

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

FIFTEENTH 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 April 5, 2012 (as subsequently extended by further orders until November 22nd, 2013, 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. ("R.e.I."), the "CRO").
3. The purpose of this report is to inform the Court of:
 - a) the activities of the CRO since the date of his eleventh report dated June 19, 2013 (the "Eleventh Report"), including a summary of items discussed in more recent CRO reports;

- b) other matters relevant to the CCAA Proceedings, including the Company’s pending Motion with respect to the termination of these proceedings and, in the case of Aveos, a transition from the CCAA to bankruptcy and receivership (the “Transition Motion”);
 - c) an update on the Employee Claims Process (“ECP”);
 - d) the Company’s final statement of receipts and disbursements; and
 - e) the release of the various charges created in the CCAA Proceedings as proposed in the Transition Motion.
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 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 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. OVERVIEW OF THE CCAA PROCEEDINGS

6. As this Court and all stakeholders involved in the Aveos CCAA matter are aware, it has been 20 months since Aveos obtained CCAA protection on March 19, 2012. Shortly after filing for CCAA protection, Aveos suffered a sudden and catastrophic cessation of its business operations and, as noted above, the CRO was appointed on March 20, 2012. In the days following the appointment of the CRO, it was apparent that a tremendous amount of surprise, anger and confusion significantly restricted the options available to the Company. With the assistance of rehired Aveos employees and under the oversight of the Monitor, the CRO and his team were able to bring order to the situation and develop a strategy that resulted in many stakeholder positions being substantially enhanced, albeit with great effort from many parties. Unfortunately, situations such as this also result in harm to many stakeholders and there is often little that can be done to mitigate this harm, notwithstanding the Company’s conscientious efforts.
7. While not all stakeholder groups could be fully satisfied, the CCAA did provide a vehicle that allowed for many of these interests to be addressed in a positive manner, including providing employment opportunities for many former Aveos employees.
8. A high level overview of the results achieved for key stakeholders is set out below:

Stakeholder/Entity	Description
Employees, LTD and Post-Retirement Benefit Recipients	<ul style="list-style-type: none"> • Addressing the interests of the employee group, including: <ul style="list-style-type: none"> ○ Collectively, receiving approximately \$17.4 million as a result of payments made under the First Payroll Order,

	<p>Second Payroll Order and PBA Termination Agreement, which, when combined with the implementation of the Air Canada Heavy Maintenance Separation Agreement, resulted in total payments of approximately \$72.4 million;</p> <ul style="list-style-type: none"> ○ Employment opportunities directly with the purchasers of two divisions that have resulted in approximately 200 people being rehired to date and an estimate of up to 600 to be re-employed over time; and ○ Certain former employees who did not have LTD support or post retirement benefits after the CCAA filing received a lump sum payment as a result of the PBA Termination Agreement. These payments total approximately \$4.8 million, included in the amount referenced above; and ○ Continued employment by Aveos for certain employees after the date of the Initial Order.
Secured Lenders	<ul style="list-style-type: none"> • \$68.0 million has been returned to the Secured Lenders to date and the CRO estimates that ultimately the Secured Lenders will recover approximately \$80.0 million of the \$217.0 million due at the start of the CCAA Proceedings (before taking into account any payments by guarantors).
Air Canada	<ul style="list-style-type: none"> • Aveos' largest customer (Air Canada's largest maintenance supplier); • Assets returned through multiple retrieval agreements; • Return of leased premises in broom swept condition; • Settlement of the PBA and associated letter of credit; and • Settled all accounts between the parties and completed the unwinding of a complicated interdependent relationship.
Other Customers and Suppliers	<ul style="list-style-type: none"> • Return of significant amount of high value customer and supplier owned property in a timely and efficient manner, including essential records required for the ongoing use of those assets; • Continued to service the critical needs of the Department. of National Defence (Government of Canada) while it transitioned to another service provider; and • Settlement of accounts.

Canada Revenue Agency and Agence du Revenu du Quebec	<ul style="list-style-type: none"> • Payment of outstanding source deductions, deemed trust and other amounts (approximately \$4.9 million paid).
Province of Quebec (Investissement Quebec)	<ul style="list-style-type: none"> • Collaborated with respect to job creation incentives for prospective purchasers.
Environmental	<ul style="list-style-type: none"> • Extensive clean up of hazardous materials at Aveos facilities, at a cost of approximately \$600,000.
Pension Plans	<ul style="list-style-type: none"> • Worked with OSFI, plan administrator (Aon Hewitt); • \$613,000 paid for current service costs as well as a further \$600,000 as a result of the PBA Termination Agreement.
Landlords	<ul style="list-style-type: none"> • Entered into agreements with landlords to occupy space for a certain time and then exit in an orderly and mutually agreeable fashion.

III. RESOLVED MATTERS

9. The CRO has completed the sale of all remaining tangible assets, including miscellaneous assets (parts inventories) that were handled outside of the formal Divestiture Process. The final two asset transactions are described below:

- a) Mexican parts sale: A small group of parts became available for sale after the Divestiture Process was concluded, as the result of a settlement of an account receivable owed to Aveos by Compania Mexicana de Aviacion, S.A. de C.V.
- b) Aero Inventory parts settlement: Commencing in or about 2007, Aveos had entered into certain arrangements with Aero Inventory (UK) Limited and Aero Inventory PLC (collectively, "AI") for the supply and management of consumable and expendable spare parts. These arrangements had been documented under an agreement first entered into in 2007 and subsequently amended and supplemented from time to time. Prior to the date of the Initial Order, Aveos and AI agreed to unwind these arrangements, which necessitated the identification, sorting and retrieval of thousands of spare parts that were commingled with inventory owned by Aveos and Air Canada and located within numerous Aveos and Air Canada facilities across Canada.

A complicated algorithm had been developed to enable the parts to be segregated and properly accounted for. However, at the time of the Initial Order, the process of identifying, sorting and retrieving the AI parts had not been implemented.

On or about May 28, 2012, Aveos and AI entered into an agreement whereby the commingled parts located within Aveos and Air Canada facilities would be segregated and AI would retrieve its inventory at its expense. Although this exercise was substantially completed in or about the month of August 2012 with respect to parts located within facilities controlled by Aveos, it was subsequently determined that a further agreement was required to deal with commingled parts located within certain

Air Canada facilities. A supplementary agreement in this regard was entered into on or about September 5, 2012 by Aveos, AI and Air Canada.

In March 2013, AI wrote to Aveos and Air Canada to advise of certain discrepancies which had been discovered in the course of AI retrieving its parts. These discrepancies raised the possibility that AI had inadvertently recovered Aveos owned parts which were now commingled with other parts believed to be owned by AI and Air Canada. Aveos was of the view that the value of these commingled parts was not significant, even before taking into account the time and expense which would be required to determine ownership and physically segregate the remaining parts.

In order to resolve the outstanding issues in a timely manner, Aveos entered into a comprehensive settlement with AI, with the consent of Air Canada, whereby AI agreed to pay the sum of US\$83,000 to Aveos, Aveos would return a US\$50,000 security deposit which it continued to hold under the May 2012 agreement and the parties would exchange mutual, full and final releases. The settlement was completed and Aveos received the net amount due from AI on October 25, 2013.

10. In conjunction with the closing of the Engine Maintenance Centre transaction with Lockheed Martin, arrangements were made for the Aveos records to be stored on their premises until June 30, 2020, as further discussed later in this report.
11. All substantial matters between Aveos and Air Canada have been resolved. Aveos continues to occupy office space within Air Canada's facilities pursuant to a short term lease which expires at the end of November 2013. Aveos will vacate those premises prior to the end of the lease term.
12. Pursuant to the Order made by this Honourable Court on October 11, 2013 in connection with the termination of a letter of credit issued by Canadian Imperial Bank of Commerce ("CIBC") and the payment of certain sums by Air Canada for the benefit of former Aveos employees and one of its pension plans, Aveos provided CIBC with the prescribed notice allowing for the cancellation of the \$20.0 million letter of credit that Air Canada had provided for the benefit of Aveos in support of its obligations to Aveos pursuant to the Pension Benefits Agreement. At the same time, Air Canada provided a certified cheque to Aveos in the amount of approximately \$5.7 million, satisfying its obligations to Aveos pursuant to the Pension Benefits Termination Agreement ("PBTA") and the Order of this Honourable Court.
13. On the same date, Aveos transferred funds to Ceridian, its payroll service provider, to fund the payment of the long-term disability and post-retirement benefits payable to former employees as provided in the October 11, 2013 Order. In connection with these payments, Aveos obtained an opinion from KPMG and consulted with the CRA on the applicability of withholdings at source and required employer contributions prior to making this payment.
14. The CRO is pleased to advise the Court that the payments to these beneficiaries have now been completed and Ceridian has completed and sent the applicable year-end taxation documents with respect to these PBTA payments.
15. In addition to the above, the sum of \$600,288 was paid to Manulife Financial on account of the retirement plan for Aveos' non-union employees as provided under the October 11, 2013 Order. The question as to the manner of the application of this payment was addressed in the Court hearings on October 11, 21 and 22, 2013 and a decision is under reserve. Aveos will defer to the

determination of the Court in this regard. Consistent with this position, when making the payment, Aveos directed that the payment is to be applied to the outstanding special payments due for the months of February and March, 2012 and the balance to be applied in partial payment of the special payment due for the month of April 2012, pending and subject to the determination by the Court.

16. Pursuant to the Court Order dated June 26, 2013 (the "ECP Order"), the Court approved an employee claims process ("ECP") to facilitate the eventual processing of claims under the Wage Earner Protection Program Act ("WEPPA"), as outlined below.
17. Aveos implemented the ECP, which involved sending out an employee proof of claim package to all of Aveos' former non-unionized and unionized employees. The package included a proof of claim form, as well as an individual calculation of each employee's entitlement, based on the Company's books and records. The calculation accounted for overtime, vacation, severance and termination pay, as well as the Air Canada Separation Program payments (where applicable). Employees were only asked to file a proof of claim form if they did not agree with the calculation of their claim according to Aveos' records.
18. Of the 2,747 packages sent out, 111 revised claims were received (approximately a 4% rate). Claims activity under the ECP is summarized in the table below:

Claim Type	Number of Claimants
<i>Non-Union</i>	
Total Claim Packages Sent	456
Revised Claims Received	
No adjustment (maximum WEPPA claim reached)	15
Accepted or revised	6
Rejected	2
Total	23
<i>Union</i>	
Total Claim Packages Sent	2,291
Revised Claims Received	
No adjustment (maximum WEPPA claim reached)	10
Accepted or revised	39
Rejected	39
Total	88

In the case of unionized employees, the calculations made by Aveos for notice, severance and termination pay were made based on the guidelines in the Canada Labour Code (“CLC”). On August 12, 2013, the Union’s counsel filed a claim on behalf of its members with respect to notice and termination pay for 157 employees who had worked fewer than three months at Aveos. Aveos had taken the position that employees who worked less than three months were not entitled to any notice or severance pay under the applicable provisions of the CLC. However, the Union’s claim was premised on the position that Aveos and the Union had agreed to notice payments if any employee was laid off regardless of tenure. After considering this claim, obtaining advice from counsel and discussions with the Monitor, Aveos agreed to allow the claims for the affected employees.

19. The CRO is advised that the Monitor sent the required Notices of Revision or Disallowance (Employee Claim) for the revised claims that were either further revised or rejected in accordance with the terms of the ECP Order between October 24th and October 29th, 2013. To the best of the CRO’s knowledge, no Employee Appeal Motions (as such term is defined in the ECP Order) had been filed as of the time of signing this report.
20. The action against JetLink Express Ltd. (“JetLink”) and Mexican CRJ Limited (“MCRJ”), which was discussed in previous CRO reports, has been concluded. Aveos enforced the judgment it obtained against JetLink by seizing and selling one of the two engines being retained by Aveos. That engine was sold pursuant to a bailiff’s sale. Aveos and MCRJ reached an agreement whereby MCRJ paid Aveos an agreed sum on account of the outstanding amounts owed for the second engine, which had been leased to JetLink but was owned by MCRJ, in consideration of the release of that engine to MCRJ. That transaction was concluded in July 2013.
21. As previously reported, Aveos settled its claim against Canadian North Inc. The settlement amount has been paid in full and Aveos and Canadian North Inc. have exchanged mutual releases, bringing the matter to a close.

IV. ONGOING MATTERS

22. The CRO previously reported that Aveos had two remaining full time employees assisting with administrative matters. In anticipation of the conclusion of the CCAA Proceedings, Aveos terminated the two remaining employees and processed a final payroll at the beginning of November 2013. Ongoing assistance provided to the estate from that date has been and will be done on a contract basis (as further discussed in the Transition section of this report). The CRO and his team thank both of these employees for their exemplary service and dedication throughout the CCAA process.
23. Ceridian has sent year-end taxation documents and records of employment to all employees. There are no further statutory reporting requirements with respect to any Aveos employees.
24. The CRO and his team continue to work on the collection of outstanding accounts receivable. As previously reported, the remaining outstanding balances are subject to disputes or litigation. These items are as follows:
 - a) Royal Saudi Air Force (“RSAF”): A balance of approximately \$300,000 is owed by RSAF for pre-filing work performed by Aveos. Of this amount, approximately \$60,000 will be due upon collection to Aveos’ agent in the Kingdom of Saudi Arabia. Due to the nature of the counterparty, the CRO is arranging with RSAF for the payment to be picked up

from the Saudi military attaché in Washington, DC; however, it is expected that this amount will not be recovered for at least 120 days.

As previously reported, Aveos posted a \$1.6 million performance bond to secure a contract with RSAF, of which \$800,000 was guaranteed by Export Development Canada (“EDC”). The CRO, with the support of Aveos’ Saudi-based agent and Saudi legal counsel (located in New York) is involved in ongoing negotiations with RSAF for the return of this bond. This is a delicate negotiation, complicated by the nature of the contract and the counterparty. It is anticipated that a resolution of this issue could take between three and twelve months. Aveos has kept EDC apprised on this matter.

- b) Vision Airlines, Inc. (“Vision”): As discussed in the Eleventh Report, Aveos had commenced an action against Vision in the state of New York in June 2011. Aveos and Vision were directed to participate in a mediation conference, which occurred on October 21, 2013. At that time a settlement agreement was reached between the parties that would see Aveos paid some funds and the Vision assets released in several stages. If Vision upholds its agreement, the transaction should be finalized by the end of January 2014. Unfortunately, Vision failed to make the first two payments, scheduled for October 31 and November 8, 2013. As a result, Aveos has given notice that it will be pursuing its rights and taking the next steps as outlined in the settlement agreement. Aveos continues to safeguard the remaining Vision assets pending the resolution of this matter, which could take approximately six to twelve months.
- c) Canada Revenue Agency (“CRA”) and Agence du Revenu du Quebec (“ARQ”): As reported in the Eleventh Report, Aveos has an outstanding notice of objection filed with ARQ as agent for CRA with respect to GST, which should result in an estimated refund of approximately \$3.1 million, plus applicable interest. A summary of the amount due from Aveos’ perspective is attached as Appendix A. The Company has retained KPMG to assist in this matter. The Company has been aggressively following up with ARQ and, on November 13, 2013, filed a Notice of Appeal in the Tax Court of Canada. The Company continues to make every effort to expedite a resolution of this matter.

As previously reported, Aveos had filed a request that the CRA adjust a penalty assessed on source deductions to a more reasonable amount in light of the circumstances. Aveos had previously paid to CRA the entire outstanding amount and is awaiting the decision on the penalty and interest adjustment. CRA has responded to the Company’s request, indicating that it could take up to nine months for a decision to be made on this matter.

The Company has actively pursued CRA and ARQ to perform payroll and GST audits for periods up to October 31, 2013. The CRO is not aware of any further amounts remaining due to CRA or the ARQ that would have priority over the Secured Lenders or would be subject to any enhanced garnishment rights.

- 25. The CRO, in consultation with the Monitor, the Agent for the Senior Secured Lenders and the prospective Trustee and Receiver, has developed a transition plan that will see the CCAA Proceedings come to an end with an orderly transition to a bankruptcy and receivership of Aveos. This is further discussed below in the Transition section of this report.

V. CCAA CHARGES

26. Various charges were established pursuant to the Initial Order and the CRO Order. It is the CRO's view that these charges are no longer necessary and ought to be removed for the following reasons:
- a) Administrative Charge (\$3.0 million): Aveos has contacted all professional firms who continue to provide services to Aveos. The professionals were asked to bill any outstanding amounts up to November 15, 2013. Those accounts have been paid in full. For the period from November 16-22, 2013, Aveos has requested retainer estimates from its active professionals and funded those retainers. The retainers provided will be reconciled to the actual accounts after November 22, 2013 by R.e.I., under the supervision of the Receiver.
 - b) CRO Charge (\$2.5 million): The CRO is not aware of any pending or threatened claims against him resulting from his tenure at Aveos. The CRO has been added as a named insured on Aveos' D&O insurance policy. Provided that appropriate protections are given to the CRO on his discharge pursuant to the Order to be made on the Transition Motion, the CRO does not see a requirement to continue the CRO charge.
 - c) Directors' Charge (\$2.0 million): The Directors' Charge established under the Initial Order was in the amount of \$5.0 million. However, all of the Aveos directors resigned on March 19 and 20, 2012. On May 4, 2012, after a hearing at which the former directors made submissions through counsel, the Court ordered the Directors' Charge to be reduced to \$2.0 million.

The \$100.0 million Directors and Officers ("D&O") insurance "tower" which the Company had in place at the time of the Initial Order was extended to May 1, 2013 and then further extended to May 1, 2014 or the date of the termination of the CCAA proceedings, if that occurred earlier. Upon termination of the CCAA Proceedings, a tail coverage (also known as run-off) period of three years will automatically commence. This tail coverage provides an extended three year reporting period for reporting claims made.

All this insurance coverage was provided with the authorization of the Agent and was paid in full by Aveos, at the ultimate cost of the Senior Secured Lenders.

The initial estimate of potential claims against the former directors was approximately \$40 million, excluding potential liabilities relating to environment issues. Through the 20 months of the CCAA Proceedings, a number of potential claims have been satisfied as a result of the payment of goods and services tax, outstanding salaries and wages, part of the vacation pay owed to former employees, payroll source deduction amounts and certain pension amounts, as well as the implementation of the Air Canada Heavy Maintenance Separation Program which resulted in the payment of substantial amounts owing to Aveos' former unionized employees. As a result, the CRO believes that the

estimated potential D&O claims are now reduced to approximately \$13.7 million. In the circumstances, the insurance coverage in place is in an amount sufficient to cover estimated potential claims.

- d) The removal of the Directors' Charge was discussed with the former directors, the lead D&O insurer, ARQ, CRA and counsel for Human Resources and Skills Development Canada, the ministry responsible for WEPPA. These parties indicated that they would not oppose the removal of the Directors' Charge. The matter was also discussed with counsel for the IMAW and those discussions are ongoing.
27. It is the CRO's opinion that the various CCAA Charges will no longer be required upon termination of the CCAA Proceedings. Accordingly, the Administration Charge, the Directors' Charge and CRO Charge are all expected to terminate on November 22, 2013 if the Order requested in the Transition Motion is granted by this Honourable Court. At that point, the CRO believes that it would be unfair to the Agent and Senior Secured Lenders, who have effectively funded the entire CCAA process including the payment of the substantial premiums for the D&O insurance coverage and the long term tail coverage, to tie up funds for an indefinite period in the circumstances where there will be no real ongoing benefit to any of the beneficiaries of these charges.

VI. FINANCIAL INFORMATION AND FINAL STATEMENT OF RECEIPTS AND DISBURSEMENTS

28. Attached as Appendix B is the Company's final Statement of Receipts and Disbursements ("R&D") for the period September 14, 2013 to November 22, 2013. The R&D shows that the business had net disbursements of approximately \$19.9 million during that period, including the fourth interim distribution to the Secured Lenders in the amount of US\$18.0 million. This net amount is approximately \$251,000 less than projected. This variance was due to better than projected realizations on miscellaneous assets as well as \$150,000 in cost recovery on the PBTA. These gains were offset by professional fees that were approximately \$500,000 higher than projected as a result of an under accrual of professional fees in the last budget period as well as higher than anticipated costs incurred in negotiating and completing the PBTA

For the 87 weeks from March 19, 2012 to November 22, 2013, the Company had cash receipts of \$119.9 million from the sale of the assets of the Company's three divisions (\$74.1 million), collection of accounts receivable (\$23.6 million), payments made by Air Canada under the PBTA (\$5.7 million) and other miscellaneous asset sales and collections.

Cash disbursements for the 87 weeks from March 19, 2012 to November 22, 2013, were \$122.5 million and included:

- Distributions to the Secured Lenders of \$68.0 million;
- Payroll, operating expenses, D&O insurance premiums and professional fees incurred to complete the Divestiture Process and wind up the affairs of the Company of \$44.3 million;
- Payments under the PBA Termination Agreement of \$5.5 million; and
- Super Priority Payments of \$4.6 million.

29. Taking into account the results noted above, plus estimated further realizations, it is anticipated that the Secured Lenders will ultimately realize approximately \$80.0 million.

VII. TRANSITION

30. The CCAA Proceedings have served their purpose well; however, with few remaining issues, and substantially all material commercial matters resolved, the continuation of the CCAA Proceedings is likely not the most efficient means to manage the remaining open issues at this point in time. The CRO, working in consultation with the Monitor and with the support of the Agent for the Secured Lenders, has developed a transition plan which, subject to the approval of this Honourable Court, contemplates the following steps being taken:
- a) Aveos will file an assignment in bankruptcy, naming MNP Ltd. (Sheri Aberback of MNP's Montreal office) as Trustee;
 - b) The Agent will apply to the Court to have MNP Ltd. appointed as Receiver over the remaining Aveos assets. Using the same firm as both Trustee and Receiver will provide efficiencies and reduce duplication in the ongoing administration of Aveos' remaining assets;
 - c) With the consent and approval of the Agent, it is proposed that R.e.l. will be retained by the Receiver to continue to manage the few ongoing matters, as described above, under the supervision of the Receiver. This arrangement is also intended to reduce duplication of effort and maintain efficiencies in the realization of Aveos' few remaining assets.

There is no need for any further proceedings with respect to Aero US, as it has no remaining assets.

31. The CRO feels that MNP is qualified and will work efficiently for the benefit of the Secured Lenders and other stakeholders. In order to facilitate the efficient transition and eliminate unnecessary duplication of effort, the Monitor has consented and waived any potential conflicts, allowing Norton Rose Fulbright Canada to act as counsel for the Trustee and Receiver, thereby preserving the institutional knowledge gained over the course of the CCAA Proceedings.
32. The CRO has discussed proposed arrangements with MNP Ltd. to address transitional and other matters, including (i) records retention (the proposed Trustee/Receiver has attended at the premises to view the records in storage); and (ii) access to former Aveos employees whose ongoing assistance may be required in the administration of the estate.
33. With the input of the Monitor, the CRO has discussed the results of the ECP and the anticipated process for filing WEPPA information by the proposed Receiver/Trustee with Service Canada, in an effort to ensure an efficient and orderly process for implementation of employee WEPPA claims. The CRO and proposed Receiver/Trustee will endeavour to do everything that can be done to facilitate making the WEPPA funds available as soon as possible.

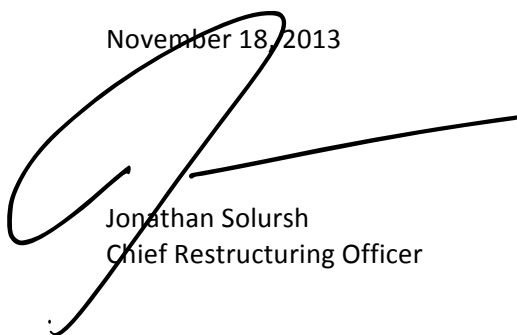
VIII. DISTRIBUTION

34. On September 26, 2013, the Company filed a Motion with the Court for an Order authorizing a fourth interim distribution of proceeds to the Agent on behalf of the Secured Lenders. This interim distribution was approved by Order of this Honourable Court on October 21, 2013 and the distribution in the amount of US\$18.0 million was made on November 12, 2013.
35. The CRO has had discussions with the Agent and the proposed Receiver concerning a further distribution in the amount of approximately \$6.5 million that would occur after the Receiver's appointment (assuming the Receiver is appointed in accordance with the Order being sought by the Agent). After making this distribution, it is anticipated that the Receiver would still retain sufficient funds to cover the \$2.8 million over which OSFI has claimed priority, and a further \$2.0 million to cover any other obligations and costs, before taking into account any additional recoveries.

IX. CONCLUSIONS

36. The CRO is of the view that the transition from a restructuring to insolvency proceedings is appropriate at this time and is in the best interests of all stakeholders. There will be no ongoing need for the appointment of the CRO and, therefore, the CRO should be discharged concurrent with the termination of the CCAA Proceedings.
37. The Aveos restructuring was complex and challenging and the CCAA Proceedings have served their purpose. The CRO was appointed into a chaotic situation that resulted from the abrupt cessation of Aveos' operations. The CCAA Proceedings resulted in a true restructuring of two of Aveos' divisions, with concurrent opportunities for re-employment of many Aveos employees and an enhancement in the positions of many stakeholders.
38. During the course of the CCAA Proceedings, the CRO benefited from the tremendous help and support of Aveos' employees, whose efforts have been previously noted and whose dedication and hard work deserve to be mentioned again. The CRO also notes that many Aveos' customers and suppliers continued to work with Aveos to achieve successful commercial solutions despite the exceptional circumstances and challenges presented by the sudden cessation of Aveos' operations. The CRO benefited from the dedicated efforts of the numerous professionals who were retained and worked diligently over the course of the last 20 months to achieve the best possible outcome for Aveos' stakeholders. Finally, the CRO acknowledges and thanks this Honourable Court for the opportunity to undertake this challenging mandate and for its availability and efficiency in dealing with the many matters brought forward during the course of these proceedings.

November 18, 2013



Jonathan Solursh
Chief Restructuring Officer

Appendix A

Aveos Fleet Performance Inc. Summary of Sales Tax Position

	Notes	Amount (\$ millions)
GST / HST Receivable - Pre-filing	2,3	1.7
GST / HST Receivable - Post-filing	4	<u>1.4</u>
		<u><u>3.1</u></u>

Notes:

- 1) All amounts are before interest on balances owing to Aveos, and before any reassessment arising from the audit of Aveos' returns for the period December 2012 to October 2013 which is still in progress.
- 2) In its audit of the open pre-CCAA periods, the Agence du Revenu du Quebec ("ARQ") disallowed \$3.2 million of pre-CCAA GST / HST input tax credits, related to invoices from Air Canada, which had been claimed by Aveos, in the context of settling accounts with Air Canada. Aveos effected a set-off against other amounts payable to Aveos and ARQ took the position that set-off is not a valid form of payment.
- 3) On September 10, 2013, Aveos and Air Canada entered into a formal agreement to settle all amounts owing between the two parties, including the invoices pertaining to the input tax credits previously disallowed by ARQ (as discussed above). After considering this recent settlement with Air Canada, and the set-off by the Canada Revenue Agency ("CRA") of a \$3.7 million receivable from the Department of National Defence, Aveos believes it is owed \$1.7 million in respect of the pre-filing period.
- 4) The CRA has withheld post-CCAA GST / HST refunds based on its position that it is entitled to set off these refunds against pre-CCAA amounts due from Aveos. As noted above, Aveos has recently reached a settlement with Air Canada which results in a net refundable pre-CCAA position. The estimate of a \$1.4 million refund is net of CRA audit assessments, certain of which are subject to objection and appeal.

Appendix B

Aveos Fleet Performance Statement of Receipts and Disbursements

	Note	For the 10 Weeks Ended November 22, 2013			Cumulative for the 87 weeks Ended November 22, 2013
		Budget (\$'000)	Actual (\$'000)	Variance (\$'000)	Actual (\$'000)
Cash Receipts					
Cash Receipts from A/R		-	-	-	23,637
Proceeds from Sale of Assets	A	-	54	54	74,071
PBA Funding	B	-	5,657	5,657	5,657
Other	C	228	336	108	16,528
Total Receipts		228	6,047	5,819	119,893
Cash Disbursements					
Payroll & Benefits	D	217	316	99	15,212
Operating Expenses	E	175	79	(96)	10,405
D&O Insurance		-	-	-	542
Professional Fees	F	1,505	2,013	508	18,170
Sales Taxes		-	-	-	210
(Gain)/Loss on F/X		-	66	66	(92)
Super Priority Payments		-	-	-	4,560
PBA Payments	B	-	5,493	5,493	5,493
Net Distribution to Secured Lenders	G	18,000	18,000	-	68,043
Total Disbursements		19,897	25,967	6,070	122,543
Change in Cash		(19,669)	(19,920)	(251)	(2,650)
Opening Balance (Book)		30,632	30,616	(16)	13,346
Closing Balance (Book)		10,963	10,696	(267)	10,696
Outstanding Cheque		-	167	167	167
Closing Balance (Bank)		10,963	10,863	(100)	10,863

Notes on variances due to:

- A Proceeds from the sale of miscellaneous assets outside of the divestiture process.
- B Payment received from Air Canada in respect of the PBA Termination Agreement which was subsequently substantially disbursed to eligible recipients.
- C Various settlements, interest income and recoveries from miscellaneous sources.
- D Payment of payroll tax assessments pursuant to audits by taxation authorities.
- E Certain general operating expenses did not materialize as budgeted.
- F Professional fees incurred were higher than budget due to retainers paid and costs associated with the PBA Termination Agreement being higher than anticipated.
- G Distribution to the Secured Lenders as previously approved by the Court.