

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

**SIXTEENTH 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”).

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

² The Stay Period was extended three times by way of Orders dated April 5, May 4 and July 19, 2012 and is set to expire on October 25, 2012.

3. On October 18, 2012, the Company filed its motion requesting an extension of the Stay Period to January 31, 2013.
4. The purpose of this report is to advise the Court on:
 - (a) The request for an Interim Distribution;
 - (b) The receipts and disbursements of the Company for the period July 7, 2012 to October 12, 2012;
 - (c) The Company's cash flow forecast for the period October 13, 2012 to February 1, 2013;
 - (d) Other matters; and
 - (e) The Company's request for an extension of the Stay Period.
5. 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.
6. 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 INTERIM DISTRIBUTION

7. The Monitor is satisfied that the Debtors are holding sufficient net proceeds to address all known priority claims and are in a position to proceed with an Interim Distribution.
8. The Debtors, in consultation with the Monitor, intend 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 further distribution. 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. Copy of a October 5, 2012, letter received from Me Carol Taraschuk on behalf of OSFI, as defined below, is attached in support of this report as Appendix A.
9. 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.
10. To date, the Monitor has not been made aware by any creditor, including creditors asserting potential priority claims, that it wished to contest the Interim Distribution.
11. The Monitor recommends that this Court approve the 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 \$ 48 million and the October 13 Cash Flow (as defined and discussed below);

- (e) the potential priority claims identified by the Debtors in consultation with the Monitor;
- (f) the notice given in advance of the presentation of the Motion for the Interim Distribution;
- (g) the lack of contestation;
- (h) the results of the Divestiture Process;
- (i) the expectations of the Secured Lenders who have funded the Divestiture Process; and
- (j) the fact that making the Interim Distribution will have no negative impact on the likelihood of a viable plan of arrangement.

**THE RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD
JULY 7, 2012 TO OCTOBER 12, 2012**

12. The Debtors actual cash for the period July 7, 2012 to October 12, 2012 was approximately \$42 million (\$6.7 million excluding funds received from the sale of assets) better than the July 12 Cash Flow filed as Appendix B to the Tenth Report of the Monitor, as summarized below:

	Budget	Actual	Variance
Cash Receipts			
Cash receipts from A/R	3,095	8,339	5,244
Proceeds from Sale of Assets	8,189	43,689	35,500
Other	1,660	972	(688)
Total Receipts	12,944	53,000	40,056
Payroll & Benefits	2,551	2,115	(436)
Operating Expenses	5,690	3,498	(2,192)
Professional Fees	3,398	3,896	498
Sales Tax	-	210	210
(Gain)/Loss on F/X	-	-	-
Super Priority Payments	2,584	2,617	33
Total disbursements	14,222	12,336	(1,886)
Change in Cash	(1,278)	40,664	41,943
Opening Balance	8,264	8,264	-
Closing Balance	6,985	48,928	41,943
Closing Balance Excluding Proceeds from Asset Sale	(4,404)	2,299	6,703

13. Explanations for the key variances in receipts and disbursements as compared to the July 12 Cash Flow are as follows:

- (a) The favourable variance in Cash Receipts from A/R results from the settlement and collection of a key customer account receivable not included in the forecast and various other minor accounts receivable not previously budgeted to be collectable;
- (b) The favourable variance in the proceeds from the sale of assets are a result of the closing and realization of asset sales not included in the forecast as well as the upside realized from the auction proceeds in accordance with the Liquidation Service Agreement with Maynards for the heavy maintenance division;

- (c) The unfavourable variance in Other Cash Receipts is primarily related to the unrealized sales tax refund not yet collected due to the on-going audit being performed by the Agence du Revenu du Quebec (the “ARQ”) on behalf of both the ARQ and the Canada Revenue Agency (the “CRA”);
- (d) The favourable variance in Payroll & Benefits disbursements is primarily due to actual costs of temporary staff, employee expenses and contractors being less than budgeted as well as pass through employee costs associated with the National Defence contract not being paid as forecast due to on-going accounting reconciliations with third parties;
- (e) The favourable variance in Operating Expenses results from permanent differences in actual versus budgeted operational costs as well as a timing difference in the payment of site clean-up costs which are anticipated to be less than originally forecast. These disbursements have been revised in the October 13 Cash Flow (as defined in paragraph 12 below) to more accurately reflect the site clean-up costs incurred to date but not yet paid as well as costs related to work yet to be completed;
- (f) The unfavourable variance in Professional Fees is due to actual fees being greater than forecast due to unanticipated court hearings resulting from the Divestiture Process as well as certain on-going litigation matters.

THE CASH FLOW FORECAST FOR THE PERIOD OCTOBER 13, 2012 TO FEBRUARY 1, 2013

14. The Company has prepared a cash flow forecast for the period October 13, 2012 to February 1, 2013 (the “**October 13 Cash Flow**”) which is attached to this report as Appendix B. The October 13 Cash Flow shows a minimum cash balance during the period of \$43.6 million and is summarized below:

5000s	16 wk Total
Cash Receipts	
Proceeds from the Sale of Assets	1,300
Total Receipts	1,300
Cash Disbursements	
Payroll & Benefits	891
Operating Expenses	2,777
Professional Fees	1,969
Super Priority Payments	1,012
Total disbursements	6,650
Change in Cash	(5,350)
Opening Balance (Book)	48,928
Closing Balance (Book)	43,578

15. The major underlying assumptions used to create the October 13 Cash Flow include but are not limited to the following:
- (a) The cash disbursements do not include the requested Interim Distribution as it had not been approved by the Court at the time of the forecast. As evidenced by the minimum cash balance projected over the period the Company is forecasting to hold funds in excess of the 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 from the sales of assets include amounts that have already been determined and are projected to be collected in the short term. No additional proceeds from the sale of assets not already under contract have been included in the October 13 Cash Flow;

- (c) The Payroll & Benefits, and Operating Expenses have been forecast to reflect the reduction in work force as well as the relocation of the administrative functions to the Company's owned facility to minimize costs going forward;
- (d) The Professional Fees have been forecast in line with the remaining tasks to be completed as outlined in more detail in the Eighth Report of the CRO;
- (e) The Super Priority Payments have been forecast to include a potential payment with respect to liabilities identified by the pension plan administrators for the Plan for Aveos unionized employees for unpaid employer current service costs. These amounts are pending confirmation from the actuarial firm engaged to perform an independent review of the plan by the CRO. Furthermore, the October 13 Cash Flow includes a disbursement with respect to the remaining priority entitlement of certain employees as explained in detail in the Eighth Report of the CRO.

OTHER MATTERS

16. 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 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 a report from a third party actuarial firm that has been hired to perform a review of the plan. The payment of the super-priority claim has been incorporated into the October 13 Cash Flow as a precautionary measure. This will be paid upon confirmation from the third party independent actuarial firm's report.
17. Furthermore, as detailed in the CRO's Eighth 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 are 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 and the Secured Lenders have advised that they will be challenging this claim.

18. Northgatearins Canada Inc. (“NGA”) filed a motion in respect of the termination of their contract on May 22, 2012. A two day hearing was scheduled before the Court, the first day of the hearing was held on September 24, 2012, the second day of the hearing was held on October 18, 2012 and was completed on October 19, 2012, closing oral arguments are scheduled to be heard on October 30, 2012.
19. The Company is currently engaged in several litigation matters as detailed in the CRO’s Eighth 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 process.
20. There has been no change to the status of 30 day goods claims since the last Monitor’s report.
21. As detailed in the CRO’s Eighth Report, effective September 30, 2012 the Company surrendered all of its leased premises and is now operating out of the EMC location. Notices of change of address have been posted to the Monitor’s website and sent to the parties on the service list and filed as appropriate.
22. 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 outstanding matters between the Company and Air Canada which include:
 - (a) The disposition of approximately \$23 million held in the Monitor’s escrow account;
 - (b) The settlement of amounts due to and from the parties as a result of pre-petition transactions; and

(c) The determination of any other matters that remain unresolved as between the parties.

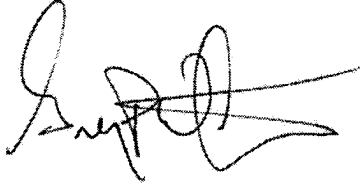
23. The Monitor continues to monitor the various matters addressed in the CRO's report and assist as necessary. The Monitor continues to receive the full co-operation and support of the Company and the CRO in respect of the completion of the Monitor's duties.
24. As outlined by the CRO and the Monitor in the context of the hearing of the NGA matter, the CRO in consultation with the Monitor is exploring with a reputable and sophisticated party a possible transaction in respect of the Engines Maintenance Centre and certain tax losses of the business.

THE REQUEST FOR AN EXTENSION

25. The Company has requested an extension of the Stay Period to January 31, 2013. This additional time will allow the Company the opportunity to complete any remaining transactions which have been or will be entered into and approved under the Divestiture Process as well as various other initiatives as detailed in the Eighth Report of the CRO. More importantly, this extension will allow the continued due diligence of the party identified as expressing an interest in the Engines Maintenance Centre.
26. The October 13 Cash Flow demonstrates that the Company has sufficient liquidity during this period to conduct operations and meet its obligations in the ordinary course.
27. The Monitor is of the view that an extension of the CCAA to January 31, 2013 is reasonable and will allow the Company an opportunity to complete various initiatives currently in progress and complete any remaining transactions under the Divestiture Process, and recommends that the relief sought by the Debtors as requested be granted.
28. The Monitor respectfully submits this Sixteenth Report to the Court.

Dated this 22nd day of October, 2012.

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

Letter of Me Carol Taraschuk on behalf of OSFI dated October 5, 2012



Carol Taraschuk

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October 5, 2012

Jonathan Solursh
Chief Restructuring Officer
c/o R.E.L. Group Inc.
2200 Yonge Street, Suite 610
Toronto, Ontario M4S 2C6

Dear Sir:

RE: Aveos Fleet Performance Inc., Aero Technical US Inc., and FIT Consulting
Canada Inc. – CCAA – Court File No. 500-11-042345-120

My client is the Office of the Superintendent of Financial Institutions ("OSFI"). OSFI outlined to you amounts that are owed to the Retirement Plan for Unionized Employees of Aveos ("Unionized Plan") and the Retirement Plan for Employees of Aveos (Non-Unionized Plan) by Aveos Fleet Performance Inc. ("Aveos"). A substantial amount is still owing to these pension plans.

Aveos, pursuant to agreements with Air Canada and International Association of Machinists and Aerospace Workers (IAM), agreed to make normal cost payments to the Unionized Plan, assumed and acknowledged its pension liability for service with Aveos. In fact, Aveos made such payments until it began proceedings under the Companies' Creditors Arrangement Act. Aveos is the successor employer to Air Canada and agreed that its plan would recognize service with Aveos effective July 14, 2011.

The Superintendent of Financial Institutions removed Aveos as administrator and named Aon Hewitt ("Aon") as the replacement administrator. Aon, acting in a fiduciary capacity, has identified the amount of normal cost owed by Aveos to the Unionized Plan. The amount that remains outstanding for the normal cost is \$612,251.60. Since Aveos is being liquidated the super-priority afforded such payments under the Bankruptcy and Insolvency Act should be recognized and paid before any distributions are made to secured creditors.

In addition, special payments accrued and owed to the Non-Unionized pension plan have not been paid. Pursuant to subsection 8(1) of the Pension Benefits Standards Act, 1985, these amounts accrued and owed are deemed to be held in trust for members of the pension plan, former members, and any other persons entitled to pension benefits under the plan. Any motion that affects or concerns the deemed trust should only be brought after notice has been given to those beneficiaries of the deemed trust.



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The total deemed trust for special payments owed to the Non-Unionized Plan is \$2,804,450.00 but these payments accrued or became due at different times:

On Feb. 1, 2012 - \$254,950

On March 1, 2012 - another \$254,950

On April 1, 2012 – another \$254,950

On May 1, 2012 – another \$254,950

On May 19, 2012 – an additional \$1,784,650

In order to determine the assets to which the deemed trust may attach, we need to have a list of all secured creditors claiming priority together with the respective amounts being claimed and the date that each security interest was perfected and crystallized.

It is OSFI's position that any motion regarding distribution of assets or proceeds to secured creditors or that regards the priority of the deemed trust should only proceed after plan beneficiaries have been notified and after we have received the information requested in the preceding paragraph. However, we will not oppose a motion regarding a distribution if all special payment amounts and amounts we have identified as being normal cost herein are set aside pending a time at which the issue of priority can be fully argued.

Finally, OSFI has received confirmation from Aon that there are deficits in both plans. In respect of the Non-Unionized Plan, the deficit amount is approximately \$31.25 million. In respect of the Unionized Plan, the deficit is approximately \$3.3 million. Please confirm that you are aware that the deficit minus amounts that are subject to super priority or deemed trust constitute an unsecured claim against Aveos.

Yours truly,



Carol Taraschuk
Senior Counsel
Legal Services Division

cc Roger Simard
Christian Riç
Bernard Boucher
Tamara DeMos
Antoine Lippé
Pierre Lecavalier
Hugh O'Reilly
Hébert Stéphane

Appendix B

The October 13 Cash Flow

**Aveos Fleet Performance
Cash Flow Projections**

	19-Oct	26-Oct	2-Nov	9-Nov	16-Nov	23-Nov	30-Nov	7-Dec	14-Dec	21-Dec	28-Dec	4-Jan	11-Jan	18-Jan	25-Jan	1-Feb	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cash Receipts																	
Proceeds from Divestiture Process	-	70	1,230	-	-	-	-	-	-	-	-	-	-	-	-	-	1,300
Total Receipts	-	70	1,230	-	-	-	-	-	-	-	-	-	-	-	-	-	1,300
Cash Disbursements																	
Payroll & Benefits	98	37	347	28	45	25	60	25	42	25	39	18	46	18	24	18	891
Operating Expenses	213	196	396	601	106	51	251	51	56	51	351	51	56	51	251	51	2,777
Professional Fees	234	299	236	178	131	131	131	82	82	82	37	49	117	96	44	44	1,969
Super Priority Payments	-	-	-	-	-	-	-	400	612	-	-	-	-	-	-	-	1,012
Total disbursements	545	531	978	806	282	206	441	557	792	157	426	117	219	165	318	112	6,650
Change in Cash	(545)	(461)	252	(806)	(282)	(206)	(441)	(557)	(792)	(157)	(426)	(117)	(219)	(165)	(318)	(112)	(5,350)
Opening Balance	48,928	48,383	47,922	48,174	47,368	47,087	46,881	46,440	45,883	45,091	44,934	44,508	44,391	44,172	44,008	43,690	48,928
Closing Balance	48,383	47,922	48,174	47,368	47,087	46,881	46,440	45,883	45,091	44,934	44,508	44,391	44,172	44,008	43,690	43,578	43,578

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 and run its Divestiture Process in accordance with the Orders of the Court.
- 4 Cash receipts are based on the Company's estimate of collection.
- 5 Includes payroll and benefits.
- 6 Includes insurance, security, IT, and other operating expenses.
- 7 Professional fees consist of CRO, Monitor, and legal fees and expenses.
- 8 Includes payments for pension contributions (current service costs) as well as certain employee related claims (subject to confirmation).
- 9 Interim distribution to secured lenders is not reflected pending a determination of the Distribution Motion by the Court.