

CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No: 500-11-042345-120

SUPERIOR COURT
(Commercial Division)
(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act,
R.S.C. 1985, c. C-36)

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.

Insolvent Debtors/Petitioners

and

FTI CONSULTING CANADA INC.

Monitor

EIGHTH REPORT OF THE CHIEF RESTRUCTURING OFFICER TO THE COURT

I. 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 "Petitioners") filed a petition under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA"). An initial order (as subsequently amended and restated, 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 Petitioners (subsequently extended until October 25, 2012 and hereinafter referred to as the "Stay Period"), and appointing FTI Consulting Canada Inc. as monitor of the Petitioners (the "Monitor"). The proceedings commenced by the Petitioners under the CCAA will be referred to herein as the "CCAA Proceedings".
2. On March 20, 2012, an Order for the Appointment of a Chief Restructuring Officer (the "CRO Order") was made by the Court, appointing Mr. Jonathan Solorsh as chief restructuring officer of the Petitioners (collectively, with R.e.I. Group Inc. ("R.e.I."), the "CRO").
3. The purpose of this report is to inform the Court of the following:

- a) the general activities of the CRO since the date of his seventh report on September 25, 2012 (the "Seventh Report");
 - b) other matters relevant to the CCAA Proceedings, including the reasons for which the Petitioners require an extension of the Stay Period until January 31, 2013; and
 - c) the Company's cash flow forecast prepared in support of the request for an extension of the Stay Period.
4. In preparing this report, the CRO has relied upon unaudited financial information of the Petitioners, the Petitioners' books and records, certain financial information prepared by the Petitioners and discussions with management and employees. The CRO has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. 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.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

II. ONGOING ACTIVITIES OF THE CRO

6. The CRO's activities have been focused on the completion of the Divestiture Process ("DP") including the implementation of the remaining transactions previously approved by this Honourable Court and continuing the wind down of the day to day operations of Aveos.
7. Aveos currently employs approximately 19 people (including 9 short-term contractors), who continue to assist with ongoing critical functions.
8. As reported in the Seventh Report and other previous reports to the Court, 13 separate Asset Purchase Agreements with 11 purchasers have been completed pursuant to the DP and two Liquidation Services Agreements with Maynards Industries Ltd. have been entered into pursuant to the DP. These agreements account for the disposition of the majority of the Aveos assets in existence as at the date of the Initial Order. One of the remaining significant assets is the building which housed the Engine Maintenance Centre ("EMC"). The building is owned by Aveos but sits on land that is subject to a long term lease. The CRO and his team have solicited proposals with respect to listing the EMC building for sale or lease; however, these discussions are presently in abeyance pending the outcome of the initiative described in paragraph 9 below. A liquidation sale for the EMC assets is currently scheduled to take place on October 24 and 25, 2012.
9. Notwithstanding the agreements mentioned in Paragraph 8 above for the EMC, the CRO and Aveos have continued to pursue opportunities with respect to a potential en bloc sale of the EMC. As noted in the Seventh Report, one party in particular has engaged in due diligence regarding the EMC assets and entered into discussions with key stakeholders. At the time of writing this report, it would be premature to comment on the possible outcome; however, the CRO and Aveos continue to work with this party as well as the interested stakeholders. If the transaction proceeds, it could potentially also involve or be tied into the filing of a Plan of Arrangement.

III. FINANCIAL INFORMATION AND CASH FLOW

10. The Company's cash flow forecast for the sixteen weeks ending February 1, 2013 is attached as Appendix A. The forecast indicates that the Company can continue to fund its ongoing costs during that period. It is anticipated that this will allow for the Divestiture Process to be substantially completed as well as the advancement of other initiatives as detailed in this report.
11. The Company has made considerable progress in the collection of its accounts receivable. Accounts receivable collections for the 14 weeks ended October 12, 2012 were approximately \$8.3 million, which is approximately \$5.2 million higher than budget. The variance is largely due to the collection of certain customer accounts previously estimated to be uncollectable. Remaining outstanding items are, for the most part, subject to litigation.
12. With the limited exception of certain sales taxes and deposits held in trust by the Company's counsel, proceeds from the transactions completed under the DP are being held by the Company. On October 10, 2012, the Company filed a Motion with the Court for an order allowing a partial, interim distribution of proceeds to the Secured Lenders. This Motion is expected to be heard on October 24, 2012.
13. Pursuant to this Honourable Court's Order made on June 28, 2012, Aveos was authorized to pay amounts subject to the deemed trusts for payroll source deductions in favour of the Canada Revenue Agency ("CRA") and Agence du Revenu du Quebec ("ARQ") on terms to be agreed with the CRA and ARQ. As of the date of this report, all deemed trust amounts payable to CRA and ARQ that Aveos had been made aware of have been paid.
14. Attached as Appendix B is the Company's Statement of Receipts and Disbursements ("R&D") for the period July 7, 2012 to October 12, 2012. The R&D shows that the business has generated \$40.7 million in net proceeds since July 7, 2012 which is \$41.9 million better than projected. This material variance was largely due to proceeds from the DP being realized in the cash flow during this period (in the prior projections presented to the Court, Aveos had not included projected DP realizations as it could have prejudiced ongoing negotiations under the DP), the recovery of accounts receivable that were previously considered uncollectable as well as certain expenses being less than budgeted.
15. The Company did not receive the budgeted post-CCAA sales tax refund of approximately \$1.2 million, due to CRA and ARQ's position to set off the post-CCAA refunds due against pre-CCAA liabilities. The Company is of the opinion that this set off should not have been made and is considering its position.
16. ARQ is presently conducting an audit on behalf of both ARQ and the CRA. Issues which have been identified include the right of set off as between pre and post-CCAA amounts and the disallowance of various Input Tax Credits ("ITCs"), as well as other less material matters. As previously reported, Aveos has filed a notice of objection with respect to the disallowance of \$4.2 million of ITCs. The CRO considers ARQ's position on a variety of matters to be aggressive; the CRO will continue working with ARQ but may require the assistance of this Court to determine the entitlements of the parties depending on the outcome of these discussions. The CRA has also taken a position that approximately \$438,000 is owing for interest and penalties on the late payment of source deductions noted above. If Aveos' position is upheld in respect of

the ITC's, the result would be that the CRA and ARQ would owe Aveos funds related to the pre-petition period and the interest and penalties noted above would not be payable.

IV. OTHER MATTERS

17. As previously reported, Aveos was in possession of property owned by customers and certain other third parties, including engines and components. The majority of this property has now been returned with the exception of the property referred to in paragraph 18 and the property belonging to the parties involved in the litigation matters referenced below.
18. The Company has recently completed a settlement pursuant to a release and retrieval agreement with the Alsalam Aircraft Co. ("Alsalam"), whereby Alsalam's outstanding account was settled for US\$4,700,000. This amount has been paid in full and Alsalam is in the process of retrieving its engines and other components in accordance with the terms of the agreement. The retrieval process is expected to be completed by October 22nd.
19. The return of Air Canada's assets has been substantially completed, pursuant to the terms of the Air Canada Retrieval Agreement and related supplements (collectively, the "Retrieval Agreement"), as outlined in previous reports. In an effort to find an efficient way to deal with remaining issues between Aveos and Air Canada, the CRO and Air Canada have met and had preliminary discussions about the methodology Aveos and Air Canada might use to settle the outstanding business issues, which include:
 - (i) The disposition of approximately \$23 million held in the Monitor's escrow account, details of which have previously been reported to this Honourable Court;
 - (ii) Settling of amounts due from and to Air Canada as a result of pre-petition transactions between the parties; and
 - (iii) Determination of how Aveos may proceed with claims it may be entitled to assert against Air Canada for breach of contract or other damages incurred in the lead up to the cessation of Aveos' operations. The CRO notes that the Secured Lenders may also have a claim that could be pursued against Air Canada.
20. In the Seventh Report, reference was made to the status of 30 day goods claims. There has been no change in the status as reported at that time.
21. Effective September 30, 2012, Aveos surrendered all of its leased premises, including the facilities located in Vancouver, Winnipeg, Montreal and Toronto leased from Air Canada, the head office located at 2311 Boulevard Alfred Nobel in St-Laurent, Quebec ("BAN 3") leased from Morguard Corporation and Morguard Real Estate Investment Trust ("Morguard"), as well as various warehouse facilities. The lease for the premises attached to BAN 3 which housed the former Components Maintenance Centre, had been split from the BAN 3 head office lease and the CMC premises were surrendered to Morguard upon the closing of the sale of the CMC assets to AJW Technique Inc. with the consent of Morguard at the end of August. Aveos is now operating out of one location, namely the EMC building located at 7171 boul. de la Cote Vertu

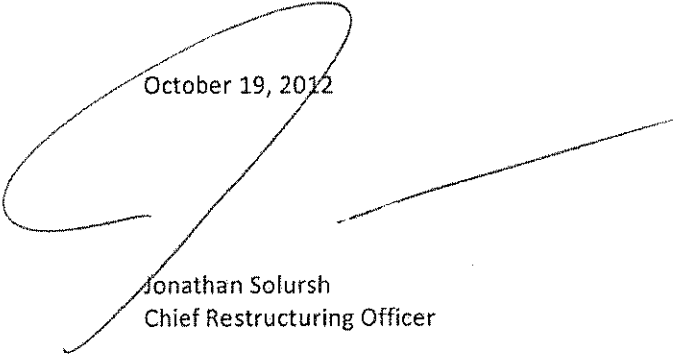
- Quest in St-Laurent. Notices of change of address have been sent to the parties on the service list and filed as appropriate.
22. Notwithstanding the surrender of the Air Canada leased premises, certain assets belonging to Aveos continue to be situated in certain of the former leased locations. Aveos is engaged in discussions with Air Canada on the process to retrieve these Aveos owned assets.
 23. As previously reported, the Office of the Superintendent of Financial Institutions ("OSFI") appointed Aon Hewitt ("Aon") as the Administrator of the Aveos employee pension plans. Aon is in the process of winding up the pension plans.
 24. Aon has identified that the unpaid employer current service costs owed with respect to the plan for Aveos unionized employees, which represents a super-priority, is approximately \$612,000. Aveos agrees with this position; however, these costs would not be payable if the plan was wound up in a surplus position. Accordingly, Aveos has not yet paid this amount, as it is waiting for a report from Morneau Shepell Ltd. ("Morneau"), the actuarial firm that has been hired to perform a review of the plan, to provide its opinion. Morneau was retained to perform an independent review for the CRO as Aveos had been advised previously that the plan was in a surplus position at the time of the Initial Order whereas, subsequently, Aon has reported that it was in a deficit position. It is the CRO's understanding that Aon is in the process of finalizing information that will be used by Morneau for its review.
 25. In addition to the above, there are unpaid special payments owed under the plan for non-unionized employees in the amount of approximately \$2.8 million. The Department of Justice, acting as legal counsel to OSFI, has taken the position that the special payments are subject to a deemed trust under the *Pension Benefits Standards Act (Canada)* and, accordingly, OSFI will apparently be asserting a priority claim for these amounts. The Secured Lenders have advised the CRO that they will challenge this claim.
 26. On May 22, 2012, a *De Bene Esse* Motion to Strike the *De Bene Esse* Notice by Debtor Company to Disclaim or Resiliate an Agreement was filed by Northgateairinso Canada Inc. ("NGA"), Aveos' former payroll service provider. The Motion was heard by this Honourable Court on September 28, 2012, and the hearing continued on October 18, 2012.
 27. Aveos commenced an action against Vision Airlines, Inc. ("Vision") in the state of New York in June, 2011. Vision had provided engines upon which Aveos performed work under the agreement between the parties, and some of those engines remain in Aveos' possession pending payment of outstanding amounts owed to Aveos. On August 13, 2012, Vision filed a *Motion for an Order Lifting the Stay of Proceedings to inspect and repossess certain assets* before the Québec Superior Court. On September 28, 2012, this Honourable Court rendered a judgment suspending Vision's Motion, pending the resolution of the proceedings in the State of New York. A motion seeking summary judgment against Vision is currently under advisement with the court in the New York proceedings.
 28. Aveos is also currently in litigation with JetLink Express Ltd. ("JetLink") and Mexican CRJ Limited ("MCRJ"), in proceedings which were also initiated prior to the CCAA filing. Aveos has obtained a judgment against JetLink in the amount of \$475,000 and is currently seeking to enforce this judgment in Canada and Kenya, where JetLink is based. The action continues against MCRJ.

29. Aveos has filed a Motion against Canadian North Inc. ("CDNN") to collect amounts owed by CDNN to Aveos. On July 26, 2012, counsel were directed to communicate with the Court to schedule a case management hearing. Aveos' counsel has written to counsel for CDNN requesting its statement of defense; however, CDNN is seeking further information as a result of undertakings given on the preliminary examination that took place in August 2012, prior to filing its contestation.
30. Other material items that the CRO and the Company continue to work on include, but are not limited to the following:
- a) Ensuring that employee T4s and other year-end tax documents will be produced at the appropriate time;
 - b) Quantifying and finalizing employee claims against the Company;
 - c) Working with the legal counsel for the International Association of Machinists and Aerospace Workers (the "IAMAW" or the "Union") and Service Canada with respect to the preparation and verification of the employees' potential WEPPA claims, including the impact of the implementation of the Air Canada heavy maintenance separation agreement;
 - d) The Company intends to file a Motion next month seeking an order to pay the remaining priority entitlement of certain employees (i.e. the difference between what was paid to employees subsequent to the Payroll Order of April 5, 2012, and what the employees would be entitled to receive under the super-priority of up to \$2,000 per employee). Should this Motion be granted, once the payments are made, a further Motion is also expected to address a trigger for WEPPA claims so that employees can make claims for any unpaid amounts that would be recoverable under the WEPPA program, after taking into account payments made under the Air Canada heavy maintenance separation program and the payments made pursuant to the Payroll Order and any further Order issued by the Court. The IAMAW has requested that the triggering of WEPPA be delayed until after the priority "top up" payment mentioned above has been made.
 - e) Effecting the interim distribution to Secured Lenders if authorized by this Honourable Court pursuant to the Motion filed on October 10, 2012. In conjunction with this interim distribution, it is anticipated that, with the consent of the Secured Lenders, provision will be made for payment of an additional amount to R.e.I. pursuant to the terms of its amended engagement letter, previously approved by the Secured Lenders.
 - f) Finalizing any remaining 30 day goods claims, which are not anticipated to be material and, for the most part, are settled or in the process of being settled;
 - g) Finalizing the retrieval of any remaining third party property and the disposition of remaining unsold Aveos assets including assets remaining in the possession of certain outside vendors or contractors;
 - h) Winding up and disposing of Aveos' information technology hardware, software and infrastructure; and

- i) Resolving the various issues with respect to the claims of the CRA and ARQ.

V. CONCLUSIONS

- 31. The CRO is of the view that the continuation of the CCAA Proceedings and the extension of the Stay Period until January 31, 2013, as requested by the Company, will provide Aveos with an opportunity to complete any remaining transactions which have been or will be entered into and approved under the Divestiture Process as well as other initiatives described above and in the CRO's previous reports, all with the objective to enhance the value to be recovered by the Secured Lenders and advance the interests of other stakeholders to the greatest extent possible.
- 32. The requested extension for the continuation of the CCAA Proceedings takes into account the timeline anticipated for the completion of the major transactions as well as other important ongoing initiatives, including settlement and collection of accounts receivable, litigation and other activities as detailed above and in the CRO's previous reports to this Honourable Court.



October 19, 2012

Jonathan Solursh
Chief Restructuring Officer

Appendix A

Aveos Fleet Performance Cash Flow Projections

	19-Oct (\$'000)	26-Oct (\$'000)	2-Nov (\$'000)	9-Nov (\$'000)	16-Nov (\$'000)	23-Nov (\$'000)	30-Nov (\$'000)	7-Dec (\$'000)	14-Dec (\$'000)	21-Dec (\$'000)	28-Dec (\$'000)	4-Jan (\$'000)	11-Jan (\$'000)	18-Jan (\$'000)	25-Jan (\$'000)	1-Feb (\$'000)	Total (\$'000)
Cash Receipts																	
Proceeds from Divestiture Process		70	1,230	-	-	-	-	-	-	-	-	-	-	-	-	-	1,300
Total Receipts		70	1,230	-	-	-	-	-	-	-	-	-	-	-	-	-	1,300
Cash Disbursements																	
Payroll & Benefits	98	37	347	28	45	25	60	25	42	25	39	18	46	18	24	18	891
Operating Expenses	213	196	396	601	106	51	251	51	56	51	351	51	56	51	251	51	2,777
Professional Fees	234	299	236	178	131	131	131	82	82	82	37	49	117	96	44	44	1,969
Super Priority Payments	-	-	-	-	-	-	-	400	612	-	-	-	-	-	-	-	1,012
Total disbursements	545	531	978	806	282	206	441	557	792	157	426	117	219	165	318	112	6,650
Change in Cash	(545)	(461)	252	(806)	(282)	(206)	(441)	(557)	(792)	(157)	(426)	(117)	(219)	(165)	(318)	(112)	(5,350)
Opening Balance (Book)	48,928	48,383	47,922	48,174	47,368	47,087	46,881	46,440	45,883	45,091	44,934	44,508	44,391	44,172	44,008	43,690	48,928
Closing Balance (Book)	48,383	47,922	48,174	47,368	47,087	46,881	46,440	45,883	45,091	44,934	44,508	44,391	44,172	44,008	43,690	43,578	43,578

Notes:

- 1 The purpose of this cash flow projection is to determine the liquidity requirements for the Company during the proposed extension of the CCAA proceedings.
- 2 The cash flow projection is presented on a consolidated basis for Aveos Fleet Performance Inc. and Aero Technical US Inc.
- 3 The cash flow projection is based on the assumption that the Company will operate and run its Divestiture Process in accordance with the Orders of the Court.
- 4 Cash receipts are based on the Company's estimate of collection.
- 5 Includes payroll and benefits.
- 6 Includes insurance, security, IT, and other operating expenses.
- 7 Professional fees consist of CFO, Monitor, and legal fees and expenses.
- 8 Includes payments for pension contributions (current service costs) as well as certain employee related claims (subject to confirmation).
- 9 Interim distribution to secured lenders is not reflected pending a determination of the Distribution Motion by the Court

Appendix B

Aveos Fleet Performance Actual Results to Budget

	For the 14 Weeks from July 7 to Oct 12			Cumulative for the 29 weeks ended Oct 12	
	Budget	Actual	Variance	Actual	
	(\$)	(\$)	(\$)	(\$)	
Cash Receipts					
Cash receipts from A/R	A	3,095	8,339	5,244	22,368
Proceeds from Sale of Assets	B	8,189	43,689	35,500	46,889
Other	C	1,660	972	(688)	2,666
Total Receipts		12,944	53,000	40,056	71,922
Cash Disbursements					
Payroll & Benefits	D	2,551	2,115	(436)	13,479
Operating Expenses	E	5,690	3,498	(2,192)	9,518
Professional Fees	F	3,398	3,896	498	10,566
Sales Tax	G	-	210	210	210
(Gain)/Loss on F/X		-	-	-	(49)
Super Priority Payments		2,584	2,617	33	2,617
Total disbursements		14,222	12,336	(1,886)	36,341
Change in Cash		(1,278)	40,664	41,943	35,582
Opening Balance (Book)		8,264	8,264	-	13,346
Closing Balance (Book)		6,985	48,928	41,943	48,928
Outstanding Cheque		-	214	214	214
Closing Balance (Bank)		6,985	49,141	42,156	49,141

Note:

- A Variance primarily due to collection of certain accounts receivable not budgeted to be collected.
- B Variance primarily due to proceeds from the sale of the engine and components division.
- C Variance primarily due to non-collection of sales tax refund, offset by higher than budgeted recovery from other sources.
- D Variance primarily due to timing difference as certain expenses were not paid as budgeted, as well as less costs being incurred.
- E Variance primarily due to timing difference as certain expenses were not paid as budgeted, as well as less costs being incurred.
- F Variance primarily due to higher professional fees incurred as a result of various litigation.
- G Variance due to remittance of sales taxes collected from the divestiture process.

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Roger P. Simard File: 548731-001
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ORIGINAL



Fraser Milner Casgrain LLP
1 Place Ville Marie, Suite 3900
Montréal, QC, Canada H3B 4M7

MAIN 514 878 8800
FAX 514 866 2241

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