

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

**FIRST 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 “**Applicants**”) 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 Applicants until April 5, 2012, (the “**Stay Period**”) and appointing FTI Consulting Canada Inc. as monitor of the Applicants (the “**Monitor**”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
2. The purpose of this report is to inform the Court on the following:

¹ *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

- (a) The events following the granting of the Initial Order and the terms of the financing proposal received from Air Canada;
 - (b) The material adverse change resulting from the inability of the Applicants to secure additional liquidity; and
 - (c) The Applicants' motion to appoint R.e.l. Group Inc. as Chief Restructuring Officer ("CRO").
3. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with the Applicants' 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.
4. 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 pre-filing report of the Monitor.

EVENTS FOLLOWING THE GRANTING OF THE INITIAL ORDER

5. In submissions made to the Court during the CCAA Proceedings, the Court was informed that the Applicants needed to receive payments owing by Air Canada in order to avoid the immediate shut down of the Applicants' remaining operations.
6. As stated in the Applicants' motion for the issuance of the Initial Order:
- (a) Aveos is experiencing a severe liquidity crisis;

- (b) On the evening of March 18, 2012, Aveos:
 - (i) terminated the employment of all of its employees in its Airframes Division;
 - (ii) notified all of its other employees to not report for work as of March 19, 2012;
 - (c) Aveos needed to determine whether it could obtain additional liquidity, including payment by Air Canada of amounts owing to Aveos by Air Canada;
 - (d) Aveos and Air Canada had important contractual disputes as summarized at paragraphs 77 to 82 of the motion;
 - (e) At a minimum, Aveos required certainty with respect to payment of the amounts owing, future payments and acceptable terms of set off in order to continue operations; and
 - (f) Aveos received a DIP term sheet from Air Canada on March 16, 2012 with terms the Applicants and the Lenders considered overly onerous and uneconomical.
7. A meeting to negotiate certainty with respect to payment of the amounts owing, future payments and acceptable terms of set off, on an urgent basis, was scheduled between Air Canada and the Applicants for 3pm following the hearing for the Initial Order at the offices of Fraser Milner Casgrain.
8. Air Canada did not attend the scheduled meeting.
9. Later that afternoon, the Monitor was presented with a financing proposal by Air Canada (the “**AC DIP Proposal**”).

10. The key terms of the AC DIP Proposal are as follows²:
- (a) Fees and interest:
 - (i) \$1 million Commitment Fee;
 - (ii) Aveos also liable to pay reasonable fees and expenses of Air Canada in connection with preparing, negotiating, executing and monitoring DIP and in connection with Court Restructuring;
 - (iii) 10% interest rate;
 - (b) Amounts and limits:
 - (i) DIP advances subject to \$15 million Availability Maximum;
 - (ii) DIP advances subject to Availability Limit calculation formulae based on cash flow forecasts acceptable to Air Canada, deduction made of Permitted Encumbrances (as defined below);
 - (c) Security and ranking:
 - (i) Priming first ranking security charging all the assets of Aveos, subject only to Permitted Encumbrances;
 - (ii) Permitted Encumbrances include Administrative and D&O Charges approved by the Court;
 - (iii) Guarantee from Aveos Holding Company and Aveos Fleet Performance Bahamas Inc. and pledge of securities and investments held by Aveos and pledge of the 80% equity stake of Aeromantenimiento, S.A.;

² Unless specifically defined, capitalized terms should have the meaning ascribed to them in the AC DIP Proposal.

- (iv) AC to be named as loss-payee and named insured on Aveos' insurance policies;
 - (v) Putting in place of a lock-box mechanism;
 - (d) Conditions Precedent, including:
 - (i) Aveos commitment to perform work on Air Canada equipment;
 - (ii) Confirmation of Air Canada's rights pursuant to the Access Agreement;
 - (e) Events of default; as provided in Section 9; and
 - (f) Indemnity: "a standard indemnity in favour of Air Canada and related parties for a credit facility of this nature shall be included".
11. Following a review by the Monitor, the AC DIP Proposal was shared with the Applicants' counsel and counsel to the Lenders.
12. The respective counsels informed the Monitor that the terms of the AC DIP Proposal were unacceptable and more importantly, did not address the issue of payment of amounts due and owing in excess of \$15 million, furthermore, the gap between the parties was too great to bridge by further negotiations.
13. The AC DIP Proposal appears, on its face, to be solely designed to benefit the needs of Air Canada, it does not address the Applicants need for additional liquidity to ensure the viability of the operations or the continued employment of the Applicants' employees. In summary:
- (a) The AC DIP Proposal is of limited financial value due to the fees, charges and limitations placed on the available financing, and is insufficient on this basis to address the Applicants financial needs for the proposed term of operation;

- (b) Does not effectively compensate the Applicants for the completion of the Air Canada work in progress;
 - (c) Erodes the collateral value of the Lenders' security during the proposed term without any compensation; and
 - (d) Due to its first lien nature extracts an equivalent value to the financing at the expense of other stakeholders.
14. The Applicants' counsel informed counsel to Air Canada that the AC Dip Proposal was unacceptable.
 15. Despite the severity of the liquidity crisis faced by Aveos, the need to secure immediate liquidity and payment from Air Canada, given the continued erosion of the Lender's security, the Applicants and Air Canada did not meet.
 16. In view of the foregoing, the counsel to the Lenders confirmed that they were not prepared to advance additional funds to the Applicants.
 17. The Board of Directors of the Applicants was informed of the events which transpired during the afternoon and having no access to additional liquidity the decision was taken to wind down the remaining operations and terminate the remaining employees. The notice of termination is scheduled to be delivered to the employees beginning at 1pm on March 20, 2012.

THE MATERIAL ADVERSE CHANGE TO THE APPLICANTS

18. The inability of the Applicants to engage in meaningful discussions with Air Canada and to obtain immediate financial support have meant that the Applicants are unable to continue the operation of the business. This represents a material adverse change to the Applicants who have been left with no choice but to commence liquidation of the assets of the business for the benefit of the Lenders.

THE APPLICANTS' MOTION TO APPOINT A CRO

19. On March 19, 2012, the Monitor was informed that the Board of Directors would be resigning and that the Applicants would seek a motion the following day to appoint a CRO.

CONCLUSION

20. The Monitor is of the view that the Applicants' decision to engage a CRO is justified and that in light of the resignation of the Board of Directors will provide the Applicants with the necessary guidance to achieve an orderly shut down and liquidation.

The Monitor respectfully submits to the Court this First Report.

Dated this 20th day of March, 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