

RSM Richter Inc.

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IN THE MATTERS OF THE NOTICES OF INTENTION TO MAKE A PROPOSAL OF:

**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-038367-104
ESTATE NO.: 41-1317996**

**SUPERIOR COURT
(Commercial Division)**

ExelTech Canada Inc.

a body politic and corporate, duly
incorporated according to law and having its
head office and its principal place of
business at:
1200 Pitfield Boulevard
Ville St-Laurent, Quebec H4S 0A1

Debtor

- and -

**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-038366-106
ESTATE NO.: 41-1317995**

**SUPERIOR COURT
(Commercial Division)**

ExelTech Aerospace Inc.

a body politic and corporate, duly
incorporated according to law and having its
head office and its principal place of
business at:
1200 Pitfield Boulevard
Ville St-Laurent, Quebec H4S 0A1

Debtor

- and -

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTREAL
COURT NO.: 500-11-038390-106
ESTATE NO.: 41-1320643

SUPERIOR COURT
(Commercial Division)

ExelTech YUL Inc.

a body politic and corporate, duly
incorporated according to law and having its
head office and its principal place of
business at:
1200 Pitfield Boulevard
Ville St-Laurent, Quebec H4S 0A1

Debtor

Collectively referred to as the “Companies” or the “Debtors”

- and -

RSM Richter Inc.

Trustee

**TRUSTEE'S REPORT ON THE STATE OF THE INSOLVENT PERSONS'
BUSINESS AND FINANCIAL AFFAIRS
(Pursuant to 50.4(7)(b)(ii) and 50.4(9) of the Bankruptcy and Insolvency Act)**

I, Gilles Robillard, CA, CIRP of RSM Richter Inc. (“Richter”), Trustee, with respect to the Notices of Intention to Make a Proposal (the “Notice of Intention”) filed by ExelTech Canada Inc. (“ExelTech”), ExelTech Aerospace Inc. (“Aerospace”) and ExelTech YUL Inc. (“YUL”) (collectively referred to as the “Companies” or the “Debtors”) do hereby report to the Court the following:

I. INTRODUCTION

1. On February 4, 2010, ExelTech filed a Notice of Intention in accordance with the *Bankruptcy and Insolvency Act* (“the Act”), along with its parent company, Aerospace, who also filed a Notice of Intention, copies of which have been annexed hereto as Exhibit “A”. Aerospace is a holding company publicly traded on the TSX Venture Exchange under the symbol XLT. For the present purpose, the Trustee has only prepared one report, as ExelTech is the only operating entity and all current operating costs, if any, are paid by said entity.
2. On February 9, 2010, pursuant to a motion filed by the Royal Bank of Canada (“RBC”), Exeltech’s operating lender, Richter was appointed interim receiver to the assets of Exeltech.

3. On February 10, 2010, YUL, a non-operating subsidiary of ExelTech, also filed a Notice of Intention in accordance with the Act, a copy of which has been annexed hereto as Exhibit "B."
4. On February 10, 2010, documents were sent by regular mail to all creditors of ExelTech and Aerospace, as identified by them, which included a copy of each of the Debtor's Notice of Intention, as annexed hereto as Exhibit "C."
5. On February 12, 2010, ExelTech, Aerospace and YUL each filed with the Official Receiver a Statement of Projected Cash Flow ("Forecast") together with the report pursuant to Section 50.4(2)(c) of the Act, covering the period from January 31, 2010 to March 6, 2010, which included the major Assumptions used in the preparation of the aforementioned Forecast. Concurrently therewith, the Trustee filed its Report on the reasonableness of each of the Forecast in accordance with Section 50.4(2) (b) of the Act, all of which have been annexed hereto as Exhibit "D".
6. On February 15, 2010, documents were sent by regular mail to all creditors of YUL, as identified by the Debtor, which included a copy of the Debtor's Notice of Intention, as annexed hereto as Exhibit "E."
7. In order to monitor the affairs and finances of the Debtors, we have been provided with access to the books, records and other important documents of the Companies.
8. The Trustee has compared the actual results to those forecasted from January 31, 2010 to February 26, 2010 for ExelTech, which is annexed as Exhibit "F". The actual results to date have been favourable and ExelTech has been paying its suppliers and employees on a timely basis, for goods and services provided subsequently to the date of the filing of the Notice of Intention. As for Aerospace and YUL, since all receipts and disbursements are recorded in ExelTech, the operating company, no variance exists between the actual results and the Forecast.
9. ExelTech is a major supplier of heavy maintenance, repair and overhaul ("MRO") services to the regional commercial airline industry. In addition to MRO services, ExelTech also operates a line maintenance business, providing highly responsive aircraft-on-ground support and scheduled overnight maintenance.
10. In the past years, ExelTech has suffered significant losses which it attributes to the following:
 - Current unfavourable economic conditions in the aerospace industry;
 - General economic downturn;
 - Highly competitive market;
 - Loss of major customers;
 - Increase in level of overhead costs; and
 - Unfavourable foreign exchange rate.
11. As a result of the above negative factors, in recent years, ExelTech's working capital has eroded and the level of its debt has increased, thus resulting in an urgent need to raise new equity in order to meet its cash flow requirements.

II. REFINANCING AND INVESTMENT PROCESS

12. On December 18, 2009, after several months of negotiations, ExelTech announced that it had not reached an agreement with the Société générale de financement du Québec ("SGF") with respect to the financing of its activities.
13. Pursuant to the withdrawal of SGF, ExelTech embarked on a new refinancing and investment process and hired RSM Richter Corporate Finance ("RCF") as its exclusive financial advisor to initiate and execute a formal process to seek new financing and investment (the "Call for Offers").
14. In December 2009, RCF communicated with numerous potential investors (over 60), having industry involvement and/or knowledge, by sending a document describing the investment opportunity. The timeline that was established by ExelTech was to receive letters of intention by the end of January 2010.
15. RCF then established a data room and a number of parties signed confidentiality agreements with a view to obtaining access to the information therein.
16. Despite extensive discussions with numerous potential investors during this period, no letters of intention were received by the end of January 2010.
17. Given the foregoing, on February 3, 2010, RBC, whose line of credit is secured by a first ranking moveable hypothec on the universality of present and future accounts receivable, inventory and equipment, served upon ExelTech and Aerospace a Notice of Intention to Enforce a Security pursuant to section 244 of the Act. ExelTech and Aerospace waived the 10-day delay for RBC to enforce its security.
18. Immediately after the filing of the Notice of Intention, RCF re-communicated with all parties who had been previously identified as potential investors by sending a "blaster" document and advising them of the Debtors' decision to seek Court protection in order to find an investor to participate in the restructuring of the Companies and/or to purchase all or substantially all the assets of the Debtors.
19. Since the filing of the Notice of Intention, RCF has been contacted by numerous parties who have expressed varying levels of interest in purchasing all or part of the business and/or its related assets.
20. Accordingly, on February 24, 2010, RCF advised each of the potential interested parties that ExelTech's Call for Offers requires a definitive and binding offer by March 10, 2010 at the latest.

III. INTERIM OPERATIONS

21. Upon filing of the Notice of Intention, Exeltech temporarily suspended its heavy maintenance activities to assess the feasibility of its plan to complete the maintenance work on the 13 aircraft in its possession.
22. On February 15, 2010, after reaching verbal agreements with its customers, Exeltech gradually recalled employees in order to complete the maintenance on the aircraft in its possession.
23. ExelTech's management believes that the maintenance work on the aircraft currently in its possession should be completed in the coming days or weeks.

IV. EXTENSION OF DELAY

24. The Debtors have each filed a Motion to Extend the Delay for the Filing of a Proposal. The extension in question is required in the circumstances for the following reasons:
- Complete the process to seek an investor or purchaser for the assets;
 - Complete the maintenance work on the aircraft still in the possession of the Company.
25. The Debtors have each prepared additional Forecast for the period ending April 24, 2010. Annexed hereto as Exhibit "G" is the Forecast covering the period from February 28, 2010 to April 24, 2010, which includes the major Assumptions used in the preparation of the aforementioned Forecast, the Trustee's Report on the reasonableness of the Forecast in accordance with Section 50.4(2) (b) of the Act and the Debtors' Report pursuant to Section 50.4(2) (c) of the Act.
26. No material prejudice will be suffered by all parties should the extensions be granted. However, should the extension be rejected and the Companies be declared bankrupt, the following parties will be significantly affected:
- In full operations, the Company employs more than 500 employees. A going concern sale of the operations would increase the chance of maintaining these jobs intact;
 - Creditors have increased chances in maximizing their recovery in a going concern situation rather than in a forced liquidation scenario, where the assets would be sold on a piecemeal basis;
 - Should the affairs of the Company be interrupted prior to the completion of the maintenance on the aircraft, the affected aircraft owners would have to incur significant costs in order to re-do the work and re-certify the aircraft.
27. Given the foregoing, the Trustee hereby recommends granting of the extension by the Court to April 18, 2010.

DATED AT MONTREAL, this 3rd day of March, 2010.

RSM Richter Inc.

Trustee



Per: Gilles Robillard, CA, CIRP