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Attorneys for Debtor

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ALASKA**

In re:)
)
PENINSULA AIRWAYS, INC., d/b/a)
PENAIR,) **Case No.: 17-00282 GS**
) **Chapter 11**
Debtor.)
_____)

**MOTION FOR AUTHORITY TO ENTER INTO
AIRCRAFT LEASE COVERING ONE
SAAB 2000 AIRCRAFT**

Debtor Peninsula Airways, Inc., dba PenAir (“Debtor”) seeks an order authorizing it to enter into an aircraft lease covering one Saab 2000 Aircraft, on the terms of the proposal attached hereto as Exhibit A.

The proposal is from Montrose Global, who currently is lessor to Debtor on four Saab 340B Aircraft.

Debtor currently leases all of its four Saab 2000 aircraft from Jetstream and its affiliates. Those are straight leases at \$80,000 per month.

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Under the proposal for which approval is sought herein, the lease payments are \$45,000 per month, with a purchase option schedule set forth in the proposal. At any time during the lease, the option to purchase can be exercised. The option price is approximately \$3 million at the beginning of the lease, and is lower for each succeeding month, until month 120, at which time the option price is zero. The lease is therefore essentially a purchase of the aircraft.

The Saab 2000 proposed to be leased is comparable to the four Saab 2000's currently in Debtor's fleet. The disparity in the monthly payments, combined with the buildup of equity, makes the proposed Saab 2000 lease an attractive alternative.

Debtor estimates that the imputed interest rate on the lease payments is approximately 13%. This is relatively high interest rate, but Debtor is willing to pay this imputed rate because it has an immediate need to acquire the aircraft, and because the option to purchase the aircraft can be made at any time. A proposed order is attached hereto.

Dated this September 15, 2017.

LAW OFFICES OF
CABOT CHRISTIANSON, PC
Attorneys for Debtor

By: /s/ Cabot Christianson
Cabot Christianson

Exhibits

- A - Montrose Global proposal
- B - Proposed order

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on September 15, 2017, a true and correct copy of the above document was served by electronic means through the ECF system as indicated on the Notice of Electronic Filing.

By: /s/ Margaret Stroble
Margaret Stroble

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EXECUTION VERSION

MONTROSE GLOBAL^{LLP}

**PROPOSAL FOR THE OPERATING LEASE OF
ONE (1) SAAB 2000 AIRCRAFT
WITH
PENINSULA AIRWAYS INC.**

APRIL 2017

Montrose Global
1 – 2 Jacob's Well Mews,
London, W1U 3DT

Tel: 0207 317 1500 Facsimile: 0207 224 3112

**TERM SHEET LETTER AGREEMENT FOR THE OPERATING LEASE OF ONE (1)
SAAB 2000 AIRCRAFT**

SUMMARY OF TERMS AND CONDITIONS

1. Background: Montrose Global LLP ('**Montrose**') will arrange the lease of the Aircraft to Lessee according to the terms agreed below.
2. Lessor: Wells Fargo, National Association ('**Lessor**') located in the State of Utah which shall have title to the Aircraft and will Lease the Aircraft to the Lessee.
3. Lessee: Peninsula Airways, Inc. (trading as PenAir) of the United States of America ('**Lessee**').
4. Aircraft: One Saab 2000 ('**Aircraft**') as described further in Appendix A.
5. Lease: The Lessor agrees to lease the Aircraft to Lessee pursuant to the terms hereof and otherwise subject to the conditions determined and agreed to be contained in the relevant lease agreement.
6. Delivery Date: Expected to be 15th August 2017 or at a date to be mutually agreed.
7. Lease Term: One hundred and twenty (120) months from the Delivery Date, as per Appendix A.
8. Lease Rentals: As described in Appendix A, paid monthly in advance.
9. Delivery Location: Worldwide Aviation Services, Missouri, or such other location as mutually agreed between Lessor and lessee.
10. Delivery Conditions: "As is, where is," as delivered with Lessor. The aircraft will be delivered (i) fully compliant with Federal Aviation Administration (FAA) Part 121 certification standards, (ii) fresh from a 4,000-flight hour check in compliance with Lessee's approved maintenance program, (iii) in the condition as more fully described in Appendix A hereto and (iv) subject to customary Lessee inspection rights.
11. Redelivery Location: At a location in Europe to be agreed. All redelivery costs will be borne by Lessee.
12. Payments: All payments due under the documents to the Lessor shall be made (unless the Lessor directs otherwise in writing) by wire transfer of immediately available funds in United States Dollars to the Lessor's account to be specified by Lessor to Lessee. All payments to the Lessor will be free and clear of taxes, levies and duties including but not limited to withholding taxes and use taxes. Subject to standard tax carve outs, all taxes, other than taxes on the net income of Lessor and any taxes arising as a result of the Lessor's financing of the Aircraft, will be the responsibility of Lessee.
13. Purchase Option: On any rental date, Lessee may choose to purchase the aircraft for the amount specified in Appendix B.

14. Governing Law The State of New York.
15. Return Conditions: As more fully described in Appendix C, but generally mirror in/mirror out.
16. Registration: Lessor, at its own cost and expense, shall cause the Aircraft to be registered under the name of the Lessor with the FAA reflecting, to the extent possible under applicable law, the ownership and respective rights of the Lessor and any relevant financing parties.
17. Aircraft Operations: Lessee will not maintain or operate the Aircraft in violation of applicable law, rule or certificate of any applicable government authority, or in violation of airworthiness certificates, registration requirements or insurance policy.
18. Insurance: US\$250,000,000 (or such higher amount as required by the operation of the Aircraft) liability and US\$3,000,000 (reducing by US\$100,000 per annum) hull per aircraft. Lessee will not operate the Lease Aircraft in any area excluded from insurance coverage.
19. Security Deposit: By Delivery Date, two (2) months rental will be paid to Lessor. One month deposit is payable on or before May 15, 2017 and the remainder is due upon execution of the lease supplement/acceptance of the Aircraft. Subject to the Provisions of Point 25, the Security Deposit is refundable in full in the event that binding lease agreements are not entered into by the Lessor and Lessee within two months from the date of this Term Sheet, or Lessor's Board approval is not obtained.
20. ADs: The Lessee will be responsible for implementing all FAA applicable airworthiness directives issued during the lease term and requiring compliance during the lease term or during the 60-day period following redelivery.
21. Sub-Leasing: Lessee may not dry lease the Aircraft to a third party without prior written consent of Lessor which will not be unreasonably withheld. ACMI and wet leasing are permitted.
22. Documentation: Lessor will provide aircraft documentation, corporate resolutions and other documentation and conditions precedent reasonably required by Lessee. Lessee will provide Board Resolutions, incumbency certificates, opinion of counsel in respect of Lessee and other documentation and conditions precedent reasonably required by Lessor.
23. Financial Statements: Annual financial statements reviewed by KPMG or other acceptable accounting firm, and such other financial information as may be reasonably required by Lessor.
24. Language: All notices, communications, reports, loss records, opinions, maintenance records, logs and other documents given under the Lease will be submitted and maintained in the English language.
25. Confidentiality: This Term Sheet and its contents are intended for the exclusive use of respectively the Lessee/Lessor and shall not

be disclosed by the Lessee/Lessor to any person other than the Lessee/Lessor's legal, commercial and financial advisers for the purposes of the proposed transaction unless the prior written consent of the Lessee/Lessor is obtained.

26. Cost:

Each party shall be responsible for its own expenses associated with negotiating, documenting and closing this transaction.

Lessee agrees to pay costs associated with the Aircraft after delivery including any filing costs in the Lessee's jurisdiction, the State of Registration or the Habitual Base of the Aircraft.

27. Maintenance Reserves:

No maintenance reserves will be payable during the Lease term.

28. Other:

This Term Sheet is not a contract and its provisions (other than those relating to costs and expenses, confidentiality and the payment and return of the Security Deposit) are not intended to be legally binding. Consummation of the transaction contemplated hereby is conditioned and contingent upon, among other things:

- a. The approval, authorisation or consent of:
 - i. Lessor's and Lessee's senior management;
 - ii. All other third party consents and approvals for the lease of aircraft.
 - iii. Lessor's and Lessee's Board of Directors approval.
- b. The negotiation, execution and delivery of an acceptable lease agreement and other documents and satisfaction of all conditions included therein, including, but not limited to, internal approval by Lessor and Lessee. It is intended that such documentation will incorporate the provisions of this Term Sheet and other terms normal for this type of transaction and that such documentation is executed within three months of the date of this Letter of Intent (or such other period as the parties may agree).

Please acknowledge your concurrence with the above terms and conditions by returning an executed copy of this Term Sheet.

MONTROSE GLOBAL LLP

By:  N.C. BRICE

Its: DIRECTOR

Date: 18/4/2017

ACCEPTED AND AGREED TO.

PENINSULA AIRWAYS, INCORPORATED

By: 

Its: PRESIDENT

Date: 17 APRIL 2017

APPENDIX A

FINANCIAL TERMS

Aircraft Type	Aircraft MSN	Year of Manufacture
Saab 2000	046	1997

Monthly Rent	Security Deposit Amount	Lease Term
\$45,000.00	\$90,000.00 (\$45,000.00 upon signing of this proposal and \$45,000.00 upon acceptance of the completed Aircraft)	Ten years (120 months)

Delivery Modifications (to be made prior to acceptance of the Aircraft by Lessee):

The proposed monthly rentals reflect up to USD \$600,000 of pre-delivery certification costs for the following:

- Modifications:**
- Reinforced Cockpit Door
 - Automatic Flap Retraction
 - Intragrated Hydraulic Package
 - Aileron Roll Trim Control
 - Misc. Componets
 - Dual GPS or Dual FMS
 - Collins DFDR Upgrade
 - ELT
 - Lav O2 Mask

Total Make Ready Costs Not to exceed \$600,000

APPENDIX B

PURCHASE OPTION SCHEDULE

Rental Payment	Post Rent Sum	Rental Payment	Post Rent Sum
1	\$2,939,297.45	61	\$1,487,324.89
2	\$2,915,936.08	62	\$1,462,586.65
3	\$2,892,590.54	63	\$1,437,776.36
4	\$2,869,190.55	64	\$1,412,894.54
5	\$2,845,736.80	65	\$1,390,049.46
6	\$2,822,168.78	66	\$1,368,479.10
7	\$2,798,600.15	67	\$1,346,345.24
8	\$2,775,025.21	68	\$1,323,640.89
9	\$2,751,404.80	69	\$1,294,528.99
10	\$2,727,719.07	70	\$1,272,532.62
11	\$2,703,955.35	71	\$1,249,779.98
12	\$2,680,105.24	72	\$1,225,433.71
13	\$2,656,163.02	73	\$1,200,609.58
14	\$2,632,124.68	74	\$1,175,307.31
15	\$2,607,987.43	75	\$1,149,525.91
16	\$2,584,559.52	76	\$1,123,263.83
17	\$2,560,455.92	77	\$1,096,519.05
18	\$2,536,259.72	78	\$1,062,681.28
19	\$2,511,968.34	79	\$1,036,922.53
20	\$2,487,579.79	80	\$1,010,393.24
21	\$2,464,373.92	81	\$983,080.10
22	\$2,440,218.34	82	\$954,968.82
23	\$2,416,027.28	83	\$921,263.69
24	\$2,391,801.00	84	\$892,731.48
25	\$2,367,539.72	85	\$863,336.50
26	\$2,343,243.72	86	\$833,062.12
27	\$2,318,913.25	87	\$800,971.54
28	\$2,294,548.60	88	\$769,335.33
29	\$2,270,150.09	89	\$729,525.69
30	\$2,245,718.05	90	\$703,283.41
31	\$2,221,252.86	91	\$668,847.51
32	\$2,196,438.40	92	\$634,536.67
33	\$2,171,463.23	93	\$598,508.95
34	\$2,148,398.76	94	\$561,429.66
35	\$2,123,926.50	95	\$523,275.52
36	\$2,099,433.27	96	\$489,652.71
37	\$2,074,919.66	97	\$450,468.66
38	\$2,050,386.25	98	\$410,122.83
39	\$2,025,833.68	99	\$368,589.30
40	\$2,001,262.57	100	\$325,841.32
41	\$1,976,673.61	101	\$281,851.32
42	\$1,952,067.51	102	\$260,162.45
43	\$1,927,445.01	103	\$246,827.31
44	\$1,902,806.90	104	\$233,492.16
45	\$1,878,154.00	105	\$220,157.02
46	\$1,853,487.16	106	\$206,821.87
47	\$1,828,807.32	107	\$193,486.73
48	\$1,804,115.41	108	\$180,151.58
49	\$1,779,412.43	109	\$166,816.44
50	\$1,754,699.45	110	\$153,481.30
51	\$1,729,977.55	111	\$140,146.15
52	\$1,705,247.89	112	\$126,811.01
53	\$1,680,511.66	113	\$113,475.86
54	\$1,655,770.13	114	\$100,140.72
55	\$1,631,024.61	115	\$86,805.58
56	\$1,606,276.45	116	\$73,470.43
57	\$1,585,550.71	117	\$60,135.29
58	\$1,561,103.74	118	\$46,800.14
59	\$1,536,583.69	119	\$33,465.00
60	\$1,511,990.67	120	\$0.00

APPENDIX C

END OF LEASE RETURN CONDITIONS

Standard industry Redelivery Conditions will be incorporated into the Lease agreement, the significant features of which will be as follows.

On redelivery at the end of the Lease, the aircraft will be returned in full compliance with the following conditions:

1. The aircraft will be returned in good overall condition, clean by international airline standards, reasonable wear and tear accepted, and fully equipped with all equipment required for international passenger operations.
2. All systems will be functioning within manufacturers' manual limits, including Maintenance Manual and Approved Flight Manual, with all pilots' discrepancies cleared and no deferred maintenance items.
3. The aircraft will be returned in full compliance with the latest revision of the manufacturers Maintenance Planning Document (MPD) and Maintenance Review Board (MRB) requirements, subject to exceptions as needed to ensure that Lessee's compliance with its approved maintenance program is sufficient to satisfy this requirement.
4. The aircraft, including fuselage, wings, fin and tail will be completely stripped and repainted in a colour scheme reasonably requested by the Lessor. All mandatory markings on the airframe exterior and in the passenger cabin and cargo compartments will be clear and legible in the English language. All visible markings and logos of the Lessee will have been removed from the cabin.
5. The airframe will be free of dents and abrasions in accordance with the Manufacturer's Structural Repair Manual (SRM) and free of and loose, missing or pulling rivets. All structural repairs will be flush where possible and permanent in accordance with the SRM, and repairs outside the SRM limits will have manufacturer's and governing body (EASA, FAA etc.) approval.
6. The aircraft will be in full compliance with all relevant governing body Airworthiness Directives (ADs) that have a compliance date up to 2 months after the Redelivery Date, without waiver, exemption or extension. All ADs will be complied with on a terminating action basis where such an option is available. All dirty finger print paperwork will be available for all ADs accomplished on the aircraft.
7. All time controlled components having a combination of a flight hour, flight cycle or calendar maintenance requirement will be redelivered with a minimum of 12 months, 2000 hours and 2000 cycle's life remaining to the next scheduled maintenance event. All such time controlled components will have their FAA or EASA Release Certificate available, as will all on condition and condition monitored components installed within 24 months prior to the Redelivery Date.
8. The aircraft will be re-weighed after the painting and the weight and balance report updated.

9. Fuel tanks will be free from contamination of water and microbiological organisms as evidenced by a fuel tank contamination test.
10. The aircraft will be re-delivered with the same time and cycles remaining to the 4year corrosion check, the 12,000 cycle fatigue check, the propeller overhaul status, and landing gear overhaul status as when delivered to Lessee. Financial compensation to be payable between lessee and lessor based on a mirror in mirror out principle.
11. The APU will be redelivered in a fully serviceable condition with no limitations;
12. Each Engine shall be serviceable for commercial passenger airline operation under the latest Civil Aviation Authority approved Saab 2000 MRB Maintenance Program, shall have been maintained in accordance with what has been agreed between Lessor and Lessee during the Lease Term and shall otherwise be in the condition required by the provisions of the Lease.
13. Engine temperature margins from Ground Power Assurance checks as described by the relevant Engine Manufacturers shall be provided and each Engine shall not exhibit any adverse trends that would reasonably indicate a removal to be required within an estimated time of six (6) months
14. At the time of its return, each Engine shall not require any life limited parts to be replaced that would necessitate a removal within a period of 12 months or 1000 cycles or 1000 hours
15. No engine LLP, landing gear LLP, propeller LLP and component installed on the aircraft at redelivery will have accrued more hours and cycles at redelivery than the airframe.
16. Engines and APU will have a complete video borescope of all sections accomplished after the test flight and immediately prior to return. Any conditions which place the engine or APU on watch or reduced inspection interval will be rectified prior to redelivery. Lessor may accomplish full maximum power assurance engine runs.
17. All engine, propeller, landing gear and airframe life limited parts will be supplied with complete back to birth traceability records.
18. Aircraft will be redelivered with an unrestricted Certificate of Airworthiness in the Public Transport category. If so requested by Lessor, Lessee will assist with the procurement of an Export Certificate of Airworthiness to a country designated by Lessor.

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In re:)
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PENINSULA AIRWAYS, INC., d/b/a)
PENAIR,) **Case No.: 17-00282 GS**
) **Chapter 11**
Debtor.)
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**ORDER GRANTING DEBTOR'S
MOTION FOR AUTHORITY TO ENTER INTO
AIRCRAFT LEASE COVERING ONE
SAAB 2000 AIRCRAFT**

At Docket _____, Debtor Peninsula Airways, Inc., dba PenAir ("Debtor") filed a *Motion for Authority to Enter Into Aircraft Lease Covering One Saab 2000 Aircraft* ("the Motion"). A hearing on the Motion was held September 22, 2017. Good cause appearing,

IT IS HEREBY ORDERED that the Motion is GRANTED. Debtor may enter into an aircraft lease covering one Saab 2000 Aircraft, on the terms of the proposal attached as Exhibit A to the Motion.

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DATED this ____ day of September 2017.

By: _____
Gary Spraker
U.S. Bankruptcy Court Judge

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PAGE 2: ORDER AUTHORIZING DEBTOR TO ENTER INTO LEASE COVERING ONE SAAB 2000
H:\3306\MAIN\ORDER GRANTING AUTHORITY TO ENTER INTO AIRCRAFT LEASE ON SAAB 2000.WPD