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**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

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<b><i>In re:</i></b>	:	<b>Chapter 11</b>
	:	
<b>CHC GROUP LTD. <i>et al.</i>,<sup>1</sup></b>	:	<b>Case No. 16- _____ (    )</b>
	:	
<b>Debtors.</b>	:	<b>(Joint Administration Requested)</b>
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<sup>1</sup> A list of the Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, where applicable, is attached hereto as Exhibit A.



**DECLARATION OF MICHAEL B. COX IN SUPPORT OF  
THE DEBTORS' FIRST OMNIBUS MOTION FOR ENTRY OF AN ORDER  
AUTHORIZING THE DEBTORS TO REJECT CERTAIN EQUIPMENT LEASES AND  
SUBLEASES PURSUANT TO SECTION 365 OF THE BANKRUPTCY CODE**

I, Michael B. Cox, pursuant to section 1746 of title 28 of the United States Code, hereby declare that the following is true to the best of my knowledge, information, and belief:

1. I am the Vice Chairman of Seabury Advisory Group (“**Seabury**”) and the Global Head of Seabury’s Corporate Advisory Services. I joined Seabury’s principal advisory practice in April of 1998. I have over 30 years of corporate and advisory experience covering aircraft finance, fleet planning, cash management, business planning and crisis management. At Seabury, I have advised numerous airline clients on a variety of projects, including airline treasury, corporate finance, and airline restructuring. I have been involved in over 30 airline restructurings (in court and out of court proceedings) including the following Chapter 11 cases: American Airlines, Northwest Airlines, US Airways (1 and 2), Air Canada (CCAA), Gemini Air Cargo, Frontier Airlines, Kitty Hawk Air Cargo, Pinnacle Airlines, Republic Airlines, Continental Airlines and Arrow Air. In addition, I have been a leader in airline restructuring cases around the world including Monarch Airlines, Air Nostrum, Malaysian Airlines, South African Airways and Gulf Air, among others. Seabury was retained by CHC Group Ltd. (“**CHC Group**”) and each of the other debtors (collectively, the “**Debtors**” and, together with their non-debtor affiliates, “**CHC**”) in early 2016 to provide strategic business advice with respect to restructuring CHC’s fleet of helicopters. I lead the Seabury team in providing fleet restructuring strategy and advice to CHC including analysis of CHC’s fleet financing arrangements and current market conditions, lender/lessor negotiating strategies and fleet planning.

2. Concurrently with the filing of this declaration (the “**Declaration**”) on the date hereof (the “**Petition Date**”), the Debtors have filed the *Debtors’ First Omnibus Motion for*

*Entry of an Order Authorizing the Debtors to Reject Certain Equipment Leases and Subleases Pursuant to Section 365 of the Bankruptcy Code (the “**Rejection Motion**”).*

3. Any capitalized term not defined herein shall have the meaning ascribed to that term in the Rejection Motion.

4. Except as otherwise indicated herein, the facts set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, information provided to me by employees working under my supervision or my opinion based upon experience, knowledge and information concerning the operations of CHC and the commercial helicopter service industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of the Debtors.

#### **Preliminary Statement**

5. CHC is a global commercial helicopter services company primarily engaged in providing helicopter services to the offshore oil and gas industry. CHC also provides helicopter services for search and rescue and emergency medical services to various government agencies. In addition, CHC maintains the industry’s largest independent helicopter MRO business, which services helicopter fleets for both CHC as well as third-party customers. CHC manages its domestic and overseas businesses from its headquarters in Irving, Texas and its sales force from an office in Houston, Texas. CHC maintains one of its primary engine overhaul facilities in Fort Collins, Colorado.

6. CHC maintains a fleet of approximately 230 helicopters comprised of the medium variant (8 to 15 passengers) and heavy variant (16 to 26 passengers) collectively (the “**CHC Fleet**”). A significant portion of the fleet is comprised of new technology helicopters which have greater range, passenger capacity, enhanced safety systems, and the ability to operate

in variable conditions. Of the 230 helicopters in the fleet, CHC owns 67 helicopters and CHC leases the remainder from various third-party lessors. In most cases CHC subleases aircraft to affiliated operating entities. These leasing structures provide maximum regulatory and business flexibility.

7. Based on current market conditions, a significant reduction in the Debtors leased fleet size and related expenses is required to improve the Debtors' financial position and flexibility and position the Debtors to take advantage of opportunities that may arise out of the current industry downturn.

8. The Debtors have undertaken to accelerate their fleet replacement strategy in exiting from non-revenue generating aircraft and five older technology helicopter types, in order to first meet their customers' demands for newer technology helicopters and then reduce the number of different helicopters types in their fleet. The Debtors expect to reduce their fleet to approximately 75 aircraft by 2017, with approximately 90 aircraft to be returned in the next sixty (60) days. The near-term returns include approximately 16 Sikorsky S-76, 18 Airbus AS332, 16 Sikorsky S-92, 20 Airbus H225, 1 Airbus EC155 and 19 AgustaWestland AW139 helicopters.

9. I have assisted CHC in formulating a revised business plan to address the high cost/weakened revenue environment including its surplus fleet. CHC has identified cost savings to be achieved through a significant reduction in their fleet by eliminating helicopters and other related equipment that currently are not, or soon will not be, used to generate revenue in CHC's businesses. In addition, CHC is in the process of reducing the complexity of its fleet, which will decrease costs associated with crew training, inventory and maintenance. This

reduction and rationalization of CHC's fleet will create a significant surplus of helicopters and other related equipment owned and leased by CHC.

10. In accordance with this analysis, CHC has decided to retire immediately or has already retired certain helicopters and related equipment from its fleet. The Excess Equipment is not necessary for CHC's continued operation or successful reorganization.

11. The process of rejecting the Leases is extremely complicated, particularly when rejecting and returning approximately 90 helicopters in a very short period of time. One of the difficult aspects of this process is addressing the standard practice in the helicopter industry of "pooling" of helicopter parts, including engines, across an operator's helicopter fleet as well as with third-party MROs and such MROs' customers' helicopter fleets.

12. All helicopters need regular maintenance. Many helicopter parts, including engines, are "time-limited" in that they are installed on a helicopter and permitted to be operated on the helicopter for a fixed interval of flight hours, cycles or calendar time that is specific to the type of part. At the end of the applicable interval, the part is "run-out", and the operator must remove it from the helicopter and install on the helicopter another "fresh" part of the same type with all or a portion of the applicable interval remaining in order to continue operating the helicopter. Helicopter parts may also be removed from a helicopter and replaced because they are damaged or otherwise unserviceable and require testing or repair. For some types of helicopter parts, when they are run-out or unserviceable, they are removed from the helicopter and discarded. For other types of helicopter parts, including engines, when they are run-out or unserviceable, they are removed from the helicopter and sent to an MRO for scheduled maintenance to replenish the applicable interval of the run-out part or for testing and repair of the unserviceable part, as applicable.

13. Scheduled maintenance, testing and repair services performed by an MRO are detailed, time-consuming processes. In addition, MROs are not in all the same locations as their customers' helicopter bases, which are located all over the world, including in remote areas, and accordingly transporting run-out and unserviceable parts from a helicopter base to an MRO and back again can take considerable time and expense. Accordingly, to avoid frequent and lengthy disruptions in helicopter operation schedules due to scheduled maintenance, testing and repair of helicopter parts that become run-out or unserviceable during the course of each helicopter's operation, it is standard in the helicopter industry for an MRO, on an ongoing basis, both to receive run-out and unserviceable parts from all of its different customers and to provide these customers with a supply of other fresh or serviceable parts of the same type for installation and use on such customers' helicopters. When an MRO has finished its maintenance, testing and repair processes such that a run-out or unserviceable part is fresh or serviceable, as applicable, that fresh or serviceable part goes into the same parts pool that supplies all of the MRO's customers. To facilitate this kind of MRO parts pooling arrangement (an "MRO Pooling Arrangement"), the MRO's arrangements with its different customers typically will contemplate that title to run-out or unserviceable parts that the customer sends to the MRO will vest in the MRO, and title to the supply of fresh or serviceable parts that the MRO sends to a customer will vest in the customer or in the owner/lessor of the aircraft on which such fresh or serviceable part is installed. Accordingly, the parts that a customer receives from an MRO and installs on a helicopter are often not the same parts that were originally installed on the helicopter, and in many cases will be a part originally installed on a helicopter operated by a different customer.

14. The engines in CHC's helicopter fleet are maintained, tested and repaired under MRO Pooling Arrangements by both CHC's own MRO as well as third-party MROs.

Accordingly, due to these MRO Pooling Arrangements and given the large size of CHC's helicopter fleet and its continued operation for many years, on any given day, a significant portion of the helicopters in CHC's fleet will not have installed on them those engines that were originally installed on the helicopter at the commencement of the applicable lease (the "Original Equipment"), and given the breadth of CHC's worldwide operations, much of such Original Equipment will be located in different parts of the world than the applicable helicopter subject to such lease and, in fact, may be installed on the helicopters of third-party operators or owned and possessed by an MRO and used in such MRO's shared pool.

15. Replacement of engines and other parts will occur multiple times for each helicopter during the term of the applicable lease and during the life of a helicopter. Typically, helicopter leases identify the Original Equipment and other parts by serial number. As the Original Equipment or other parts become run-out or unserviceable in the course of the helicopter's operation, the operator will remove and replace such parts with other fresh or serviceable parts during the term of the applicable lease. Moreover, as it is in the interest of the lessors that the helicopter is in an operating condition during the lease term, helicopter leases typically require the lessee to remove run-out or unserviceable parts and replace them with other parts that have time remaining in the applicable interval and are serviceable, and many leases will require that at lease expiry the helicopter is returned to the applicable lessor with minimum flight hours, cycles or calendar days, as the case may be, before scheduled removal of specific parts.

16. To accommodate this standard and necessary practice, helicopter leases and mortgages typically include provisions contemplating the removal and replacement of engines under certain circumstances. Thus, in the case of a helicopter lease, the substitution

provisions would contemplate that the lessee cause title to a replacement engine to be conveyed to the lessor and contemporaneously the lessor relinquish title to the engine being replaced. Similarly, in the case of a helicopter mortgage, the substitution provisions would contemplate that the mortgagor subject a replacement engine to the mortgage and contemporaneously the secured party relinquish its lien on the engine being replaced.

17. Substantially all of CHC's helicopter leases include provisions contemplating the removal and replacement of engines and parts under the applicable lease, including provisions permitting CHC to "substitute" other engines under the lease under certain circumstances. In addition, many of CHC's leases follow CHC's general policy of not permitting filings or registrations of the applicable Lessor's interest in any particular engines then subject to the lease, as CHC views such filings or registrations as inconsistent with or hampering the ordinary course replacement of engines in CHC's helicopter fleet and MRO Pooling Arrangements.

18. Requiring CHC to return with each helicopter the Original Equipment would be monumentally burdensome, expensive and disruptive to CHC's business, inasmuch as this process would require CHC to ground and remove all affected helicopters from revenue generating operations much earlier than would otherwise be necessary in order to remove the then affixed engines, transport each removed engine to the location of the helicopter subject to the applicable lease, and replace each removed engine with the engine identified in the applicable lease, assuming such engine is even currently in CHC's possession as part of CHC's engine pool. Thus, the operations and maintenance schedules for each affected helicopter would be disrupted, thereby adding to the complexity, burden, expense and loss of revenue. In addition, with respect to any Original Equipment installed on a helicopter that is no longer in CHC's fleet

or is now part of an MRO's engine pool, it may not be possible for CHC to reacquire such Original Equipment to return to the applicable Lessor, since such engine may be installed and operating in the fleet of another operator and title to such engine would have been conveyed by an original equipment manufacturer ("OEM") or MRO, as the case may be, to such operator. The burden, expense and disruption to CHC's business and fleet operations would be multiplied significantly given that 44 helicopters are being returned as part of this motion and an additional approximately 45 helicopters are expected to be returned in the very near term, with potentially additional helicopters to be surrendered and returned in the medium term as CHC continues to review its fleet needs.

19. Moreover, in order to accomplish this task absent the relief requested, CHC might need to establish one or more maintenance lines at each helicopter base and at its MRO maintenance locations dedicated solely to replacing engines or contract the work to outside repair companies or MROs. As a result, CHC would need to hire additional maintenance workers, pay significant overtime expenses and incur significant outside contractor expenses to coordinate and perform engine replacements in connection with Excess Equipment returns. The cost of this incremental labor and these operations would be significant and particularly onerous for CHC at a time when CHC is taking every possible measure to preserve cash and limit unnecessary costs.

20. Furthermore, given the number of helicopters that would have to be taken out of service, the engine replacements could lead to lengthy disruptions in service to CHC's customers, which may cause CHC's customers to cancel their contracts or assess penalties against CHC that would impact revenues to the detriment of the estates and all parties in interest.

21. Each helicopter model has specific types of rotor blades, engines and other parts approved for use with such helicopter model. All engines of a specific model and version are the same. The only difference in value of two engines of the same model and version is a function of the differences in the condition and remaining maintenance cycle interval as between the two engines. Most leases provide that a lessor is entitled to receive an engine with the condition and remaining maintenance cycle interval specified in the lease. It is standard practice in the industry that when an engine is removed and sent to an MRO for overhaul and repair, the MRO will provide to the operator for installation on the helicopter an overhauled and repaired engine that would be in better condition than the engine removed from the helicopter. Therefore, upon installation of the replacement engine from the MRO, the lessor for that helicopter receives a more valuable part than the part removed.

22. Upon return of leased helicopters, if not already completed during the term of the lease, CHC will facilitate bills of sale and title transfers on replacement engines. Given the large number of helicopters being returned by CHC, a streamlined procedure is needed to allow for the efficient return of each helicopter.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: May 5, 2016  
Dallas, Texas

/s/ Michael B. Cox  
Michael B. Cox