

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO: 500-11-042345 - 120

SUPERIOR COURT
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

**ELEVENTH REPORT TO THE COURT SUBMITTED BY FTI CONSULTING
CANADA INC., IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On March 19, 2012, Aveos Fleet Performance Inc. (“**Aveos**”) and Aero Technical US Inc. (“**Aero US**” and together with Aveos, the “**Company**” or the “**Debtors**”) made an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and an initial order (the “**Initial Order**”) was made by the Honourable Mr. Justice Schragger of the Superior Court of Quebec (Commercial Division) (the “**Court**”), granting, *inter alia*, a stay of proceedings against the Debtors until April 5, 2012, (as extended from time to time thereafter², the “**Stay Period**”) and appointing FTI Consulting Canada Inc. as monitor of the Debtors (the “**Monitor**”). The proceedings commenced by the Debtors under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
2. On April 20, 2012, the Court granted the Debtors’ *Motion for Approval of a Divestiture Process* and issued an Order Approving the Divestiture Process.

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

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

3. On May 23, 2012 NorthgateArinso Canada Inc. (“**NGA**”) filed a De Bene Esse Motion (the “**NGA Motion**”) to strike the notice by Aveos to disclaim or resiliate an agreement. On June 28, 2012 a schedule was agreed between the parties for a timeline for conducting examinations in preparation for a motion scheduled to be heard September 24 and 28, 2012.
4. On July 23, 2012 the Company filed a motion for a sale approval and vesting order for the sale of the tooling equipment and inventory of the Engines Business to Maynards.
5. On July 25, 2012 the Company filed a motion for a sale approval and vesting order for the sale of the safety, gas and battery shop tooling and equipment to CASP Aerospace Inc.
6. The purpose of this report is to advise the Court on the following;
 - (a) The Divestiture Process and the request for a sale approval and vesting order for the sale of certain assets and the Monitor’s recommendation thereon; and
 - (b) Correspondence received by the Monitor from counsel to NGA.
7. 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.
8. 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

9. The Monitor provided an update for the Court on the Divestiture Process in its Ninth Report dated June 26, 2012. As previously reported, on May 30, 2012 the Company negotiated a new exclusive agreement with Air Canada (the “**Air Canada Contract**”) for the maintenance of the CFM-56A and CFM-56B engine. To accommodate requests by the potential bidders for additional time to prepare their bids and remove conditions, the deadline for the submission of bids in respect of the Air Canada Contract was postponed, with the consent of the Monitor, to August 10, 2012. The ability to assign the Air Canada Contract with Court approval expires on August 15, 2012. The Company has booked time with the Court on August 15, 2012 to accommodate a sale approval motion in the event an agreement to purchase the Air Canada Contract is negotiated.
10. The deadline for the submission of bids in respect of Lot 7, the Components Business, was July 13, 2012. A number of bids were received which included conditions. The CRO is continuing to negotiate with the various bidders to clear the conditions attached to the offers received but additional time will be required to determine the final successful bid.
11. The Company is seeking approval for the following asset purchase agreements (“**APAs**”) and a liquidation services agreement in respect of the Engines business:
 - (a) The sale of the gas, safety and battery shop to CASP Aerospace Inc. (the “**SGB APA**”);
 - (b) The sale of the Engines inventory to Maynard (the “**Maynards APA**”); and
 - (c) The liquidation services agreement for the Engines tooling and equipment to Maynards, (the “**Maynards LSA**”).
12. The Monitor has reviewed the SGB APA and notes that the primary condition to the closing of the SGB APA is the approval of the Court and obtaining a vesting order within the timeframe specified in the SGB APA. The SGB APA provides for the issuance of a Monitor’s certificate once all conditions have been met in order to close the transaction.

13. The Monitor has reviewed the Maynards APA. This agreement provides for the sale of the Company's right, title and interest in the inventory associated with the Engines Business.
14. The Monitor has reviewed the Maynard LSA, this agreement provides a net minimum guarantee arrangement whereby the Company will receive a minimum amount for the 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; and
 - (b) Any amount above the total of the net minimum guarantee plus the confidential amount, to be allocated 80% to the Company and 20% to Maynards.
15. Subsequent to the negotiation of the Maynards LSA, a further amendment to the Maynards LSA was agreed to provide Aveos with the option to exclude certain tooling (the "**Excluded Tooling**") in exchange for a reduction in the amount of the net minimum guarantee. This amendment was made in order to preserve and enhance value in anticipation of a future sale of the Air Canada Contract to a strategic purchaser.
16. In addition to the amendment in respect of the Excluded Tooling, a break fee was negotiated in respect of the Maynards LSA, to allow at any point up to August 15, 2012, the Company to accept an offer from a strategic purchaser, without any obligation or liability except for the payment of a break fee in the amount of \$108,661.
17. The acceptance of the Maynards LSA provides a backstop for the Company in terms of securing value through a liquidation arrangement but allows the Company time and opportunity to increase realizations through a sale to a strategic purchaser.
18. The Maynards LSA and the Maynards APA each require that subsequent to the granting of a sale approval and vesting order in respect of these transactions, and upon the completion of all conditions by each of the counterparties, the Monitor issues a certificate to close the transaction.

19. 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 sale achieved through the Maynards LSA, the Maynards APA and the SGB APA are more beneficial to the creditors than what would have been achieved in a bankruptcy;
 - (d) The Maynard LSA represents the best liquidation offer achieved in the Divestiture Process for the Engines Business;
 - (e) At this time the Company is seeking approval of the Maynard LSA, which still permits the Company to accept a potential offer for the Air Canada Contract;
 - (f) The Secured Lenders were consulted with respect to the Divestiture Process and the extension of the process;
 - (g) The results of the Divestiture Process will not prejudice the creditors or other interested parties and the approval will not prejudice those parties who have made claims with respect to goods delivered in the 30 days prior to March 19, 2012; and
 - (h) 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.
20. 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.

21. The Monitor is further satisfied that the APAs selected by the Company represent the highest and/or best offers and that the Maynard LSA represents the current best offer in respect of the Engines Business.
22. The Monitor therefore supports the Company's request for approval of the APAs and the Maynards LSA and respectfully recommends that the Company's request be granted.

OTHER MATTERS

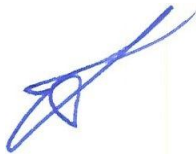
23. On July 24, 2012, the Monitor received a letter from counsel to NGA, referring to the NGA Motion and requesting confirmation that proceeds received from the sale of the Engines business would not be distributed without an order of the Court.
24. On July 19, 2012 the CRO advised the Court that proceeds from the sale of assets will be used in operations in accordance with the cash flow filed with and approved by the Court on that date. In addition, the CRO has confirmed to the Monitor that distributions will not be made without further order of the Court. Proceeds from sale of the assets are being paid to the Company and are not being held by the Monitor.
25. The Monitor respectfully submits to the Court this Eleventh Report.

Dated this 25th day of July, 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