

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

FOURTEENTH 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 August 13, 2012 Vision Airlines Inc. (“**Vision Air**”) filed a motion for an order lifting the Stay of Proceedings to inspect and repossess certain assets (the “**Vision Air Motion**”)
4. On September 5, 2012 the Company filed a motion for a sale approval and vesting order for the sale of certain assets contained in Bid Lot Number 23 of the Divestiture Process (the “**Landing Gear**”) to Hawker Pacific Aerospace, (“**Hawker**”).
5. The purpose of this report is to advise the Court on the following;
 - (a) To provide the Court with an update in respect of the Divestiture Process and a summary of the transactions completed to date;
 - (b) To provide the Court with an update with respect to funds received from Air Canada and held in escrow;
 - (c) The Company’s request for a sale approval and vesting order for the sale of certain assets and the Monitor’s recommendation thereon;
 - (d) The status of the 30 Day Goods Claims; and
 - (e) To provide an update in respect of the Vision Air Motion.
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 DIVESTITURE PROCESS

8. In its previous reports to the Court, the Monitor provided details of various asset sales by way of Asset Purchase Agreements and/or Liquidation Sales Agreements a summary of which follows:

Bid Lot	Sold Asset(s)	Purchaser
Lot 1	Airbus 320 Tooling (YUL)	AAR Aircraft Services Inc.
Lot 3	Boeing 767/777 Tooling	Premier Aviation Overhaul Center
Lot 7	Component Maintenance Inventory, Tooling and Equipment	AJ Walters
Lot 8	Engine Maintenance (<u>Engine Contract Only</u>)	Lufthansa Technik AG
Lot 8	Engine Maintenance Inventory	Maynards Industries Ltd.

Bid Lot	Sold Asset(s)	Purchaser
Lot 8	Engine Maintenance Tooling and Equipment	Maynards Industries Ltd. (Liquidation Sale Agreement)
Lot 10	NDT Testing Tooling (Non CMC/EMC)	Avianor Inc.
Lot 11	Edmonton 737-200/300 Inventory, Tooling and Equipment	Discovery Air Technical Services Inc.
Lot 12	ERJ 175/777 Tooling	Premier Aviation Overhaul Center Ltd.
Lot 13	Airbus 320 Tooling (YWG)	AAR Aircraft Services Inc.
Lot 14	Equipment (YWG)	Premier Aviation Overhaul Center Ltd.

Bid Lot	Sold Asset(s)	Purchaser
Lot 21	Airframe Expendables Inventory	Avmax Aviation Services Inc.
Lot 22	Wheels and Brakes Inventory, Tooling and Equipment	Avianor Inc.
Lot 25	Intellectual Property	Global Probity Group Ltd.
Lots 2,4,5,6,9,15,16,17,18,19,20,24	Various Tooling Equipment and Inventory	Maynards Industries Ltd. (Liquidation Sale Agreement)
n/a	Safety, Gas & Battery	CASP Aerospace

9. The Company has received approximately \$46.6 million in proceeds from sales under the Divestiture Process. Additional proceeds will be collectible from the sharing of proceeds under the auctions held to liquidate certain tooling, equipment and inventory.

AIR CANADA FUNDS

10. The Company and the Monitor have received funds from Air Canada totalling \$23.7 million. This amount includes approximately \$0.9 million paid in respect of access fees and other services and approximately \$22.8 million paid in respect of work completed on various Air Canada airframes, engines and components. The \$22.8 million is currently

being held in escrow by the Monitor in respect of the various Air Canada assets in the possession of Aveos at the date of the filing and subsequently retrieved by AC. The Company and Air Canada negotiated the initial retrieval agreement (“**AC Retrieval Agreement**”) on April 5, 2012 and have subsequently completed 4 supplements to the AC Retrieval Agreement for various assets summarized below:

Date	Retrieval Agreement	Assets
April 5, 2012	Original	Fin 937 & 11 Engines
May 23, 2012	Supplement #1	Fins 646 & 416, various engines, and the 767 Landing Gear
May 23, 2012	Supplement #2	Landing Gear (YUL), APUs and Inventory
May 24, 2012	Supplement #3	Various AC prerequisite materials (inventory)
June 1, 2012	Supplement #4	Components

LOT 23 – LANDING GEAR

11. On June 6, 2012 the Company received 2 offers in respect of Bid Lot 23, the landing gear inventory, tooling and equipment, one from Hawker for all the inventory, tooling and equipment included in Lot 23 (the “**Initial Hawker Offer**”) and a second from a third party interested in only a subset of the tooling assets included in Lot 23.
12. Due to the significant difference in value offered between Hawker and the third party interested in only a subset of the tooling assets the second offer was rejected.

13. The Initial Hawker Offer included a price for the entire Bid Lot 23 inventory, tooling and equipment. However, the Initial Hawker Offer was contingent on several conditions including specific certifications being available and the ability to conduct inspections of various assets.
14. The Company conducted negotiations with Hawker over the course of several weeks, including making the assets available for inspection. Following the negotiations and inspections, Hawker amended their initial offer to an offer to purchase only the Lot 23 inventory and eliminated certain deal conditions, (the “**Final Hawker Offer**”). The Final Hawker Offer was accepted by the Company and the asset purchase agreement was concluded and signed on August 29, 2012 (the “**Hawker APA**”).
15. The landing gear equipment and tooling which was not included in the Hawker APA was included in the assets sold to Maynards as part of the Maynards LSA for the Engines Business as described in the Monitor’s Eleventh Report.
16. The CRO and the Company negotiated in good faith with Hawker to conclude the highest and best offer for the Landing Gear inventory. At the conclusion of these negotiations, the Final Hawker Offer was superior to the alternative for the following reasons:
 - (a) The purchase price was greater than that offered by any other interested party;
 - (b) The closing conditions have been eliminated subject only to obtaining Court approval, receiving a vesting order and the execution of the Monitor’s certificate; and
 - (c) The Hawker APA includes a potential for additional realization in the amount of \$150,000, if Hawker is successful in its bids for the Air Canada aircraft landing gear maintenance request for proposal (the “**Landing Gear RFP**”). It may be several months before the Landing Gear RFP is awarded and there is no guarantee that Hawker will be successful in obtaining this contract.
17. The Company is seeking approval for the Hawker APA.

18. The Monitor has reviewed the Hawker APA and notes that the primary condition to the closing of the Hawker APA is the approval of the Court and obtaining a vesting order within the timeframe specified in the Hawker APA.
19. The Hawker APA 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.
20. The Monitor is satisfied and can confirm to the Court that:
 - (a) The negotiation of the Hawker APA was conducted in accordance with the Divestiture Process Order;
 - (b) The Monitor approved of and supervised 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 sale and vesting order, and notes that the results of the Divestiture Process demonstrate that the sale achieved through the Hawker APA is more beneficial to the creditors than what would have been achieved in a bankruptcy;
 - (d) The Secured Lenders were consulted with respect to the Divestiture Process and the Hawker APA;
 - (e) The Hawker APA will not prejudice the creditors or other interested parties;
 - (f) The Hawker APA represents the highest and best offer received for the Landing Gear assets; and
 - (g) 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.

21. 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.
22. The Monitor is further satisfied that the Hawker APA selected by the Company represents the highest and/or best offer.
23. The Monitor therefore supports the Company's request for approval of the Hawker APA and respectfully recommends that the Company's request be granted.

30 DAY GOODS CLAIMS

24. There have been 19 claims made by various suppliers related to goods allegedly delivered within 30 days of the date the Initial Order was granted. Of these 19 claims:
 - (i) 6 have been completely settled;
 - (ii) 9 have been determined to be invalid;
 - (iii) 1 claim remains open, Embraer S.A. which is still subject to analysis and negotiation, the Company has been in contact with legal counsel to Embraer S.A.; and
 - (iv) 3 were rejected due to the en bloc sale of the CMC, the whole as previously explained in the Monitor's Twelfth Report (at paragraph 20) and in the CRO's Sixth Report (at paragraph 20).
25. The Monitor has reviewed the analysis and settlement of the claims and is working with the CRO to finalize the settlement of the one outstanding claim of Embraer S.A. in the amount of \$7,000.00 which remains open.

VISION AIR MOTION

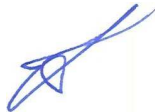
26. The Vision Air Motion requests an order lifting the stay to allow for the inspection and repossession of certain assets.
27. At the date of the filing Vision Air owed Aveos approximately \$3.8 million, excluding interest, which had been outstanding since August 2010. According to Company management there had been numerous discussions with Vision Air in an effort to collect the outstanding amounts but no payment was forthcoming. In early 2011 the Company filed a motion in the Supreme Court of the State of New York to recover amounts owing and all further work on the engines and parts was ceased. This proceeding was subsequently removed and continued in U.S. Federal Court in New York. All of the Vision Air engines and parts in Aveos possession have been placed into storage pending a resolution to this matter.
28. Following the filing, the Company and the CRO had ongoing negotiations with Vision Air in an effort to address Vision Air's request to inspect the assets, to collect the amounts owing and to settle the pending litigation.
29. The Company was seeking as part of the negotiation a direct prepayment or payment into trust of some portion of the amount outstanding prior to incurring the costs associated with making the assets available for inspection and to be certain that a payment would be forthcoming given the current status of the business relationship. The Company and Vision Air did not reach a suitable arrangement and to date no inspection of the assets has been arranged nor have any of the assets been returned to Vision.
30. The Company has actively engaged in discussions with Vision in an effort to resolve the matter of the funds owing and the return of assets. In the Monitor's view the Company has been negotiating in good faith and been acting in a reasonable business manner in the course of its dealings with Vision Air.
31. The Monitor respectfully submits to the Court this Fourteenth Report.

Dated this 24th day of September, 2012.

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