CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO: 500-11-042345 - 120

SUPERIOR COURT
Commercial Division
***Designated tribunal under the Companies' Creditors Arrangement Act*[1]**

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.

DEBTORS

- and -

FTI CONSULTING CANADA INC.

MONITOR

FIFTH REPORT TO THE COURT SUBMITTED BY FTI CONSULTING CANADA INC., IN ITS CAPACITY AS MONITOR

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 "**Debtors**") made an application under the *Companies' Creditors Arrangement Act,* R.S.C. 1985, c. C-36, as amended (the "**CCAA**") and an initial order (the "**Initial Order**") was made by the Honourable Mr. Justice Schrager of the Superior Court of Quebec (Commercial Division) (the "**Court**"), granting, *inter alia,* a stay of proceedings against the Debtors until April 5, 2012, (the "**Stay Period**") and appointing FTI Consulting Canada Inc. as monitor of the Debtors (the "**Monitor**"). The proceedings commenced by the Debtors under the CCAA will be referred to herein as the "**CCAA Proceedings**".

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1 *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

2. On March 20, 2012:

   (a) the Monitor filed its first report to advise the Court of material adverse events which would lead to the resignation of the Debtors' directors, the shutdown of its operations and the termination of most of its workforce;

   (b) the Debtors presented a motion for the appointment of a Chief Restructuring Officer (the "**CRO Motion**"), which was granted appointing Mr. Jonathan Solursh as the Chief Restructuring Officer (the "**CRO**") with authority to carry on, manage, operate and supervise the management and operations of the business and affairs of the Company, subject to certain terms and conditions and granting a charge in favour of the CRO in the amount of $2.5 million (the "**CRO Charge**").

3. On March 28, 2012, Aeroturbine, Inc. ("**Aeroturbine**") served a Motion *de benne esse* to lift the stay (the "**Aeroturbine Motion**"), which was presentable on April 5, 2012.

4. On March 30, 2012, the Debtors presented a motion for the issuance of an amended and restated Initial Order (the "**Restated Initial Order**") in order to deal with two issues as follows:

   (a) firstly, the Debtors' request for the approval of the Court to exclude from the Initial Order the requirement to pay pre-filing Sales Taxes. The Court released its reasons for its decision on April 3, 2012;

   (b) secondly, Debtors sought certain modifications to the Initial Order to ensure and facilitate the publication of the Directors' Charge, the Administrative Charge and the CRO Charge. The Court suggested, and it was agreed, that the presentation of this part of the motion be postponed to April 5, 2012, so that the Debtors may adduce additional evidence concerning the nature and extent of the rights affecting the property described at paragraph 19 of said motion and concerning the rights registered against Debtors' moveable property. Also, the Court mentioned that it might be appropriate to reconsider at that time the Directors' Charge given the events which took place immediately following the issuance of the Initial Order.

5. On April 5, 2012, the matter of the Director's Charge was postponed and the Court granted the following Orders:

   (a) Order for Directions and Authorization for the Payment of Certain Sums to Employees;

   (b) Order lifting the stay to allow Air Canada to repossess certain assets; and

   (c) Order extending the stay until May 4, 2012.

6. Additionally, on April 5, 2012 an Amended and Restated Initial Order was granted by the Court including a protocol for the identification and return of third party property. The Aeroturbine Motion was reserved as it was agreed to follow the protocol outlined in the Amended and Restated Initial Order.

7. On April 20, 2012 the Court granted an order approving the Divestiture Process.

8. On April 26, 2012 the Court granted an order approving the sale of certain Redundant Parts.

9. On April 27, 2012 the former Directors of the Debtors filed a motion to reduce the Directors' Charge from the amount of Five Million Dollars ($5,000,000) to Two Million Dollars ($2,000,000).

10. On April 30, 2012, the Company filed a motion requesting an extension of the Stay Period to July 13, 2012.

11. Earlier today, the Monitor has received service of Air Canada ("**AC**")'s De Benne Esse Motion for an Order Lifting the Stay of Proceedings to Confirm the Termination of Certain Contracts ("**AC's Motion to Terminate Contracts**").

12. The purpose of this report is to inform the Court on the following:

    (a) The payment of pre-filing wages to employees;

    (b) The return of assets to Third Parties;

    (c) The review of goods delivered to the Company in the 30 days ("**30 Day Goods**") prior to the issuance of the Initial Order;

    (d) The status of the Divestiture Process ("**DP**");

    (e) An update in respect of the Department of National Defence ("**DND**") contract;

    (f) The receipts and disbursements of the Company for the period March 31, 2012 to April 27, 2012;

    (g) The revised cash flow forecast for the period April 28, 2012 to July 13, 2012;

    (h) The former Directors' request to reduce the Directors' Charge to $2,000,000 and the Monitor's recommendation thereon;

    (i) AC's Motion to Terminate Contracts; and

    (j) The Company's request for an extension of the Stay Period until July 13, 2012 and the Monitor's recommendation thereon.

13. In preparing this report, the Monitor has relied upon unaudited financial information of the Debtors, the Debtors' books and records, certain financial

information prepared by the Debtors and discussions with the Debtors' management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor 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 management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

14. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the previous reports of the Monitor.

THE PAYMENT OF PRE-FILING WAGES TO EMPLOYEES

15. On April 20, 2012, the Company made payment of the pre-filing wages owing to the employees in accordance with the Order for Directions and Authorization for the Payment of Certain Sums to Employees. On the same date it was disclosed to the Court that a number of employees had brought to the attention of the Monitor, alleged errors and underpayments with respect to this payroll.

16. The Company and the Monitor began an investigation into errors reported by the employees, as well as additional errors that were identified during the Company's review of the payroll.

17. As more fully described in the CRO's Second Report, the Company continues its efforts to resolve these errors in a manner satisfactory to the Monitor.

18. The Company has identified areas to improve its internal controls surrounding payroll and these measures have been implemented.

19. As reported in the CRO's Second Report, the Company offset approximately \$350,000, net of source deductions, of "negative time bank" relating to approximately 600 terminated employees against the April 20, 2012 payroll based on an initial decision by the Company and the Monitor to net such amounts against the terminated employees' final pay.

20. After further consideration and consultation with the Union and the Company, it was determined that these amounts would have, in the normal course, been netted against employees' claims for severance and termination. Therefore, the corollary treatment under these proceedings would be to offset such amounts in the calculation of the WEPPA claim available to these employees. The Company will pay such amounts to the affected employees during the week ending May 4, 2012.

21. An additional area of particular importance to terminated employees has been the delay in the issuance of Records of Employment ("**ROE**") letters. The Company continues to work through issues with its payroll provider, and efforts to issue ROE letters are ongoing. Notwithstanding the delay in issuance of ROE letters, the CRO has obtained confirmation from Service Canada that it has settled approximately 97% of requests for benefits and employees have begun to receive payments.

THE RETURN OF ASSETS TO THIRD PARTIES

22. Following the granting of the Amended and Restated Order, the Company and the Monitor have worked with third parties to complete the identification, reconciliation and return of third party assets, which are not necessary to the current operations of the Debtors, as further detailed in the CRO's Second Report.

23. On April 5, 2012, the Company and Air Canada negotiated and signed a retrieval agreement (the "**Retrieval Agreement**") with respect to airframe 937 and 11 engines. Air Canada has provided the documentation supporting its claim to title

to these assets, settled its account, excluding excise taxes which will be settled with the next agreement, and all of these assets have been returned to Air Canada.

24. On April 26, 2012, the CRO and Air Canada entered into a supplement to the Retrieval Agreement ("**Supplemental RA**") covering the additional two airframes, the remaining 8 engines, certain limited life parts ("**LLP**"), additional engine parts inventory, the 646 landing gear, certain component parts where work was not commenced, time and material parts, and certain intellectual property.

25. In total, Air Canada has deposited approximately $12.4 million in escrow to date pursuant to the Retrieval Agreement and Supplemental RA. Amounts will be released from escrow if a settlement is reached between the Company and Air Canada on such amounts, or following a formal Court process as indicated in the CRO's Second Report.

26. Air Canada has provided a timeline with respect to the period required to complete the work on the assets included in the Supplemental RA and remove the assets, which extends to August 31, 2012. The Company and Air Canada are working together to address any transition issues that may arise as a result of the completion of the Divestiture Process during this timeline.

THE REVIEW OF 30 DAY GOODS

27. The Company has reviewed its books and records to identify the quantum of the goods that were delivered to the Company in the 30 days prior to the Initial Order.

28. The Company has also responded to various inbound requests regarding 30 day goods by reconciling, or beginning to reconcile, such requests to the Company's books and records.

29. The Company has developed an estimate of the gross exposure for 30 day goods. The Company has not undertaken a detailed analysis of the applicability of all the

provisions in Section 81.1 of the Bankruptcy and Insolvency Act to identify the net exposure to 30 day goods creditors.

THE DIVESTITURE PROCESS

30. As further detailed in the CRO's Second Report, the Company launched the DP after receiving Court approval to do so on April 20, 2012 and has been in contact with numerous interested parties, several of which have (or are in the process of) executed NDAs, performed site visits and have been granted access to the data room.

THE DND CONTRACT

31. As previously disclosed to the Court, the Company provided services to DND under a service contract set to expire in July 2012. The Company advised DND that it would be discontinuing the services effective April 30, 2012 as further described in the CRO's Second Report.

THE RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD MARCH 31, 2012 TO APRIL 27, 2012

32. The Debtors' actual cash flow for the period March 31, 2012 to April 27, 2012 was approximately $2.2 million better than the March 31 Cash Flow filed as Appendix A to the Second Report of the Monitor, as summarized below:

$000s	Budget	Actual	Variance
Cash Receipts			
Cash receipts from A/R	4,986.7	4,212.8	(773.9)
Proceeds from Divestiture of EMC Division	-	-	-
Proceeds from Divestiture of CMC Division	-	-	-
Proceeds from Divestiture of HMC Division	-	-	-
Other	-	372.7	372.7
Total Receipts	**4,986.7**	**4,585.5**	**(401.3)**
Cash Disbursements			
Payroll & Benefits	7,917.0	7,390.0	527.0
Operating Expenses	1,642.0	1,052.4	589.7
Professional Fees	4,071.4	2,853.8	1,217.6
Sales Tax	-	-	-
Loss on F/X	-	79.2	(79.2)
Total disbursements	**13,630.4**	**11,375.4**	**2,255.1**
Change in Cash	**(8,643.7)**	**(6,789.9)**	**1,853.8**
Opening Balance (Book)	**12,866.4**	**12,866.4**	-
Closing Balance (Book)	**4,222.7**	**6,076.5**	**1,853.8**
Outstanding Cheque	-	301.2	301.2
Closing Balance (Bank)	**4,222.7**	**6,377.7**	**2,155.1**

33. The March 31 Cash Flow Forecast assumed cessation of normal course business operations with the employment of managerial staff and professionals to manage the Company during the CCAA Proceedings.

34. In line with these assumptions, the Company focused on the collection of outstanding accounts receivable and cash preservation during the period from March 31, 2012 to April 27, 2012.

35. The collection of receipts has been delayed due to the uncertainty surrounding the business and, in certain instances, is being linked to the return of third party assets.

36. The disbursements during the period were significantly lower than forecasted due to favourable variances in Payroll & Benefits, Operating Expense, and Professional Expenses.

37. Notes on variances:

(a) The unfavourable variance in Cash Receipts from A/R results from timing differences in the collection of receivables from customers.

(b) The favourable variance in Payroll & Benefits is primarily the result of the Company applying the negative time bank set off against the budgeted payment for pre-filing wages. As highlighted previously in this report, such off sets will be paid during the week ending May 4, 2012, which is budgeted in the April 28 Cash Flow (as defined below).

(c) The favourable variance in Operating Expenses relates to (i) an approximate $300,000 temporary variance relating to the timing of insurance premium payments, and (ii) permanent variances for expenses that were forecasted but were never incurred due to the lower run-rate of the business in this state.

(d) The favourable variance in Professional Expenses results from a timing difference, as the budget anticipated professionals would be paid weekly whereas actual payments have been less frequent.

THE REVISED CASH FLOW FOR THE PERIOD APRIL 28, 2012 TO JULY 13, 2012

38. The Company has prepared a revised cash flow for the period April 28, 2012 to July 13, 2012 (the ("**April 28 Cash Flow**") which is attached to this report as Appendix A. The April 28 Cash Flow shows a minimum cash balance during the period of $1.6 million and is summarised below:

$000s	11 wk Total
Cash Receipts	
Cash receipts from A/R	10,740.2
Proceeds from Sale of EMC Division	-
Proceeds from Sale of HMC Division	-
Proceeds from Sale of CMC Division	-
Other	685.0
Recovery from Air Canada	-
Total Receipts	11,425.2
Cash Disbursements	
Payroll & Benefits	4,276.3
Operating Expenses	5,971.0
Professional Fees	5,662.8
Sales Tax	-
Loss on F/X	-
Total disbursements	15,910.1
Change in Cash	(4,484.9)
Opening Balance (Book)	6,076.5
Closing Balance (Book)	1,591.6

39. The key assumptions of the April 28 Cash Flow are as follows:

(a) Receivables include amounts that the Company and the CRO reasonably believe can be collected during the period as the amounts are due and owing and relate to completed work;

(b) Payroll includes:

(i) wages and benefits for post-filing continuing employees;

(ii) the payment of the $0.7 million, including source deductions, previously withheld from the April 20, 2012 payment of pre-filing wages for negative time bank;

(iii) payments related to the incentive payment program for certain employees, as described in greater detail within the Second Report of the Monitor;

(c) Operating disbursements are in respect of normal post-filing operating costs including rent, insurance, security, utilities, IT, etc. As noted in the CRO's Second Report, the rent relief provided by Air Canada is assumed to continue throughout the April 28 Cash Flow period;

(d) Sales Taxes include remittances of sales taxes based on forecasted activity; and

(e) Professional fees include the fees of the CRO team, the Monitor and legal counsel of the various constituents.

40. As previously reported to the Court, \$2.6 million of pre-filing statutory remittances had not been paid in the ordinary course due to the CCAA filing. As indicated in the CRO's Second Report, the CRO has come to agreement with Canada Revenue Agency ("**CRA**") that such amounts will be paid out of any proceeds from the DP. As such, these amounts are not included in the April 28 Cash Flow.

41. Cash preservation continues to be of the utmost importance to sustain a restructuring that should allow for the sale of assets in a manner that maximizes value for key stakeholders.

THE FORMER DIRECTORS OF THE DEBTORS REQUEST TO REDUCE THE DIRECTORS' CHARGE

42. The Monitor refers the Court to its Second report, which mentions the original support of the Monitor for the creation of the Directors' Charge as per the Initial Order, the directors' decision to resign after the issuance of the Initial Order and the creation of the Directors' Charge, the filing by the Monitor of its First report (material adverse change report) and, more particularly, the various factors listed at paragraph 36 of its Second report which need to be considered in the Monitor's opinion to re-evaluate the Directors' Charge.

43. The Court agreed not to address this issue as part of the first extension hearing on April 5, 2012, given that the former directors were not duly represented and given that the Lenders had not formalized at the time their position with respect to this issue.

44. Since that date, the former directors have retained independent counsel and engaged discussions with the Debtors and its CRO, the Lenders and the Monitor with respect to the Directors' Charge.

45. In line with its Second report, the Monitor fully supports the proposed reduction of the Directors' Charge as requested in the circumstances by the former directors of the Debtors. This solution, which is advanced by the former directors of the Debtors and is supported by the Lenders, appears fair and reasonable in this very fact specific situation.

AC'S MOTION TO TERMINATE CONTRACTS

46. Earlier today, the Monitor received service of AC's Motion to Terminate Contracts. The Monitor did not have time to fully review and analyse the arguments raised by AC, discuss their merits with the Debtors and other interested stakeholders, nor the impact of this Motion on the on-going Divestiture Process.

47. At this stage, the Monitor is very concerned by the possible impact of this Motion on the on-going Divestiture Process. The Monitor considers that the presentation of this Motion at this stage, without allowing to the parties the opportunity to fully discuss the options before forcing the issue in Court, is at the very least premature given the process underway and the stated preference that potential purchaser(s) enter into new agreement(s) with Air Canada.

THE COMPANY'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD TO JULY 13, 2012

48. The Company has requested an extension of the Stay Period to July 13, 2012, as additional time is required to complete the Divestiture Process and the third party asset retrieval process, among other initiatives.

49. The April 28 Cash Flow demonstrates that the Company has sufficient liquidity during this period to conduct operations and meet its obligations in the ordinary course.

CONCLUSION

50. The Monitor is of the view that the reduction in the Directors' Charge is reasonable and appropriate in consideration of the pre-filing amounts owed to employees; the potential post-filing claims arising from the shutdown of the business; the decision of the former directors to resign prior to or immediately after the issuance of the Initial Order; the appointment of a CRO and the creation of the CRO Charge; and, the motion filed by the former directors and the support thereof by the Lenders. As such, the Monitor recommends the Court should grant the relief sought by the former directors of the Debtors.

51. The Monitor is of the view that an extension of the CCAA is reasonable and will allow the Company an opportunity to complete the Divestiture Process, which still represents the best path for an outcome that could benefit a broader group of stakeholders, and recommends that the relief sought by the Debtors as requested be granted.

The Monitor respectfully submits to the Court this Fifth Report.

Dated this 2nd day of May, 2012.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Aero Fleet Performance Inc. and Aero Technical US Inc.

Greg Watson
Senior Managing Director

Mark Laber
Managing Director

Appendix A

The April 28th Cash Flow

APRIL 28 CASH FLOW [1,2,3]

		Week Ending											11 Week Total
		4-May	11-May	18-May	25-May	1-Jun	8-Jun	15-Jun	22-Jun	29-Jun	6-Jul	13-Jul	
		($)	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Cash Receipts													
Cash receipts from A/R	Note 4	1,167,586	3,285,170	1,676,334	9,281	1,795,845	250,000	868,715	1,399,936	87,309	100,000	100,000	10,740,176
Proceeds from Sale of EMC Division		-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Sale of HMC Division		-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Sale of CMC Division		-	-	-	-	-	-	-	-	-	-	-	-
Other	Note 5	595,000	90,000	-	-	-	-	-	-	-	-	-	685,000
Total Receipts		1,762,586	3,375,170	1,676,334	9,281	1,795,845	250,000	868,715	1,399,936	87,309	100,000	100,000	11,425,176
Cash Disbursements													
Payroll & Benefits	Note 6	1,259,949	409,723	263,668	410,774	177,668	334,488	150,668	314,488	149,668	314,488	490,714	4,276,297
Operating Expenses	Note 7	1,595,446	414,477	244,477	244,477	1,048,160	430,160	205,160	205,160	245,160	1,133,160	205,160	5,970,994
Professional Fees	Note 8	715,307	523,500	487,000	506,500	506,500	506,500	506,500	477,750	477,750	477,750	477,750	5,662,807
Sales Tax		-	-	-	-	-	-	-	-	-	-	-	-
Loss on F/X		-	-	-	-	-	-	-	-	-	-	-	-
Total disbursements		3,570,702	1,347,700	995,145	1,161,751	1,732,328	1,271,148	862,328	997,398	872,578	1,925,398	1,173,624	15,910,098
Change in Cash		(1,808,115)	2,027,469	681,189	(1,152,470)	63,517	(1,021,148)	6,387	402,538	(785,269)	(1,825,398)	(1,073,624)	(4,484,922)
Opening Balance (Book)		6,076,498	4,268,383	6,295,852	6,977,041	5,824,571	5,888,088	4,866,940	4,873,328	5,275,866	4,490,598	2,665,200	6,076,498
Closing Balance (Book)		4,268,383	6,295,852	6,977,041	5,824,571	5,888,088	4,866,940	4,873,328	5,275,866	4,490,598	2,665,200	1,591,576	1,591,576
Outstanding Cheque													
Closing Balance (Bank)		4,268,383	6,295,852	6,977,041	5,824,571	5,888,088	4,866,940	4,873,328	5,275,866	4,490,598	2,665,200	1,591,576	1,591,576

Notes:

1 The purpose of this cash flow projection is to determine the liquidity requirements for the Company during the proposed second 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 and future billing activities.
5 Includes proceeds from sale of surplus inventory previously approved by the Court.
6 Includes payroll and benefits for certain Pre and Post CCAA expenses in accordance with the Orders of the Court.
7 Includes rent, insurance, security, IT, and other operating expenses.
8 Professional fees consist of CRO, Monitor, and legal fees and expenses.

These projections are based on currently available information and estimates which may or may not prove to be correct. All projections involve risks, variables, and uncertainties. The Company's actual results may differ from the projections. Consequently, no guarantee is presented or implied as to the accuracy of the projections.