

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

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

No: 500-11-042345-120

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

ADDENDUM TO THE SIXTH REPORT OF THE CHIEF RESTRUCTURING OFFICER TO THE COURT

I. INTRODUCTION

1. This report is an addendum to the Sixth Report of the Chief Restructuring Officer ("CRO") dated August 8, 2012. The purpose of this report is to update the Court on the status of the Divestiture Process ("DP") as it relates to the sale of the Air Canada Engine Maintenance Services Contract (the "Air Canada Contract").

II. PROCESS

2. The DP was developed in close consultation with all the significant stakeholders including, but not limited to, the International Association of Machinists & Aerospace Workers ("IAMAW"), the government of the Province of Quebec, Air Canada and the Secured Lenders. This Honourable Court approved the DP without objection by any party.
3. The IAMAW represents the unionized former employees of Aveos in its three main divisions: heavy maintenance in Vancouver, Winnipeg and Montreal, component maintenance in Montreal and engine maintenance in Montreal.

4. The philosophy in the design and implementation of the DP was to:
 - a) Set up a process which provided the best opportunity for parties to acquire the business divisions of Aveos on an en bloc basis;
 - b) Maximize the value for all significant stakeholders taking into consideration the unique requirements of the various stakeholders, including realizations for the creditors, employment opportunities for former Aveos employees and other considerations for various other stakeholders; and
 - c) Create an environment where all parties would be able to participate in a transparent court supervised process. Aveos carried out this process under the direction of the CRO and with the oversight of the Monitor. This oversight provided an inherent control to ensure fairness and equitable treatment for the stakeholders and all parties involved in the DP.

5. Certain stakeholders have stated both publicly and privately that the CRO “in his sole discretion” decides which bidder will be successful in the DP. The CRO feels it important to reiterate to the various stakeholders what was agreed in the development and implementation of the DP:
 - a) The CRO does not decide who will be successful, but rather, along with the Monitor, makes a recommendation to the Court as to who should be approved by this Honourable Court as a successful bidder;
 - b) All affected stakeholders have the opportunity to attend hearings to have their concerns, objections or arguments heard;
 - c) The ultimate recommendation by the CRO to this Honourable Court takes the interests of all stakeholders, including the current and former Aveos employees (those represented by the IAMAW as well as Management employees), into account; and
 - d) It was made clear to all stakeholders that the economic interest of the Secured Lenders is weighted heavily in this process and, if a financially exceptional bid was received, it would be difficult for the CRO to recommend another option that would result in a materially lower return. That said, the CRO has been clear that there are “soft considerations” that also factor in, and that recommendations are not purely financially driven. Accordingly, throughout the process, the CRO has been direct with bidders in telling them that they need to put their best foot forward and accommodate, or assist the CRO in accommodating, the interests of all stakeholders to the greatest extent possible in the circumstances.

6. The divestiture process conducted for the Air Canada Contract is similar to the processes conducted for all other transactions previously approved by the Court and those submitted for Court approval on August 14, 2012, including the en bloc transaction for the Aveos Components Maintenance Division.

7. In the implementation of the DP the CRO has consulted all significant stakeholders on a regular basis and, in order to ensure the integrity of the DP, the CRO has included the Monitor at all significant meetings and has kept the Monitor abreast of all material discussions.

III. THE AIR CANADA CONTRACT

8. As reported in the Fifth Report of The Chief Restructuring Officer (the "Fifth Report"), the Air Canada Contract was dealt with separate and apart from the agreements made with auctioneers for the sale of the tooling, equipment and inventory of the Engine Maintenance Centre ("EMC") assets approved by the Court on July 26, 2012. This decision was made only after it became apparent that there would be no en bloc or going concern purchaser for the EMC assets.
9. The previous Aveos engine contract with Air Canada was not considered by Air Canada to be assignable in the circumstances. In negotiating a global arrangement with Air Canada to resolve various issues between the parties, Aveos and the CRO team negotiated for the provision of the Air Canada Contract; this was a new agreement that could be assigned to a purchaser of EMC as a whole or assigned on a standalone basis. The Air Canada Contract did not require performance by Aveos as it does not take effect until its assignment to a pre-approved purchaser.
10. The delivery of the Air Canada Contract with a right on the part of Aveos to assign it to an approved assignee was a way to generate new value to the stakeholders and to entice a purchaser to consider making a bid that would include a potential restart of the EMC. The agreement was structured such that bidders had to be on a short list of service providers that had been pre-approved by Air Canada, and any contract assignment is required to be completed by no later than August 15, 2012. The August 15 date was critical to Air Canada and was the latest date acceptable to Air Canada due to the need to finalize arrangements with a new service provider to meet Air Canada's engine maintenance needs in time for the fall season.
11. Throughout the process, the potential purchasers of the Air Canada Contract worked directly with Air Canada to determine what, if any, amendments to the contract would be required to come into effect after the contract was assigned. As the Air Canada Contract was a re-negotiation of the existing contract between Air Canada and Aveos, it is understandable that some adjustment might be necessary to accommodate an assignee. Air Canada did entertain those discussions and has granted certain accommodations to meet the expectations of potential purchasers, even though Air Canada was under no obligation to Aveos to do so. Aveos and the Monitor were not party to the confidential business discussions between the potential purchasers and Air Canada.
12. The CRO understands from discussions with the bidders and Air Canada that Air Canada has made unique, rather than uniform, accommodations for each of the bidders based on their individual requests and, further, that these accommodations had a direct impact on the value being ascribed by the bidders to the Air Canada Contract. Accordingly, Air Canada, through the accommodations that it chose to make, had de facto control over the value ascribed by the bidders to the Air Canada Contract. In other words, these post assignment accommodations had a direct impact on the value of the bids received by Aveos. Since Air Canada will have a long-term vendor relationship with the successful bidder, it would need to be satisfied not only with

the identity of the supplier but also the terms under which they will conduct business. In dealing with Air Canada, the CRO has consistently said that Air Canada will control the outcome of the DP to the extent that it impacts Air Canada.

IV. SALE OF THE AIR CANADA CONTRACT

13. Aveos previously announced (including during the most recent Court attendance before the Honourable Justice Schragger on July 26, 2012) that the bid deadline for the Air Canada Contract would be extended to August 10, 2012 and that the assignment approval and vesting order Motion would need to be heard on or prior to August 15, 2012. This extension was provided, despite the very tight timeframe that would be imposed for Court approval in light of the August 15, 2012 deadline referenced above, because the two leading bidders both indicated that they needed time to negotiate with Air Canada for the accommodations referenced in paragraph 11 above and would not be able to finalize the financial aspect of their bids and obtain the requisite internal approvals until that had been completed. No objections to this extension, nor to the very tight procedural timeline for Court approval, as communicated in Court before the Honourable justice Schragger, were raised. Aveos issued the Motion for the approval and vesting order immediately upon the expiry of the bid deadline, giving interested parties the maximum period available to consider the Motion.
14. Overall, there were four parties who had expressed an interest in the Air Canada Contract. However, only two bids were received on August 7, 2012. The CRO negotiated terms and conditions and asked both bidders to ensure they had “put their best foot forward” on price and financial considerations, which resulted in an improvement in terms and pricing for both bids. Following those discussions, both bidders indicated that the last bid submitted was their final bid such that no extension of time would result in any change in these bids.
15. The bid submitted by Lufthansa Technik AG (“LHT”), as evidenced by the LHT Asset Purchase Agreement dated August 9, 2012 (“LHT APA”), was far superior to the other bid from a financial perspective and appeared to be equal with respect to job creation in Quebec but did not offer potential for other employment in Canada outside of Quebec as outlined in more detail below. It is a condition of the LHT APA that a vesting order is granted by this Honourable Court and that the transaction be completed on or before August 15, 2012.
16. The CRO spent time working with the bidders to understand the proposed business plans of the bidders, including job creation opportunities that were being considered. In both cases, these opportunities appeared to be similar with respect to jobs in Montreal, based on the draft business plans shared by both bidders. The other bidder, who was not ultimately successful, indicated that there was a possibility of creating up to 130 jobs in Vancouver; however, as outlined below, these jobs are likely not for former Aveos employees.
17. The CRO concluded that the opportunity for jobs in Montreal was similar for both bids and gave due consideration in the analysis on the potential for jobs to be created in Vancouver. Unfortunately, notwithstanding the consideration of possible employment opportunities in Vancouver, the second bid was still unworkable in that the price offered was only approximately half of the price offered under the leading bid for the Air Canada Contract.

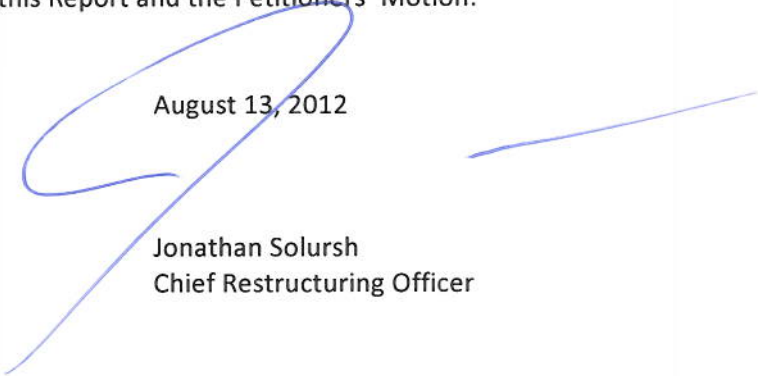
18. The CRO believes it is important to note that, in the case of either of the two bidders, any employment opportunities created in Montreal may benefit some of the former Aveos employees in Montreal. If there are additional employment opportunities created in Vancouver, IAMAW members may fill these positions, but they are not likely to benefit former Aveos employees.
19. The Vancouver-based former Aveos employees were all part of Aveos' Airframe (heavy maintenance) division, and did not perform shop depot engine maintenance work. Accordingly, job creation in Vancouver would not likely involve these ex-employees. Further, the CRO and the Monitor were advised by the IAMAW's local representative at a meeting at the Aveos offices that the former EMC employees in Montreal represented by the IAMAW were not interested in moving across the country for work, so jobs in Vancouver would not help ex-Aveos EMC employees.
20. Throughout the process, the CRO has made it a priority to balance and protect the interests of all stakeholders, which include the current and former employees of Aveos. While the CRO recognizes the importance and great value in potential job creation in Canada, the employee stakeholders in this particular situation are the former employees of Aveos. While the majority of those employees were members of the IAMAW, it is the Aveos employees themselves, not the IAMAW, who are the stakeholders.
21. In working with both bidders the CRO understood that:
 - a) LHT has significant experience with the type of engine serviced under the Air Canada Contract, and has the tooling and qualified personnel currently in production dealing with these same engines at its facilities in Germany. It has no facility in Canada but it has indicated that its plans include setting up a small shop in Montreal to fulfill part of the service requirements under the Air Canada Contract. In addition, LHT was able to negotiate post assignment accommodations by Air Canada which increased the value of the Air Canada Contract to LHT materially over the value if these accommodations by Air Canada had not been made;
 - b) The unsuccessful bidder does not currently service this model of engine and would need to make significant investments in tooling, training, certification and infrastructure to service the Air Canada Contract; the CRO was informed that this materially diminished the funds available to bid on the Air Canada Contract. In addition, while the post assignment accommodations received by this bidder from Air Canada increased the value of the Air Canada Contract to the bidder, these unique accommodations apparently did not provide as much value to support a bid as in the case of LHT; and
 - c) The offer submitted by the unsuccessful bidder also required the sale of certain Aveos tooling and equipment to be included as this bidder was not otherwise equipped to carry out the work for the particular engine types covered by the Air Canada Contract. However, the purchase price offered for that tooling and equipment was less than the liquidation value obtainable under the previously approved liquidation services agreement for the EMC assets. Moreover, Aveos' option to remove those assets from the liquidation services agreement so that they could be sold to this bidder expires on

August 15, 2012 and, therefore, the assets will no longer be available after that date and the offer will not be capable of being fulfilled according to its terms.

22. Accordingly, given all of the factors noted above and after a thorough review, analysis, and discussion with the bidders, the CRO, with the concurrence of the Monitor, concluded that there was only one bid that would clearly maximize the value to stakeholders while offering similar employment opportunities for Aveos employees in the Montreal area, that being the bid from LHT.
23. For the reasons cited above, time is of the essence in having the LHT transaction concluded, as it represents the most favorable offer, and the Air Canada Contract will be terminated if not assigned by August 15, 2012.

V. CONCLUSIONS

24. The Air Canada Contract did not exist at the time of the Initial Order under the CCAA. Its negotiation and execution were primarily driven to enhance an en bloc transaction for the EMC that would have benefited all stakeholders, including the former employees. Despite the fact that such a transaction was not possible, the value of the Air Canada Contract remains available to the stakeholders if, and only if, the transaction is approved by the Court and completed by August 15, 2012.
25. The CRO respectfully submits this Addendum to the Sixth Report in support of the Petitioners' Motion for approval of the transaction relating to the Air Canada Contract as reported above and a vesting order as described in this Report and the Petitioners' Motion.



August 13, 2012

Jonathan Solursh
Chief Restructuring Officer