

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

**NINTH 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 22, 2012 A J Walter Leasing Ltd ("**AJ Walters**") filed a motion to repossess certain assets.
4. On May 23, 2012 NorthgateArinso Canada Inc. filed a De Bene Esse Motion (the "**NGA Motion**") to strike the notice by Aveos to disclaim or resiliate an agreement.
5. The purpose of this report is to advise the Court on the following:
 - (a) The return of assets to third parties;
 - (b) The review of 30 Day Goods, as hereinafter defined;
 - (c) The Divestiture Process, and the request for sale approval and a vesting order for the sale of certain assets and the Monitor's recommendation thereon;
 - (d) Other matters; and
 - (e) The Security Opinion as hereinafter defined, prepared by Norton Rose LLP, counsel to the Monitor.
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 RETURN OF ASSETS TO THIRD PARTIES

8. As described in the Second Report of the Monitor, the process of identifying, and returning assets to third parties has continued throughout the CCAA.
9. At the commencement of the CCAA Proceedings, Aveos had in its facility 3 air frames undergoing maintenance, repair and overhaul work. At the date of this report, all three air frames have been returned to Air Canada . A fourth air frame was temporarily being serviced inside the Aveos facilities at the request of Air Canada but the work was not undertaken by Aveos employees. This work has been completed and the air frame has been removed by Air Canada.
10. At the time of the granting of the Initial Order, Aveos had 56 third party engines in its premises either not yet inducted, as work in progress or units which had been completed. At June 15, 2012, the Company has returned 30 engines and has 26 engines remaining in its possession.

Of the 26 engines that Aveos is currently holding 3 have been fully settled and paid and are in the process of being retrieved, 12 are subject to on-going negotiations, 3 appear to have been abandoned by their registered owner and the Company is in the process of confirming this, and 8 are subject to on-going litigation that began prior to the filing to recover payment for work completed.

Engines	Number
Ready to be returned and fully paid	3
Negotiations ongoing	12
Abandoned	3
Subject to ongoing litigation	8
	<hr/>
	26

11. In addition to the engines, Aveos also had in its Engines facility, 3 Air Canada owned Auxiliary Power Units at the time of the filing all of which have been returned to Air Canada.
12. The Company continues to assist the customers of the Components business with the retrieval of their components. This process has been progressing and at June 15, 2012 Air Canada who represents approximately 70% of the Components business has nearly completed the retrieval of their assets. In addition, more than 50% of other customers have fully retrieved their components.
13. The process of returning third party owned assets will continue and the Company is taking steps to ensure that the current negotiations and retrievals are concluded as quickly as possible.

THE REVIEW OF 30 DAY GOODS

14. The Company has performed a high level assessment of the quantum and value of the goods received within the 30 day period prior to the receipt of the Initial Order. In conducting its review the Company included those parties that had specifically identified themselves as potential claimants under section 81.1 (“**30 Day Goods**”) of the Bankruptcy and Insolvency Act (the “**BIA**”).
15. The Company is in the process of contacting each of the potential 30 Day Goods claimants to discuss the specifics of their claim as discussed in paragraph 35 of the third report of the CRO, (the “**Third Report of the CRO**”), the Company intends to resolve the remaining 30 Day Goods claims taking into consideration:

- (i) That 30 day goods rights, pursuant to Section 81.1 of the BIA, are not assured in a CCAA proceeding;
 - (ii) The practical reality of physically locating the goods, and significant cost associated with locating and making the goods available for retrieval; and
 - (iii) The fact that many of the goods, when located, would likely not be in the same or similar state.
16. The Monitor concurs with the Company's approach to contact the potential claimants and attempt to settle these claims out of Court.

THE RESULTS OF THE DIVESTITURE PROCESS

17. In the Monitor's Eighth Report to the Court, an update was provided with respect to the changes to the time lines associated with the Divestiture Process.
18. The Third Report of the CRO discusses in further detail in section 2 Conduct and Results of the Divestiture Process to Date the results of the Divestiture Process as well as the further amendment to the timeline for the sale of the Engines business.
19. As discussed in the Company's motion materials the Company intends to enter into a conditional liquidation agreement in respect of the Engines business. This arrangement will secure an agreement for the liquidation of the Engines business but provides the opportunity to negotiate an agreement for the sale of the new Engines agreement reached with Air Canada and other assets of the Engines business to a strategic purchaser.
20. The Company has completed the Divestiture Process with respect to other lots offered for sale, excluding Lot 23, landing gear which will be dealt with as part of the extension in respect of the Engines business and Lot 25, the Intellectual Property for which the Company is considering certain offers. The revised deadline for these lots will be July 13, 2012.

21. The current deadline for Lot 8, the Components Business remains July 13, 2012.
22. The Monitor was provided with full access to information during the Divestiture Process and regularly apprised of the movements with respect to the bids and consulted with respect to the changes to the time lines of the Divestiture Process.
23. The remaining lots, primarily in respect of the Air Frames business are subject either to the individual asset purchase agreements (the “**APA’s**”) as summarized in the Company’s motion and attached thereto as exhibits R-2 through R-6 or subject to the liquidation sale agreement (the “**Liquidation Services Agreement**”) with Maynards Industries Ltd. (“**Maynards**” or the “**Liquidator**”). The Liquidation Services Agreement is attached to the Company’s motion as exhibit R-7.
24. The Monitor has reviewed the APA’s and notes that the terms are relatively consistent as between the various agreements. The primary condition to the closing of each of the APA’s is the approval of the Court and obtaining a vesting order within the timeframe specified in the APA’s. Each of the APA’s includes the issuance of a Monitor’s certificate confirming that all conditions have been met in order to close the transaction.
25. The Monitor has reviewed the Liquidation Services Agreement, this agreement provides a net minimum guarantee arrangement whereby the Company will receive a minimum amount for the sale of the assets. The Liquidator will then be responsible for conducting a further sale of the assets by transaction or auction and proceeds from the sale in excess of the net minimum guarantee amount shall be attributed as follows:
 - (a) The first [confidential amount] to Maynards;
 - (b) And above the total of the net minimum guarantee and the confidential amount, 80% to the Company and 20% to Maynards.

26. The Liquidation Services Agreement provided for the possibility of additional upside for the Company and represented the best alternative offer for those lots not subject to individual APA's. The Company has filed in its materials the requests for the approval of the APA's and the Liquidation Services Agreement as well as the form of vesting order.
27. The Monitor is satisfied and can confirm to the Court that:
- (a) The Divestiture Process was reasonable and conducted in accordance with the Divestiture Process Order;
 - (b) The Monitor approved of the process as outlined in the Divestiture Process Order;
 - (c) The Monitor is filing this report in support of the Company's request for approval of the sales and vesting orders and that the results of the Divestiture Process demonstrate that the sales of the various lots subject to the APA's are more beneficial to the creditors than what would have been achieved in a bankruptcy and that in the present circumstances the Liquidation Services Agreement also represents the best recovery achieved in the Divestiture Process for those lots not subject to individual APA's.;
 - (d) The Secured Lenders were consulted with respect to the Divestiture Process and the extension of the process;
 - (e) The results of the Divestiture Process will not prejudice the creditors or other interested parties; and
 - (f) The Divestiture Process was an appropriate method for determining the fair market value of the assets and the consideration to be received is therefore reasonable and fair.

28. The Monitor is satisfied that the divestiture process was fair, transparent and reasonable in the circumstances and that the process was conducted in accordance with the provisions of the Divestiture Process Order.
29. The Monitor is further satisfied that the APA's and the Liquidation Services Agreement selected by the Company represent the highest and/or best offer for the respective Lots.
30. The Monitor therefore supports the Company's request for approval of the APA's and the Liquidation Services Agreement and respectfully recommends that the Company's request be granted.

OTHER MATTERS

31. The Monitor is aware that there are currently two other matters pending before the Court.
32. In the Eighth Report to the Court the Monitor informed this Court of the on-going discussions between NGA and the Company with respect to securing the payroll information and employee records held by NGA. The parties have been unable to reach a consensual resolution to the issues at hand. NGA has agreed to return the employee records on an "as is where is" basis and to provide a data ribbon of the Aveos payroll data to the CRO. The utility of this data ribbon is limited as the Company does not have the appropriate software platform to extract meaningful data from this data ribbon. Securing access to reliable payroll data is essential to ensuring the Company will be able to meet the Company's statutory requirements in terms of providing taxation information to the former employees and providing information to the various federal and provincial taxation authorities.
33. The Monitor is continuing to work with the parties and if necessary, will provide additional reporting to the Court in respect of the NGA Motion at such time that the motion is heard by the Court.

34. In reviewing the AJ Walters Motion, the Monitor is of the view, that this motion is an issue of priorities as between the Lenders and AJ Walters and the legal issues and requests for relief are addressed in the motion materials presented to the Court. The AJ Walters motion does not have an impact on the Divestiture Process or the current activities of the Company and the Monitor does not feel it necessary to take a position with respect to this matter but is of course available to assist at the request of this honourable Court.

SECURITY OPINION

35. The Monitor has received a legal opinion from its counsel, Norton Rose Canada LLP, confirming the validity and enforceability of the security granted by Aveos pursuant to the ABL Credit First Lien Agreement (as defined in the Debtors' Petition for the Issuance of an Initial Order) and the Take Back Second Lien Credit Agreement (as defined in the Debtors' Petition for the Issuance of an Initial Order), which charge all the assets of Aveos.

36. The Monitor respectfully submits to the Court this Ninth Report.

Dated this 26th day of June, 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