

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

SEVENTH 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 (the "Stay Period"), and appointing FTI Consulting Canada Inc. as monitor of the Petitioners (the "Monitor"). The Stay Period was subsequently extended and currently expires on October 25, 2012. 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 update the Court on the following:

- a) the status of the Divestiture Process (“DP”) as it relates to the sale of certain landing gear parts and inventory included under Lot 23 of the DP (“LGP”);
 - b) the status of the DP as it relates to other assets; and
 - c) various other matters relevant to the CCAA proceedings.
4. In preparing this report, the CRO has relied upon unaudited financial information of the Petitioners, the Petitioners’ books and records, certain financial information prepared by the Petitioners and discussions with management and employees. The CRO has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Future oriented financial information reported or relied on in preparing this report is based on management’s assumptions regarding future events; actual results may vary from forecast and such variations may be material.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

II. SALE OF THE LGP

6. Aveos had received two bids for the sale of the landing gear assets comprising Lot 23. Following negotiations consistent with the DP, Hawker Pacific Aerospace (“Hawker”), an affiliate or subsidiary of Lufthansa Technik AG (“LHT”) was identified as the leading bid.
7. Prior to finalizing an Asset Purchase Agreement (“APA”), inspection of the assets by Hawker and Aveos resulted in additional work being required to obtain certain regulatory documentation, including Non-Incident Statements from Air Canada. This took several weeks to complete and, in the process, the Hawker bid was revised to exclude the Lot 23 equipment and include only the LGP. In the end result, the APA for the LGP was signed after the completion of the other asset sales made pursuant to the DP.
8. Under the terms of the APA, Hawker has agreed to make an additional payment to Aveos, should it or LHT be successful in their response to Air Canada’s Request for Proposals in maintaining certain of Air Canada’s landing gear.
9. Subject to the approval of the Court and the issuance of an approval and vesting order, Aveos will complete the transaction with Hawker.

III. PROGRESS OF THE DP

10. As previously reported, with approval of this Honourable Court, various material transactions covering substantially all of the assets of Aveos have been concluded. These transactions included both outright sales and Liquidation Services Agreements (“LSA”) entered into with auctioneers. An overview of the transactions by division is set out below:
- a) Airframe Division:
 - (i) In total Aveos entered into and closed five APAs for sale of specific assets, the largest of which was concluded with a purchaser who moved certain of the

assets to facilities in Windsor, Ontario and Trois Rivieres, Quebec for use in the purchaser's airframe maintenance operations.

- (ii) Substantially all of the remaining assets at the Aveos Montreal and Vancouver facilities were liquidated pursuant to an LSA entered into with Maynards Industries Ltd. ("Maynards"). The auctions were held on August 15 and 16, 2012 in Vancouver and August 22 and 23, 2012 in Montreal. Maynards has reported that sales exceeded the net minimum guarantee amounts set out in the LSAs by over \$1.0 million, which will result in the recovery of additional liquidation proceeds by Aveos.

b) Component Maintenance Center ("CMC")

- (i) Aveos entered into an APA with AJW Technique Inc., an affiliate of AJ Walter Aviation Limited ("AJW"). The transaction closed on August 30, 2012. As previously reported, AJW intends to integrate the CMC into its existing business and re-hire approximately 200 people to operate this facility. AJW is in possession of the CMC facility and assets.

c) Engine Maintenance Center ("EMC")

- (i) Aveos entered into an LSA with Maynards for the equipment and tooling at the EMC, and also entered into an APA with Maynards with respect to the EMC inventory. Maynards is planning an auction sale for mid October. Maynards has also reported that it is working with various parties on pre-auction sales of larger lots of tooling and equipment.
- (ii) Notwithstanding the Maynards LSA described above, Aveos was recently approached by an interested party with respect to a potential transaction. This party has executed a non-disclosure agreement and is currently performing due diligence. There is no indication at the time of writing this report as to the possible outcome; however, the CRO will continue to work with this party as well as the interested stakeholders, as appropriate, and report on any developments in a future report.

d) Air Canada Contract for Engine Maintenance Services ("ACC")

- (i) On August 24, 2012, the Honourable Mr. Justice Gouin granted Aveos' motion for an order approving the assignment of the ACC to LHT. This order was granted following a hearing on the merits in light of the contestation made by the other bidder for the ACC, MTU Aero Engines GmbH ("MTU"), which had alleged that the DP had been tainted and that its offer for the ACC should have been accepted. In granting the order and rejecting MTU's contestation, the Court found, among other things, that the DP had been "implemented with transparency, integrity and efficacy". Aveos completed the assignment of the ACC to LHT on August 24, 2012, immediately following the issuance of the Court's ruling.

e) EMC building located at 7171 boul. de la Cote-Vertu Ouest, St-Laurent, Quebec

- (i) The CRO is currently working with real estate brokers with the intention of selecting one broker with which it will list the property for sale in the coming month. The building is owned by Aveos but subject to a land lease which expires in 2051.
 - (ii) The CRO has had preliminary discussions with the party referenced in paragraph c) (ii) above who may be interested in leasing the building in the event that it pursues a transaction for the EMC. As these discussions are at a very preliminary stage, it is premature to comment on the potential outcome at this time.
- f) Miscellaneous assets
- (i) Given the size and complexity of the Aveos business, there are various tools, equipment, inventory and intellectual property that remain in Aveos' control and have not yet been subject to any sale.
 - (ii) All remaining tangible assets are being marshalled at the EMC facility, as appropriate, and will be disposed of by Aveos through individual transactions or through the upcoming Maynards auction sale.

IV. 30 DAY GOODS

11. In the Sixth Report of the Chief Restructuring Officer, the status of 30 day goods claims was summarized. To update this information, there have been 19 claims made by various suppliers to date. Of these 19 claims:
- six have now been completely settled;
 - nine have been determined to be invalid claims and, accordingly, rejected; and
 - one remains under negotiation; and

The remaining three claims relate to CMC. As the CMC has been sold in an en bloc sale, Aveos and the CRO take the position that 30 day goods claims are not applicable as they are not recognized in a CCAA proceeding.

V. OTHER MATTERS

12. Below is an overview of other material activities of the CRO that are currently being undertaken in consultation with the Monitor. The CRO intends to provide a more fulsome report to the Court on these and any other significant matters prior to the October 24, 2012 hearing at which time the Petitioners anticipate seeking a further extension of the Stay Period.
13. Current material activities include, but are not limited to:
- a) Surrender of Aveos Premises on or before September 30, namely:
 - (i) the Vancouver, Winnipeg, Montreal and Toronto premises leased from Air Canada;

- (ii) the head office located at 2311 Boulevard Alfred Nobel, also known as BAN 3; and
 - (iii) other warehouse and leased facilities, such that Aveos will only have one location remaining (the EMC building) as of October 1, 2012.
- b) Wind down of ongoing operations and relocation of Aveos' head office operations and personnel to the EMC building. Aveos currently employs approximately 35 people; this will reduce to approximately 15 people on October 1, 2012;
- c) Working with priority claimants to crystallize claims as well as understand relative priority, prior to making any distributions to the Secured Lenders. Aveos intends to seek authorization from this Honourable Court in late October to make an interim distribution to the Secured Lenders;
- d) Aveos is working through a variety of issues with Canada Revenue Agency and Revenu Quebec that may have a material impact on the realizations to the Secured Lenders;
- e) The CRO is working with Air Canada to settle the outstanding business issues between them which include:
 - (i) The disposition of approximately \$23 million held in the Monitor's escrow account which was established pursuant to the terms of the Retrieval Agreement between Aveos and Air Canada, details of which have previously been reported to this Honourable Court;
 - (ii) Settling of amounts due from and to Air Canada as a result of pre-petition transactions between the parties;
 - (iii) Completion of the recovery of Air Canada property under the terms of the various Supplements to the above-mentioned Retrieval Agreement.
- f) Working with OSFI and the Administrator of the Aveos employee pension plans to:
 - (i) Determine the funded status of the defined benefit pension plan for Aveos' unionized employees. The determination of this will impact the ongoing discussions with respect to unpaid current service costs and special payments in the amount of approximately \$636,000 for this plan. Also included in this discussion are unpaid special payments for the non-unionized defined benefit pension plan, in the amount of approximately \$2.8 million.
 - (ii) Facilitate discussions, as noted above, between the Secured Lenders and OSFI with regard to priority or deemed trust claims which may be asserted; and
 - (iii) Address other matters related to the windup of the pension plans.

- g) Negotiating the settlement of amounts owed by certain Aveos customers and completion of the retrieval of customer property which remains in Aveos' possession;
- h) Consideration of measures which may facilitate the processing of remaining employee claims which may be made under the Wage Earner Protection Program Act.
- i) Aveos is currently engaged in litigation with:
 - (i) NorthgateArinso Canada Inc. ("NGA");
 - (ii) Vision Airlines, Inc.;
 - (iii) JetLink Express Ltd. and Mexican CRJ Limited; and
 - (iv) Canadian North Inc.

V. CONCLUSIONS

- 14. The CRO expects to come before this Court in late October seeking an extension of the CCAA Stay Period, to allow for the completion of the various matters currently in process.
- 15. The CRO respectfully submits this Seventh Report to update this Honourable Court as to the Petitioner's progress to date and in support of the Petitioners' Motion for approval of the LGP Transaction and a vesting order for the assets to be sold as described in this Report and the Petitioners' Motion.

September 25, 2012

(s) Jonathan Solursh

Jonathan Solursh
Chief Restructuring Officer