

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
NO: 500-11-042345 - 120

SUPERIOR COURT  
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

**TWELFTH 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 2, 2012 the Company filed a motion for a sale approval and vesting order for the sale of the Components business to AJ Walter Aviation Limited, (“**AJW**” and the “**AJW Agreement**”) as well as to seek authorization to enter into and give effect to a fourth lease amending agreement (the “**Morguard Agreement**”) between Morguard Corporation and Morguard Real Estate Investment Trust (collectively “**Morguard**” or the “**Landlord**”) and the Company.
4. On August 8, 2012 the Company filed a motion for a sale approval and vesting order for the sale of training materials to Global Probity Group Ltd (“**GPG**” and the “**GPG Agreement**”).
5. The purpose of this report is to advise the Court on the Divestiture Process and the request for a sale approval and vesting order for the sale of certain assets and the Monitor’s recommendation thereon.
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. The Monitor provided an update for the Court on the Divestiture Process in its Eleventh Report dated July 25, 2012. As previously reported, the bid deadline in respect of the Air Canada Contract was extended to August 10, 2012.
9. On July 27, 2012, the Company concluded negotiations and signed the AJW Agreement for the sale of the Components Maintenance Centre. The AJW Agreement is an en bloc sale that transfers the business assets to AJW. The AJW Agreement is a very positive outcome for the Components business as it will see the business continue as a going concern and return approximately 200 jobs in Montreal. The AJW Agreement is more fully described in the CRO's Sixth Report.
10. The Morguard Agreement is described more fully in the sixth report of the CRO (the "**CRO's Sixth Report**").

The need for the Morguard Agreement flows from the fact that the building that houses CMC (known as OPTO) is adjacent to Aveos' head office premises (known as BAN3) which are both governed by a single lease between Aveos and Morguard.

11. The Morguard Agreement provides for Aveos to surrender the OPTO facility on the date Aveos closes the AJW transaction and for the termination of the balance of its lease arrangements for BAN3 with Morguard by September 30, 2012.
12. The Morguard Agreement is a necessary and critical component for the AJW transaction, given that AJW does not require the use of BAN3, but requires the use of a significant portion (but not all) of the OPTO premises to restart the CMC business, while Aveos no longer has the need to continue to occupy either of the buildings over the longer term.
13. The Company has also entered into a liquidation services agreement with Maynards for the sale of the tooling and equipment of the Components business (the "**Maynards Components LSA**"). The Maynards Components LSA is a back up arrangement to the AJW Agreement. In the event that the AJW Agreement fails to close the Company will

be able to revert to the Maynards Components LSA and liquidate the assets in a timely manner. The ability to implement the immediate liquidation of the assets, limits the Company's exposure to the additional costs required to maintain the facilities during the course of a liquidation sale and avoid running a revised process for the sale of the Components business if the AJW Agreement fails to close. If the AJW Agreement closes successfully the Company is required to pay a break fee of \$135,000 to Maynards.

14. On July 31, 2012, the Company entered into a non-exclusive, fully paid-up, royalty free, perpetual and irrevocable license agreement with Aeromantenimiento S.A. ("**Aeroman**" and the "**Aeroman Agreement**").
15. On July 31, 2012, the Company concluded negotiations and signed the GPG Agreement for the sale of the training materials, as more fully described in the CRO's Sixth Report.
16. The Company is seeking approval for the following asset purchase agreements ("**APAs**"):
  - (a) The AJW Agreement; and
  - (b) The GPG Agreement.
17. The Company is further seeking authorization to enter into and give effect to the Morguard Agreement.
18. The Monitor has reviewed the AJW Agreement and notes that the primary condition to the closing of the AJW Agreement is the approval of the Court and obtaining a vesting order within the timeframe specified in the AJW Agreement. The AJW Agreement provides for the issuance of a Monitor's certificate once all conditions have been met in order to close the transaction.
19. The Monitor has reviewed the GPG Agreement and notes that the primary condition to the closing of the GPG Agreement is the approval of the Court and obtaining a vesting order within the timeframe specified in the GPG Agreement. This agreement provides for

the sale of the Company's right, title and interest in certain training materials as described therein. The GPG Agreement provides for the issuance of a Monitor's certificate once all conditions have been met in order to close the transaction.

20. As discussed in greater detail in the CRO's Sixth Report the sale of the Components Business is an en bloc sale and, as such, the Company has not allowed claims for 30 Day Goods with respect to the assets forming part of the AJW Agreement. The Monitor supports this position.
21. The AJW Agreement and the GPG Agreement each require that subsequent to the granting of a sale approval and vesting order in respect of these transactions, and upon the completion of all conditions by each of the counterparties, the Monitor issues a certificate to close the transaction.
22. The Monitor has reviewed the Morguard Agreement and notes that the primary condition to the completion of the Morguard Agreement is the closing of the AJW Agreement which are both subject to approval by the Court.
23. 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 orders and notes that the results of the Divestiture Process demonstrate that the sale achieved through the AJW Agreement, and the GPG Agreement are 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) As reported in the CRO's Sixth Report, the AJW Agreement is supported by many key stakeholders and offers important long-term benefits for employees and suppliers;
- (g) As detailed in the CRO's Sixth Report, the Morguard Agreement is a necessary and critical component to the AJW Agreement;
- (h) 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;
- (i) The International Association of Machinists & Aerospace Workers ("IAMAW") has formally indicated to the Monitor that it supports Aveos and AJW in this transaction;
- (j) The current CMC management team was instrumental to this proposed transaction fully supports and is committed to the successful closing of the AJW Agreement;
- (k) The Monitor 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 Quebec for financial assistance and has also had productive discussions with the Fonds de Solidarité FTQ and Investissement Québec, along similar lines;
- (l) The Secured Lenders have been consulted and fully support the AJW Agreement;
- (m) As detailed in the CRO's Sixth Report, prior to entering into the GPG Agreement, the Company entered into an irrevocable, perpetual license agreement with a related party to maximize the value of the training materials. Under the terms of

the GPG Agreement, GPG agreed to acquire the training materials subject to the license agreement;

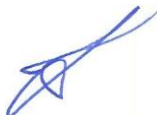
- (n) Furthermore, as detailed in the CRO's Sixth Report, the GPG Agreement represents the best offer received for the training materials under the Divestiture Process; and
  - (o) The Divestiture Process was an appropriate method for determining the fair market value of the assets and the consideration to be received is therefore reasonable and fair.
24. 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.
25. The Monitor is further satisfied that the APAs selected by the Company represent the highest and/or best offers.
26. The Monitor therefore supports the Company's request for approval of the APAs as well as the authorization to enter into and give effect to the Morguard Agreement and respectfully recommends that the Company's request be granted.
27. The Monitor respectfully submits to the Court this Twelfth Report.

Dated this 9<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