

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)

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

THIRD REPORT OF THE CHIEF RESTRUCTURING OFFICER TO THE COURT

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 (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 April 5, 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 Solorsh as chief restructuring officer of the Petitioners (collectively, with R.e.I. Group Inc. ("REL"), the "CRO").
3. The purpose of this report is to provide the Court with information on the conduct and results of the Aveos Divestiture Process to date, and provide the CRO's recommendations with respect to various transactions presented to the Court for approval. A general update on other matters in the CCAA Proceedings will be provided in the next report of the CRO to be filed on or before the next Court attendance scheduled for July 19, 2011.

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. CONDUCT AND RESULTS OF THE DIVESTITURE PROCESS TO DATE

6. As previously reported, on April 20, 2012, the Court made an Order (the "DP Order") approving the Divestiture Process ("DP") developed by the Company under the direction of the CRO. The DP was designed to provide a mechanism for Aveos to divest itself of its three primary lines of business or divisions, and also concurrently sell other assets it considered surplus or redundant to these lines of business. Unless otherwise defined, various defined terms used in this report have the meanings set out in the DP procedures document approved pursuant to the April 20, 2012 Order of the Court.
7. Advertisements were placed in several newspapers as well as industry and financial publications, both locally and globally, appearing during the time period from April 27, 2012 through May 7, 2012. These advertisements were designed to attract going concern buyers consistent with the CRO's efforts to ensure that the DP was not perceived as an asset liquidation. The publications included the Wall Street Journal, the Financial Times, the International Herald Tribune, the Globe & Mail, La Presse, AviTrader and Speednews.
8. The Aveos virtual data room was made available to those parties who had signed a non-disclosure agreement ("NDA"), starting on April 26, 2012. The data room included descriptions of the businesses, historical financial information, asset listings and other relevant commercial information and documents, including the form of asset purchase agreement to be used by bidders.
9. To date, 147 parties have expressed interest in various aspects of the DP. Of these interested parties:
 - (i) 92 parties signed NDAs;
 - (ii) 83 parties requested and received access to the data room;
 - (iii) 294 unique users from those 83 parties were given access, with 193 individuals visiting the data room;
 - (iv) 45 different parties visited Aveos facilities, with a number of key players visiting on multiple occasions; and
 - (v) Aveos hosted bidders at its head office in Montreal for multiple days while

detailed due diligence was being performed. This due diligence included meetings with management, review of data and tours of the facilities.

10. Initially, the DP anticipated a Phase 1 Bid Deadline of May 29, 2012. The timeline was set aggressively in order to mitigate the effect of Aveos' shutdown on the ability of a purchaser to restart one or more of the businesses.
11. Throughout the DP, the CRO has consulted and, in certain cases, negotiated with significant stakeholders in the process. As previously reported, the CRO had identified the need to work with Air Canada as well as the union and the Province of Quebec. These interactions continued throughout the DP process. The consultations and interactions with stakeholders necessitated changes to the DP timelines as outlined below.
12. On May 24, 2012, Aveos announced that the initial Phase 1 Bid Deadline would be extended. On May 30, 2012, the Phase I Bid Deadline was extended to June 6, 2012 for all asset groupings except the Component Maintenance Centre ("CMC") and July 13, 2012 for CMC. All potential bidders were informed of these changes via email, a posting in the Aveos online data room, and a posting on the Monitor's website. The extension of the Phase I Bid Deadline was designed to ensure that parties involved had time to digest changes at Aveos resulting from the various stakeholder dealings and that the best outcome for all stakeholders could be achieved.

2.1 AIR CANADA ("AC")

13. The CRO team negotiated an agreement with Air Canada (the "AC Agreement") which provided much needed clarity to both parties and recognized areas where the interests of Aveos and AC were aligned, while providing options that AC and Aveos needed to move forward.
14. The AC Agreement was finalized on May 29, 2012. As of that date, Aveos had received no indication that any party was interested in pursuing the Airframe business in its current form or, indeed, in any other form of going concern.
15. At a high level, the AC Agreement provided for, among other things:
 - a) Aveos not objecting to the termination of the Airframe Heavy Maintenance ("HM") contract by AC (to be done effective June 28, 2012). This termination would allow AC to make its arrangements as required with respect to future airframe maintenance. The Aveos HM contract would have otherwise expired in 2013;
 - b) AC and Aveos entering into a new exclusive contract for the maintenance of AC's CFM 56A and CFM 56B engines, at current market rates, while honouring the exclusivity term from the existing Aveos contract through 2017. This new contract is effective upon assignment by Aveos to a purchaser, provided that the purchaser is one of five parties acceptable to AC in terms of operational requirements.
 - c) AC modifying its existing Request For Proposal ("RFP") process for components maintenance to:
 - (i) Align the dates of the RFP with the dates in the DP, as revised;

- (ii) Provide for one or more parties who are successful in the RFP to be in a position to acquire the CMC business; and
- (iii) Inform parties participating in the RFP that the work on the approximately 1,000 components included in the modified RFP must be performed in Montreal at the Aveos CMC facility.

2.2 AIRFRAME DIVISION

- 16. As discussed in the Second Report of the CRO, the DP was designed to attract all possible suitors, including going concern buyers, strategic asset purchasers, and liquidators/auctioneers. One of the elements of this strategy was to offer Airframe assets in smaller, “digestible” lots so that Canadian maintenance, repair and overhaul operators (“MROs”) would have an opportunity equal to that of a global buyer to acquire parts of the Aveos Airframe business if it could not be sold as a going concern. The result is that most of the strategic asset buyers under the transactions which are being recommended for approval are MROs operating in Canada who intend to expand their current service offerings or develop new lines of service in Canada, utilizing these specific assets.
- 17. The CRO had meetings and discussions with various North American and global Airframe MROs throughout the DP, and also contacted other parties outside of the DP, in an effort to identify buyers and attract industry players who would be interested in one or all of the Airframe facilities on a restart basis. These discussions revealed that there was no party who was prepared to entertain a restart option; in fact, many of these parties indicated that the Airframe maintenance model in Canada has a limited role in a global context and, furthermore, that the structure and other unique characteristics of the current Aveos Airframe business were not globally competitive. The end result was that, despite the bona fide efforts undertaken pursuant to the DP, the CRO did not receive any bids for the Airframe business or division as a going concern.
- 18. The bids received under the DP for the Airframe division are summarized as follows:

	Total Bids	Liquidator Bids	Strategic Asset Purchaser Bids
Airframe	22	5	17

- 19. After analysis by the CRO team, the CRO’s view is that the completion of the following transactions would best serve the interests of the stakeholders:

LOT	BUYER
Lot 1	AAR Aircraft Services Inc.
Lot 3	Premier Aviation Overhaul Center

LOT	BUYER
	Ltd.
Lot 10	Avianor Inc.
Lot 11	Discovery Air Technical Services Inc.
Lot 12	Premier Aviation Overhaul Center Ltd.
Lot 13	AAR Aircraft Services Inc.
Lot 14	Premier Aviation Overhaul Center Ltd.
Lot 21	Avmax Aviation Services Inc.
Lot 22	Avianor Inc.
Lots 2, 4, 5, 6, 9, 15, 16, 17, 18, 19, 20, 24	Maynards Industries Ltd.

20. The total consideration payable under the above transactions is \$10,845,000. Individual purchase prices have not been disclosed in order to protect the integrity of the DP in the unlikely event that one or more of these transactions is not completed.
21. Subject to the approval of the Court and the issuance of approval and vesting orders, Aveos will proceed to complete the transactions with the applicable counterparties. As noted above, the majority of assets by value are being sold to certain MROs with operations in Canada and the balance of the assets will be sold by a liquidator.
22. Under the Liquidation Services Agreement ("LSA") executed with Maynards Industries Ltd., a prominent Canadian auctioneer and liquidation firm working in partnership with various other Canadian and U.S. based auctioneers, a net minimum guarantee arrangement has been agreed and a cash payment for the "net minimum guarantee" amount will be made on or before the date of Court Approval as set out in the agreement. The agreement contemplates the sale of the remaining Airframe tooling and equipment by private sale(s) or at a public auction to be held in September 2012, prior to the date upon which Aveos is planning to vacate the Air Canada hangars in Montreal, Winnipeg and Vancouver. Under the terms of the LSA, if the sale proceeds exceed a specified threshold, all additional proceeds will be shared with Aveos on an 80/20 basis.

2.3 ENGINE MAINTENANCE ("EMC") DIVISION

23. The CRO worked with Air Canada, the union and the Province of Quebec in an attempt to find a solution that would preserve jobs while maximizing value in the EMC.

24. Given the complexities associated with an EMC transaction and the unique requirements of certain of the stakeholders and prospective bidders, the interested parties will need more time to work out various issues to determine if there is any possibility of a solution for EMC which might preserve employment opportunities and generate other value associated with the AC contract.
25. In order to preserve the integrity of the DP, as well as protect the interests of the Secured Lenders, the CRO has now entered into a conditional liquidation services agreement (for tooling and equipment) as well as an asset purchase agreement (for inventory) with the auctioneer who had submitted the highest liquidation proposal on the most commercially acceptable terms. The agreements cover the assets included in Lot 8 under the DP. This allows Aveos to lock up an agreement for liquidation of the bulk of the EMC assets on a net minimum guarantee basis, but still affords Aveos the option of entering into an agreement with another party for the Air Canada engine contract and assets of the EMC business.
26. In order to secure the agreements described in paragraph 25, Aveos agreed to pay the liquidator a break fee in the aggregate amount of \$150,000, subject to the approval of this Honourable Court to be obtained when the EMC transactions are submitted to the Court for approval next month. The break fee would only be payable if Aveos elects to terminate the agreements in the circumstances where Aveos accepts an offer for the EMC assets, in whole or in part, from a strategic purchaser.
27. The CRO is dealing with multiple parties on the AC contract and will be negotiating with each of those parties on price, as well as other considerations which will be relevant to stakeholders including understanding what job creation opportunities may exist.
28. The CRO will continue to work with the parties who have submitted preliminary offers on the Air Canada engine contract and come before the Court on July 26, 2012 to seek the Court's approval of one or more transactions.

2.4 COMPONENT MAINTENANCE ("CMC") DIVISION

29. As previously discussed, the date for CMC bids was extended to July 13, 2012. It is the Company's intention to negotiate and complete a transaction following the receipt of those bids with a view to come before the Court on July 26, 2012 to seek approval of a CMC transaction.
30. There are multiple suitors for the CMC business who are engaged in meaningful discussions with the Company, the union and other stakeholders. Certain of these bidders have indicated they will require a contract with Air Canada, while others do not.
31. The CRO has advised stakeholders that, in order to conclude a transaction that can be recommended for approval, agreements will need to be reached on acceptable terms with all potential bidders prior to July 13, 2012 focusing on a positive but not necessarily the perfect or ideal outcome.
32. The CRO is encouraged by the progress the interested parties are making and is cautiously optimistic that a going concern/restart transaction may be possible. That said, there are still a number of obstacles to overcome and Aveos will not have certainty on this matter until after July 13, 2012.

2.5 OTHER STAKEHOLDERS

33. The CRO continues to be in regular contact with union representatives, as well as the Province of Quebec, to ensure they are informed of the DP progress and also to ensure that interested parties are working with these stakeholders. The CRO is also in regular communication with the secured lenders to keep them apprised of the status of the DP.

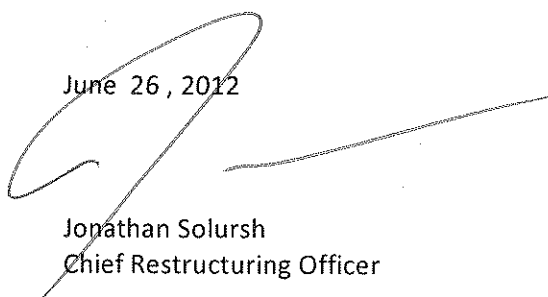
III. OTHER MATTERS

34. The CRO has discussed with both the Canada Revenue Agency ("CRA") and the Agence du Revenu du Quebec ("ARQ") the proposed plan for Aveos to pay the outstanding pre-filing source deductions owed to these agencies. It is contemplated that, cash flow permitting, upon the closing of the transactions and receipt of payment for transactions relating to each of the three main divisions (Airframe, EMC and CMC), the amounts owed would be paid in three equal installments, from the closing proceeds.
35. After a thorough analysis, discussions with Aveos' legal counsel and consultation with the Monitor, as well as a detailed review of potential 30 day goods claims received, Aveos has:
- a) Worked to provide information and a reconciliation to the known claimants;
 - b) Where practical, come to an arrangement satisfactory to both parties which takes into account:
 - (i) That 30 day goods rights, pursuant to Section 81.1 of the BIA, are not assured in a CCAA proceeding;
 - (ii) The practical reality of physically locating the goods, and significant cost associated with locating and making the goods available for retrieval; and
 - (iii) The fact that many of the goods, when located, would likely not be in the same or similar state.

IV. CONCLUSION

36. The CRO respectfully submits this Third Report in support of the Petitioners' Motion for approval of the various transactions relating to the Airframe division assets and vesting orders for the assets to be sold to purchasers or liquidated pursuant to the LSA as described in this Report and the Petitioner's Motion.

June 26, 2012



Jonathan Solursh
Chief Restructuring Officer

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