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**COURT** COURT OF QUEEN'S BENCH OF ALBERTA

**JUDICIAL CENTRE** CALGARY

**DOCUMENT** SECOND REPORT OF THE TRUSTEE IN THE MATTER OF  
THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF  
ASPEN AIR CORPORATION AND ASPEN AIR U.S. CORP

DATED AUGUST 10, 2018

**ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
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## **SCHEDULES**

- Schedule 1                      Statement of Projected Cash Flow for Aspen Air Corporation and Aspen Air U.S. Corp. for the Thirteen Week Period from August 5, 2018 to November 3, 2018.
- Schedule 2                      Report on the Cash Flow Statement by the Person Making the Proposal and Trustee's Report on the Cash Flow Statement for Aspen Air Corporation and Aspen Air U.S. Corp.

# Introduction and Notice to Reader

## Introduction

1. On June 6, 2018 (the "Filing Date"), Aspen Air Corporation ("Aspen") and Aspen Air U.S. Corp. ("Aspen U.S." collectively the "Aspen Companies" or the "Applicants") each filed a Notice of Intention to Make a Proposal (the "NOI(s)") pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act, RSC 1985, c B-3* (the "BIA"). Deloitte Restructuring Inc. ("Deloitte") consented to act as Trustee under the NOIs (the "Trustee"). Information on these proceedings can be accessed on Deloitte's website at [www.insolvencies.deloitte.ca](http://www.insolvencies.deloitte.ca) under the link entitled "Aspen Companies".
2. On June 14, 2018, Statements of Projected Cash Flow for the Thirteen Week Period Ended September 1, 2018 were filed for Aspen, Aspen U.S., and on a consolidated basis for the Aspen Companies. On August 10, 2018, a further Statement of Projected Cash Flow for the Thirteen Week Period Ended November 3, 2018 was filed on a consolidated basis for the Aspen Companies (the "Cash Flow Forecast"). Attached hereto as "Schedule 1" is the Cash Flow Forecast. Attached hereto as "Schedule 2" are the Report on the Cash Flow Statement by the Person Making the Proposal and the Trustee's Report on the Cash Flow Statement for Aspen Air Corporation and Aspen Air U.S. Corp.
3. The Aspen Companies were granted an initial 30-day stay of proceedings pursuant to Section 69(1) of the BIA (the "Initial Stay"). The Aspen Companies are required to file a proposal within the Initial Stay or within any further extension of that period granted by the Court of Queen's Bench of Alberta (the "Court"). On June 26, 2018, the Court granted an Order (the "June 26 Order") extending the Initial Stay to August 20, 2018 (the "Stay").
4. The first report of the Trustee (the "First Report") dated June 25, 2018 was filed in support of the relief sought by the Aspen Companies (as further described herein) at the hearing on June 26, 2018 (the "June 26 Hearing"), at which time the June 26 Order was granted.
5. This report is the second report of the Trustee (the "Second Report" or "this report"). The Second Report is being filed to provide the Court with an update on the NOI proceedings and in support of the relief sought by the Aspen Companies at an application scheduled for August 15, 2018 (the "August 15 Hearing") as further described herein.

## Notice to Reader

6. In preparing this report, the Trustee has relied on unaudited financial information, the books and records of the Applicants and discussions with the Applicants' employees, interested parties, and stakeholders.
7. The financial information of the Aspen Companies has not been audited, reviewed or otherwise verified by the Trustee as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about the Applicants. Additionally, none of the Trustee's procedures were intended to disclose defalcations or other irregularities. If the Trustee were to perform additional procedures or to undertake an audit examination of the financial statements in accordance with generally accepted auditing standards, additional matters may have come to the Trustee's attention. Accordingly, the Trustee does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein. The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report.
8. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this report. Any use, which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.
9. All amounts included herein are in Canadian dollars unless otherwise stated.

# Background

## Court Proceedings

10. At the June 26 Hearing, the Court granted an Order approving the following relief:

- 10.1. Extending the Initial Stay to August 20, 2018;
- 10.2. Allowing the NOI proceedings and any subsequent proceedings undertaken pursuant to the BIA to be administered on a consolidated basis;
- 10.3. Authorizing the applicants to seek foreign recognition of the NOI proceedings as a foreign main proceeding under Chapter 15 of the United States Bankruptcy Code (the "Bankruptcy Code");
- 10.4. Approving a Sale and Investor Solicitation Process (the "SISP");
- 10.5. Approving a charge in the amount of \$150,000 as security for the reasonable professional fees and disbursements of the Trustee, the Trustee's legal counsel, and the Aspen Companies' U.S. and Canadian legal counsel (the "Administration Charge"), which forms a first charge over all assets, rights, undertakings and properties of the Applicants of every nature and kind whatsoever, and wherever situated including all proceeds thereof (the "Property");
- 10.6. Approving the Aspen Companies borrowing by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable to fund its operations during the NOI proceedings provided that the outstanding principal amount does not exceed \$250,000 or such greater amount as the Court may subsequently authorize (the "DIP Loan");
- 10.7. Approving a charge on the Property as security for the DIP Loan together with interest and charges thereon, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise but subordinate only to the Administration Charge (the "DIP Charge");
- 10.8. Approving a charge in the amount of \$150,000 as security to indemnify the directors and officers of the Aspen Companies against obligations and liabilities that they may incur in those capacities after the Filing Date, provided that such obligations were not incurred as a result of the director's or officer's gross negligence or wilful misconduct (the "D&O Charge").

The D&O Charge forms a third charge over the Property, ranking behind the Administration Charge and the DIP Charge; and

- 10.9. Approving the designation of selected suppliers as critical to the Applicants' ongoing operations (the "Critical Suppliers") and approving payment to the Critical Suppliers of up to \$250,000 due for the period prior to the Filing Date (the "Critical Supplier Payments").
11. On August 1, 2018, the United States Bankruptcy Court for the District of Montana granted an Order (the "Recognition Order") approving the following further relief:
  - 11.1. Recognizing the NOI proceedings as foreign main proceedings;
  - 11.2. Confirming that all provisions of the Bankruptcy Code apply in this Chapter 15 case;
  - 11.3. Recognizing the specific provisions of the June 26 Order save and except that none of the Administration Charge, the DIP Charge and the D&O Charge will be in priority to a claim by Yellowstone County Treasurer for unpaid property taxes (the "Tax Claim");
  - 11.4. Authorizing and empowering the Aspen Companies and Deloitte, as the Foreign Representative, to take all actions necessary to implement the Recognition Order; and
  - 11.5. Confirming that the Aspen Companies and the Foreign Representative are entitled to certain protections contained in the Bankruptcy Code and subject to other provisions of the Bankruptcy Code.
12. The Second Report is being filed in support of the following relief being sought by the Applicants at the August 15 Hearing:
  - 12.1. Approval of a 45 day extension of the Stay from August 20, 2018 to October 4, 2018 (the "Extension").

## Operations

13. The First Report indicated that Aspen had commenced a hauling and logistics business in Western Canada in 2017, which business was discontinued in early 2018. Following the June 26 Hearing, the Trustee was made aware that a company named Aspen Edge Logistics Corp. ("Aspen Edge") was incorporated under the Alberta Business Corporations Act on April 5, 2018 and that the hauling business that was discontinued by Aspen in May 2018 is now operated under Aspen Edge. Mr. Onkar Dhaliwal, the President and CEO of Aspen and Aspen U.S., is the sole director of Aspen Edge. Management has advised as follows with respect to the formation of Aspen Edge:
  - 13.1. The hauling business required further investment to be successful, which was not possible under Aspen due to that company's financial constraints;
  - 13.2. No customer contracts were transferred from Aspen to Aspen Edge although Aspen Edge does service some customers that were previously serviced by Aspen;
  - 13.3. Certain employees of Aspen were laid off in April 2018 and then hired by Aspen Edge;
  - 13.4. Certain leased equipment, consisting of various trucks leased to Aspen by Ryder Truck Rental

reviewed the corresponding leases and determined that there was no equity in any of this equipment; and

13.5. Aspen Edge does not have any ordinary course business dealings with Aspen.

14. On or around July 16, 2018, the Aspen Companies loaned Aspen Edge, a related party, approximately \$80,000 with a repayment date of August 3, 2018 and interest of \$2,500 (the "Related Party Loan"). This loan amount was not included in the Applicants' previously prepared cash flows, nor was it approved by the Trustee. The Related Party Loan was repaid by Aspen Edge on August 7, 2018 including all applicable interest. CF Capital has voiced its concerns about the inappropriateness of this conduct to both the Trustee and the Aspen Companies, and the Aspen Companies have confirmed that there will be no further related party loans in the course of these NOI proceedings. The Trustee has reminded the Applicants of the importance of ensuring that ordinary course cash flow is maintained during the NOI proceedings.
15. The Applicants are also in the process of disclaiming the lease on their head office located at 1460, 10655 Southport Road SW in Calgary, Alberta. They are currently operating out of 200, 10500 48th street SE in Calgary, Alberta. The Applicants expect this to result in rent savings of approximately \$8,750 per month.



# Creditors

16. The First Report indicated that Aspen listed creditors with claims totaling approximately \$11.2 million. These amounts have now been updated to correct certain amounts in the First Report, which were erroneously listed as being in Canadian instead of U.S. dollars, to add a creditor identified by the Aspen Companies following the Filing Date, and to remove the Critical Supplier Payments, which were made following the June 26 Hearing. As at the date of the Second Report, Aspen was estimated to have creditors with claims of approximately \$12.9 million, which included the following:

- 16.1 A secured claim acquired by CF Capital Management LLC (“CF Capital”) from Alberta Treasury Branches (“ATB”) in the amount of approximately \$8.3 million (\$6.4 million USD) pursuant to the payout statement provided by ATB as at July 12, 2018, including accrued interest, which is comprised of two non-revolving reducing demand loan facilities (the “CF Loans”). The Aspen Companies have reviewed the July 12, 2018 payout statement from ATB and confirm that they do not intend to contest the balance outstanding and also confirmed that it is owed to CF Capital as at July 12, 2018. The CF Loans are secured by a general security agreement over all present and after acquired property, a floating charge on all lands, a \$10 million U.S. mortgage on the Plant, a postponement and assignment of claims from any subordinated debt provider, title insurance of \$8.5 million U.S. and a pledge agreement of the shares of Aspen Air U.S. Corp. (collectively, the “CF Security”). The Trustee’s legal counsel has reviewed the CF Security and determined that it is valid and enforceable in both Canada and the U.S. (the “Security Review”). CF Capital has indicated that additional costs have been incurred since the filing date and that the CF Loans are now estimated to total approximately \$8.6 million (\$6.5 million USD) including accrued interest and fees (the “CF Claim”).
- 16.2 Claims of approximately \$859,600 due pursuant to various vehicle and equipment leases;
- 16.3 Claims by convertible debenture holders in the amount of approximately \$2.9 million (the “Debenture Holders”). The Trustee’s Canadian and U.S. legal counsel are reviewing the agreements with the Debenture Holders; and
- 16.4 Unsecured trade payables in the amount of approximately \$834,800.

17. As set out in the First Report, Aspen U.S. was a guarantor of the CF Loans. In addition to the CF Loans, the Aspen U.S. creditor listing includes the following claims:

17.1. Claims of approximately \$805,800 due pursuant to various vehicle and equipment leases;

17.2. A claim in the amount of approximately \$625,200 by the Yellowstone County Treasurer for unpaid property taxes; and

17.3. Unsecured trade payables in the amount of approximately \$868,000.

These amounts have been updated from those provided in the First Report to remove the Critical Supplier Payments, which have now been made, and to reflect all amounts in Canadian dollars.

### Creditor Interaction with the Company

18. As stated above, CF Capital acquired a secured claim from ATB in the amount of approximately \$8.3 million (\$6.4 million USD) plus accrued interest. Since the acquisition, CF Capital has made numerous requests for additional operational and financial information from the Aspen Companies. For a variety of reasons, including staffing levels, holiday schedules, the nature of the requests themselves and other factors, the Applicants have had a difficult time providing the information requested by CF Capital on a timely basis. Both the Applicants and CF Capital have expressed frustration to the Trustee in relation to these matters. The Trustee is working with both the Applicants and CF Capital in an effort to facilitate the timely release of customary and reasonable levels of information.

### Support Agreement

19. On August 8, 2018, the Trustee was provided with a support agreement dated the same date (the "Support Agreement") between Canadian Cryogenics Gases & Cylinders, Ltd. ("CCGC"), Principal Leasing Company LLC ("Principal") and Invico Diversified Income Fund Limited Partnership ("Invico"), among others. CCGC is one of the Debenture Holders. Pursuant to the terms of the Support Agreement, and subject to the satisfaction or waiver of certain conditions precedent, Invico has agreed to purchase from:

19.1 CCGC certain convertible units in Aspen, which units were granted pursuant to five subscription agreements dated October 15, 2013 or February 27, 2014; and

19.2 Principal a vehicle lease agreement and an amended and restated tank lease agreement dated March 28, 2013 and as further amended on April 25, 2017.

# Restructuring Efforts

## Foreign Recognition

20. As stated above, the Recognition Order has now been granted. The Recognition Order specifically recognizes the Stay, the Administration Charge, the DIP Charge and the D&O Charge, subject to the Tax Claim. The Recognition Order also recognizes the SISP.

## SISP

21. At the time that the First Report was prepared, the Aspen Companies were in discussion with CF Capital, who had expressed a desire to purchase the ATB Security and to support the Applicants in developing a proposal to their creditors. At the time of the June 26 Hearing, the Trustee understood the Applicants' intention to be to implement the SISP only in the event that no agreement was reached with CF Capital. Subsequent to the June 26 Hearing, CF Capital acquired the CF Loans, the CF Security, and all corresponding claims as against the Aspen Companies. On July 20, 2018, following further discussions between the Aspen Companies and CF Capital, the Applicants confirmed as follows:

21.1 No binding agreement had been entered into between the Aspen Companies and CF Capital;

21.2 Additional parties had expressed interest in purchasing the assets of or investing in the Aspen Companies; and

21.3 The Applicants were of the view that these additional parties, in addition to CF Capital, were capable of meeting the requirements of the SISP.

22. Based on the above, the Aspen Companies indicated that they intended to implement the SISP, subject to any amendments that might be required, in order to ensure that the opportunity and assets were appropriately exposed to the market and that the recovery to creditors and shareholders was maximized.

23. As set out in the Affidavit of Onkar Dhaliwal sworn on June 21, 2018 (the "Dhaliwal Affidavit") and, as contemplated in the SISP, the Applicants have now retained Whitehorn Merchant Capital Inc. ("Whitehorn") to act as a third-party advisor pursuant to the SISP.

24. Whitehorn is a Calgary-based business advisory firm focused on complex business transactions, including sale of businesses and assets, financing, and acquisition mandates. Since its inception in 2009, Whitehorn has focused on manufacturing, oilfield service, food manufacturing and software businesses with enterprise values typically between \$5 million and \$50 million.

25. The Trustee has reviewed Whitehorn's engagement letter and notes that the engagement/work fee is reasonable and the magnitude of a potential success fee is reasonable given the circumstances. Further, the engagement contains certain exclusions wherein no success fee is payable. The Trustee also notes that Whitehorn's ability to administer the SISP is without prejudice to the rights and powers of the Trustee under the SISP and the BIA generally. The SISP requires that various steps be undertaken in consultation with, approved by, or be presented in a form satisfactory to the Trustee.
26. Following discussions with Whitehorn, the Aspen Companies intend to implement the SISP, as previously approved in the June 26 Order with a revised commencement date, as well as Phase I and Phase II Bid Deadlines as described further below (the "Amended SISP"):

<b>Phase/ Event</b>	<b>Estimated Timing</b>	<b>Description of Activities</b>
<b>Publication Notice</b>	August 14, 2018	Notice of the SISP will be published in the Globe and Mail and other agreed upon publications
<b>Phase I</b>	To last for a period of 4 weeks following the publication notice	Solicitation of non-binding indications of interest ("IOI's) to invest in the Companies or to purchase the Companies' assets
<b>Phase I Bid Deadline</b>	September 14, 2018	IOIs must be submitted by the specified deadline
<b>Assessment of IOIs</b>	Within 3 business days of the phase I bid deadline	IOIs will be considered in regard to the requirements of the SISP and qualified bidders will be advanced to Phase II
<b>Phase II</b>	To last for a period of no longer than 4 weeks following the phase I bid deadline	Qualified bidders will conduct due diligence and prepare final bids/ proposals specifying the structure of the proposed transaction
<b>Phase II Bid Deadline</b>	October 12, 2018 (estimated)	Final bids/ proposals must be submitted by the required deadline
<b>Evaluation and selection of successful bid</b>	Within 3 business days of the Phase II bid deadline	Terms of all final bids/ proposals will be clarified. The Companies will elect a final bid/ proposal and the terms of the agreement will be negotiated Court approval will be sought
<b>Closing of any successful bid/ proposal</b>	As agreed	To occur on the agreed upon date subject to Court approval of a BIA Proposal or an asset purchase agreement

27. The following chart highlights the changes in key dates from the SISP that was approved by the June 26 Order compared to the Amended SISP:

<b>Phase/ Event</b>	<b>Original SISP Timing</b>	<b>Amended SISP Timing</b>
<b>Publication Notice</b>	July 2/3 2018	August 14, 2018
<b>Phase I Bid Deadline</b>	August 10, 2018	September 14, 2018
<b>Phase II Bid Deadline</b>	August 31, 2018	October 12, 2018 (estimated)

28. The Amended SISP also makes reference to certain consultation rights of ATB who are no longer a lender/creditor in these proceedings. Any reference to ATB in the Amended SISP would be in reference to CF Capital, or primary secured lender, and only in the event they are not a Qualified Bidder as defined in the Amended SISP.

29. The Trustee understands that CF Capital may object to the implementation of the SISP, as previously approved, and that they had approached the Aspen Companies regarding amending the SISP to include them as a stalking horse bidder. The Trustee recognizes that there can be merits in implementing a sale and investor solicitation process with a stalking horse bidder. Based on their discussions with the Aspen Companies, however, the Trustee is supportive of the Applicants implementing the SISP, as previously approved, based on the following:

29.1 CF Capital had the opportunity to review the SISP in advance of the June 26 Hearing and did not advise the Trustee or the Court of any objection to the SISP. In addition, they completed the acquisition of the CF Security from ATB following the SISP having been approved;

29.2 The SISP will allow the Aspen Companies to evaluate opportunities for a potential restructuring or asset sale in a timely manner;

29.3 The timeline appears reasonable when balancing the need to adequately expose the opportunity and assets to the market with the Aspen Companies' current financial constraints; and

29.4 The Applicants have indicated that, in light of the other interested parties that have come forward, they are of the view that they must proceed with the SISP in order to ensure the best recovery for their creditors and shareholders. In addition, the Aspen Companies are of the view that, given the number of interested parties of which they are currently aware, there is sufficient certainty that the SISP will result in a transaction and that the best price will be obtained outside of having a stalking horse bidder, such that amending the SISP is not required.

30. The Trustee is supportive of the Amended SISP based on the following:

- 30.1 The Amended SISP will allow the Aspen Companies to evaluate opportunities for a potential restructuring or asset sale in a timely manner;
- 30.2 The timeline appears reasonable when balancing the need to adequately expose the opportunity to the market with the Aspen Companies' current financial constraints; and
- 30.3 The Amended SISP provides greater certainty that the process will result in a transaction and increases the likelihood that only serious bidders will participate.

# Cash Flow Forecast

<b>Aspen Companies</b>	
<b>Statement of Projected Cash Flow</b>	
<b>For the thirteen week period ending November 3, 2018</b>	
	<b>Total</b>
<b>Receipts</b>	
Account receivables	\$ 2,232,894
Rental Receipts	-
GST collected	6,120
<b>Total Receipts</b>	<b>2,239,014</b>
<b>Disbursements</b>	
Salaries and wages	(631,475)
Employee benefits	(101,049)
Vehicle and equipment leases	(289,919)
Fuel	(65,000)
Utilities	(631,875)
Water	(20,625)
Repair & Maintenance	(59,375)
Rent	(19,750)
IT services	(26,922)
Office expenses	(27,355)
Insurance	(87,773)
DIP loan fees	(6,667)
Professional fees	(492,500)
Contingency	(113,750)
<b>Total Disbursements</b>	<b>(2,574,034)</b>
<b>Net Cash Flow</b>	<b>\$ (335,020)</b>
<b>Bank Balance</b>	
Beginning Cash Balance	\$ 209,151
DIP Loan	100,000
Transfers US/CDN Bank Account	125,000
Net Cash Flow	(335,020)
<b>Ending Bank Balance</b>	<b>\$ 99,131</b>

31. As noted above, attached as "Schedule 1" is the Applicants' Cash Flow Forecast for the period August 4, 2018 to November 3, 2018. The consolidated Cash Flow Forecast includes receipts of approximately \$2.2 million, which include collection of accounts receivable of approximately \$2.1 million, and the repayment of the Aspen Edge Loan of \$82,500 (as noted above). As previously reported, the Aspen Companies have indicated that, where they supply liquid air products, they

would be considered a critical supplier for most of their customers, who are subject to long-term supply contracts. As such, the Aspen Companies' have not yet and do not expect a significant deterioration in accounts receivable collections as a result of the NOI proceedings.

32. The Cash Flow Forecast includes disbursements of approximately \$2.6 million. The most significant disbursements are summarized below:
  - 32.1 Salaries and wages of approximately \$631,500, including Canada Revenue Agency employee payroll source deductions;
  - 32.2 Employee benefits of approximately \$101,000, which are payable to Great-West Life Assurance Company and Blue Shield of Montana;
  - 32.3 Vehicle and equipment leases of approximately \$289,900;
  - 32.4 Utilities of approximately \$631,900 for electricity, which is required in the specialized gas separation process used by the Aspen Companies to produce nitrogen, oxygen and argon;
  - 32.5 Professional fees of approximately \$492,500 payable to the Trustee, the Trustee's Canadian and U.S. legal counsel, and the Aspen Companies' legal counsel; and
  - 32.6 Contingency of approximately \$113,800.
33. As previously reported, approximately \$150,000 in costs was forecast for a maintenance shut-down to complete a required repair at one of the plants (the "Plant Repair"). The Plant Repair was originally forecast to be completed by September 1, 2018. Management has revised the expected completion date to late Q4 of 2018.
34. The Aspen Companies had an opening cash balance of approximately \$209,200 consisting of cash held in bank accounts with ATB in Canada and Wells Fargo in the U.S. The Aspen Companies are projected to have a net cash outflow of approximately \$328,400 over the Forecast Period, and DIP loan proceeds of approximately \$100,000. Based on its opening bank balance, the net cash outflow, and the DIP loan proceeds, the Aspen Companies have sufficient liquidity to sustain their ongoing operations during the Forecast Period.



# Cash Flow Variance Analysis

35. The following is the cash flow variance analysis for the Aspen Companies (the "Variance Analysis") for the period from the Filing Date until August 4, 2018 (the "Variance Period"). The Variance Analysis is based on the statement of projected cash flows filed by the Applicants on June 14, 2018.

**Aspen Companies  
Variance Analysis  
For the period from June 7 to August 4, 2018**

	<u>Total Forecast (F)</u>	<u>Total Actual (A)</u>	<u>Variance (A-F)</u>	<u>% Variance</u>
<b>Receipts</b>				
Account receivables	\$ 1,652,436	\$ 1,633,133	\$ (19,303)	(1%)
Rental Receipts	6,300	3,150	(3,150)	(50%)
GST collected	15,394	13,001	(2,393)	(16%)
<b>Total Receipts</b>	<b>1,674,129</b>	<b>1,649,284</b>	<b>(24,846)</b>	<b>-1%</b>
<b>Disbursements</b>				
Salaries and wages	(452,450)	(431,234)	21,216	5%
Employee benefits	(70,550)	(59,515)	11,035	16%
Vehicle and equipment leases	(306,393)	(236,401)	69,992	23%
Fuel	(45,000)	(61,927)	(16,927)	(38%)
Utilities	(365,625)	(256,785)	108,840	30%
Water	(13,750)	(14,594)	(844)	(6%)
Repair & Maintenance	(215,625)	(25,900)	189,725	88%
Rent	(30,536)	(26,269)	4,268	14%
IT services	(27,159)	(14,392)	12,767	47%
Office expenses	(19,424)	(22,484)	(3,060)	(16%)
Insurance	(58,516)	(66,519)	(8,004)	(14%)
DIP Loan Fees	(5,917)	-	5,917	100%
Professional fees	(205,000)	(118,411)	86,589	42%
Contingency	(78,750)	(113,642)	(34,892)	(44%)
<b>Total Disbursements</b>	<b>(1,894,695)</b>	<b>(1,448,074)</b>	<b>446,621</b>	<b>24%</b>
<b>Net Cash Flow</b>	<b>\$ (220,565)</b>	<b>\$ 201,210</b>	<b>\$ 421,775</b>	<b>191%</b>
<b>Bank Balance</b>				
Beginning Cash Balance	\$ 119,184	\$ 119,184	\$ -	0%
DIP Loan	110,000	-	(110,000)	(100%)
Transfers US/CAN Bank Account	-	(111,243)	(111,243)	100%
Net Cash Flow	(220,565)	201,210	421,775	191%
<b>Ending Bank Balance</b>	<b>\$ 8,619</b>	<b>\$ 209,151</b>	<b>\$ 200,532</b>	<b>2,327%</b>

36. As previously reported, the DIP Loan was approved pursuant to the June 26 Order; however, the granting of the Recognition Order was a condition precedent to the DIP Loan being advanced. As such, the Variance Analysis reflects a negative timing variance of \$110,000 reflecting that the DIP Loan has not been advanced, and an offsetting positive timing variance of approximately \$189,700 reflecting that a plant maintenance shut-down to perform the Plant Repair has not yet been completed.
37. The following permanent variances over \$10,000 are not anticipated to impact the Aspen Companies go-forward operations or ability to restructure:
- 37.1 A permanent positive variance of approximately \$21,200 for salaries and wages as a result of lower employee headcount;
  - 37.2 A permanent positive variance of approximately \$11,000 for employee benefits as a result of lower employee headcount;
  - 37.3 A permanent negative variance of approximately \$16,900 for fuel as a result of one fuel payment issued prior to reporting period, which cleared Aspen's bank account subsequent to Filing Date;
  - 37.4 A permanent positive variance of approximately \$108,800 for utilities as a result of lower spot market pricing than originally forecast; and
  - 37.5 A permanent positive variance of approximately \$45,100 for contingency as a result of fewer contingency items arising than were originally forecast.
38. As referenced in paragraph 11 above, the Trustee notes that there was an \$80,000 loan made by the Aspen Companies to Aspen Edge, which has since been repaid.
39. The Aspen Companies provided the Trustee with a representation letter dated August 8, 2018, which states, among other things, that the Applicants have made available to the Trustee all financial records and other relevant information, that the assumptions used in developing the Cash Flow Forecast are still valid, and that they are acting in good faith and with due diligence in developing a proposal and are not aware of any reason that they would not be able to make a viable proposal.

# CF Capital Security Review

40. As noted previously, the Trustee's legal counsel performed the Security Review and determined that the CF Security is valid and enforceable in both Canada and the U.S.
41. More particularly, the Trustee's Canadian legal counsel determined that the general security agreement and the share pledge agreement (collectively the "Canadian Security"), both of which are between Aspen and CF Capital (as assignee in interest of ATB):
  - 41.1 Constitute valid and enforceable obligations of Aspen, enforceable against Aspen in accordance with their terms;
  - 41.2 Create a valid security interest in favour of CF Capital in the personal property described in the Canadian Security in which Aspen now has rights, and is sufficient to create a valid security interest in favour of CF Capital in any such personal property in which Aspen subsequently acquires any rights when those rights are acquired, in each case to secure the payment and performance of the obligations described as being secured by the Canadian Security; and
  - 41.3 Registration has been made under the *Personal Property Security Act* (Alberta) where such registration is necessary at this time to preserve, protect or perfect, where appropriate, the security interest created by the Canadian Security in favour of CF in the personal property of Aspen located in Alberta as described therein.
42. The Trustee's U.S. legal counsel determined that:
  - 42.1 The deed of trust and security agreement (the "U.S. Security") between Aspen U.S. and CF Capital (as assignee in interest of ATB):
    - i. Constitutes a valid and enforceable obligation of Aspen U.S. enforceable against Aspen U.S. in accordance with its terms;
    - ii. Establishes security interests in the property described in the U.S. Security on all personal property of Aspen Air U.S. Corp., including fixtures and rents;
  - 42.2 The filing of UCC Financing Statement on July 11, 2018 by ATB perfected the ATB security interest in equipment, machinery, goods, inventory, software, accounts, general intangibles, deposit accounts, documents, instruments, negotiable instruments, and commercial tort claims. The filing of Deed of Trust on December 7, 2012 and the UCC Financing Statement on December 7, 2012 both with the Yellowstone County, Montana, Clerk and Recorder, perfected the security interests granted by Aspen U.S. to ATB in the fixtures, rents and leases;

42.3 ATB perfected security interests in fixtures, rents and leases were effectively assigned to, and are now held by, CF Capital through an Assignment filed July 20, 2018 with the Yellowstone County, Montana, Clerk and Recorder; and

42.4 The Deed of Trust granted to ATB recorded December 7, 2012 constitutes a good and valid mortgage lien on the Aspen U.S. real property described thereon.

# Recommendation and Conclusion

43. Based on the Trustee's review of the Aspen Companies' operations and restructuring efforts to date, the Trustee is of the view that pursuant to Section 50.4(9) of the BIA:

43.1 The Aspen Companies appear to be acting in good faith and with due diligence;

43.2 The Aspen Companies are cooperating with the Trustee and appear to be making efforts to present a viable proposal to their secured and unsecured creditors;

43.3 The Aspen Companies require the extension to continue the Amended SISF; and

43.4 The Trustee is of the view that the Aspen Companies' creditors will not be materially prejudiced by the Extension.

44. The Second Report has been prepared to provide the Court with an update on the Aspen Companies' NOI proceedings, to report on the Cash Flow Forecast and the Variance Analysis, and in support of the Extension.

**DELOITTE RESTRUCTURING INC.,**  
in its capacity as Trustee under the proposal of  
Aspen Air Corporation and Aspen Air U.S. Corp.  
and not in its personal or corporate capacity



---

Ryan Adlington, CA, CPA, CIRP  
Senior Vice-President

# Schedule 1

Aspen Air Corporation ("Aspen") and Aspen Air U.S. Corp. ("Aspen US", collectively the "Aspen Companies")

Statement of Projected Cash Flow

For the thirteen week period ending November 3, 2018

Assumed FX Rate: 0.80

	Week ended:													Total	Notes	
	11-Aug-18	18-Aug-18	25-Aug-18	1-Sep-18	8-Sep-18	15-Sep-18	22-Sep-18	29-Sep-18	6-Oct-18	13-Oct-18	20-Oct-18	27-Oct-18	3-Nov-18			
<b>Receipts</b>																
Account receivables	\$ 258,558	\$ 188,088	\$ 210,503	\$ 159,495	\$ 156,250	\$ 158,250	\$ 156,250	\$ 156,250	\$ 156,250	\$ 156,250	\$ 156,250	\$ 156,250	\$ 156,250	\$ 156,250	\$ 2,232,884	1
Rental Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GST collected	1,559	1,678	2,713	182	-	-	-	-	-	-	-	-	-	-	6,120	2
<b>Total Receipts</b>	<b>270,127</b>	<b>189,764</b>	<b>213,216</b>	<b>159,637</b>	<b>156,250</b>	<b>158,250</b>	<b>156,250</b>	<b>156,250</b>	<b>156,250</b>	<b>156,250</b>	<b>156,250</b>	<b>156,250</b>	<b>156,250</b>	<b>156,250</b>	<b>2,238,914</b>	
<b>Disbursements</b>																
Salaries and wages	-	(115,413)	-	(139,413)	-	(60,413)	-	(105,413)	-	(105,413)	-	(50,000)	(55,413)	(631,475)	(831,475)	3
Employee benefits	-	-	(4,175)	(31,711)	(1,688)	-	(4,175)	-	(27,583)	-	-	(4,175)	(27,583)	(101,548)	(101,548)	4
Vehicle and equipment leases	(60,816)	(848)	(10,495)	(55,519)	-	(1,433)	(444)	(8,725)	(65,519)	(1,433)	-	(9,159)	(65,519)	(259,919)	(259,919)	5 & 17
Fuel	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(85,000)	(85,000)	6
Utilities	(28,750)	(625)	(190,825)	-	(27,500)	(625)	(200,000)	(15,825)	(25,000)	(625)	(131,250)	(11,250)	-	(831,875)	(831,875)	7 & 17
Water	-	(6,875)	-	-	-	-	(5,875)	-	-	-	(6,875)	-	-	(20,825)	(20,825)	8 & 17
Repair & Maintenance	(3,125)	(9,375)	(9,375)	(9,375)	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)	(3,125)	(69,375)	(69,375)	9
Rent	(1,563)	-	-	(4,500)	(1,583)	-	-	-	(5,063)	-	-	-	(5,063)	(19,750)	(19,750)	10
IT services	(6,220)	-	(1,088)	(5,813)	-	-	(1,088)	-	(5,813)	-	(1,088)	-	(5,813)	(26,822)	(26,822)	11 & 17
Office expenses	(2,350)	(1,850)	(2,163)	(1,530)	(2,475)	(2,163)	(2,163)	(1,850)	(2,475)	(2,163)	(2,163)	(1,850)	(2,163)	(27,355)	(27,355)	12 & 17
Insurance	-	(353)	(22,631)	-	(9,274)	(353)	(22,631)	-	(5,274)	-	(22,631)	-	(6,274)	(87,773)	(87,773)	13
DIP loan fees	-	-	-	-	-	-	-	-	-	-	(5,833)	-	(5,833)	(5,867)	(5,867)	14
Professional fees	(135,000)	(10,000)	(10,000)	(82,500)	(10,000)	(20,000)	(10,000)	(82,500)	(10,000)	(10,000)	(10,000)	(20,000)	(70,000)	(492,500)	(492,500)	15
Contingency	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(8,750)	(113,750)	(113,750)	
<b>Total Disbursements</b>	<b>(251,574)</b>	<b>(159,088)</b>	<b>(264,301)</b>	<b>(348,287)</b>	<b>(72,187)</b>	<b>(101,861)</b>	<b>(264,250)</b>	<b>(230,888)</b>	<b>(163,581)</b>	<b>(138,508)</b>	<b>(207,967)</b>	<b>(163,318)</b>	<b>(209,014)</b>	<b>(2,574,034)</b>		
<b>Net Cash Flow</b>	<b>\$ 18,553</b>	<b>\$ 30,676</b>	<b>\$ (51,085)</b>	<b>\$ (188,640)</b>	<b>\$ 84,063</b>	<b>\$ 54,390</b>	<b>\$ (108,000)</b>	<b>\$ (74,738)</b>	<b>\$ (9,331)</b>	<b>\$ 19,742</b>	<b>\$ (50,617)</b>	<b>\$ (7,069)</b>	<b>\$ (52,764)</b>	<b>\$ (335,020)</b>		
<b>Bank Balance</b>																
Beginning Cash Balance	\$ 209,151	\$ 352,704	\$ 383,380	\$ 332,295	\$ 143,855	\$ 227,718	\$ 282,107	\$ 174,107	\$ 99,370	\$ 90,039	\$ 109,781	\$ 158,964	\$ 151,895	\$ 209,151	16	
DIP Loan	-	-	-	-	-	-	-	-	-	-	100,000	-	-	100,000		
Transfers US/CDN Bank Account	125,000.00	-	-	-	-	-	-	-	-	-	-	-	-	125,000	16	
Net Cash Flow	19,553	30,676	(51,085)	(188,640)	84,063	54,390	(108,000)	(74,738)	(9,331)	19,742	(50,617)	(7,069)	(52,764)	(335,020)		
<b>Ending Bank Balance</b>	<b>\$ 227,704</b>	<b>\$ 383,380</b>	<b>\$ 332,295</b>	<b>\$ 143,655</b>	<b>\$ 227,718</b>	<b>\$ 282,107</b>	<b>\$ 174,107</b>	<b>\$ 89,370</b>	<b>\$ 90,039</b>	<b>\$ 109,781</b>	<b>\$ 158,964</b>	<b>\$ 151,895</b>	<b>\$ 99,131</b>	<b>\$ 99,131</b>		

Prepared as at the 9th day of August, 2018

Purpose:

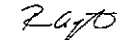
This Estimated Cash Flow Statement (the "Aspen Companies' Cash Flow") has been prepared by the Aspen Companies' management pursuant to section 50.4(2) of the Bankruptcy and Insolvency Act. It is being filed specifically for the purposes contemplated in that section and readers are cautioned that it may not be appropriate for other purposes. In addition the Cash Flow has been prepared based on assumptions regarding future events; therefore, actual results may vary from the estimates presented herein and these variances may be material.

Aspen Air Corporation



Per: Onkar Dhallwal, President & CEO

Deloitte Restructuring Inc. in their capacity as Trustee under the proposal of Aspen Air Corporation and not in their personal capacity



Per: Ryan Adlington, Senior Vice-President

Aspen Air Corporation ("Aspen") and Aspen Air U.S. Corp. ("Aspen US", collectively the "Aspen Companies")  
Statement of Projected Cash Flow  
For the thirteen week period ending November 3, 2018

**Notes & Assumptions - General:**

1. Unless otherwise stated, amounts are based on historical data and management estimates.
2. Attached as "Schedule 1" is the Statement of Projected Cash Flow for Aspen Air Corporation.
3. Attached as "Schedule 2" is the Statement of Projected Cash Flow for Aspen Air U.S. Corp.
4. All amounts include applicable GST.
5. As the Aspen Companies are in the process of developing their Proposals pursuant to the BIA (the "BIA Proposals"), the Aspen Companies' Cash Flow does not include any payments to creditors pursuant to the BIA Proposals.
6. The Consolidated Cash Flow assumes an exchange rate of \$1.00 USD = \$0.80 CAD and amounts are in Canadian dollars.

**Notes & Assumptions - Specific:**

1. Represents the collection of accounts receivable, which are subject to 30 to 60 day payment terms.
2. Includes GST collected on accounts receivable for Aspen Air Corporation.
3. Includes salaries and wages for 28 employees.
4. Includes benefits payable to Great-West Life Assurance Company and Blue Shield.
5. Includes payments due for leased vehicles and equipment. Aspen Air Corporation is currently reviewing its go-forward vehicle and equipment needs.
6. Includes anticipated fuel payments based on historical weekly averages.
7. Includes payments for electricity for Aspen Air U.S. Corp. plant located at 1524 Lockwood Road in Billings, Montana.
8. Includes utility payments for the plant located at 1524 Lockwood Road in Billings, Montana.
9. A plant maintenance shut-down to repair a crack in the cold box of plant #1 will be performed in late Q4 of 2018. This amount includes repair costs estimated at \$150,000 US.
10. Monthly rent of \$12,924 is payable for the premises located at Suite 1460, 10655 Southport Road in Calgary, Alberta. Aspen currently sublets the Premises with the term of the current sublease expiring on December 31, 2018. Aspen is currently in discussions to early terminate the current lease and
11. Includes payments for IT services required for operations.
12. Includes miscellaneous office expenditures.
13. Includes monthly payments for insurance policies held by the Aspen Companies.
14. Aspen is arranging a \$250,000 loan related to the restructuring, which has 2% entrance and exit fees and end 10% monthly interest.
15. Includes professional fees to be paid to Aspen's legal counsel, to the proposal Trustee and to the proposal Trustee's legal counsel.
16. Includes cash held in financial institutions.
17. Includes pre-filing amounts for critical suppliers subject to Court approval of those payments.
18. Aspen Air Corporation and Aspen Air U.S. Corp. are operated on a consolidated basis with funds being transferred between the respective bank accounts as needed.



# Schedule 2

District of: Alberta  
Division No. 02 - Calgary  
Court No. 25-2386427  
Estate No. 25-2386427

FORM 30  
Report on Cash-Flow Statement by the Person Making the Proposal  
(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

In the matter of the proposal of  
Aspen Air Corporation  
of the City of Calgary, in the Province of Alberta

I, Aspen Air Corporation, have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 9th day of August 2018, consisting of the statement of projected cash flow for the thirteen week period ending November 3, 2018.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Calgary in the Province of Alberta, this 9th day of August 2018.

  
\_\_\_\_\_  
Aspen Air Corporation  
Debtor

  
\_\_\_\_\_  
Name and title of signing officer

  
\_\_\_\_\_  
Name and title of signing officer

District of: Alberta  
Division No. 02 - Calgary  
Court No. 25-2386434  
Estate No. 25-2386434

FORM 30  
Report on Cash-Flow Statement by the Person Making the Proposal  
(Paragraphs 50(6)(c) and 50.4(2)(c) of the Act)

In the matter of the proposal of  
Aspen Air U.S. Corp.  
of the City of Calgary, in the Province of Alberta

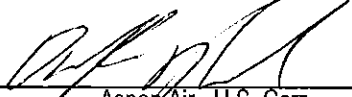
I, Aspen Air U.S. Corp., have developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 9th day of August 2018, consisting of the statement of projected cash flow for the thirteen week period ending November 3, 2018.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

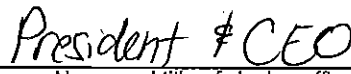
Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Calgary in the Province of Alberta, this 9th day of August 2018.

  
\_\_\_\_\_  
Aspen Air U.S. Corp.  
Debtor

  
\_\_\_\_\_  
Name and title of signing officer

  
\_\_\_\_\_  
Name and title of signing officer

District of: Alberta  
Division No. 02 - Calgary  
Court No. 25-2386427  
Estate No. 25-2386427

FORM 29  
Trustee's Report on Cash-Flow Statement  
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the matter of the proposal of  
Aspen Air Corporation  
of the City of Calgary, in the Province of Alberta

The attached statement of projected cash flow of Aspen Air Corporation, as of the 9th day of August 2018, consisting of the statement of projected cash flow for the thirteen week period ending November 3, 2018, has been prepared by the management of the insolvent person (or the insolvent debtor) for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by:  the management and employees of the insolvent person or  the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by:  management or  the insolvent person for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Calgary in the Province of Alberta, this 9th day of August 2018.

Deloitte Restructuring Inc. - Licensed Insolvency Trustee



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700 Bankers Court, 850 - 2nd Street SW  
Calgary AB T2P 0R8  
Phone: (403) 267-1899 Fax: (403) 718-3681

District of: Alberta  
Division No. 02 - Calgary  
Court No. 25-2386434  
Estate No. 25-2386434

FORM 29  
Trustee's Report on Cash-Flow Statement  
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the matter of the proposal of  
Aspen Air U.S. Corp.  
of the City of Calgary, in the Province of Alberta

The attached statement of projected cash flow of Aspen Air U.S. Corp., as of the 9th day of August 2018, consisting of the statement of projected cash flow for the thirteen week period ending November 3, 2018, has been prepared by the management of the insolvent person (or the insolvent debtor) for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by:  the management and employees of the insolvent person or  the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by:  management or  the insolvent person for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Calgary in the Province of Alberta, this 9th day of August 2018.

Deloitte Restructuring Inc. - Licensed Insolvency Trustee



---

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