

Court File No. CV-10-8647-00CL

Skyservice Airlines Inc.

THIRD REPORT OF THE RECEIVER

June 30, 2010

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

IN THE MATTER OF THE RECEIVERSHIP OF SKYSERVICE AIRLINES INC.

Between

THOMAS COOK CANADA INC.

Applicant

- and -

SKYSERVICE AIRLINES INC.

Respondent

**THIRD REPORT TO THE COURT SUBMITTED BY
FTI CONSULTING CANADA INC.
IN ITS CAPACITY AS RECEIVER**

INTRODUCTION

1. On March 31, 2010 (the “**Date of Receivership**”), FTI Consulting Canada Inc. was appointed as receiver (the “**Receiver**”) of all of the assets, undertakings and properties (the “**Property**”) of Skyservice Airlines Inc. (“**Skyservice**” or the “**Company**”) pursuant to the order of the Honourable Mr. Justice Gans (the “**Receivership Order**”) granted upon the application of Thomas Cook Canada Inc. (“**TCCI**”) pursuant to section 243(1) of the *Bankruptcy and Insolvency Act (Canada)* (the “**BIA**”) and section 101 of the *Courts of Justice Act (Ontario)*.
2. To date the Receiver’s has filed two Reports as well as a Supplement to the Second Report. The Receiver has been asked to provide the Court with some additional information with respect to the books and records of the 10 Skyservice aircraft located in Canada on the Date of Receivership (the “**Aircraft**”). Accordingly, the Receiver has prepared this Third Report.

TERMS OF REFERENCE

3. In preparing this report, the Receiver has relied upon unaudited financial information of Skyservice, Skyservice's books and records, certain financial information prepared by Skyservice and discussions with Skyservice's employees. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Receiver 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 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 are as defined in the Receivership Order or the Receiver's previous reports.

TAKING POSSESSION

5. On the Date of Receivership, the Receiver took steps to secure possession and control over the all of the property of Skyservice, other than the Aircraft as is detailed in the Receiver's First Report. In particular the First Report describes how the Receiver dealt with the Aircraft as follows in paragraph 11:

“Pursuant to paragraph 3(c) of the Receivership Order and in compliance with the Status Quo Order (described below), the Receiver did not go into possession and control of the property consisting of airframes and aircraft engines (collectively “**Aircraft Objects**”). The Receiver has taken possession of the related accessories, parts, equipment, manuals, records and other property related to but not located or installed on the aircraft (“**Aircraft Parts**”).

Prior to Issuance of the Status Quo Order

6. Following the appointment of the Receiver on March 31, 2010 but prior to Status Quo Order, which was issued effective March 31, 2010 at 6:30 p.m., the Receiver took steps to secure Skyservice property, including manuals and records such as the records demonstrating the origin and maintenance history of parts on the Aircraft, which were located in the Skyservice hangar and related to all of the Aircraft.
7. During the time prior to the issuance of the Status Quo Order, the Receiver did not take any steps to take possession of the Aircraft log books (the “**Log Books**”) or the Aircraft Certificates of Airworthiness or Certificates of Registration (the “**Aircraft Certificates**”). In addition, the Receiver did not instruct Skyservice employees to remove any such records from the Aircraft.
8. In researching this report, the Receiver has learned that on March 31, 2010 prior to the issuance of the Status Quo Order and prior to the arrival of the Receiver’s staff at Skyservice’s offices, an e-mail was sent by Rob Giguere the former CEO of Skyservice explaining that the Company had been placed in receivership and thanking the employees for their hard work and dedication over the years. The Receiver also learned that this e-mail prompted John Barnes, Vice President, Maintenance and Engineering and his staff (the “**Engineering Group**”) to want to ensure that assets were protected. The Engineering Group had been through other airline insolvencies and they were aware that certain assets had “disappeared” early on in other insolvencies.

9. The documents that were of concern to the Engineering Group were i) the Log Books, which were located on each Aircraft, and ii) the Flight Operations Document Folder (“**FODF**”) for each Aircraft, also located on each Aircraft, which contained the Aircraft Certificates as well as the Aircraft’s insurance certificate, weight and balance report, radio license, damage charts, Airworthiness Directives and company information circulars. The decision was made by the Engineering Group, immediately after they learned of the receivership and before they had met with the Receiver’s staff, to retrieve the Log Books and FODF from the Aircraft.

10. This decision was relayed to Stuart McKee and Paul Sands, two of Skyservice’s engineers, who on March 31, 2010 between approximately noon and 3 pm removed the Log Books and FODF from four planes which were located at the Pearson Airport in Toronto, Ontario. These four planes had the Canadian Registration numbers of:
 - C-FRAA
 - C-GTDP
 - C-GTSJ
 - C-GTBB

11. Also during this timeframe, McKee and Sands removed one additional Log Book from either C-GTDH or C-GTDG. They do not remember which one was removed at this time as they ultimately removed the Log Books from both of these Aircraft (as described later) and are unsure which one they dealt with in which time period. They also cannot recall whether the FODF was removed from the applicable Aircraft at this time.

12. The Receiver understands that McKee and Sands placed all of the documents they removed in a locked office located at the Skyservice hangar.

13. While the Receiver was not aware that these documents had been removed from the Aircraft and placed in the office in the Skyservice hangar, as indicated in the First Report, when the Receiver arrived on the Skyservice premises on March 31, 2010 it changed the locks and security codes of all premises in the Greater Toronto Area, including the external locks on the Skyservice hangar. Security was also posted outside the hangar.
14. Skyservice employees in Winnipeg, Manitoba were instructed by the Engineering Group to remove the same documents from the Aircraft located at the Winnipeg airport; however the Aircraft in Winnipeg had been seized by the Winnipeg Airport Authority. Access to the two Aircraft in Winnipeg was not possible as a Court order denying access to the Aircraft had been posted on both Aircraft prior to the Skyservice employees in Winnipeg arriving at the Aircraft. As a result, no documents were removed from the Aircraft in Winnipeg.
15. McKee and Sands' normal work day runs from approximately 6:30 am through 3 pm. They left for the day on March 31, 2010 just before 5 pm. Prior to their departure, McKee and Sands were told by the Receiver that they would continue to be employed by Skyservice for an indefinite period of time and that they should return to work the following day.

After the Issuance of the Status Quo Order

16. After 6:30 p.m. on March 31, 2010, the Receiver again took no steps to take possession of the Logs Books or Aircraft Certificates. Further, the Receiver did not instruct Skyservice employees to remove any such records from the Aircraft.
17. Rather, at a meeting which took place at 10 am on April 1, 2010 the Receiver instructed the remaining Skyservice employees that they should not board any Aircraft or remove records or assets without permission from the Receiver, which was neither sought nor given.

18. However, the Receiver now understands that prior to that meeting on April 1, 2010, when McKee and Sands returned back to work early that morning, they recovered the Log Books and FODFs from two additional Aircraft with Canadian registration numbers of:

C-GMYH

C-FLEU

19. In addition, having already removed the Log Book from either C-GTDH or C-GTDG the day before, McKee and Sands removed the Log Book from the other Aircraft at this time. McKee and Sands do not recall whether the FODF was removed from the applicable Aircraft at this time.
20. The Receiver understands that the documents removed by McKee and Sands at this time were placed in the same locked office located at the Skyservice hangar. Since McKee and Sands had been retained as employees of Skyservice they were allowed access to the hangar at this time, although the Receiver was not aware that they had removed these documents from the Aircraft and stored these documents in the office located in the Skyservice hangar.
21. On the afternoon of April 1, 2010 and the morning of April 2, 2010 the Greater Toronto Airport Authority posted the Court Order restricting access to the Aircraft on all of the Aircraft located at Pearson Airport.
22. The Log Books and FODFs placed by McKee and Sands in the office at the Skyservice hangar on March 31 or the morning of April 1, 2010 remained secured in that office until after the Aircraft Return Agreements were signed with the lessors. At that time, the Engineering Group worked with representatives from the applicable lessors to enable the lessors to review the Aircraft documents, including the Log Books and FODFs, in the hangar and ultimately to return those documents to the applicable Aircraft before the Aircraft were returned to the lessors.

23. The Receiver was aware that these documents were present in the hangar and being reviewed by the lessors but were not made aware that they had been removed from the Aircraft following the appointment of the Receiver.
24. In summary, the following table shows what happened to the various documents between the Date of Receivership and the time when the Aircraft were returned to the lessors (at which time the Log Books and Aircraft Certificates were, in each case, on the respective Aircraft):

Aircraft REG	Location	Log Books	Certificate of Air Worthiness	Certificate of Registration
C-FRAA	Hangar	X	X	X
C-GTDG	FedEx ramp	A	U	U
C-GTDH	FedEx ramp	X	U	U
C-GTDP	Hangar	X	X	X
C-GTSJ	Millard	X	X	X
C-GMYH	Infield	A	A	A
C-FLOX	YWG - Winnipeg	O	O	O
C-FLEU	outside hangar	A	A	A
C-FOBH	YWG- Winnipeg	O	O	O
C-GTBB	Millard	X	X	X
Legend:	X = in SSV office BEFORE 18.30 on 31Mar2010			
	O = did not leave aircraft			
	A = in office AFTER 18.30 on 31Mar2010, collected 01Apr2010			
	U = The Receiver has been unable to determine whether or when these documents were removed from the Aircraft.			

The Receiver respectfully submits to the Court this Third Report.

Dated this 30th day of June, 2010.

FTI Consulting Canada Inc.
in its capacity as receiver of
Skyservice Airlines Inc.
and not in its personal or corporate capacity



Nigel D. Meakin
Senior Managing Director



Jamie T Engen
Managing Director