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

S U P E R I O R C O U R T
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 (PROPOSED)

PRE-FILING REPORT TO THE COURT SUBMITTED BY FTI CONSULTING CANADA INC., IN ITS CAPACITY AS PROPOSED 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 "**Applicants**") will make an application under the *Companies' Creditors Arrangement Act,* R.S.C. 1985, c. C-36, as amended (the "**CCAA**") seeking an initial order (the "**Initial Order**") by the Superior Court of Quebec (Commercial Division) (the "**Court**"), seeking, *inter alia*, a stay of proceedings against the Applicants until April 2, 2012, (the "**Stay Period**") and the appointment of FTI Consulting Canada Inc. as monitor of the Applicants (the "**Monitor**"). The proceedings to be commenced by the Applicants under the CCAA will be referred to herein as the "**CCAA Proceedings**".

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

2. FTI Consulting was engaged to act as financial advisor to the Applicants on March 7, 2012, and since that time has been becoming familiar with the business and operations of the Applicants, their personnel, the key issues and stakeholders in these CCAA Proceedings. FTI Consulting is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended*, and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI Consulting has provided its consent to act as Monitor.

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

   (a) The state of the business and affairs of the Applicants and the causes of their financial difficulty and insolvency;

   (b) The proposed Stay Period;

   (c) The Applicants' weekly cash flow forecast to March 30, 2012 (the "**March 19 Forecast**");

   (d) The proposed closure of the Aveos airframes ("**Airframes**") division;

   (e) The independent opinion on the validity and enforceability of the various security held by Credit Suisse AG ("**CS**"), as administrative agent and Wells Fargo Bank National Association ("**Wells**") as collateral agent on behalf of the lending group (collectively, the "**Lenders**") to be prepared by counsel to the Proposed Monitor;

   (f) The Applicants' request for approval of a charge securing an indemnity in favour of the directors and officers of the Applicants in respect of any failure by the Applicants to make certain payments in respect of taxes and employee liabilities (the "**Directors' Charge**") and the Proposed Monitor's recommendation thereon; and

(g) The Applicants' request for approval of a charge securing the fees and expenses of the Monitor, its counsel and counsel to the Applicants, counsel to the Lenders and the financial advisors to the Lenders, in the amount of $3 million (the "**Administration Charge**") and the Proposed Monitor's recommendation thereon.

4. In preparing this report, the Proposed Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with the Applicants' management. The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Proposed 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.

5. 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 affidavit of Joseph Kolshak, President and Chief Executive Officer of the Applicants, sworn March 18, 2012, and filed in support of the CCAA application (the "**Kolshak Affidavit**").

6. This report should be read in conjunction with the Kolshak Affidavit as certain information contained in the Kolshak Affidavit has not been included herein in order to avoid unnecessary duplication.

THE APPLICANTS' BUSINESS & AFFAIRS AND CAUSES OF INSOLVENCY

7. A detailed background of the Company and it's financial situation is provided in the Kolshak Affidavit and the Applicants' motion materials, therefore only a summary will be provided below.

8. The Applicants is Canada's largest maintenance repair and overhaul ("MRO") provider in the Americas with primary operations in three locations Montreal, Winnipeg and Vancouver. Aero US is the sales and marketing arm of Aveos in the United States and employs approximately 7 people each of whom work from their homes. The Company's affiliate in Latin America, Aeromanteniento S.A. ("**Aeroman**") is not party to the CCAA Proceedings.

9. In 2007, the Company was sold to a group of third party investors and the Company's name was changed to Aveos Fleet Performance Inc. on September 23, 2008. The Company's principle customer continues to be Air Canada. The majority of Aveos' revenues come from long term service contracts for each of the divisions with Air Canada but the Company has expanded its customer base to include a number of other airlines from around the world.

10. The Company operates three distinct business divisions Airframes, engine maintenance ("**EMC**") and Components ("**CMC**"). The business as a whole has not operated profitably for some time, primarily as a result of an inflexible cost structure, including high labour costs combined with a variable revenue stream.

11. The Airframes division provides maintenance, repair and overhaul service to the air frame including hull repairs, window replacements, wing modifications and general restoration. Airframes operates from 3 primary locations in Canada, Vancouver International Airport ("**Vancouver**"), Winnipeg International Airport ("**Winnipeg**") and Pierre Elliott Trudeau International Airport ("**Montreal**"), each of these locations are leased facilities through agreements with Air Canada.

12. The EMC division provides repair and overhaul services for engines and repair services for individual parts. The EMC business's largest customer is also Air Canada but services are provided to a number of other customers as well. The EMC division operates from an owned facility located near Montreal.

13. The CMC division provides repair and installation of removable aircraft parts such as hydraulics, wheels, landing gear, brakes and flight controls. CMC services are often complimentary to Airframes services as the components can be repaired and replaced while the aircraft is in the hanger for air frame services. The CMC division is also operated from owned premises in Montreal.

14. The Company is currently experiencing extreme financial difficulties, with limited cash on hand, and continuous demands from suppliers for cash of delivery ("**COD**") payment terms. In recent weeks, Air Canada has raised a number of dispute and set off issues with respect to the net settlement of their account with the Company resulting in lower than forecast cash receipts and exacerbating the Company's liquidity position.

THE PROPOSED STAY PERIOD

15. The Company has limited cash on hand to fund operations and is relying on payments from its key customer Air Canada and the potential to negotiate additional financial support during the CCAA Proceedings to enable it to continue operations. On this basis, it has filed the March 19 Cash Flow which demonstrates that assuming the Company receipts are received as forecast it remains cash flow positive during the proposed Stay Period.

THE APPLICANTS' CASH FLOW FORECAST

The March 19 Forecast, together with the management's report on the cash-flow statement as required by section 10(2)(b) of the CCAA, is attached hereto as Appendix A. The March 19 Forecast shows a negative net cash flow of approximately $7.0 million in the period March 19 to March 30, 2012, and is summarized below:

	Variance $000
Receipts:	
AC Net	13,429
Non AC	2,817
Total Receipts	**16,246**
Disbursements:	
Suppliers	(7,385)
Payroll	(10,081)
Other	(55)
Taxes	(3,188)
Total Disbursements	**(20,709)**
Net Operating Cash Flow	**(4,463)**
Restructuring	
Professional Fees	**(1,100)**
Professional Fees Lenders	**(525)**
Proceeds from Assets Disp.	**0**
Disposal Costs	**(1,500)**
Other	0
Total Restructuring Costs	**(3,125)**
Net Change in Cash	**(7,588)**
Opening Cash	**12,534**
Closing Cash	**4,946**

16. The Company's March 19 Forecast assumes earned payments from Air Canada continue in the ordinary course, with these payments the Company has sufficient cash on hand and cash from operations during the proposed two week stay period to pay for operations and liabilities incurred during the stay period.

17. Section 23(1)(b) of the CCAA states that the Monitor shall:

> "review the company's cash-flow statement as to its reasonableness and file a report with the court on the monitor's findings;"

18. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1 ("**CAIRP SOP 09-1**"), the Proposed Monitor hereby reports as follows:

(a) The March 19 Forecast has been prepared by the management of the Applicants for the purpose described in Note 1, using the Probable and Hypothetical Assumptions set out in Notes 2 to 10.

(b) The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the management and employees of the Applicants. Since Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the March 19 Forecast. The Proposed Monitor has also reviewed the support provided by management of the Applicants for the Probable Assumptions, and the preparation and presentation of the Cash-Flow Statement.

(c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:

  (i) the Hypothetical Assumptions are not consistent with the purpose of the March 19 Forecast;

  (ii) as at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the March 19 Forecast, given the Hypothetical Assumptions; or

  (iii) the March 19 Forecast does not reflect the Probable and Hypothetical Assumptions.

(d) Since the March 19 Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material, particularly if the Applicants' primary customer withholds payments otherwise due. Accordingly, the Proposed Monitor expresses no assurance as to whether the March 19 Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the Proposed Monitor in preparing this report.

(e) The March 19 Forecast has been prepared solely for the purpose described in Note 1 on the face of the March 19 Forecast, and readers are cautioned that it may not be appropriate for other purposes.

THE PROPOSED CLOSURE OF THE AIRFRAMES DIVISION

19. The Airframes division incurs a significant loss from operations. As described in the Kolshak Affidavit, the Company plans to close the Airframes division effective immediately to conserve cash and focus on the EMC and CMC operations. The closure of the Airframes business will directly affect approximately 1380 unionized employees, each of whom were notified Sunday March 18, 2012 of the Airframes closure.

INDEPENDENT SECURITY OPINION

20. A description of the Applicants debt facilities is provided in the Kolshak Affidavit. Norton Rose LLP, which will act as independent counsel to the Monitor if FTI Consulting is appointed as Monitor in the CCAA Proceedings, has been asked to provide an opinion on the validity and enforceability of the security held by the Security Agent. The results of that opinion will be provided to the Court once completed.

THE PROPOSED DIRECTORS' CHARGE

21. The Applicants are seeking the Directors' Charge in the amount of $5 million.

22. The Proposed Monitor has reviewed the underlying calculations upon which the Applicants have based the estimate of the potential liability in respect of directors' statutory obligations and is of the view that the Directors' Charge is reasonable in relation to the quantum of the estimated potential liability. The nature and scope of the proposed Directors' Charge directly relates to pertinent employee obligations and their related source deduction withholdings. The effect of the Directors' Charge is to provide some assurance that such employee obligations will be paid should operations cease in their entirety as a result of the inability to source additional funding in the short term..

THE PROPOSED ADMINISTRATION CHARGE

23. The Applicants are seeking an Administration Charge in the amount of $3 million with priority over all encumbrances against the Applicants' assets except for certain secured creditors specified in the proposed draft initial order. The order does not purport to give priority to the Administration Charge over the current personal property security registrants who have a security interest against specific pieces of equipment, or over other secured creditors as defined in the CCAA and who have not received notice and are likely to be affected by the Administration Charge.

24. The beneficiaries of the Administration Charge if granted would be the Monitor, the Monitor's counsel, counsel to the Applicants, counsel to the Lenders and the financial advisors to the Lenders.

25. The Proposed Monitor understands that the Lenders have consented to the granting of the Administration Charge and its priority status.

26. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants has based the quantum of the proposed Administration Charge, the complexities of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge and believes that limit of $3 million is reasonable in the circumstances. The Proposed Monitor also believes that it is appropriate that the other proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceedings.

CONCLUSION

27. The Monitor is of the view that the relief requested by the Applicants is necessary, reasonable and justified. The Monitor is also of the view that granting the relief requested will provide the Applicants the best opportunity to explore the possible outcomes for this business in the very short term by enabling the Applicants to have sufficient opportunity to source additional funding in support of the business and avoid an immediate and disorderly shut down.

28. Accordingly, the Monitor respectfully recommends that the Applicants' request for an initial order pursuant to the CCAA and the ancillary relief described in this Report be granted by this Honourable Court.

The Proposed Monitor respectfully submits to the Court this Pre-Filing Report.

Dated this 19th day of March, 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	Toni Vanderlaan Managing Director

Appendix A

The March 19 Cash Flow

Aveos Fleet Performance (CAD '000s)
Consolidated Cash Flow

	1	2
	23-Mar-12	30-Mar-12
AC Net	**(1,787)**	**15,216**
Non-AC Forecasted	441	20
Non-AC Invoiced	2,174	183
Non-AC Inflows	**2,615**	**203**
Total Receipts	**827**	**15,419**
Supplier Payments	(3,986)	(3,399)
Payroll	(6,478)	(3,603)
Taxes	-	(3,188)
Other	(55)	-
Total Disbursements	**(10,519)**	**(10,190)**
Net Operational Cash Flow	**(9,692)**	**5,229**
Restructuring		
Professional fees	(600)	(500)
Professional fees Lenders	(275)	(250)
Proceeds from Asset Disp.	-	-
Disposal Costs	(750)	(750)
Other	-	-
Restructuring Outflows	(1,625)	(1,500)
Net Change in Cash	**(11,317)**	**3,729**
Beginning Cash	**12,534**	**1,217**
Ending Cash	**1,217**	**4,946**

Aveos Fleet Performance Inc.
Notes to the March 19 Cash Flow

Notes:

1) The purpose of this cash flow projection is to determine the liquidity requirements of Aveos during the forecast period.
2) Receipts from operations have been forecast based on current payment terms and contracts.

The receipts include invoiced items only for completed work or contractual payments.

3) Supplier payments are forecast based on expected post filing costs for the operating divisions and are forecast on a COD basis.
4) Payroll include wages, vacation and benefits and includes Aero US.
5) Other costs include periodic payments such as rent, licencing fees, insurance and other payments.
6) Taxes consist primarily of sales taxes.
7) The cash flow does not include interest charges for amounts owing under the Company's current credit agreements
8) Restructuring expenses include legal and professional fees based on estimates provided by the current legal and financial advisors.
9) Proceeds from Asset Disposal relates to the proceeds from the realization of the assets of the Airframes division but these amounts are uncertain at this time.
10) Disposal costs relate to the forecasted disposal costs with respect to the realization of the assets of the Airframes division.