

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*<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

**THIRTEENTH 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**”.
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.

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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 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 10, 2012 the Company filed a motion for a sale approval and vesting order for the sale of the Air Canada Contract as defined below, to Lufthansa Technik AG, (“**LHT**” and the “**LHT Agreement**”).
4. The purpose of this report is to advise the Court on the Divestiture Process in respect of the Air Canada Contract and the request for a sale approval and vesting order for the sale of the Air Canada Contract to LHT and the Monitor’s recommendation thereon.
5. 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.
6. 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**

7. In its Eighth Report to the Court, the Monitor provided an update in respect of the successful outcome of negotiations with Air Canada resulting in the AC Agreement, as defined below, and a revised and extended contract in respect of the Engines Maintenance Business (the “**Air Canada Contract**”). The following excerpts are paragraph’s 11 to 13 of the Monitor’s Eighth Report:

11. *On May 30, 2012, Air Canada and Aveos concluded negotiations on an agreement (the “AC Agreement”) which created a commercial solution to a number of issues faced by Aveos and Air Canada and the subject of the relief sought in the AC Motion.*
  12. *The AC Agreement outlines the key terms of how the Parties will work together towards the completion of the transactions contemplated in the Divestiture Process.*
  13. *The AC Agreement includes a new exclusive contract for the Engines business through 2018, which will be offered for sale along with the Engines facility. Air Canada has agreed to provide its support and consent to the assignment of the new Engines contract, so long as the successful purchaser meets Air Canada’s requirements.*
8. In addition, as was previously reported to the Court by the CRO in the CRO’s Fifth Report no offers or expression of interest were received with respect to a going concern purchase of the Engines Maintenance business. The tooling, inventory and equipment were sold separately to Maynards and the Air Canada Contract was marketed to potential purchasers as discussed in more detail in the addendum to the CRO’s Sixth Report dated August 13, 2012.
  9. On August 7, 2012 the Company received two offers in respect of the Air Canada Contract, one from MTU Aero Engines (“MTU” and the “MTU Offer”) and one from LHT (the “LHT Offer”), both parties having been previously identified as suitable suppliers by Air Canada.
  10. The initial MTU Offer included a price for the Air Canada Contract as well as an offer for certain tooling that was subject to the Maynard LSA, the liquidation services agreement previously approved in respect of the Engine Business tooling and equipment.
  11. The initial LHT Offer was in respect of the Air Canada Contract only.

12. In addition to differences in respect of price and tooling requirements, a significant factor differentiating the two initial offers was that the MTU Offer indicated the potential of creating more new jobs in Canada. MTU estimates that, were it successful in securing the Air Canada Contract it would potentially create around 100 new jobs. These jobs would mainly be at MTU's existing facility in Vancouver though some would be at a partner facility in Montreal. LHT anticipates that most of the work will be carried out at its facility overseas and is still considering scenarios that may generate employment in Montreal and anticipates that 15 or possibly more jobs may be created in Montreal.
13. Negotiations with both parties ensued over the course of the following 3 days, which resulted in each party amending its initial offer, increasing its offer price and eliminating certain deal conditions.
14. The Monitor is satisfied that the CRO gave proper consideration to the MTU Offer when comparing the bids due to its potential for greater job creation. In comparing the final offers the CRO and the Monitor considered the following:
  - (a) The majority of the potential positions to be created by the MTU Offer were in Vancouver and not in Montreal. Aveos' facility in Vancouver was a division of the Air Frame business and not Engines and therefore the Aveos technicians in Vancouver would not likely have the requisite training and certifications to be hired by MTU. IAMAW representatives advised the CRO and the Monitor that engine jobs in Vancouver would not help Montreal based Aveos employees as they would be unwilling to relocate;
  - (b) The creation of new jobs while a benefit is difficult to measure in terms of value created for stakeholders. A slightly lower price might be acceptable to stakeholders given other benefits, however the MTU Offer was a significantly lower price and did not necessarily benefit the former Aveos employees;

- (c) The Secured Lenders are the stakeholders with the primary economic interest in the realizations from the assets of the Company and have funded the Divestiture Process on the basis of generating higher realizations, the LHT Offer has a significantly higher purchase price and is a better offer for the Secured Lenders;
  - (d) The Air Canada Contract expires on August 15, 2012. The LHT Offer is expected to be pre-funded and closed in escrow pending Court approval which limits closing risk and secures value prior to the expiry of the Air Canada Contract; and
  - (e) Air Canada is also a significant stakeholder in respect of the Air Canada Contract, which it negotiated in good faith. Air Canada is under no obligation to extend the deadline for the assignment of the Air Canada Contract and has not been requested to do so. Air Canada must consider its own business requirements and the need to secure proper service agreements for its engines, both MTU and LHT are suitable suppliers for Air Canada, however allowing the Air Canada Contract to expire in the event Air Canada chose not to grant an extension, would eliminate the possibility of a realization for Aveos, whereas approving the assignment of the Air Canada Contract benefits Air Canada, the successful purchaser and Aveos.
15. The CRO and the Company negotiated in good faith with both parties to conclude the highest and best offer for the Air Canada Contract. At the conclusion of these negotiations, the final LHT Offer was clearly superior to the final MTU Offer for the following reasons:
- (a) A significantly superior purchase price;
  - (b) A fully funded pre-closing arrangement which eliminates closing risk subject to Court approval; and

- (c) The potential for the creation of employment in Montreal, generating possible employment opportunities for former Aveos employees.
16. Counsel to the IAMAW advised the CRO and the Monitor that it intends to oppose the approval of the sale of the Air Canada Contract to LHT.
  17. On August 10, 2012, the Company concluded negotiations and signed the LHT Agreement for the sale of the Air Canada Contract. The LHT Agreement is more fully described in the addendum to the sixth report from the Chief Restructuring Officer (the “CRO’s Sixth Report Addendum”)
  18. The Monitor has reviewed the LHT Agreement and notes that the primary condition to the closing of the LHT Agreement is the approval of the Court and obtaining a sale approval and vesting order within the timeframe specified in the LHT Agreement. The LHT 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 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 order and notes that the results of the Divestiture Process demonstrate that the sale achieved through the LHT Agreement 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;

- (e) The results of the Divestiture Process will not prejudice the creditors or other interested parties;
  - (f) The International Association of Machinists & Aerospace Workers (“IAMAW”) has formally indicated to the Monitor that it does not support Aveos and LHT in this transaction;
  - (g) The Secured Lenders have been consulted and fully support the LHT Agreement;
  - (h) As detailed in the addendum to the CRO’s Sixth Report, the LHT Agreement represents the highest and best offer received for the Air Canada Contract; and
  - (i) 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 LHT Agreement represents the highest and/or best offer.
22. The Monitor therefore supports the Company’s request for approval of the LHT Agreement and respectfully recommends that the Company’s request be granted.
23. The Monitor respectfully submits to the Court this Thirteenth Report.

Dated this 13<sup>th</sup> day of August, 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