

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

FOURTH 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) the general activities of the CRO since the date of his second report on May 1, 2012 (the "Second Report");

- b) the Company's cash flow forecast prepared in support of the request for an extension of the Stay Period; and
 - c) various other matters relevant to the CCAA Proceedings, including the reasons for which the Petitioners require an extension of the Stay Period until October 31, 2012.
4. The CRO provided information on the conduct of the Divestiture Process ("DP") in its Third Report to the Court dated June 26, 2012 (the "Third Report") and intends to provide a further update on the results of the DP in a subsequent report to be filed on or before the hearing of the Motion scheduled for July 26, 2012.
 5. 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.
 6. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

II. ACTIVITIES OF THE CRO FOLLOWING HIS SECOND REPORT

7. The CRO's activities, in addition to implementing the DP as previously reported, have focused on the continuing day to day operations of Aveos as well as managing the relationships Aveos has with its various stakeholders in support of the DP and other activities. In this regard, the CRO has continued to receive co-operation from material stakeholders in the process.
8. Aveos currently employs approximately 40 people (plus 26 short-term contractors), who continue to assist with ongoing critical functions including:
 - a) reconciling and updating of accounts, books and records;
 - b) assisting with the ongoing process for return of third party assets, as described in the previous reports of the CRO and outlined in further detail below;
 - c) working with customers, government agencies, regulators, tax authorities, current and former employees and Union representatives to provide information, facilitate the DP, or settle outstanding commercial issues; and
 - d) working with prospective purchasers and other interested parties in the DP.
9. With respect to accounts receivable, collections for the 10 weeks ended July 6, 2012 were approximately \$8.3 million, which is approximately \$2.4 million lower than budget. The variance is largely due to non-payment of two major customer accounts discussed in more detail later in this report.

10. The Company has generated invoices, through reconciliation of work in process (“WIP”) accounts and new billings, of approximately \$771,000 for the 10 weeks ended July 6, 2012. This excludes Air Canada, which is discussed separately in this report.

III. FINANCIAL INFORMATION AND CASH FLOW

11. The Company’s cash flow forecast for the seventeen weeks ending November 2, 2012, attached as Appendix A, indicates it can continue to fund its ongoing costs during that period. It is anticipated that this will allow for the Divestiture Process to progress to the point where it will be at or near completion.
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. The Company will apply to the Court for a specific distribution order before any proceeds are to be distributed to the Secured Lenders.
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. An agreement has been reached with CRA and ARQ whereby the agreed amounts are to be paid once proceeds in excess of \$5.0 million dollars have been realized under the DP. As \$5.0 million in total proceeds from the DP have been received, the Company has initiated payment to the CRA and ARQ in the total amount of \$1,968,000. ARQ has made a further claim of \$486,000, primarily relating to the employer portion of QPP that resulted from the transition of Air Canada employees to Aveos in July 2011, which the CRO does not view as being a valid claim. The Company will continue to work with ARQ and the Secured Lenders’ counsel in an effort to achieve a resolution to this dispute.
14. Attached as Appendix B is the Statement of Receipts and Disbursements (“R&D”) for the period April 28 to July 6, 2012. The R&D shows that the business has generated \$2.2 million in receipts since April 28, 2012, and that, overall, the funding required during the period was \$5.6 million less than budget. This variance was largely due to the timing of payments, as well as certain expenses being less than budgeted.
15. As previously reported, the Company paid the pre-petition wages owed to employees in accordance with the Court’s Order dated April 5, 2012 dealing with the payment of wages and related matters (the “Payroll Order”). The actual amount paid out to employees was slightly higher than the original estimate of \$6.2 million. Following the final accounting of this payment, the Company has estimated that approximately \$364,000 of WEPPA priority claims remains available to certain employees, and would rank in priority to the Secured Lenders. This amount is in addition to the priority amount that was included in the \$6.2 million paid out under the Payroll Order.
16. In order to fulfill its statutory reporting requirements Aveos has entered into an agreement with Ceridian, its current payroll service provider, to prepare and file year-end taxation forms (T4, R1, etc.) for employees that were terminated in March, as well as employees terminated subsequently or who are still active as of the date of this report. These documents will be issued during the normal course or at the end of the year, as required.

17. The Company projections include approximately \$1.2 million of Goods and Services Tax ("GST") receivable that is related to the Company's operations post-CCAA filing. With respect to pre-petition amounts, CRA has disallowed Aveos' Input Tax Credits ("ITCs") of \$4.2 million. Aveos is filing a Notice of Objection with respect to the disallowance of the ITCs.
18. As noted above, the Company continues to collect its accounts receivable as expeditiously as possible. For some of the larger customer accounts that have been slower to collect there are issues relating to the retrieval of customer property in the possession of Aveos and/or claims relating to set-of rights. Other accounts being collected also involve either the return of third party assets or delivery of required documentation; these are in the process of being agreed and finalized so the funds can be collected. In the event that settlement is not possible with certain disputed accounts, Aveos will continue or initiate appropriate legal action to bring the matters to closure.

IV. RETURN OF THIRD PARTY PROPERTY

19. The Company has continued to work with Air Canada to this point on the return of its assets pursuant to the terms of the Retrieval Agreement and related supplements (collectively, the "Retrieval Agreement"), as previously outlined in the Second Report. For certain of the Air Canada assets, this process has been proceeding on schedule and is expected to be completed in August. Air Canada has deposited approximately \$23 million in trust under the terms of the Retrieval Agreement, which represents either 100% of the agreed reconciled balance owing by Air Canada (or the amounts determined by the Monitor to be appropriate, where agreement could not be reached) on account of work performed by Aveos with respect to the affected assets or, in one particular case, a negotiated amount.
20. Air Canada agreed in the Retrieval Agreement to pay or reimburse Aveos for certain costs as stipulated in the agreement. To date, Air Canada has not made any payments, apart from the deposits required on account of those costs, and owes Aveos approximately \$566,000, the payment of which has been disputed. Air Canada's disputes with respect to the various retrieval costs invoiced to date are, in the CRO's view, not material and ought not to be holding up payment. If not resolved shortly, Aveos may need to discontinue access or seek the Court's direction in this matter.
21. The amounts paid into the trust account are also being disputed by Air Canada, which takes the position that such amounts are not in fact payable to Aveos. Aveos has invested considerable time and effort with Air Canada in attempting to reconcile the overall state of accounts between the parties. Again, the CRO expects that, if a settlement is not reached shortly, Aveos may need to make an application to the Court for direction.
22. As reported in the Second Report, Aveos was in possession of property owned by customers and certain other third parties, including engines and components. The following chart summarizes the status of the retrieval of the engines and components as at the date of this report:

Status	Engine	Component
	customers/engines	customers
At date of Order	13/56	38
Returned to Customer**	8/35	26
Substantially Complete	3/3	10
Disputed/Not Substantially Complete **	3/18	2

**One customer included in both categories

The Company continues to work with the affected customers to resolve the remaining issues as quickly and efficiently as possible.

23. As noted in the Second Report, Aveos was also in possession of three Air Canada airframes on the date of the Initial Order. All of these airframes have subsequently been redelivered to Air Canada, with work having been completed by third party contractors organized by Air Canada under the terms of the Retrieval Agreement.


VI. OTHER MATTERS

24. The CRO continues to consult with both the Monitor, the Agent for the Secured Lenders, the Province of Quebec, the Union and other stakeholders on a regular basis.
25. In the Third Report, reference was made to the review and proposed treatment of 30 day goods claims. In summary, to date, there have been 16 claims made by various suppliers. Of these 16 claims:
- 4 have been completely settled;
 - 1 has reached verbal agreement and is pending documentation and execution;
 - 5 were determined to be invalid claims and, accordingly, rejected;
 - 3 are currently being analyzed and/or negotiated; and
 - 3 remaining claims relate to components and are being held in abeyance, pending the outcome of the sale of the CMC division.
26. 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. By letters dated May 25, 2012, OSFI advised the CRO that it had terminated the Company’s three pension plans, effective May 19, 2012 for the two Management plans, and May 25, 2012 for the Union plan.

27. There are three “buckets” into which unpaid pension amounts have been categorized, as follows:
- a) Amounts to be paid by Aveos by the end of July:
 - (i) Approximately \$616,000, consisting of pre-filing current service amounts for all 3 plans (employee and employer contributions for the Non-Union DB plan and the DC plan, and employee contributions only for the Union plan).
 - b) Amounts to be resolved pending an actuarial valuation of the Union Defined Benefit (“DB”) plan:
 - (i) Approximately \$450,000 of pre-filing and \$110,000 of post-filing current service contributions; and
 - (ii) Aveos has requested a quote for an actuarial valuation of this plan to determine whether the Company agrees with Aon’s assertion that the plan, which was previously reported in surplus, is actually in deficit.
 - c) Amounts to be resolved pending a resolution of the claim that certain amounts are subject to the deemed trust with priority over the claims of the Secured Lenders:
 - (i) Approximately \$1.0 million of special payments to date (or approximately \$2.8 million that will have accrued to the end of the year, if accruals are to continue to the end of the year, as OSFI asserts), both pre and post-filing, for both the Union and Non-Union DB plans; and
 - (ii) It is unclear at this time how OSFI and the Secured Lenders will resolve whether this deemed trust ranks in priority to the Secured Lenders’ security.
28. 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 Northgateariso Canada Inc. (“NGA”), Aveos’ payroll service provider up to May 7, 2012, when Aveos terminated its contract with NGA. The Motion is scheduled to be heard by this Honourable Court commencing on September 24, 2012.
29. The CRO has been in discussions with Morguard Corporation and Morguard Real Estate Investment Trust (“Morguard”), regarding the lease for Aveos’ head office and CMC building, located at 2311 Boulevard Alfred Nobel, St-Laurent, Quebec. Currently, both the office and the CMC buildings are under one master lease; the CRO has been working with Morguard to sever the lease for the office building from the CMC production facility so that the CMC lease would be assignable to a successful going concern purchaser of the CMC division, should there be one. It is believed that this approach will facilitate a sale transaction and optimize the chances for a successful sale of the CMC business on a going concern basis, preserve significant value for Morguard, and provide employment opportunities for Aveos’ former employees. As with other stakeholder groups there is an opportunity for a good commercial result if all parties work together toward a reasonable solution, taking into account the current situation and desired outcomes.
30. In order to conclude the remaining two transactions under the Divestiture Process in a manner that will maximize the benefits for all stakeholders, the CRO has continued to encourage and

facilitate discussions between the relevant stakeholders and the prospective purchasers. The CRO remains cautiously optimistic that such cooperation will yield desirable results.

31. The CRO is of the view that the continuation of the CCAA Proceedings and the extension of the Stay Period as requested by the Company, will provide Aveos with an opportunity to complete the transactions which have been or will be entered into and approved under the Divestiture Process and complete other initiatives as 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 Proceeding takes into account the status of the current DP activities, 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 ongoing activities related to the return of customer and other third party assets.



July 13, 2012

Jonathan Solursh
Chief Restructuring Officer

APPENDIX A

**Aveos Fleet Performance
Cash Flow Projections**

	13-Jul	20-Jul	27-Jul	3-Aug	10-Aug	17-Aug	24-Aug	31-Aug	7-Sep	14-Sep	21-Sep	28-Sep	5-Oct	12-Oct	19-Oct	26-Oct	2-Nov	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cash Receipts																		
Cash receipts from A/R	9	256	223	1,611	996	-	-	-	-	-	-	-	-	-	-	-	-	3,095
Proceeds from Divestiture Process	5,285	700	1,660	-	-	544	-	-	-	-	-	-	-	-	-	-	-	8,189
Other	48	30	(4)	360	226	30	30	580	30	30	30	270	-	-	-	-	-	1,660
Total Receipts	5,342	986	1,879	1,971	1,222	574	30	580	30	30	30	270	-	-	-	-	-	12,944
Cash Disbursements																		
Payroll & Benefits	437	62	760	52	248	54	228	230	172	31	88	71	85	31	65	31	158	2,804
Operating Expenses	287	712	242	970	287	287	287	987	357	245	245	245	325	213	213	213	463	6,580
Professional Fees	397	364	364	211	211	211	211	211	229	229	229	229	151	151	151	151	151	3,850
Super Priority Payments	1,968	616	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,949
Total disbursements	3,089	1,754	1,366	1,234	747	552	726	1,428	758	505	562	545	561	396	429	396	1,137	16,184
Change in Cash	2,253	(768)	513	737	475	22	(696)	(848)	(728)	(475)	(532)	(275)	(561)	(396)	(429)	(396)	(1,137)	(3,240)
Opening Balance (Book)	8,264	10,516	9,748	10,261	10,998	11,473	11,495	10,799	9,950	9,223	8,748	8,216	7,941	7,381	6,985	6,556	6,160	8,264
Closing Balance (Book)	10,516	9,748	10,261	10,998	11,473	11,495	10,799	9,950	9,223	8,748	8,216	7,941	7,381	6,985	6,556	6,160	5,023	5,023
Outstanding Cheque																		

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 and future billing activities.
- 5 Based on estimated realization from the Divestiture Process (excluding the EMC and CMC division)
- 6 Includes miscellaneous recoveries from various sources
- 7 Includes payroll and benefits for in accordance with the Order of the Court.
- 8 Includes rent, insurance, security, IT, and other operating expenses
- 9 Professional fees consist of CRO, Monitor, and legal fees and expenses
- 10 Includes payments to CRA, MRQ, and certain pension contribution for current service costs.

APPENDIX B

**Aveos Fleet Performance
Actual Results to Budget**

For the 10 Weeks Ended July 6

		Budget	Actual	Variance
		(\$)	(\$)	(\$)
Cash Receipts				
Cash receipts from A/R	A	10,640	8,285	(2,356)
Proceeds from Sale of Asset	B	-	3,200	3,200
Other	C	685	1,284	599
Total Receipts		11,325	12,768	1,443
Cash Disbursements				
Payroll & Benefits	D	3,786	3,544	(242)
Operating Expenses	E	5,766	3,736	(2,030)
Professional Fees		5,185	3,430	(1,755)
(Gain)/Loss on F/X		-	(128)	(128)
Total disbursements		14,736	10,581	(4,155)
Change in Cash		(3,411)	2,187	5,598
Opening Balance (Book)		6,076	6,076	-
Closing Balance (Book)		2,665	8,264	5,598
Outstanding Cheque		-	210	210
Closing Balance (Bank)		2,665	8,473	5,808

Note:

- A Variance primarily due to timing difference as the collection of certain accounts receivable did not materialize as
- B Variance due to proceeds from the Divestiture Process.
- C Variance primarily due to proceeds from various miscellaneous asset sale, as well as deposits from customers.
- D Variance primarily due to timing difference certain expenses were not paid as budgeted.
- E Variance primarily due to timing difference certain expenses were not paid as budgeted, as well as less costs being
- F Variance primarily due lower cost than budgeted.
- G Variance due to foreign gain incurred when Aveos converted USD to CAD.