

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

SEVENTH 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”.

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

² The Stay Period was extended twice by way of Orders dated April 5 and May 4, 2012 and is set to expire on July 20, 2012.

2. On April 20, 2012, the Court granted the Debtors' *Motion for Approval of a Divestiture Process* and issued an Order Approving the Divestiture Process.
3. On May 2, 2012, Air Canada filed a motion *de bene esse* (the "AC Motion") for an order lifting the stay of proceedings to confirm the termination of certain contracts.
4. The purpose of this report is to advise the Court of the potential impact of the AC Motion on the Divestiture Process.
5. It is important to note that at the time of preparation of this report, the Monitor did not have the time to fully analyse and discuss, with the relevant parties, the Contestations filed on behalf of the Company, the Union or the Lenders; nor did it have sufficient time to fully analyse the documents received as undertakings pursuant to the examination of Mr. Salvatore Ciotti held on May 9, 2012.
6. In preparing this report, the Monitor has relied upon unaudited financial information of the Debtors, the Debtors' books and records, certain financial information prepared by the Debtors and discussions with the Debtors' management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the previous reports of the Monitor.

THE DIVESTITURE PROCESS

8. The Divestiture Process was described in detail in paragraphs 10 to 13 of the Monitor's Third Report. In summary, the Divestiture Process consist of two phases: Phase 1 consists of due diligence period and ends May 29, 2012, the Phase 1 Bid Deadline; Phase 2 commences on June 1, 2012 and runs for 10 days during which time negotiations will be undertaken with the Qualified Phase 2 Bidders to determine the highest and best bids for the assets, Phase 2 is expected to conclude with an auction to determine the Accepted Bids.
9. Accepted Bids will require Court approval pursuant to a timeline which has not been set at this time, but it is assumed that the parties will prefer to move quickly to close their transactions. The Monitor expects that the approval hearing would take place, subject to the availability of the Court, before the end of June 2012.
10. The Divestiture Process was drafted in consultation with significant stakeholders with a view to maximizing recovery and facilitating a transaction or transactions that could lead to the restart of one or more of the divisions of the Company on an expedited basis. The tight timelines that were set for the process were chosen taking into consideration the impact of the closure of the business on the various stakeholders and the limited funding available to fund the Divestiture Process.
11. The support for the Divestiture Process of Air Canada as the key customer of the business and the Union as the primary labour force of the business was sought by and believed to have been obtained by the CRO prior to the presentation of the Divestiture Process to the Court. The CRO has clearly stated in open Court that bidders are invited to negotiate their own arrangements, if desired, directly with Air Canada, instead of presenting a conditional bid.
12. By way of its March 22, 2012 press release, Air Canada has expressed its support for the Divestiture Process and the desire to make an agreement with a global cost competitive MRO and encouraged parties to conduct due diligence and assess

which of the former Aveos businesses may be viable in Canada under new ownership. A copy of the Air Canada press release dated March 22, 2012 is attached to this report as Appendix A.

13. During the various consultations between the CRO and Air Canada prior to the request for Court approval of the Divestiture Process, Air Canada stated that it required a quick resolution and that it would participate in the Divestiture Process to the extent that a potential purchaser suitable to Air Canada was identified through the Divestiture Process.
14. At the request of the CRO a representative of Air Canada was designated as a point of contact for potential purchasers participating in the Divestiture Process and to conduct negotiations on behalf of Air Canada.
15. Following the examination of Mr. Salvatore Ciotti held on May 9, 2012, the Monitor's counsel was provided on May 15, 2012, with a copy of various requests for proposals (the "**RFP Process**") issued by Air Canada both before and after the issuance of the Initial Order.
16. The Monitor is advised that the potential purchasers currently reviewing the opportunity to acquire part of the Aveos business as part of the Divestiture Process, at least one of which, is also a participant in Air Canada RFP Process are uncertain as to how to proceed as the two processes are not aligned.

THE AC MOTION

17. The AC Motion has been filed in support of Air Canada's request to lift to the stay to allow Air Canada to terminate certain contracts it has with the Debtor including the:

- (a) General Terms Agreement for Technical Services (the “**GTA**”) dated October 1, 2006, the GTA outlines the general terms in respect of the Services Agreements as defined herein;
 - (b) Airframe Heavy Maintenance Services Agreement, (the “**Airframe Agreement**”) dated October 1, 2006;
 - (c) Engine Maintenance Services Agreement, (the “**Engine Agreement**”) dated October 1, 2006;
 - (d) Auxiliary Power Unit, APU Maintenance Services Agreement, (the **APU Agreement**”) dated October 1, 2006;
 - (e) Component Maintenance Services Agreement, (the “**Components Agreement**”) dated October 1, 2006;
 - (f) Ancillary Services Agreement, (the “**Ancillary Services Agreement**”) dated October 1, 2006;
 - (g) Training Services Agreement, (the “**Training Agreement**”) dated January 1, 2011;
 - (h) Services Agreement for Aircraft Paint Services, (the “**Paint Services Agreement**”) dated October 1, 2006; and
 - (i) Services Agreement for Outsourcing Services, (the “**Outsourcing Services Agreement**”) dated October 1, 2006, (collectively the “**Services Agreements**”).
18. Some of the Services Agreements between Air Canada and Aveos provide for exclusivity of services as follows:

- (a) the Airframe Agreement, the Engine Agreement and the APU Agreement represent exclusive agreements (collectively, the “**Exclusive Agreements**”);
 - (b) the Ancillary Services Agreement, the Paint Services Agreement and the Outsourcing Services Agreement (collectively, the “**Non-Exclusive Agreements**”);
 - (c) the Components Agreement and the Training Services Agreement each contain provisions for the exclusive services as well as non-exclusive services.
19. Air Canada requests the Court to lift the Stay of Proceedings to allow it to:
- (a) put on notice Aveos of the termination of (a) the Exclusive Agreements and (b) the Component Agreement and the Training Agreement for the services to be provided on an exclusive basis by Aveos, effective as of April 20, 2012;
 - (b) send a notice to Aveos to terminate (a) the Non-Exclusive Agreements and (b) the Components Agreement and the Training Agreement for the services to be provided on a non-exclusive basis by Aveos, effective immediately, or alternatively, send a notice to cure to Aveos, specifying that these agreements shall immediately be terminated should Aveos fail to cure within thirty (30) days;
 - (c) send a notice to Aveos to terminate the GTA, effective as of the date of termination of all the Services Agreements.
20. Air Canada claims that:
- (a) it suffers and continues to suffer hardship as a result of its inability to secure stable and longer terms agreements with other MRO providers;

- (b) the immediate termination of the Services Agreements would not have a negative impact on the Divestiture Process, but would rather add clarity to the process;
 - (c) it is ready, willing and able to cooperate with Aveos as part of the Divestiture Process and to cooperate MRO providers offering competitive costs structure wishing to acquire the various Aveos businesses;
21. The Monitor has been advised that the AC Motion will be contested by the Debtors, the Lenders and the Union. While many allegations and arguments made by Air Canada will need to be supported by proper evidence and be subject to debate, some key facts and circumstances are beyond dispute:
- (a) Aveos has shutdown its Airframe Division and terminated its of employees with respect to said division on March 18, 2012;
 - (b) on March 20, 2012, Aveos terminated nearly all of its employees and has not to provided services under the Services Agreements since that date;
 - (c) Aveos's post-filing defaults are continuing to this date;
 - (d) Air Canada has not to date submitted a claim for damages resulting from the shut down of the Aveos business, however it is reasonable to conclude that such a claim will be forthcoming;
 - (e) prospective bidders are strongly invited to conduct negotiations directly with Air Canada should they wish to pursue contractual relationships with it instead of relying on a possible assignment of the Services Agreements;
 - (f) the Divestiture Process offers the best chance to structure transaction(s) that would lead to the restart of the operations of one or more of the divisions of Aveos.

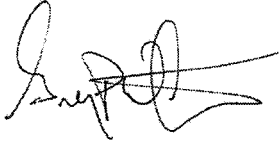
22. Air Canada states in a press release dated April 26, 2012 that: “The airline has been undertaking a Request for Proposal process with respect to longer terms maintenance work previously performed by Aveos. Air Canada intends to obtain proposals from maintenance suppliers, with globally competitive cost structures (including some of those identified through the Aveos CCAA divestiture process) with preference given to those that have or will establish some portion of their operations in Montreal, Winnipeg, Vancouver and Toronto employing the skills of Canadian aviation technicians, to achieve viable competitive long term arrangements.” A copy of the Air Canada press release dated April 26, 2012 is attached to this report as Appendix B.
23. The CRO has been actively involved in negotiating with Air Canada to resolve the matter of the AC Motion prior to the scheduled trial, including numerous phone calls and face to face meetings with Air Canada personnel. A number of proposals have circulated between the parties but to this point they have been unable to conclude a satisfactory resolution.
24. The Monitor is of the view that the Company requires time and opportunity to complete its Divestiture Process, with the expectation that the outcome of this process will be the best result that can be achieved for the majority of stakeholders including Air Canada. The Divestiture Process was created with the aim of generating a transaction or transactions that could result in restart of some or all of the Aveos business. As is outlined in the Divestiture Process, Aveos encourages Air Canada to work with the parties to negotiate a suitable commercial relationship for the successful completion of a transaction. Air Canada’s continued support of and participation in the Divestiture Process could ultimately result in Air Canada successfully negotiating the stable longer term maintenance contracts and agreements that it seeks.
25. The Air Canada Motion as well as its press releases state that Air Canada, supports the Aveos Divestiture Process and intends to obtain proposals from

parties identified as part of the Aveos Divestiture Process. On this basis, Air Canada is unlikely to conclude an alternative agreement for the services previously provided by Aveos prior to the conclusion of the Divestiture Process and therefore is ultimately in no worse position, should the Court postpone of the lifting of the Stay of Proceedings to allow Air Canada to terminate the Services Agreements. Ultimately, the termination of any of the existing Services Agreements could be done concurrently with the closing of a transaction or transactions achieved through the Divestiture Process, or in the event that no transaction can be successfully negotiated with Air Canada, this will also be determined at the conclusion of the Divestiture Process.

26. The Monitor is advised by the Debtors that the uncertainty created by the Air Canada Motion may well be impacting the Divestiture Process as parties are expressing concern over Air Canada's willingness to participate in the Divestiture Process and support a potential acquirer of the Aveos business.
27. The Monitor favours and continues to favour a solution that would ensure Air Canada's full cooperation and would allow a better aligning Air Canada's requests for proposal with the Divestiture Process to maximize the Divestiture Process' chances of success. The Monitor invites Air Canada and Aveos to pursue their discussions to address Air Canada's concerns and to avoid the legal confusion created by the pendency of the Air Canada Motion to avoid any possible chilling effect on the Divestiture Process.
28. Unless a negotiated solution can be found, the Monitor believes that the Stay of Proceedings should remain in place until the conclusion of the Divestiture Process to allow Aveos and Air Canada to determine if a suitable commercial transaction or transactions can be achieved.
29. The Monitor respectfully submits to the Court this Seventh Report.

Dated this 16th day of May, 2012.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Aero Fleet Performance Inc. and Aero Technical US Inc.



Greg Watson
Senior Managing Director



Toni Vanderlaan
Managing Director

Appendix A

Air Canada Press Release March 22, 2012


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Air Canada Provides Update on Aveos Contingency Plans; RFP process for new maintenance, repair and overhaul services to favour Montreal, Winnipeg, Vancouver and Toronto

MONTREAL, March 22, 2012 /CNW Telbec/ - Air Canada today provided the following update concerning its plans following the closure by Aveos Fleet Performance Inc. of its maintenance, repair and overhaul (MRO) facilities in Canada this week.

The closure of Aveos's facilities will not have an impact on Air Canada's day-to-day aircraft maintenance and repair activities or on its scheduled operation. This day-to-day maintenance work is performed directly by Air Canada at its own facilities across Canada - including Montreal, Winnipeg, Vancouver and Toronto - by Air Canada's 2,300 maintenance employees.

Transitional Arrangements

On a transitional basis, the airline has identified qualified and government-approved maintenance facilities in Canada and the U.S. to undertake work that was scheduled to be performed by Aveos consistent with the high standards of Air Canada's maintenance programs. The transition to new service providers is already underway and will have no impact on customers. For example, three aircraft scheduled for maintenance this week will go to a Quebec-based maintenance provider currently used by other Canadian and international airlines. In addition, arrangements are being made to complete the maintenance of the three aircraft remaining at Aveos facilities. The airline will continue to source new transitional providers through industry-standard RFP processes.

Long-Term Arrangements

"Given the insolvency and unexpected closure of Aveos, we encourage MRO companies from across Canada and around the world to conduct due diligence and assess which of the former Aveos businesses may be viable in Canada under new ownership," said Alan Butterfield, Vice President, Maintenance and Engineering. "Air Canada has a strong preference for working with a Global MRO which has an interest and ability to provide component, repair and overhaul services in Canada, with particular emphasis given to Montreal, Winnipeg, Vancouver and Toronto. There exists a pool of well-trained, qualified and talented people available in these cities. Air Canada will favour MROs with globally competitive cost structures that have or will establish some portion of their operation in one or more of these cities employing the skills of Canadian aviation technicians. The company expects to work collaboratively with governments and other stakeholders towards viable long-term arrangements that are cost competitive."

About Air Canada and Aveos

Air Canada and Aveos are two separate entities. Air Canada sold its technical services division in 2004. This company was then sold to a consortium of private investors in 2007 and subsequently changed its name to Aveos in 2008.

The Aveos workforce is independent from Air Canada and is covered by a separate collective agreement.

Air Canada is Canada's largest domestic and international airline serving more than 180 destinations on five continents. Canada's flag carrier is the 15th largest commercial airline in the world and in 2011 served more than 33 million customers. Air Canada provides

scheduled passenger service directly to 60 Canadian cities, 57 destinations in the United States and 63 cities in Europe, the Middle East, Asia, Australia, the Caribbean, Mexico and South America. Air Canada is a founding member of Star Alliance, the world's most comprehensive air transportation network serving 1,290 destinations in 189 countries. In 2011, Air Canada was ranked Best International Airline in North America in a worldwide survey of more than 18 million airline passengers conducted by independent research firm Skytrax.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, employee and labour relations, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's public disclosure file available at www.sedar.com. Any forward-looking statements contained in this news release represent Air Canada's expectations as of date of this news release and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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Appendix B

Air Canada Press Release April 26, 2012


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Air Canada Provides Preliminary First Quarter Results and Update on Maintenance Arrangements Following Aveos Closure

MONTREAL, April 26, 2012 /CNW Telbec/ - Air Canada today provided the following update on the expected impact related to Aveos Fleet Performance Inc.'s (Aveos) filing for creditor protection under the Companies' Creditors Arrangement Act on its first quarter 2012 results and progress on transitional and long-term arrangements following Aveos's cessation of operations. Aveos was a separate and independently owned and managed supplier to Air Canada that provided aircraft, engine and component maintenance services to airlines, including Air Canada.

First Quarter 2012 results

The airline's first quarter 2012 results (scheduled to be released May 4, 2012) will include charges totalling \$120 million (reported below the operating income line) relating to Aveos. These charges are comprised of the following: (1) a non-cash loss on investments of \$65 million resulting from the 2010 restructuring of Aveos which will be recorded in Non-operating expense on Air Canada's consolidated statement of operations, and (2) a liability and corresponding loss from discontinued operations of \$55 million related to Air Canada's commitment under an employee separation program provided for in the January 2011 Canada Industrial Relations Board ruling which recognized separate bargaining units for Aveos and Air Canada unionized employees.

First quarter 2012 EBITDAR is expected to range between \$170 million and \$180 million, which is higher than analysts' consensus estimates. At March 31, 2012, cash and short-term investments amounted to \$2.249 billion, \$135 million higher than its cash and short-term investments balance at March 31, 2011.

All figures reported above with respect to the first quarter of 2012 are preliminary, have not been reviewed by Air Canada's auditors and are subject to change as Air Canada's first quarter 2012 financial results are finalized. The preliminary estimates provided constitute forward-looking statements within the meaning of applicable securities laws, are based on a number of assumptions and are subject to a number of risks and uncertainties. Please see section below entitled "Caution Regarding Forward-Looking Information."

Air Canada's unaudited interim condensed consolidated financial statements and the notes thereto and the related management's discussion and analysis of results and financial condition for the three months ended March 31, 2012 are expected to be available on Air Canada's website at www.aircanada.com and are expected to be filed on SEDAR at www.sedar.com, in each case on May 4, 2012. Readers should refer to Air Canada's management's discussion and analysis of results and financial condition for the three months ended March 31, 2012 for a reconciliation of EBITDAR to operating income (loss).

Air Canada does not intend to regularly provide preliminary results for future periods in respect of EBITDAR and cash and short-term investments.

Transitional Arrangements

Following the closure of Aveos, on a transitional basis, Air Canada has identified qualified and government-approved alternate suppliers of aircraft maintenance to undertake work that was originally scheduled to be performed by Aveos, consistent with the high safety, quality and reliability standards of Air Canada's maintenance programs. Since the Aveos closure, the airline has sent several aircraft to both Canadian and international maintenance

providers.

In addition to aircraft maintenance, Air Canada requires alternate solutions for its engines and aircraft components maintenance as well as the provision of various maintenance support services. Air Canada is already working with a network of approximately forty Canadian suppliers as well as additional international suppliers and this network will continue to grow over the coming months.

Long-Term Arrangements

The airline has been undertaking a Request For Proposal process with respect to longer term maintenance work previously performed by Aveos. Air Canada intends to obtain proposals from maintenance suppliers with globally competitive cost structures (including some of those identified through the Aveos CCAA divestiture process) with preference given to those that have or will establish some portion of their operation in Montreal, Winnipeg, Vancouver and Toronto employing the skills of Canadian aviation technicians, to achieve viable competitive long term arrangements.

Quebec Government Legal Action against Air Canada

On April 16, 2012, the Quebec Government filed a motion in Quebec Superior Court requesting a declaratory ruling that Air Canada was not compliant with the Air Canada Public Participation Act (ACPPA) as a result of the Aveos closure. Air Canada continues to be in full compliance with the letter and spirit of the ACPPA, despite the closure of Aveos and the airline will vigorously defend its position. In May 2011, Mr. Justice Newbould of the Ontario Superior Court of Justice ruled on the issue of whether Air Canada was in compliance with the maintenance facility requirements of the Act following an application filed by the International Association of Machinists and Aerospace Workers. The court found that Air Canada was meeting the Act's requirements on more than one basis, including on the basis of its own overhaul and maintenance functions. In addition, a legal opinion issued by Justice Canada to the Ministry of Transport, Air Canada's regulator, dated March 29, 2012, advised that Air Canada remained compliant with the ACPPA irrespective of the Aveos closure.

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 29, 2012, consult SEDAR at www.sedar.com.

(1) Non-GAAP Measure

EBITDAR (earnings before interest, taxes, depreciation and amortization, and aircraft rent) is not a recognized measure under Canadian GAAP and does not have a standardized meaning. EBITDAR is commonly used in the airline industry and is used by Air Canada to assess earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent, as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. However, while this calculation is commonly used in the airline industry, Air Canada's calculation of EBITDAR may not be comparable to similar calculations presented by other companies. EBITDAR should not be considered in isolation or as a substitute for measures prepared in accordance with Canadian GAAP.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This press release includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, employee and labour relations, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the

seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this news release and those identified in section 18 "Risk Factors" of Air Canada's 2011 MD&A dated February 9,2012. The forward-looking statements contained in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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