

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

SUPERIOR COURT  
Commercial Division  
*Designated tribunal under the  
Companies' Creditors Arrangement Act*<sup>1</sup>

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

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

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**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 thereafter<sup>2</sup>, 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**”.

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

<sup>2</sup> The Stay Period was extended four times by way of Orders dated April 5, May 4, July 19, and October 19, 2012 and is set to expire on February 1, 2013.

2. On July 26, 2012, this Court granted the Debtors' Motion for an Order Authorizing the Sale of Certain Assets and for Vesting Orders (Engines Maintenance Division) (the "**First EMC Motion**") regarding the divestiture of assets comprising the Engines Maintenance Centre ("**EMC**"). The First EMC Motion did not involve an *en bloc* sale of the EMC as a going concern, nor did it include the divestiture of the Aveos owned building used by its Engines Maintenance Division (the "**EMC Building**"). Rather, it contemplated the sale of inventory under an asset purchase agreement, as well as the sale by auction or otherwise of tooling and equipment located in the EMC under a liquidation services agreement (the "Maynards LSA") by Maynards Industries Ltd. and its partners (collectively "**Maynards**").
3. While the sale of the EMC inventory to Maynards has been concluded, Maynards agreed to postpone the scheduled October 2012 auction date to early 2013, in view of a possible en bloc transaction for the remaining assets of the EMC division described more fully herein and in the ninth report of the CRO dated January 7, 2012 (the "**CRO's Ninth Report**").
4. On December 12, 2012, while the parties were still negotiating the structure of a possible transaction, the Company filed its motion requesting an amendment to the Initial Order to grant the Company the authority to enter into a contract to lease the EMC Building, on the basis that, at that time, leasing the EMC Building was the preferred option of the purchaser and this was necessary so as to enable Aveos to be in a position to accommodate the purchaser's anticipated timing and strict operational requirements.
5. On December 14, 2012, the Court granted the order requested by the Company, amending the Initial Order to grant the Company the authority to enter into a contract to lease the EMC Building.
6. On January 7, 2013 the Company served a motion for a sale approval and vesting order for the sale of the EMC Building and certain miscellaneous remaining assets related the EMC Division, to Lockheed Martin Canada Inc. ("**LMC**").

7. The purpose of this report is to advise the Court on the Company's request for a sale approval and vesting order for the sale of these assets and the Monitor's recommendation thereon.
8. 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.
9. 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 EMC TRANSACTION**

10. The CRO and the Monitor have previously advised this Court, both through oral submissions and through earlier reports, of a proposed transaction in respect of the EMC Division. The Monitor refers this Court to:
  - (a) The Eighth Report of the CRO, dated October 19, 2012, at paragraph 9;
  - (b) The Sixteenth Report of the Monitor, dated October 22, 2012, at paragraph 25;
  - (c) The Addendum to the Eighth Report of the CRO, dated October 23, 2012, at paragraphs 5 to 15; and

- (d) The Eighteenth Report of the Monitor dated December 12, 2012, at paragraphs 6 to 11.
11. On December 21, 2012, LMC and the Company signed an asset purchase agreement (the “**LMC Agreement**”) for the purchase of the EMC Building and certain ancillary assets. In addition, at that time, LMC entered into a further amendment to the amended and restated purchase agreement with Maynards (the “Maynards APA”) allowing it to exercise an option to purchase certain additional tooling and equipment from Maynards (the Maynards APA is referred to, together with the LMC Agreement, as the “**LMC Transaction**”). This tooling and equipment was subject to an earlier sale approval and vesting order granted by this Court with reference to the approval of the Maynards LSA, and dated July 26, 2012.
  12. LMC had initially expressed an interest in leasing the EMC Building, resulting in the request by the Company for authority from the Court to enter into a long term lease, which was granted by Court order on December 14, 2012. Ultimately, LMC decided it wanted to purchase the building, subject to approval by the Court.
  13. The EMC Building was initially offered for sale through the Divestiture Process approved by the Court on April 20, 2012. The Divestiture Process was advertised globally and attracted a number of international bidders. The Divestiture Process generated only one offer to purchase the EMC Building. This offer, which was in an amount substantially below the purchase price offered by LMC, was not acceptable and was rejected by the CRO at that time it was received.
  14. LMC did not participate directly in the Divestiture Process. LMC approached Aveos and expressed its interest in the EMC Division assets sometime after the Court had granted the Order sought on the First EMC Motion. However, by effectively negotiating a postponement of the auction with Maynards, the CRO was able to allow LMC an opportunity to conduct due diligence and pursue the possibility of an en bloc transaction.

15. The Company conducted negotiations with LMC with respect to this transaction over the course of several weeks, while LMC conducted its due diligence in respect of the EMC Division.
16. Greater details concerning the negotiation and structure of the transaction are provided in the CRO's Ninth Report, in paragraphs 15 to 22.
17. The proposed LMC Transaction, if approved by the Court, would see LMC commence operating from the EMC Building as early as late January or February 2013 and would see a number of former Aveos employees rehired.
18. The Monitor has considered the following factors in approving this transaction:
  - (a) The Divestiture Process, which was global in reach, did not yield any suitable offers for the EMC Building;
  - (b) The sale of the tooling and equipment to Maynards was a liquidation option that would not necessarily contribute to any further direct benefit for the Aveos stakeholders beyond the Secured Lenders;
  - (c) The LMC transaction, which combines a purchase of the EMC Building and the tooling and equipment and contemplates the commencement of operations by LMC from the EMC Building, yields a greater recovery for the Secured Lenders and results in a greater overall benefit for the Aveos stakeholders;
  - (d) Due to the specialized nature of the EMC Building and the limitations on its use due to its location, on the Montreal airport property, the facility would be of interest to a limited set of potential purchasers. The EMC Building had been available for sale for 8 months with limited interest and commercial brokers estimate that a sale would have required an additional 12 to 18 months to complete. The ongoing sales and marketing process would have resulted in ongoing costs for the Company and the Secured Lenders;

- (e) In determining if the purchase price paid for the EMC Building was fair and reasonable, the Monitor considered the results of the Divestiture Process as well as valuation information obtained by the CRO in connection with a plan to market the EMC Building. The CRO discusses the issue of the valuation of the EMC Building in greater detail in the CRO's Ninth Report at paragraphs 24 to 25;
  - (f) The Monitor is satisfied that the LMC offer for the EMC Building is the best offer available in respect of the EMC Building in the particular circumstances;
  - (g) The Secured Lenders, who hold valid security over the EMC Building, have agreed to the LMC offer for the EMC Building; and
  - (h) The LMC Transaction represents a significant future benefit to stakeholders beyond the Secured Lenders. LMC has successfully negotiated a new contract with the International Association of Machinists & Aerospace Workers ("IAMAW"), the union representing former Aveos employees. In addition to jobs, the restart of the facility will provide additional opportunities for former suppliers and customers.
19. The remaining due diligence condition included in the LMC Agreement has been waived and the transaction is now subject only to obtaining Court approval, receiving a vesting order and the delivery of the Monitor's certificate within the timeframe specified in the LMC Agreement as well as other routine closing conditions.
20. The LMC Agreement requires that, subsequent to the granting of a sale approval and vesting order in respect of the transaction and upon the completion of all conditions by each of the counterparties, the Monitor will issue a certificate to close the transaction.
21. The Company is seeking approval for the LMC Agreement.
22. The Monitor is satisfied and can confirm to the Court that:

- (a) The negotiation of the LMC Agreement was conducted in good faith with due consideration for fair market value;
- (b) The Monitor supervised the negotiation process and the activities of the Company and the CRO and approves of the proposed transaction;
- (c) The Monitor is filing this report in support of the Company's request for a sale approval and vesting order, and notes that the results of the Divestiture Process in which no legitimate offer was received, demonstrate that the sale achieved through the LMC Agreement is more beneficial to the creditors and other stakeholders than what would have been achieved in a bankruptcy;
- (d) The Secured Lenders were consulted with respect to the LMC Agreement;
- (e) The LMC Agreement will not prejudice the creditors or other interested parties;
- (f) The LMC Agreement represents the highest and best offer received for the EMC Building;
- (g) The Divestiture Process was an appropriate method for determining the fair market value of the assets but did not yield a suitable offer. The LMC offer, although late and delivered outside of the proposed Divestiture Process, is the best offer received and the consideration to be received is considered reasonable and fair; and
- (h) The Company intends and has the ability to make the payments that would have been required under paragraphs 6(3), 6(5)(a) and 6(6)(a) CCAA<sup>3</sup>, if the Court had sanctioned a plan of compromise or arrangement.

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<sup>3</sup> It shall be noted that while subsection 36(7) CCAA refers to paragraphs 6(4)(a) and 5(a), paragraph 6(4)(a) does not exist and presumably the Court should be directed, under subsection 36(7) CCAA, to consider the payment of sums otherwise dictated by paragraphs 6(5)(a) and 6(6)(a) CCAA. For greater certainty, the Monitor is also satisfied that the Company intends and has the ability to make the payments that would have been required under paragraphs 6(3) CCAA.

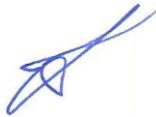
23. The Monitor is satisfied that the process followed to conclude the LMC Agreement was fair, transparent and reasonable in the circumstances and that the process was conducted substantially in accordance with the principles of the Divestiture Process Order.
24. The Monitor is further satisfied that the LMC Agreement selected by the Company represents the highest and/or best offer.
25. The Monitor therefore supports the Company's request for approval of the LMC Agreement and respectfully recommends that the Company's request be granted.
26. The Monitor respectfully submits this Nineteenth Report to the Court.

Dated this 7<sup>th</sup> day of January, 2013.

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



Greg Watson  
Senior Managing Director



Toni Vanderlaan  
Managing Director