

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

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

No: 500-11-042345-120

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

FIFTH 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 until July 20, 2012 (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 Solursh as chief restructuring officer of the Petitioners (collectively, with R.e.I. Group Inc. ("REL"), the "CRO").
3. The purpose of this report is to inform the Court of the following:

- a) an update on the conduct of the Divestiture Process (“DP”) and status of certain resulting transactions; and
 - b) various other matters relevant to the CCAA Proceedings.
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. SALE OF ENGINE MAINTENANCE CENTRE (“EMC”)

6. Results of the DP including statistics relating to the divestiture of the EMC were outlined in the CRO’s third report to the Court and are not repeated in this report in the interest of efficiency.
7. As of the date of the CRO’s third report, no offers or concrete expressions of interest in the acquisition of the EMC as a going concern had been received. Given this unfortunate fact and the requests by interested parties for additional time, a deadline extension was granted to give parties further time to assess the opportunity and for the CRO and other stakeholders to ensure there was nothing else that could be done to change this outcome.
8. The CRO engaged with and participated in numerous meetings with interested parties to further discuss the potential of purchasing and operating the EMC. In addition, in early July 2012, the CRO attended a meeting with representatives of the Union, the Monitor, the Province of Quebec and a potential purchaser who had indicated an interest in job creation, to see if there was any way to sell the EMC on a going concern basis.
9. While every effort was made to facilitate a going concern sale for EMC, feedback received from interested parties indicated that:
- (i) There is already a significant amount of global excess capacity in this particular space;
 - (ii) The engines serviced at the EMC are older models, and have limited outlook for the future;
 - (iii) Further to point (ii) above, the plant would need significant investment to modernize; and
 - (iv) The EMC plant is simply too big for the amount of space an operator would require to run this type of business.

Based on the above comments, prospective purchasers did not see the value in restarting the engine business at EMC and accordingly did not make going concern bids.

10. As previously reported, Aveos had entered into a conditional liquidation services agreement (for tooling and equipment) as well as an asset purchase agreement (for inventory) with Maynards Industries Ltd. ("Maynards"), the auctioneer that had submitted the highest liquidation proposal on the most commercially acceptable terms. These agreements excluded the Air Canada engine contract (the "Air Canada Contract") and allowed Aveos to terminate the Maynards agreements if Aveos was able to sell the EMC to a strategic player prior to the anticipated July 26 Sale Approval Date. The Maynards agreements also provided the potential to carve out certain tools which would be required by one of the parties interested in the Air Canada Contract. The carve out provision has now been extended to August 15, 2012 to preserve this option, should that player be the winning bidder on the Air Canada Contract.
11. Given these results, the CRO recommends the approval of the Maynards agreements referenced above and, subject to the approval of this Honourable Court, the CRO will continue working with Maynards to achieve maximum recovery for the stakeholders in the circumstances.
12. As noted above, the CRO has pursued the opportunity to sell the Air Canada Contract and has been dealing with interested parties in this regard. One of the interested parties has signaled an interest in providing employment opportunities for some ex-Aveos employees, albeit in a different location than EMC.
13. The CRO understands from discussions with all parties interested in the Air Canada Contract that certain amendments and accommodations by Air Canada may be needed. The CRO is aware that Air Canada is in discussions with the potential purchasers regarding amendments to the Air Canada Contract that would come into effect after the Air Canada Contract is assigned. By way of background, the Air Canada Contract was a re-negotiation of the existing contract between Aveos and Air Canada which becomes effective upon assignment to a third party qualified to undertake the work. Air Canada does not have any obligation to Aveos to amend the Air Canada Contract. However, since it will be a true third party relationship between the assignee and Air Canada, the CRO understands that the agreement may need some adjustment to accommodate the structure and commercial changes associated with this new relationship.
14. The potential purchasers have made it clear to the CRO that they are working closely with Air Canada, and that Aveos will not have clarity on the outcome for the Air Canada Contract until Air Canada determines how it wants to accommodate the purchasers. The determination as to who will be successful in acquiring the Air Canada Contract is largely at Air Canada's discretion as a result of the post-assignment amendment discussions Air Canada has undertaken with the bidders. The spirit of the agreement entered into between Air Canada and Aveos on May 30, 2012 was designed to maximize value to Air Canada, Aveos and other stakeholders while recognizing that Air Canada will need to be satisfied with the party who will service its contracts.
15. To date, Aveos has received preliminary, conditional offers on the Air Canada Contract. Final offers are expected in the near term and it is the CRO's intention to seek approval for a transaction and a vesting order from this Court on or before August 15, 2012.
16. Given that there will be no restart of the EMC business, the CRO has also initiated a process to sell the EMC building. The CRO will be pursuing discussions with a few parties who have

expressed interest as well as obtaining proposals from at least two brokers who are familiar with this type of property, including the operational requirements necessary to handle the sale. The CRO will report to the Court on Aveos' direction for the EMC building once the process has further matured.

III. SALE OF COMPONENT MAINTENANCE CENTRE ("CMC")

17. On July 13, 2012, Aveos received various bids with respect to the CMC Division (Lot 7 in the DP). In total, six bids were received, including offers for specific assets or asset groupings, and for the CMC business as a whole. The bidders consisted of both strategic purchasers and liquidators.
18. Discussions with the prospective purchasers are ongoing and, while an agreement has not been concluded as of the time of filing this Report, the CRO is optimistic that an agreement will be reached in the very near future for a transaction that can be recommended for approval.
19. In order to preserve the integrity of the DP, as well as protect the interests of the Secured Lenders, the CRO has negotiated a conditional liquidation services agreement (for CMC tooling and equipment) as well as an asset purchase agreement (for CMC inventory) with the auctioneers who had submitted the highest liquidation proposals on the most commercially acceptable terms for those assets. The two agreements cover the assets included in Lot 7 under the DP. This allows Aveos to lock up agreements for liquidation of the bulk of the CMC assets on a net minimum guarantee basis for tooling and equipment (and outright purchase for inventory), but still affords Aveos the option to preserve the opportunity of entering into an agreement and closing a transaction with a strategic purchaser for the CMC business.
20. In order to secure the agreements described in paragraph 19, Aveos agreed to pay the liquidators a break fee in the aggregate amount of \$135,000, subject to the approval of this Honourable Court to be obtained when the CMC transactions are submitted to the Court for approval. The break fees would only be payable if Aveos elects to terminate the agreements in the circumstances where Aveos accepts an offer for the CMC assets, in whole or in part, from a strategic purchaser.

IV. SALE OF OTHER ASSETS

21. Various offers have been received for other assets including the assets used in the Aveos safety, gas and battery shops. Documentation for certain of these offers is still in the process of being finalized and, where Court approval is required, the transactions will be submitted for approval at a later date.
22. Aveos has entered into an Asset Purchase Agreement for the sale of the safety gas and battery shop assets as described therein conditional on Court approval and the issuance of a vesting order. As this represents the best offer received for these assets, the CRO recommends approval of the transaction.
23. Aveos had also received an offer for Lot 23 (landing gear) assets and was anticipating the conclusion of a sale transaction with the offeror. However, late last week, the offeror advised that it was not satisfied with its review of the assets and was electing to terminate or withdraw

its offer. Discussions with the offeror are ongoing and a further update will be provided at a later date.

VI. OTHER MATTERS

24. The CRO and his team acknowledge and commend the efforts of the Union and its advisors in working with all parties who have come forward with respect to both CMC and EMC. Where opportunity has presented itself, the Union was able to marshal its resources and come to terms with potential purchasers to work out a deal. While the outcome of the DP has not yet been concluded, it is clear that the Union and its advisors have, to date, been helpful and accommodating in the process in an effort to support solutions that would allow for a potential restart of operations and resulting job creation opportunities.
25. The CRO is aware that additional funds will be available to former Aveos employees through the Wage Earner Protection Program Act ("WEPPA"). The triggering of the WEPPA to allow for payment of these additional amounts to employees is at the forefront of the CRO's discussions and planning and will be taken into account in terms of the CRO's recommendations for the CCAA process.
26. In the CRO's Fourth Report to the Court dated July 13, 2012, the status of 30 day goods claims was summarized. To update this information, there have been 16 claims made by various suppliers to date. Of these 16 claims:
- 5 have now been completely settled;
 - 5 have been determined to be invalid claims and, accordingly, rejected;
 - 3 remain under analysis or negotiation; and
 - 3 claims relating to components remain in abeyance, pending the outcome of the sale of the CMC division.

V. CONCLUSIONS

27. The CRO respectfully submits this Fifth Report in support of the Petitioners' Motion for approval of the various transactions relating to the EMC and other assets as reported above and vesting orders for the assets to be sold or liquidated as described in this Report and the Petitioners' Motions.

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Fraser Miller (Signature)

July 25, 2012

Jonathan Solursh
Chief Restructuring Officer

No. 500-11-042345-120

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Me Roger P. Simard

File: 548732-1

FIFTH REPORT OF THE CHIEF RESTRUCTURING
OFFICER TO THE COURT

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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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