

CANADA

PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL

No: 500-11-042345-120

SUPERIOR COURT  
(Commercial Division)  
(Sitting as a court designated pursuant to the  
*Companies' Creditors Arrangement Act*,  
R.S.C. 1985, c. C-36)

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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.

insolvent Debtors/Petitioners

and

FTI CONSULTING CANADA INC.

Monitor

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SIXTH REPORT OF THE CHIEF RESTRUCTURING OFFICER TO THE COURT

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**I. 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 "Petitioners") filed a petition under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA"). An initial order (as subsequently amended and restated, 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 Petitioners until July 20, 2012 (the "Stay Period"), and appointing FTI Consulting Canada Inc. as monitor of the Petitioners (the "Monitor"). The proceedings commenced by the Petitioners under the CCAA will be referred to herein as the "CCAA Proceedings".
2. On March 20, 2012, an Order for the Appointment of a Chief Restructuring Officer (the "CRO Order") was made by the Court, appointing Mr. Jonathan Solursh as chief restructuring officer of the Petitioners (collectively, with R.e.l. Group Inc. ("REL"), the "CRO").
3. The purpose of this report is to update the Court on the following:

- a) the status of the Divestiture Process ("DP") as it relates to the sale of the Petitioners' Component Maintenance Centre division ("CMC");
  - b) the status of the DP as it relates to other assets; and
  - c) various other matters relevant to the CCAA proceedings.
4. In preparing this report, the CRO has relied upon unaudited financial information of the Petitioners, the Petitioners' books and records, certain financial information prepared by the Petitioners and discussions with management and employees. The CRO has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. 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.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

## **II. SALE OF THE CMC**

6. As discussed in the Fifth Report of the Chief Restructuring Officer dated July 25, 2012 (the "Fifth Report"), Aveos received six bids with respect to CMC (Lot 7 in the DP) for specific assets or CMC as a whole, including three from strategic purchasers (one of whom made a bid for assets only) and two from liquidators. In total, thirteen parties visited the CMC (3 liquidators, with the balance being strategic or asset bidders).
7. The CRO and Aveos worked with several strategic bidders over the past months to assist them in developing a viable business case for purchasing and restarting the CMC business. Discussions also took place with representatives of the IAMAW (as defined below), the Province of Quebec, Transport Canada, and the Agent for the Secured Lenders, all of whom worked with the CRO to support the transaction described below.
8. Aveos' management team spent considerable time working with each of the potential purchasers, taking their unique perspectives into account and accommodating their inquiries as well as providing perspectives on their strategies. Management also developed a "reboot" plan to assist potential purchasers in understanding what needed to be done and how a restart of the operations would work. The CRO and his team recognize the management team's dedication and support through his process and believe that the outcome described in this report is largely the result of their hard work and continuing support of the CMC business.
9. After working with the potential purchasers as described above and analyzing the various bids received, Aveos negotiated and entered into a purchase agreement (the "AJW Agreement") with Aj Wairer Aviation Limited ("AJW") to purchase the assets comprising the CMC business, including machinery, equipment, inventory, and other assets and rights, in an en bloc transaction (the "AJW Transaction") that is designed to see the CMC division restart in the near future.
10. AJW is a world leader in the supply, exchange, repair, overhaul and lease of commercial aircraft parts, and provides repair management and other services complementary to Aveos' CMC

business. AJW is also well known to Aveos, in that it has been a significant supplier to Aveos for several years. The CRO understands that, in purchasing the CMC division, AJW plans to service the needs of existing and future customers but is not dependent on obtaining business from Air Canada.

11. The CRO understands that AJW and the union representing the former employees of Aveos, the International Association of Machinists & Aerospace Workers ("IAMAW") have entered into agreements that will allow AJW to rehire IAMAW members formerly employed by Aveos. AJW has indicated that it intends to restart operations in four to five months, and to re-hire approximately 200 ex-Aveos employees, plus management staff, through 2012 and 2013. The IAMAW has formally indicated to the CRO that it supports Aveos and AJW in this transaction. In addition, the current Management of the CMC and many of the remaining employees retained by Aveos post CCAA filing are excited about this opportunity.
12. The CRO further understands that AJW has made arrangements (subject to certain conditions) with the *Ministère du Développement Économique, de l'Innovation et de l'Exportation* of Québec for financial assistance. AJW advises that it has also had productive discussions with the *Fonds de Solidarité FTQ* and *Investissement Québec*, along similar lines.
13. The building that houses CMC (known as OPTO) is adjacent to Aveos' head office premises (known as BAN3). Both buildings are governed by a single lease between Aveos, as tenant, and Morguard Corporation and Morguard Real Estate Investment Trust (collectively, "Morguard" or the "Landlord"). In conjunction with the AJW Agreement, Aveos entered into an agreement dated July 27, 2012 (the "Morguard Agreement") with the Landlord that provides for Aveos to surrender the OPTO facility on the date Aveos closes the AJW transaction. In addition, Aveos will terminate the balance of its lease arrangements for BAN3 with Morguard by September 30, 2012. The Morguard Agreement was a necessary and critical component for the AJW Transaction, as AJW did not require the use of the BAN3 premises but did require the use of a significant portion (but not all) of the OPTO premises to restart the CMC business. In addition, Aveos does not have the need to continue to occupy either building over the longer term.
14. The Morguard Agreement is subject to Court approval, is conditional on the closing of the AJW Transaction and is effective on the closing date of the AJW Transaction. On August 1, 2012, Aveos paid the minimum rent and additional rent (the "Rent") due for the remainder of the amended lease term as required under the Morguard Agreement. As an accommodation to "get the deal done", this payment included approximately \$44,000 of Morguard's legal fees, rent claimed by Morguard for the period March 19 to March 31, 2012 (notwithstanding that Aveos had paid that March rent on March 1, 2012) and amounts claimed for operating costs as requested by Morguard, on the understanding that there will be an accounting for these costs. Morguard also holds a \$50,000 deposit from Aveos, for which the CRO will require an accounting by Morguard.
15. As discussed in the Fifth Report, Aveos had entered into conditional agreements with liquidators for the CMC assets (on a net minimum guarantee basis for tooling and equipment, and an outright purchase for inventory), which allowed Aveos to continue seeking an en bloc buyer for CMC, while protecting the interests of the Secured Lenders and affording protection in case a going concern transaction was not closed. These agreements provide for a break fee in the aggregate amount of \$135,000, payable in the event that the agreements are terminated by

Aveos. Once the AJW Transaction closes, the break fees will become due and will be paid by Aveos at that time.

### III. SALE OF OTHER ASSETS

16. Various offers have been received for other assets which remained unsold and have not previously been submitted for Court approval (where required)
17. Aveos has entered into an Asset Purchase Agreement for the sale of various training materials (the "Training APA") to Global Probitry Group Ltd. ("GPG"), as described therein, conditional on Court approval and the issuance of a vesting order. As this represents the best offer received for these assets in accordance with the terms of the DP, the CRO recommends approval of the transaction.
18. Prior to entering into the Training APA, Aveos entered into a licensing agreement with a related party, Aeromantenimiento S.A. ("Aeroman"), pursuant to which Aeroman has been granted an irrevocable, perpetual license to use the subject training materials for certain defined purposes (the "Aeroman License"). Under the terms of the Training APA, GPG agreed to acquire the training materials subject to the Aeroman License. This allowed Aveos to maximize the value of the training materials.
19. At the time of finalizing this report, the CRO continues to work with interested parties with respect to the Air Canada engine contract (the "Air Canada Contract"). Bids were to be received by August 7<sup>th</sup>, 2012 and the CRO anticipates reporting to the Court on this matter via an addendum to this Sixth Report, prior to August 14, 2012. As outlined in the Fifth Report at paragraph 14, the CRO understands that a number of the bidders have requested certain accommodations from Air Canada as a condition of their bids; accordingly, the ultimate value of the Air Canada Contract will be substantially determined by the post assignment accommodations made by Air Canada (in other words, Air Canada's accommodations will, to a large measure, determine the value ascribed to the Air Canada Contract and, ultimately, the successful bidder).

### IV. OTHER MATTERS

20. In the Fifth Report, the status of 30 day goods claims was summarized. To update this information, there have been 18 claims made by various suppliers to date. Of these 18 claims:
  - five have now been completely settled;
  - one has been settled and is in the process of being executed;
  - eight have been determined to be invalid claims and, accordingly, rejected; and
  - one remains under analysis or negotiation; and

The remaining three claims relate to components, and until the date of this report have been held in abeyance pending the outcome of a CMC transaction. As the CMC is now subject to an en bloc sale, Aveos and the CRO take the position that 30 day goods claims are not applicable as they are not recognized in a CCAA proceeding.

**V. CONCLUSIONS**

21. The DP process was designed to allow Aveos an opportunity to divest its operating divisions in a way that would support an en bloc or going concern sale and maximize the results for all stakeholders, including the rehiring of former Aveos employees. The CRO, his team and the management of Aveos are pleased with the outcome achieved for the CMC division and the future potential for the employees and operations of the CMC.
22. The CRO respectfully submits this Sixth Report in support of the Petitioners' Motion for approval of the AJW Transaction and other transactions as reported above and vesting orders for the assets to be sold as described in this Report and the Petitioners' Motions.

August 8, 2012



Jonathan Solursh  
Chief Restructuring Officer

**No. 500-11-042345-120**

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DISTRICT OF MONTRÉAL**

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*et al.* **Monitor**

**Me Roger P. Simard / Me Ari Y. Sorek**  **#548732-1**

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**EXHIBIT P-3**

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**Fraser Milner Casgrain LLP**  
1 Place Ville Marie, Suite 3900  
Montréal, QC, Canada H3B 4M7

**MAIN 514 878 8800**  
**FAX 514 566 2241**

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