,392	30,110	29,839	29,479	29,330	30,507
<b>Closing Balance (Book)</b>		<b>30,392</b>	<b>30,110</b>	<b>29,839</b>	<b>29,479</b>	<b>29,330</b>	<b>11,179</b>	<b>11,030</b>

**Notes:**

- 1 The purpose of this cash flow projection is to determine the liquidity requirements for the Company during the current 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 includes 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 Certain further realizations are subject to ongoing negotiations. Since the outcome of these negotiations is uncertain, only settled 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. Any additional distributions which may be made, subject to Court approval, are not reflected in this projection.