

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 Act¹*

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 FIRST 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 October 10, 2012, the Company filed its motion requesting an interim distribution in the amount of USD\$12.5 million, (the “**Interim Distribution**”). On October 24, 2012,

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.

the Court granted an order approving the Interim Distribution. This distribution was paid in full on November 30, 2012.

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**”). On February 1, 2013, the Court granted an order approving the Second Interim Distribution. This distribution was paid in full on February 22, 2013.
4. On March 19, 2013, the Company filed its motion requesting a third interim distribution to the Secured Lenders in the amount of USD\$25.0 million, (the “**Third Interim Distribution**”).
5. The purpose of this report is to advise the Court on the Company’s request for approval of the Third Interim Distribution.
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 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.
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 THIRD INTERIM DISTRIBUTION

8. On February 1st, 2013, the Court granted an Order further extending the Stay Period to June 28, 2013, on the basis, *inter alia*, of the Company’s cash flow forecast for the period January 19, 2013 to June 21, 2013 (the “**January 19th Cash Flow**”). The Monitor is satisfied that the assumptions underlying the January 19th Cash Flow remain valid.

9. The Debtors currently hold approximately \$45.9 million in net proceeds of realization (excluding the trust funds referenced in paragraph 10 below).
10. In addition to the net proceeds of realization held by the Company, Norton Rose Canada LLP, counsel to the Monitor, continues to hold approximately \$23 million in trust in respect of the Air Canada Retrieval Agreements. Aveos and Air Canada are still actively negotiating in respect of these funds and other outstanding matters remaining between the parties.
11. The Monitor is satisfied that the Debtors are holding sufficient net proceeds to continue to fund the ongoing CCAA process and to address all known priority claims and post-filing claims, and are in a position to proceed with the requested Third 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 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 also seek a further order of the Court prior to any further distribution.
13. In order to assist with the identification of such claims and because there has been no formal claims process advanced in respect of either pre-filing or post filing claims against the Company, the Monitor has posted notices on its website, at the time of each of the distribution motions, 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 current notice on the Monitor's website with respect to the Third Interim Distribution is as follows:

Please be advised that Aveos will be seeking on April 5, 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 will prepare a new report with respect to this proposed third interim distribution and will post same on this site prior to April 5, 2013.

Soyez avisés qu'Aveos demandera l'autorisation de la Cour, le 5 avril 2013, à 9h15, en salle 16.12 du Palais de Justice de Montréal, afin de procéder à une troisième distribution intérimaire au montant de US 25 000 000 \$ en faveur de Crédit Suisse AG, Cayman Islands Branch, à titre d'agent administratif au nom des créanciers garantis (l'« **Agent** »). La Cour a déjà autorisé, en date du 25 octobre 2012, le CRO à procéder au nom d'Aveos à une première distribution intérimaire au montant de US 12 500 000 \$ en faveur de l'Agent et en date du 1^{er} février 2013, à procéder à une seconde distribution intérimaire au montant de US 12 500 000 \$ en faveur de l'Agent. Tout créancier invoquant ou ayant l'intention d'invoquer une priorité à l'égard du solde du produit de vente des actifs encore détenus par le CRO pour le compte de Aveos, ou une réclamation postérieure à l'émission de l'ordonnance initiale, devrait communiquer avec le contrôleur. Les créanciers sont invités à consulter le seizième rapport du contrôleur concernant la première distribution intérimaire et le vingtième rapport du contrôleur concernant la seconde distribution intérimaire. Le contrôleur préparera un nouveau rapport relativement à la troisième distribution intérimaire, lequel sera disponible sur ce site d'ici le 5 avril prochain.

14. The Monitor has not been advised of any additional priority or post-filing claims to date beyond those which have been identified by the Company as referenced in its Motion for Approval of a Third Interim Distribution
15. As previously confirmed to the Court, the Company has resolved and paid the following claims:
 - (a) On or about December 21, 2012, pursuant to the Second Payroll Order dated November 12, 2012, the Company made payment to certain employees of the remaining priority amounts contemplated in sections 81.3 and 81.4 of the *Bankruptcy and Insolvency Act* of approximately \$400,000; and
 - (b) On February 20, 2013, the Company made a payment of approximately

\$612,000 in respect of the unpaid current service contributions to the pension administrator in respect of normal cost contributions for the former Aveos unionized employees pension plan.

16. The Debtors continue to hold funds of approximately \$2.8 million which is subject to a potential priority claim asserted by the pension administrator in respect of the Aveos defined benefit pension plan for non-union employees, based on the assertion of a deemed trust claim under the Pension Benefits Standards Act (Canada). The Monitor has been advised that this claim will be brought before the Court by way of a motion, which has yet to be filed.
17. 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.
18. To date, the Monitor has not been made aware that any creditor, including creditors asserting potential priority claims, wishes to contest the Third Interim Distribution.
19. The Monitor recommends that this Court approve the Third 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 USD\$217 million;
 - (c) the legal opinion received confirming the validity of said security;
 - (d) the funds held by the Company in the approximate amount of \$45.9 million;
 - (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 Third 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 Third Interim Distribution will have no negative impact on the likelihood of a viable plan of arrangement.

20. The Monitor respectfully submits this Twenty First Report to the Court.

Dated this 28th day of March, 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