

Court No. 32-2613323
Estate No. 32-2613323

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE NOTICE OF INTENTION OF
AIR GEORGIAN LIMITED

THIRD REPORT OF KPMG INC. in its capacity as
PROPOSAL TRUSTEE UNDER THE
NOTICE OF INTENTION OF
AIR GEORGIAN LIMITED

APRIL 14, 2020

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INTRODUCTION

1. On January 31, 2020 (the “**Filing Date**”), Air Georgian Limited (“**AGL**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”).
2. KPMG Inc. acts as proposal trustee (in such capacity, the “**Proposal Trustee**”) of AGL.
3. On February 26, 2020, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granted an order (the “**February 26 Order**”, a copy of which is attached hereto as **Appendix “A”**), *inter alia*:
 - a. extending the time in which the Company is required to file a proposal to March 16, 2020;
 - b. approving interim financing to the maximum amount of \$800,000 (the “**Post-Filing Advances**”); and
 - c. approving the Administration Charge and the DIP Lender’s Charge.
4. On March 16, 2020, the Court granted orders, *inter alia*:
 - a. approving the sale transaction (the “**Transaction**”) contemplated by an agreement of purchase and sale (the “**APA**”) between AGL and 2746904 Ontario Inc. (the “**Purchaser**”, a party related to John Binder (“**Binder**”)¹) dated March 9, 2020, and vesting in the Purchaser the Company’s right, title and interest in and to the assets described in the Sale Agreement (the “**Purchased Assets**”) (the “**Approval and Vesting Order**”, a copy of which is attached hereto as **Appendix “B”**);
 - b. extending the time in which the Company is required to file a proposal to April 17, 2020; and
 - c. increasing the maximum borrowing available in Post-Filing Advances by \$1.2 million to \$2 million (together, the “**Ancillary Order**”, a copy of which is attached hereto as **Appendix “C”**).

¹ Binder is a director and a 50% indirect shareholder of the Company.

5. This third report of the Proposal Trustee (the “**Third Report**”) is being delivered in connection with the Company’s motion (the “**Company’s Motion**”) returnable April 17, 2020, and should be read in conjunction with the first report of the Proposal Trustee dated February 23, 2020, the second report of the Proposal Trustee dated March 12, 2020 (the “**Second Report**”, and together, the “**Prior Reports**”), and the affidavit of Eric Edmondson, President and Chief Executive Officer of AGL, sworn April 14, 2020 (the “**Third AGL Affidavit**”) and filed in support of the Company’s Motion. A copy of the Second Report is attached (without appendices) hereto as **Appendix “D”**.
6. Capitalized terms not defined herein have the meanings ascribed to them in the Prior Reports.

I. PURPOSE OF THIS THIRD REPORT AND ITS LIMITATIONS

7. The purpose of this Third Report is to provide the Court with information regarding:
 - a. the activities of the Proposal Trustee and the Company since the date of the Second Report;
 - b. the Company’s reported receipts and disbursements for the period from March 7, 2020 through April 10, 2020;
 - c. the Company’s cash flow forecast for the period from April 11, 2020 through June 5, 2020;
 - d. the extension of the time for filing a proposal being sought by the Company;
 - e. the proposed DIP financing required to fund the period of the stay extension; and
 - f. the Proposal Trustee’s recommendation that this Court make an order, as requested by the Company:
 - (i) extending the time for the filing of a proposal to June 1, 2020;
 - (ii) increasing the maximum borrowing available in Post-Filing Advances by \$0.2 million to a total of \$2.2 million; and
 - (iii) approving this Report and the activities of the Proposal Trustee described herein.

8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
9. In preparing this Third Report, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, books and records, and financial and other information of AGL and information from other third-party public sources (“**Information**”). The accuracy and completeness of the Information contained herein has not been audited or otherwise verified by the Proposal Trustee, and the Proposal Trustee does not express any opinion or provide any other form of assurance with respect to the Information presented herein or relied upon by the Proposal Trustee in preparing this Third Report.
10. Some of the Information referred to or reported in this Third Report consists of future oriented information and is based on estimates and assumptions regarding future events. Actual results may vary from forecast and such variations may be material. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

II. THE COMPANY’S ACTIVITIES

11. The Company’s activities since the date of the Second Report have included, *inter alia*, the following:
 - a. corresponding with its stakeholders, including employees and union representatives, customers and key suppliers, in respect of the NOI filing;
 - b. engaging in matters relating to the restructuring including with respect to financing and the Transaction;
 - c. continuing to seek to develop revenue-generating activities, in particular in relation to charter flight activities;
 - d. working with the Proposal Trustee to prepare and subsequently update/revise the Company’s cash flow projections (as more fully described later in this Third Report);
 - e. communicating with suppliers to secure goods and services during the Company’s NOI proceeding and to address payment terms;

- f. reporting its receipts and disbursements;
- g. making payments to suppliers for goods and services received following the Filing Date;
- h. continuing to review its leases and agreements with a view to disclaiming those that are redundant pursuant to subsection 65.11(1) of the BIA;
- i. liaising with Air Canada in connection with amounts due under the Transition Agreement, and the return of remaining aircraft engines and auxiliary power units in the Company's possession that belong to Air Canada or its affiliates, completing returns, and reconciling expenses in respect of same;
- j. engaging with the Purchaser and various contract counterparties in connection with the Transaction, and executing an amendment to the APA dated April 13, 2020 (the "**Amendment**", a copy of which is attached hereto as **Appendix "E"**);
- k. engaging with the DIP Lender and its counsel in respect of an amending letter agreement to the DIP Facility dated April 13, 2020 (the "**Second Amending Agreement**", a copy of which is attached hereto as **Appendix "F"**); and
- l. engaging with various government authorities in order to obtain financial relief from the global pandemic caused by the novel coronavirus COVID-19.

III. THE PROPOSAL TRUSTEE'S ACTIVITIES

- 12. The Proposal Trustee's activities since the date of the Second Report have included, *inter alia*:
 - a. maintaining the Proposal Trustee's website, email address and telephone hotline in respect of this NOI proceeding;
 - b. assisting the Company with the preparation and subsequent revisions/updates of the Company's cash flow projections, including a review of the underlying assumptions;
 - c. attending periodic telephone and conference calls with the Company's management team and employees with respect to the NOI proceedings;

- d. monitoring the Company's receipts and disbursements and assisting with ongoing reporting of variances to the Company's cash flow projections;
- e. assisting the Company in preparing certain communication materials, and in responding to employee and other creditor enquiries;
- f. discussions with the Company regarding all matters related to Air Canada;
- g. discussions with the Company regarding lessors and third party property;
- h. discussions with the Company regarding disclaiming certain agreements, and approving two agreement disclaimers pursuant to subsection 65.11(1) of the BIA;
- i. engaging with certain of the Company's stakeholders in respect of the NOI;
- j. responding to calls and enquiries from the Company's creditors, including former/current employees, suppliers, and other stakeholders regarding the Company's NOI proceeding;
- k. discussions with the Company, the Company's counsel and Ontario counsel for the Proposal Trustee, Chaitons LLP ("**Chaitons**"), regarding the status of the Transaction, the Amendment, and the Second Amending Agreement;
- l. discussions with the Company's counsel and Chaitons regarding the NOI proceeding generally;
- m. drafting this Third Report and reviewing all Court materials filed in connection with the Company's Motion; and
- n. corresponding with the Company and its advisors regarding the foregoing.

IV. UPDATE ON THE TRANSACTION

13. Since the granting of the Approval and Vesting Order on March 16, 2020, the Company and the Purchaser have continued to work to clear the closing conditions. In particular the Company and the Purchaser have been working with the many key contract counterparties to either obtain assignments or new contractual arrangements as well as working through the process for the re-issuance of the licenses with Transport Canada and the other applicable regulatory bodies.

14. As detailed in the Third AGL Affidavit, the worldwide pandemic caused by COVID-19 has shaken the global economy and in particular the airline industry. As a result, there has been a significant delay in the response time of certain key counterparties as they look to deal with the impact of COVID-19 on their businesses. Accordingly, the Proposal Trustee understands that the Transaction is unlikely to close before April 17, 2020, being the original outside date pursuant to the APA.
 15. The Purchaser and the Company have agreed to extend the outside date from April 17, 2020 to June 1, 2020 pursuant to the Amendment.
- V. THE COMPANY'S CASH FLOWS FOR THE PERIOD FROM MARCH 7, 2020 TO AND INCLUDING APRIL 10, 2020**
16. As detailed in the Second Report, AGL, with the assistance of the Proposal Trustee, prepared a cash flow forecast of its receipts and disbursements for the period from March 7, 2020 to and including April 10, 2020 (the "**March 7 Cash Flow Forecast**") in support of the Company's Motion. The March 7 Cash Flow Forecast was appended to the Second Report.
 17. A comparison of AGL's budget to reported results for the five-week period ended April 10, 2020 is summarized as follows:

AGL - Reported Results vs. March 7 Cash Flow Forecast			
For the five week period ended April 10, 2020			
\$CAD			
	Reported	Forecast	Variance
Receipts	151,070	9,845	141,225
Disbursements			
Lease payments	(69,125)	(323,024)	(253,899)
Office, maintenance and other	(99,882)	(280,809)	(180,927)
Payroll and benefits	(515,267)	(735,219)	(219,952)
Direct asset return costs	(11,812)	(196,419)	(184,607)
Restructuring professional fees	(230,764)	(326,321)	(95,557)
Total Disbursements	(926,850)	(1,861,792)	(934,942)
NET CASH FLOW	(775,780)	(1,851,947)	1,076,167
Opening cash balance	628,181	628,181	-
Net cash flow	(775,780)	(1,851,947)	1,076,167
Senior secured debt	-	-	-
DIP drawdown	250,000	1,240,000	(990,000)
Closing cash balance	102,401	16,234	86,167
Funding			
Opening senior secured debt	5,304,480	5,304,480	-
Drawdowns	-	-	-
Closing senior secured debt	5,304,480	5,304,480	-
Opening DIP balance	550,000	550,000	-
Drawdowns	250,000	1,240,000	990,000
Closing DIP balance	800,000	1,790,000	990,000

18. As reflected in the above summary table, AGL reported receipts of \$151,070 and disbursements of \$926,850 for a net cash outflow of \$775,780, which was better than forecast, primarily due to timing differences and certain payroll and other cost reductions.
19. The positive receipts variance of \$141,225 is primarily a permanent difference as the Company performed charter activities not included in the March 7 Cash Flow Forecast for revenue of approximately \$55,000, and received an unanticipated insurance refund of approximately US \$38,000 relating to a claim from a prior year.
20. The positive disbursements variance of \$934,942 is due to timing and certain permanent differences in expenses.
 - a. The variance relating to the Company's lease payments, which are for commercial property, are partly due to timing and partly permanent in nature. The Company anticipates paying its commercial property expenses during the week ending April

17, 2020. The Proposal Trustee understands that the Company is in late stages of negotiating new lease terms with its aircraft lessor.

- b. The Proposal Trustee understands that the Company has nearly completed the reconciliation of the direct costs incurred related to the asset return process with Air Canada, and will be finalizing same with Air Canada. The Company was able to conserve cash by using much of its owned inventory to complete the asset return process, and accordingly a portion of this difference is permanent in nature.
 - c. The Company has reduced its workforce more than originally anticipated due to the global pandemic caused by COVID-19. As a result, payroll costs and payroll taxes are less than initially anticipated resulting in a favourable permanent difference.
 - d. The Company disbursed fewer funds than expected in payment of certain expenses, including its office and maintenance expenses and restructuring professional fees. The positive timing difference is anticipated to reverse in future weeks.
21. The Company borrowed \$250,000 from 222 during the five-week period ended April 10, 2020. The Ancillary Order authorized increasing the maximum borrowing available in Post-Filing Advances by \$1.2 million. As of the date of this Third Report, the Company has not borrowed any of that incremental \$1.2 million in funding.

VI. CASH FLOW FORECAST

22. The deadline on which the Company must file a proposal expires on April 17, 2020 (the “**Stay Period**”). The Company is seeking an extension of the Stay Period to June 1, 2020.
23. The Company, with the assistance of the Proposal Trustee, has updated its forecast of its receipts and disbursements (the “**April 11 Cash Flow Forecast**”) for the period from April 11, 2020 to June 5, 2020 (the “**Cash Flow Period**”). A copy of the April 11 Cash Flow Forecast is attached hereto as **Appendix “G”** and is summarized below:

AGL - April 11 Cash Flow Forecast	
For the period April 11, 2020 to June 5, 2020	
\$CAD	
Receipts	-
Disbursements	
Lease payments	(283,076)
Office, maintenance and other	(493,814)
Payroll and benefits	(476,929)
Direct asset return costs	(83,896)
Restructuring Professional Fees	(156,392)
Total Disbursements	(1,494,107)
NET CASH FLOW	(1,494,107)
Opening cash balance	102,401
Net cash flow	(1,494,107)
Senior secured debt	-
DIP drawdown	1,400,000
Closing cash balance	8,295
Funding	
Opening senior secured debt	5,304,480
Drawdowns	-
Closing senior secured debt (principal)	5,304,480
Opening DIP balance	800,000
Drawdowns	1,400,000
Closing DIP balance (principal)	2,200,000

24. The Proposal Trustee notes the following with respect to the April 11 Cash Flow Forecast:
- a. Receipts: Collections during the Cash Flow Period are conservatively forecast at \$nil. As further described in the Third AGL Affidavit, the Company is well positioned to assist in essential transport made necessary by the COVID-19 pandemic. In addition, the Company is hopeful that it will qualify for the federal government’s Canada Emergency Wage Subsidy (“CEWS”). If the Company is successful in obtaining new revenue in excess of additional operating costs, and/or qualifies and receives funding under CEWS, it may have cash receipts during the Cash Flow Period.
 - b. Disbursements: Forecast disbursements during the Cash Flow Period include payment of operating costs necessary to maintain the Company’s Air Operator’s Certificate (“AOC”) and operational capabilities as well as direct costs associated with the return of aircraft to Air Canada.

25. The underlying assumptions in the April 11 Cash Flow Forecast are summarized as follows:
- a. The Company and Air Canada have worked together to facilitate the return of aircraft and related assets. This process is now complete and the Company has almost completed the cost reconciliation process with Air Canada to determine if any amounts funded to the Company by Air Canada pursuant to the Interim Reimbursement Agreement (as amended), need to be repaid. The April 11 Cash Flow Forecast includes a preliminary estimate of the funding that is required to be repaid to Air Canada in respect of costs not incurred.
 - b. The April 11 Cash Flow Forecast excludes the collection of certain accounts receivable due from Air Canada prior to the Cash Flow Period, related to the Transition Agreement and/or Commercial Agreement which terminated on January 31, 2020. These receivables are excluded from the Cash Flow Period as certain amounts are overdue, and it is expected that collections may be further delayed as the Proposal Trustee understands there have been indications of potential commercial issues as between the parties.
 - c. In order to maintain its AOC, the Company must be in compliance with certain regulations, including maintaining at least one aircraft and continued employment of certain key regulatory personnel. Accordingly, the April 11 Cash Flow Forecast includes estimated lease payments and maintenance expenses for one aircraft, lease costs related to the Company's office and hangar, and wages and benefits for key regulatory and other personnel deemed necessary for the Company to maintain its operational capabilities.

VII. THE COMPANY'S REQUEST FOR AN EXTENSION TO JUNE 1, 2020

26. The Stay Period expires on April 17, 2020. AGL is seeking an extension of time in which it may file a proposal up to and including June 1, 2020 (the "**Extension**").
27. As described above, the Third AGL Affidavit describes how the novel coronavirus COVID-19 has seriously impacted the global economy, including the airline industry, which has caused certain key counterparties to be delayed in their response to either the Company and/or the Purchaser as they work to clear closing conditions.
28. Given the delay, the Company requires the Extension in order to close the Transaction. The Company is aiming to close the transaction on or before June 1, 2020, the date of the requested stay extension.
29. The April 11 Cash Flow Forecast indicates that AGL will have sufficient liquidity to fund both operating costs and the costs of this NOI proceeding during the Extension, if granted. This assumes, among other things, that the order approving the increase to the maximum borrowing under the Post-Filing Advances is granted.
30. The Proposal Trustee supports the Company's request for the Extension for the following reasons:
 - a. the Company and its management are acting in good faith and with due diligence in taking steps to facilitate a sale of the business and assets in order to preserve the Company's business;
 - b. it is the Proposal Trustee's view that the granting of the Extension will not prejudice or adversely affect any group of creditors;
 - c. the April 11 Cash Flow Forecast indicates that AGL will have sufficient liquidity to continue to fund operations and the cost of this proceeding through June 1, 2020 if this Court grants the relief sought by the Company; and
 - d. the Extension should provide sufficient time for the Transaction to close.
31. In the Proposal Trustee's view, the Company's request for the Extension is appropriate in the circumstances as it provides a reasonable timeframe in which to close the Transaction.

VIII. INCREASE IN POST-FILING ADVANCES

32. Based on the April 11 Cash Flow Forecast, without additional funding the Company will not have sufficient funds through the Extension to maintain its employee base and operating licenses - which are critical to the Transaction.
33. The April 11 Cash Flow Forecast shows that the Company will need to draw \$0.2 million in additional funds to close the Transaction in order to fund its restructuring expenses, payroll and operational costs. For the proposed Extension period, the April 11 Cash Flow Forecast shows that the Company will require total incremental borrowings of approximately \$1.4 million.
34. As set out above and in the Third AGL Affidavit, although not currently contemplated by the April 11 Cash Flow Forecast, if the Company is successful in obtaining new revenue through charter flights and/or qualifies and receives funding under the CEWS, it may not require the entire \$1.4 million of projected funding.
35. As detailed in the Prior Reports, prior to the Filing Date, the Company, Binder and 222 were in discussions regarding the Company's requirement for interim financing during the NOI proceeding. 222 had agreed to provide interim financing should no alternatives be available to the Company at that time.
36. As detailed in the Second Report, the Post-Filing Advances were governed by a letter agreement dated March 11, 2020. In order to facilitate the incremental funding requirement, the Company and 222 have executed the Second Amending Agreement, which among other things, increases the maximum Post-Filing Advances by \$200,000 to \$2.2 million on substantially the same terms and conditions. Also pursuant to the Second Amending Agreement, 222 has agreed to extend the maturity date from April 30, 2020 to June 30, 2020.
37. Taking into consideration the above, the Proposal Trustee is supportive of the proposed increase in the Post-Filing Advances for the following reasons:
 - a. given that the Company currently has no substantial revenue and has not yet qualified for CEWS, AGL is without the cash needed to maintain operational capabilities – funding is likely to be needed to complete the Transaction;

- b. if funding is not available, the Company's ability to maintain operational capabilities through June 1, 2020 will likely cease and the Company's employees will be terminated, both of whom are critical to the completion of the Transaction; and
- c. borrowing under the 222 Secured Debt remains an efficient method of borrowing in the circumstances. The 222 Secured Debt is to be assumed by the Purchaser (a related party to 222) pursuant to the APA.

IX. CONCLUSION AND RECOMMENDATION

38. For the reasons set out above, the Proposal Trustee respectfully recommends that the Court grant the relief outlined in paragraph 7(f) of this Third Report.

All of which is respectfully submitted at Toronto, Ontario this 14th day of April, 2020.

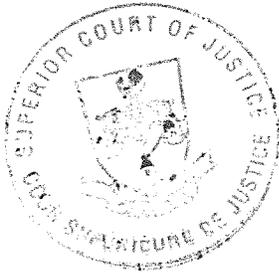
**KPMG Inc., in its capacity as Proposal Trustee of
Air Georgian Limited.**

Per: 
Katherine Forbes, CPA, CA, CIRP
Senior Vice President

Per: 
Marcel Réthoré, CPA, CA, CIRP
Vice President

Appendix “A”

Order of the Superior Court of Justice (Commercial List) dated February 26, 2020



Estate No.: No. 32-2613323

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.)
JUSTICE HAINEY)
WEDNESDAY, THE 26TH
DAY OF FEBRUARY, 2020

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO

ORDER

THIS MOTION, made by Air Georgian Limited (the “**Debtor**”) for an order extending the time for filing a proposal, approving and administration charge and certain debtor in possession funding, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Eric Edmondson sworn February 22, 2020 (the “**Affidavit**”) and the first report of KPMG Inc. in its capacity as proposal trustee (in such capacity, the “**Proposal Trustee**”) dated February 23, 2020 (the “**First Report**”), and on hearing the submissions of counsel for the Debtor, the Proposal Trustee, 2229275 Alberta Ltd. (“**222**”) and those other parties present, as indicated on the counsel slip, no other parties present, although properly served as appears from the affidavit of Jennifer Stam sworn February 23, 2020, filed:

NOTICE AND SERVICE

1. **THIS COURT ORDERS** that the time for service of the Motion Record in respect of this motion and the First Report is hereby abridged and validated so that the motion is properly returnable today, and that further service thereof is hereby dispensed with.

EXTENSION OF TIME TO FILE A PROPOSAL

2. **THIS COURT ORDERS** that pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (“**BIA**”), the time for the Debtor to file a proposal with the Official Receiver be and is hereby extended to March 13, 2020.

16 *GH*

ADMINISTRATION CHARGE

3. **THIS COURT ORDERS** that the Proposal Trustee, counsel to the Proposal Trustee and the Debtor’s counsel shall be entitled to the benefit of and are hereby granted a charge (the “**Administration Charge**”) on the Debtor’s current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “**Property**”), which charge shall not exceed an aggregate amount of \$200,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Proposal Trustee and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 8 and 10 hereof.

DIP FINANCING

4. **THIS COURT ORDERS** that the Debtor is hereby authorized and empowered to borrow monies (“**Post-Filing Advances**”) from 222 (in such capacity, the “**DIP Lender**”) pursuant to the ATB Facility and the ATB Debt and Security (as both terms are defined in the First Report) as assigned to 222 pursuant to the Assignment Agreement (as defined in the First Report) in order to finance the Debtor’s day to day operations and restructuring proceedings substantially in accordance with the cash flow budget attached as Appendix “E” to the First Report (the “**Cash Flow**”).

5. **THIS COURT ORDERS** that notwithstanding the terms of the ATB Facility and the ATB Debt and Security,

- (a) The Debtor may request weekly or bi-weekly Post-Filing Advances in amounts consistent with its funding requirements under the Cash Flow;
- (b) All Post-Filing Advances shall be subject to the consent of the Proposal Trustee;

- (c) All Post-Filing Advances and any other amounts secured by the DIP Lender's Charge shall be repayable in full with interest at the rate of 12% per annum (calculated from the date of advance to the date of repayment on the earlier of (a) the completion of a sale or sales for substantially all of the Debtor's assets and (b) April 30, 2020.

6. **THIS COURT ORDERS** that pursuant to Section 50.6 of the BIA, the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "**DIP Lender's Charge**") on the Property, which DIP Lender's Charge shall secure only advances made to the Debtor under the ATB Facility after this Order is made as well as any accrued and unpaid interest and professional fees of counsel to the DIP Lender.

7. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order or the provisions of Section 69 of the BIA:

- (a) the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender's Charge;
- (b) in keeping with the ATB Facility and the ATB Debt and Security (together, the "**Facility Documents**"), and the DIP Lender's Charge, the DIP Lender will be entitled, on 3 business days' notice to the Debtor and Proposal Trustee, to make demand, accelerate payment and give other notices; provided however that the DIP Lender must apply to this Court on 5 business days' notice to the Debtor and the Proposal Trustee to exercise any other its rights and remedies against the Debtor or the Property under or pursuant to the Facility Documents and DIP Lender's Charge including, without limitation, to cease making advances to the Debtor and set off and/or consolidate any amounts owing by the DIP Lender to the Debtor against the obligations of the Debtor to the DIP Lender under the Facility Documents or the DIP Lender's Charge, or for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Debtor and for the appointment of a trustee in bankruptcy of the Debtor; and

- (c) the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Debtor or the Property.

VALIDITY AND PRIORITY OF CHARGES

8. **THIS COURT ORDERS** that the priorities of the Administration Charge and DIP Lender's Charge, as among them, shall be as follows:

- (a) First: Administration Charge (to the maximum amount of \$200,000); and
- (b) Second: DIP Lender's Charge.

9. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge and the DIP Lender's Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

10. **THIS COURT ORDERS** that each of the Charges shall constitute a charge on the Property and the Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person but subject to subsections 14.06(7) and 81.3(1) of the BIA and any properly perfected purchase money security interests in existence and priority to advances already made under the Facility Documents as at the time of this Order (the "**Permitted Priority Encumbrances**").

11. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Debtor shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Debtor also obtain the prior written consent of the beneficiaries of the applicable Charges or further Order of this Court.

12. **THIS COURT ORDERS** that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") thereunder shall not otherwise be limited or impaired in any way

by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which binds the Applicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance in connection thereof shall create or be deemed to constitute a breach by the Debtor of any Agreement to which it is a party; and
- (b) the payments made by the Debtor pursuant to this Order and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

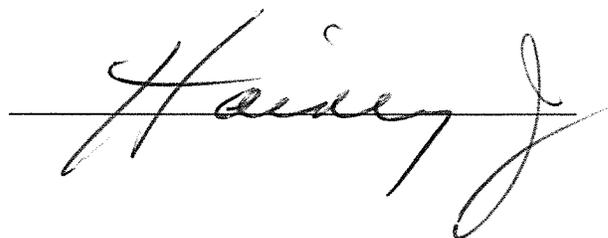
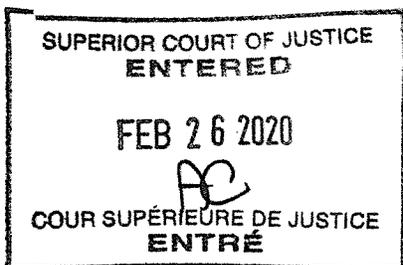
13. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Debtor’s interest in such real property leases.

GENERAL

14. **THIS COURT ORDERS** that the E-Service Guide of the Commercial List (the “**Guide**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Guide (which can be found on the Commercial List website at [www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial]) shall be valid and effective service. Subject to Rule 17.05, this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*. Subject to Rule 3.01(d) of the *Rules of Civil Procedure* and paragraph 13 of the Guide, service of documents in accordance with the Guide will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Guide with the following URL: www.kpmg.com/ca/airgeorgian.

MISCELLANEOUS

15. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

A handwritten signature in cursive script, appearing to read "Hainey J.", written over a horizontal line.

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO

Estate No.: No. 32-2613323

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced TORONTO

ORDER

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Lawyers for the Debtor, Air Georgian Limited

Appendix “B”

Order of the Superior Court of Justice (Commercial List) dated March 16, 2020 (Approval and Vesting Order)

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.) MONDAY, THE 16th
)
JUSTICE HAINEY) DAY OF MARCH, 2020
)

BETWEEN:



IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO

APPROVAL AND VESTING ORDER

THIS MOTION, made by Air Georgian Limited (the “**Debtor**”) (a) for an order approving the sale transaction (the “**Transaction**”) contemplated by an agreement of purchase and sale (the “**Sale Agreement**”) between the Debtor and 2746904 Ontario Inc. (the “**Purchaser**”) dated March 9, 2020, and vesting in the Purchaser the Debtor’s right, title and interest in and to the assets described in the Sale Agreement (the “**Purchased Assets**”); (b) extending the time for filing a proposal (c) increasing the maximum borrowing available in Post-Filing Advances (as defined the Order of this Court dated February 26, 2020, the “**February 26 Order**”); (d) sealing certain confidential appendices to the Second Report (defined below); and (e) approving the first report of the Proposal Trustee (defined below) dated February 23, 2020 (the “**First Report**”) and the Second Report and the activities of the Proposal Trustee described therein, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Eric Edmondson sworn March 9, 2020 (the “**Affidavit**”) and the second report of KPMG Inc. in its capacity as proposal trustee (in such capacity, the

“**Proposal Trustee**”) dated March 12, 2020 (the “**Second Report**”), and on hearing the submissions of counsel for the Debtor, the Proposal Trustee, 2229275 Alberta Ltd. (“**222**”) and those other parties present, as indicated on the counsel slip, no other parties present, although properly served as appears from the affidavits of service of Jennifer Stam sworn March 10, 2020 and Katie Parent sworn March 10, 2020, filed:

1. **THIS COURT ORDERS** that the time for service of the Motion Record in respect of this motion and the Second Report is hereby abridged and validated so that the motion is properly returnable today, and that further service thereof is hereby dispensed with.
2. **THIS COURT ORDERS AND DECLARES** that the Transaction is hereby approved, and the execution of the Sale Agreement, appended to the Second Report, by the Debtor is hereby authorized and approved, with such minor amendments as the Debtor and the Purchaser may deem necessary. The Debtor is hereby authorized and directed to take such additional steps and execute such additional documents including for the provision of transition services as contemplated by the Sale Agreement, as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets to the Purchaser.
3. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a Proposal Trustee’s certificate to the Purchaser substantially in the form attached as Schedule “A” hereto (the “**Proposal Trustee's Certificate**”), all of the Debtor's right, title and interest in and to the Purchased Assets shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the “**Claims**”) including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Order of the Honourable Mr. Justice Hainey dated February 26, 2020; and (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system; and (iii) all Excluded Obligations, as that term is defined in the Sale Agreement (all of which are collectively referred to as the “**Encumbrances**”, which term shall not include Permitted Encumbrances as defined in the Sale Agreement including, without limitation, the Encumbrances granted by the Debtor in connection

with the 222 Secured Debt (as defined in the Sale Agreement) and the DIP Lender's Charge) and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets. For greater certainty, in respect of the receivables which are Purchased Assets owing by Air Canada (or any of its affiliates, each, an "**Air Canada Party**") owing to the Debtor pursuant to the Amended and Restated Commercial Agreement dated April 1, 2014 between Air Canada and the Debtor and the Transition Agreement dated as of April 12, 2019 between Air Canada and the Debtor, the vesting of such Purchased Assets in the Purchaser pursuant to this Order shall not affect any rights of set off in respect of such receivables that may be held by any Air Canada Party and nothing in this Order acknowledges or creates a right of set off by an Air Canada Party which did not or does not currently exist.

4. **THIS COURT ORDERS** that for the purposes of determining the nature and priority of Claims, the net proceeds from the sale of the Purchased Assets shall stand in the place and stead of the Purchased Assets, and that from and after the delivery of the Proposal Trustee's Certificate all Claims and Encumbrances shall attach to the net proceeds from the sale of the Purchased Assets with the same priority as they had with respect to the Purchased Assets immediately prior to the sale, as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to the sale.

5. **THIS COURT ORDERS AND DIRECTS** the Proposal Trustee to file with the Court a copy of the Proposal Trustee's Certificate, forthwith after delivery thereof.

6. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Debtor is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the Company's records pertaining to the Debtor's past and current employees, including personal information of those employees listed on Schedule "D" to the Sale Agreement. The Purchaser shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.

7. **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of the Debtor and any bankruptcy order issued pursuant to any such applications; and
- (c) any assignment in bankruptcy made in respect of the Debtor;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order and any transition service agreement entered into in connection with the Transaction shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtor and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

8. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Proposal Trustee and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Proposal Trustee, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Proposal Trustee and its agents in carrying out the terms of this Order.

Honey T per McEUST
due to COVID-19 crisis

Schedule A – Form of Proposal Trustee’s Certificate

Estate File No. 32-2613323

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

B E T W E E N:

**IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO**

PROPOSAL TRUSTEE’S CERTIFICATE

RECITALS

A. Pursuant to the Notice of Intention to Make a Proposal of Air Georgian Limited (the “**Debtor**”), dated January 31, 2020, pursuant to the *Bankruptcy and Insolvency Act* (the “**BIA**”), KPMG Inc. was appointed as the trustee of the proposal (the “**Proposal Trustee**”) of the Debtor.

B. Pursuant to an Order of the Court dated March • , 2020, the Court approved the agreement of purchase and sale made as of March • , 2020 (the “**Sale Agreement**”) between the Debtor and [NAME OF PURCHASER] (the “**Purchaser**”) and provided for the vesting in the Purchaser of the Debtor’s right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Proposal Trustee to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in section • of the Sale Agreement have been satisfied or waived by the Proposal Trustee and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Proposal Trustee.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE PROPOSAL TRUSTEE CERTIFIES the following:

1. The Purchaser has paid and the Debtor has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;
2. The conditions to Closing as set out in section ● of the Sale Agreement have been satisfied or waived by the Debtor and the Purchaser; and
3. The Transaction has been completed to the satisfaction of the Proposal Trustee.
4. This Certificate was delivered by the Proposal Trustee at _____ [TIME] on _____ [DATE].

**KPMG Inc., in its capacity as trustee of the
proposal of Air Georgian Limited, and not in its
personal capacity**

Per: _____
Name: Katherine Forbes
Title: Senior Vice-President

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO

Estate No.: 32-2613323

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced TORONTO

APPROVAL AND VESTING ORDER

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Email: stam@gsnh.com

Lawyers for the Debtor, Air Georgian Limited

Appendix “C”

Order of the Superior Court of Justice (Commercial List) dated March 16, 2020 (Ancillary Order)

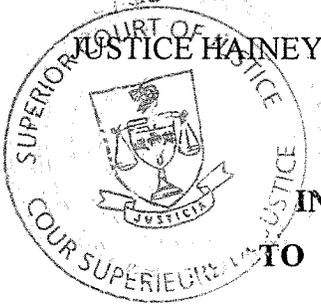
ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.

)
)
)

MONDAY, THE 16TH

DAY OF MARCH, 2020



IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO

ORDER
(Ancillary Relief)

THIS MOTION, made by Air Georgian Limited (the “**Debtor**”) (a) for an order approving the sale transaction (the “**Transaction**”) contemplated by an agreement of purchase and sale (the “**Sale Agreement**”) between the Debtor and 2746904 Ontario Inc. (the “**Purchaser**”) dated March 9, 2020, and vesting in the Purchaser the Debtor’s right, title and interest in and to the assets described in the Sale Agreement (the “**Purchased Assets**”); (b) extending the time for filing a proposal (c) increasing the maximum borrowing available in Post-Filing Advances (as defined the Order of this Court dated February 26, 2020, the “**February 26 Order**”); (d) sealing certain confidential appendices to the Second Report (defined below); and (e) approving the first report of the Proposal Trustee (defined below) dated February 23, 2020 (the “**First Report**”) and the Second Report and the activities of the Proposal Trustee described therein, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Eric Edmondson sworn March 9, 2020 (the “**Affidavit**”) and the second report of KPMG Inc. in its capacity as proposal trustee (in such capacity, the “**Proposal Trustee**”) dated March 12, 2020 (the “**Second Report**”), and on hearing the

submissions of counsel for the Debtor, the Proposal Trustee, 2229275 Alberta Ltd. (“222”) and those other parties present, as indicated on the counsel slip, no other parties present, although properly served as appears from the affidavits of service of Jennifer Stam sworn March 10, 2020 and Katie Parent sworn March 10, 2020, filed:

NOTICE AND SERVICE

1. **THIS COURT ORDERS** that the time for service of the Motion Record in respect of this motion and the Second Report is hereby abridged and validated so that the motion is properly returnable today, and that further service thereof is hereby dispensed with.

EXTENSION OF TIME TO FILE A PROPOSAL

2. **THIS COURT ORDERS** that pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (“BIA”), the time for the Debtor to file a proposal with the Official Receiver be and is hereby extended to April 17, 2020.

AMENDMENTS TO DIP FINANCING

3. **THIS COURT ORDERS** that the Debtor shall be authorized and empowered to obtain additional Post-Filing Advances on the same terms as authorized by the February 26 Order, with the exception that Post-Filing Advances from and after the date of this Order, shall be made substantially in accordance with the cash flow budget attached as Appendix “E” to the Second Report (the “Revised Cash Flow”).

4. **THIS COURT ORDERS** that for greater certainty, the DIP Lender’s Charge (as defined in the February 26 Order) and the priority afforded thereto shall apply to any Post-Filing Advances made in connection with the Revised Cash Flow.

SEALING

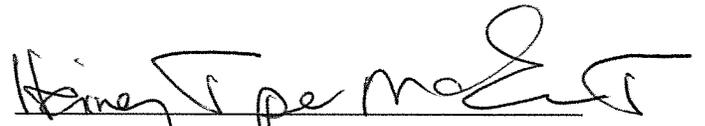
5. **THIS COURT ORDERS** that Confidential Appendices “1” and “2” to the Second Report be and are hereby sealed pending further Order of the Court.

ACTIVITIES OF THE PROPOSAL TRUSTEE

6. **THIS COURT ORDERS** that the First Report and the Second Report and the activities of the Proposal Trustee as set out therein be and are hereby approved.

MISCELLANEOUS

7. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Debtor and the Proposal Trustee and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Debtor and the Proposal Trustee, as may be necessary or desirable to give effect to this Order or to assist the Debtor and Proposal Trustee and their respective agents in carrying out the terms of this Order.


due to COVID-19 crisis

IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF AIR GEORGIAN LIMITED,
A CORPORATION INCORPORATED UNDER
THE LAWS OF ONTARIO

Estate No.: No. 32-2613323

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced TORONTO

ORDER
(Ancillary Relief)

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Email: stam@gsnh.com

Lawyers for the Debtor, Air Georgian Limited.

Appendix “D”

Second Report of the Proposal Trustee dated March 12, 2020 (without appendices)

Court No. 32-2613323
Estate No. 32-2613323

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE NOTICE OF INTENTION OF
AIR GEORGIAN LIMITED

SECOND REPORT OF KPMG INC. in its capacity as
PROPOSAL TRUSTEE UNDER THE
NOTICE OF INTENTION OF
AIR GEORGIAN LIMITED

MARCH 12, 2020

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Appendix “A” –	Order of the Superior Court of Justice (Commercial List) dated February 26, 2020
Appendix “B” –	Affidavit of Eric Edmondson sworn February 22, 2020 (without exhibits)
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Appendix “E” –	March 7 Cash Flow Forecast
Appendix “F” –	Letter Agreement dated March 11, 2020
Conf. Appendix “1” -	Unredacted APA
Conf. Appendix “2” –	Liquidation Analysis

INTRODUCTION

1. On January 31, 2020 (the “**Filing Date**”), Air Georgian Limited (“**AGL**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”).
2. KPMG Inc. acts as proposal trustee (in such capacity, the “**Proposal Trustee**”) of AGL.
3. On February 26, 2020, the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granted an order (the “**February 26 Order**”, a copy of which is attached hereto as **Appendix “A”**), *inter alia*:
 - a. extending the time in which the Company is required to file a proposal to March 16, 2020;
 - b. approving interim financing to the maximum amount of \$800,000 (the “**Post-Filing Advances**”); and
 - c. approving the Administration Charge and the DIP Lender’s Charge.
4. Attached hereto as **Appendix “B”** is a copy of the Affidavit of Mr. Edmondson sworn February 22, 2020 (without exhibits) which was filed by the Company in support of the February 26 Order.
5. This second report of the Proposal Trustee (the “**Second Report**”) is being delivered in connection with the Company’s motion (the “**Company’s Motion**”) returnable March 16, 2020, and should be read in conjunction with the first report of the Proposal Trustee dated February 23, 2020 (the “**First Report**”, a copy of which is attached hereto without appendices as **Appendix “C”**) and the affidavit of Eric Edmondson, President and Chief Executive Officer of AGL, which was sworn on March 9, 2020 (the “**Second AGL Affidavit**”) and filed in support of the Company’s Motion.
6. Capitalized terms not defined herein have the meanings ascribed to them in the First Report.

I. PURPOSE OF THIS SECOND REPORT AND ITS LIMITATIONS

7. The purpose of this Second Report is to provide the Court with information regarding:

- a. the activities of the Proposal Trustee and the Company since the date of the First Report;
- b. the Company's reported receipts and disbursements for the period from February 15, 2020 through March 6, 2020;
- c. the independent security opinions of the Proposal Trustee's Ontario and Alberta counsel in respect of the 222 Secured Debt (as hereinafter defined);
- d. the terms of an asset purchase agreement dated March 9, 2020 (the "**APA**") between the Company and 2746904 Ontario Inc. (the "**Purchaser**", a party related to Binder)¹ for the sale of substantially all of the Company's remaining business (the "**Transaction**");
- e. the Company's cash flow forecast for the period from March 6, 2020 through April 17, 2020;
- f. the extension of the time for filing a proposal being sought by the Company;
- g. the proposed DIP financing required to fund the period of the stay extension; and
- h. the Proposal Trustee's recommendation that this Court make orders, as requested by the Company:
 - (i) approving the APA and the Transaction;
 - (ii) vesting, upon closing of the Transaction, all right, title and interest of the Company in and to the Purchased Assets (as hereinafter defined) in the Purchaser free and clear of all liens, charges, security interests and other encumbrances;
 - (iii) extending the time for the filing of a proposal to April 17, 2020;
 - (iv) increasing the maximum borrowing available in Post-Filing Advances by \$1.2 million to a total of \$2.0 million;

¹ John Binder is a director and a 50% indirect shareholder of the Company.

- (v) approving the First Report and the Second Report as well as the activities, actions and conduct of the Proposal Trustee set out therein; and
 - (vi) sealing the Liquidation Analysis (as hereinafter defined) and the unredacted APA and accompanying schedules pending further order of the Court.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
9. In preparing this Second Report, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, books and records, and financial and other information of AGL and information from other third-party public sources (“**Information**”). The accuracy and completeness of the Information contained herein has not been audited or otherwise verified by the Proposal Trustee, and the Proposal Trustee does not express any opinion or provide any other form of assurance with respect to the Information presented herein or relied upon by the Proposal Trustee in preparing this Second Report.
10. Some of the Information referred to or reported in this Second Report consists of future oriented information and is based on estimates and assumptions regarding future events. Actual results may vary from forecast and such variations may be material. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

II. THE COMPANY’S ACTIVITIES

11. The Company’s activities since the date of the First Report have included, *inter alia*, the following:
- a. corresponding with its stakeholders, including employees and union representatives, customers and key suppliers in respect of the NOI filing;
 - b. engaging in matters relating to the restructuring including with respect to financing, third party investment interest and the Transaction;
 - c. continuing to seek to develop revenue-generating activities not limited to a commercial agreement;

- d. working with the Trustee to prepare and subsequently update/revise the Company's cash flow projections (as more fully described later in this Second Report);
- e. communicating with suppliers to secure goods and services during the Company's NOI proceeding and to address payment terms;
- f. reporting its receipts and disbursements;
- g. making payments to suppliers for goods and services received following the Filing Date;
- h. reviewing its leases and agreements with a view to disclaiming those that are redundant and disclaiming various aircraft leases and commercial agreements, with the approval of the Proposal Trustee pursuant to subsection 65.11(1) of the BIA;
- i. discussions with the Company's landlord and insurance agent regarding the flood at the Company's facilities in January 2020 (the "**January Flood**");
- j. negotiating certain addendums to an interim reimbursement agreement executed by the Company and Air Canada on February 14, 2020, February 25, 2020 and February 27, 2020 (the "**Interim Reimbursement Agreement**") in connection with the return of remaining aircraft, engines and auxiliary power units in the Company's possession that belong to Air Canada or its affiliates, and completing same; and
- k. engaging with other lessors for the return of their leased assets.

III. THE PROPOSAL TRUSTEE'S ACTIVITIES

12. The Proposal Trustee's activities since the date of the First Report have included, *inter alia*:
- a. maintaining the Proposal Trustee's website, email address and telephone hotline in respect of this NOI proceeding;
 - b. assisting the Company with the preparation and subsequent revisions/updates of the Company's cash flow projections, including a review of the underlying assumptions;
 - c. attending the Company's premises periodically to meet with its management and employees with respect to the NOI proceeding;

- d. monitoring the Company's receipts and disbursements and assisting with ongoing reporting of variances to the Company's cash flow projections;
- e. assisting the Company in preparing certain communication materials, and in responding to employee and other creditor enquiries;
- f. discussions with the Company regarding all matters related to Air Canada;
- g. discussions with the Company regarding lessors relating to third party property;
- h. discussions with the Company regarding disclaiming certain agreements, and approving 16 agreement disclaimers pursuant to subsection 65.11(1) of the BIA;
- i. discussions with the Company regarding the January Flood;
- j. engaging with certain of the Company's stakeholders in respect of the NOI;
- k. responding to calls and enquiries from the Company's creditors, including former/current employees, suppliers, and other stakeholders regarding the Company's NOI proceeding;
- l. discussions with the Company regarding third party investment interest and the Transaction;
- m. discussions with the Company's counsel and Ontario counsel for the Proposal Trustee, Chaitons LLP ("**Chaitons**") regarding the NOI proceeding;
- n. holding funds in escrow within the Proposal Trustee's general trust account for the benefit of AGL upon satisfactory completion of services under the third addendum to the Interim Reimbursement Agreement, and subsequently releasing same to AGL at the direction of Air Canada;
- o. drafting this Second Report and reviewing all Court materials filed in connection with the Company's Motion; and
- p. corresponding with the Company and its advisors regarding the foregoing.

IV. SECURITY OPINION

13. As described in the First Report, ATB Financial (“**ATB**”) was the Company’s primary secured lender pursuant to the ATB Debt and Security (as defined in the First Report), and ATB assigned certain of its rights and obligations under the ATB Debt and Security to 222 on January 24, 2020 (the “**Assignment Agreement**”).
14. The Proposal Trustee understands that the amount outstanding under the ATB Facility at the Filing Date was approximately \$5.3 million. Pursuant to the February 26 Order and the February 22 Letter (as defined in the First Report), Post-Filing Advances were made under the ATB Facility in the aggregate amount of approximately \$800,000, and as at the date of this Second Report the total amount outstanding is approximately \$6.1 million (the “**222 Secured Debt**”).
15. Also as detailed in the First Report, with a view to considering the Transaction, the Proposal Trustee has, among other things, obtained an independent legal opinion from Chaitons which, subject to the usual assumptions and qualifications contained therein, confirms that the ATB Debt and Security, as assigned to 222, creates a valid and enforceable security interest in the Company’s personal property situated in the Province of Ontario.
16. The Proposal Trustee also obtained an independent legal opinion from MLT Aikins LLP which, subject to the usual assumptions and qualifications contained therein, confirms that the ATB Debt and Security, as assigned to 222, creates a valid and enforceable security interest in the Company’s personal property situated in the Province of Alberta.
17. In addition to 222, the Proposal Trustee is aware of various other registrations, largely in respect of leased aircraft and other leased assets, made pursuant to the *Personal Property Security Act* (Ontario) and *Personal Property Security Act* (Alberta) (the “**PPSAs**”). A summary of such registrations is attached as **Appendix “D”** hereto. All other registrants have either entered into subordination or priority agreements with ATB or, based on their PPSA registrations and advice from the Company, are equipment lessors.

18. This Second Report and the Motion Record for the Company's Motion are being served on all Ontario and Alberta PPSA registrants and on all counterparties to the Assumed Contracts (as defined in the APA).

V. BACKGROUND TO THE TRANSACTION

19. As described in greater detail in the First Report, the principal purpose of the Company's extension through March 16, 2020 was to further negotiations in a respect of a sale of its remaining business to a party related to Binder.
20. As detailed in the Second AGL Affidavit, over the course of the past year, the Company's management has explored an extension to the Commercial Agreement with Air Canada, potential new commercial agreements, and engaged in discussions with a total of ten (10) prospective partners and/or strategic purchasers for AGL, of whom five (5) executed a non-disclosure agreement (a "NDA"), and three (3) conducted due diligence including certain onsite meetings with management. Ultimately, the Company entered into extensive negotiations with one (1) party, however a transaction was not achieved.
21. Further details in respect of the Company's activities to market AGL's business and assets are set out in the Second AGL Affidavit and are not repeated in their entirety herein.
22. At the time of the aforementioned marketing efforts, the Company did not have a revenue source to replace the Commercial Agreement (and subsequently the Transition Agreement), and as at the date of this Second Report, AGL continues to have no revenue of any substance, or secured prospect thereof.
23. As at the date of this Second Report, the Proposal Trustee understands that the Company has continued to maintain its operational capabilities and is compliant with regulatory requirements, but does not have sufficient aircraft or operating funds in order to operate commercial flights.
24. As the Company continues to have no revenue of any substance and an average weekly cash burn from maintaining operational capabilities in the amount of approximately \$300,000 per week, absent an imminent sale, the Company will not be able to continue as a going concern.

25. Following the date of the First Report, a limited number of parties contacted the Proposal Trustee to inquire about the opportunity to purchase or otherwise invest in the Company's business and/or certain of its assets, but have declined to execute non-disclosure agreements as at the date of this Second Report.
26. The Company negotiated and has executed the APA with the Purchaser. An unredacted version of the APA is being filed with the Court as **Confidential Appendix "1"**.

VI. THE TRANSACTION

27. The Company, the Purchaser and their respective counsel (in consultation with the Proposal Trustee, the DIP Lender and their respective counsel) have negotiated the terms and provisions of the APA. The Purchaser is a strategic purchaser that is related to Binder.

The APA

28. The material terms of the APA include the following (all terms not otherwise defined herein shall have the meanings as defined in the APA):
 - a. the purchased assets include substantially all of the assets, properties, and undertakings of the Company (the "**Purchased Assets**"), determined by the Purchaser to be required in order to maintain the operating capability of the business going forward. Specifically, the Purchased Assets comprise the following:
 - (i) the Hangar Equipment and the Other Equipment;
 - (ii) the Inventory, primarily consisting of aircraft parts inventory;
 - (iii) the Assumed Contracts, including, *inter alia*, the Company's office and hangar lease located at Pearson International Airport;
 - (iv) the Books and Records;
 - (v) the Intellectual Property, including but not limited to the Company's information technology systems; and
 - (vi) the Residual Assets, including but not limited to:
 - accounts receivable, including amounts outstanding under the Transition Agreement and/or the Commercial Agreement. As noted in

the First Report, the Proposal Trustee understands there have been indications of potential collection issues as it relates to amounts due from Air Canada; and

- aviation designations of the Company, unless subject to reissue by the respective regulatory authority.

b. the Purchased Assets specifically exclude the Excluded Assets comprising, among other things:

- (i) cash in respect of the NOI Funding, which includes funding received by AGL in this NOI proceeding from Air Canada pursuant to the Interim Reimbursement Agreement (as amended) and the Post-Filing Advances;
- (ii) the Excluded Obligations;
- (iii) the extent of any Excluded Insurance Proceeds;
- (iv) any contracts other than the Assumed Contracts;
- (v) the Slots; and
- (vi) any Transportation License, or other designation or right that cannot be transferred to the Purchaser.

c. the APA also contemplates that following the granting of the Approval and Vesting Order, the Purchaser may offer employment to certain of the Company's employees (upon acceptance of offers of employment, the "**Transferred Employees**") on similar terms and conditions to their existing employment with AGL. In respect of unionized employees, such offers of employment are to be made consistent and in compliance with the terms of their respective collective agreements. Pursuant to the terms of the APA, AGL is to terminate all of the Company's employees with effect immediately prior to Closing. As at the date of this Second Report, the Proposal Trustee understands that AGL continues to employ 45 active employees, and that the Purchaser intends to offer employment to approximately 27 of the Company's employees, of which 15 are considered Key Seller Employees (discussed below);

- d. subject to the terms of the APA, the Purchaser agrees to assume all obligations and liabilities of the Company with respect to:
 - (i) the Assumed Contracts (listed in Schedule A-1 to the APA); and
 - (ii) the Transferred Employees (collectively, the “**Assumed Obligations**”);
- e. the APA provides for payment of the Maximum Wind Down Funds by the Purchaser upon closing to the Proposal Trustee in the amount of the Wind Down Budget plus 10%, to be held in trust by the Proposal Trustee to fund:
 - (i) unpaid amounts which rank in priority to the 222 Secured Debt;
 - (ii) all outstanding reasonable professional fees of the Proposal Trustee, Chaitons, and the Company’s counsel; and
 - (iii) estimated administration costs to fund an orderly wind-down of AGL, including the costs of a bankruptcy proceeding.

The Wind Down Budget is to be agreed amongst the Company, the Purchaser and the Proposal Trustee on Closing. Pursuant to the APA, any remaining funds after the funding of the actual costs in connection with the Wind Down (the “**Actual Wind Down Funds**”) shall be returned to the Purchaser;

- f. the Purchase Price for the Purchased Assets (exclusive of any transfer taxes) will be satisfied at closing as follows:
 - (i) assumption of the 222 Secured Debt and any amounts owing under any DIP Facility;
 - (ii) assumption and/or satisfaction of the Assumed Obligations, including the payment of any Cure Costs or deposit of such Cure Costs with the Proposal Trustee for payment to third parties; and
 - (iii) payment of the Actual Wind Down Funds;
- g. the Closing Date is scheduled to occur on March 31, 2020, or such other date as the Parties may agree in writing, but in any event no later than the Outside Date of April 17, 2020;

- h. the Transaction is subject to certain conditions in favour of the Purchaser including:
- (i) the Court approving the APA and granting an order vesting in the Purchaser all the right, title and interest of the Company in the Purchased Assets free and clear of all liens, security interests and other encumbrances by no later than March 16, 2020;
 - (ii) the Transportation Licenses shall have been re-issued by Transport Canada;
 - (iii) satisfaction of regulatory processes required for the transfer or re-issue of the Company's aviation designations;
 - (iv) the receipt of the necessary third party consents or an Assignment Order in respect of the Key Assumed Contracts;
 - (v) the Key Seller Employees shall be Transferred Employees. The Proposal Trustee understands that the Key Seller Employees predominantly represent regulatory employees critical to the transfer/re-issue of the Transportation Licenses; and
 - (vi) consent of 222 to the assignment of the 222 Secured Debt to the Purchaser.
- i. The Purchaser is acquiring the Purchased Assets on an "as is, where is" basis, representing substantially all of the Company's business and assets.

Alternatives to the Transaction

29. As described in more detail in the Second AGL Affidavit, given the lack of revenue sources or available funding to maintain the operating licenses, the only alternative to the Transaction is a liquidation of the Company's assets through receivership and/or bankruptcy proceedings.
30. In order to consider the reasonableness of the Transaction, the Trustee has consulted with a liquidator specializing in aircraft and aircraft parts (the "**Liquidator**"). Although the Proposal Trustee has not obtained liquidation proposals for the Company's inventory, based on the Proposal Trustee's discussions with the Liquidator and the Proposal Trustee's experience in liquidation sales, the Proposal Trustee has prepared a schedule comparing a range of potential recoveries on the Purchased Assets in a liquidation scenario to the 222

Secured Debt (which is to be assumed pursuant to the APA) as at the date of this Second Report (the “**Liquidation Analysis**”), a copy of which is being filed with the Court as **Confidential Appendix “2”**.

31. As detailed in the Liquidation Analysis (and based on the assumptions included therein), a range of potential recoveries in a liquidation is estimated based on multiple recovery scenarios. The Liquidation Analysis indicates that while net realizations could exceed the amount of 222 Secured Debt depending on the scenario achieved, the time period of recovery is anticipated to be lengthy and to result in significant professional costs, thus it is more likely that the net realizations would be lower than the amount of the 222 Secured Debt. As a result, unsecured creditors are unlikely to realize any recoveries on their claims in a liquidation scenario.
32. In respect of the Transaction, the Proposal Trustee is of the view that:
 - a. the Transaction is reasonable in the circumstances, and is likely the best alternative to a liquidation of the Company’s assets within receivership and/or bankruptcy proceedings which would likely result in recoveries below the amount of the 222 Secured Debt;
 - b. the Transaction maintains the operational capabilities of the business (expected to preserve approximately 27 jobs) and could result in the continuation of the Company’s (or similar) operations should the Purchaser be successful in securing new business, which could result in additional employment for AGL’s employees and former employees;
 - c. the secured lender, 222, supports the Transaction;
 - d. the Company’s limited liquidity eliminates the opportunity to further market the Purchased Assets for sale without putting the Transaction at risk. The Company’s only source of funding is its secured lender, 222, who the Proposal Trustee understands is not willing to provide funding for AGL to further market the Purchased Assets;
 - e. in the circumstances, the Transaction represents the greatest benefit to all stakeholders (including employees, suppliers, etc.) as it results in a certain degree of business continuity; and

- f. efforts were made by the Company to sell or otherwise dispose of the assets to persons who are not related to the Company.

VII. CONFIDENTIAL APPENDICES

- 33. In the event that the Transaction is not completed for any reason, the Proposal Trustee is of the view that efforts to remarket the Company's assets may be impaired if the Liquidation Analysis or the unredacted APA are made public at this time. The Key Employees schedule to the APA also contains personal information relating to the employees listed thereon.
- 34. The Proposal Trustee is therefore of the view that it is preferable for the Liquidation Analysis and the unredacted APA to remain confidential until further order of the Court, and supports the Company's request for a sealing order, on the terms noted above, in respect of same.

VIII. THE COMPANY'S CASH FLOWS FOR THE PERIOD FROM FEBRUARY 15, 2020 THROUGH MARCH 6, 2020

- 35. As detailed in the First Report, AGL, with the assistance of the Proposal Trustee, prepared a cash flow forecast of its receipts and disbursements for the period from February 15, 2020 through March 13, 2020 (the "**February 15 Cash Flow Forecast**") in support of the Company's Motion. The February 15 Cash Flow Forecast was appended to the First Report.
- 36. A comparison of AGL's budget to reported results for the three-week period ended March 6, 2020 is summarized as follows:

AGL - Reported Results vs. February 15 Cash Flow Forecast			
For the three week period to March 6, 2020			
\$CAD			
	Reported	Forecast	Variance
Receipts	404,151	173,305	230,846
Disbursements			
Lease payments	-	72,500	72,500
Office, maintenance and other	45,742	120,415	74,673
Payroll and benefits	370,297	368,366	(1,931)
Interest on borrowings	-	34,037	34,037
Direct asset return costs	-	155,499	155,499
Restructuring professional fees	170,748	221,349	50,601
Total Disbursements	586,787	972,167	385,380
NET CASH FLOW	(182,635)	(798,861)	616,226
Opening cash balance	260,817	260,817	-
Net cash flow	(182,635)	(798,861)	616,226
Senior secured debt	-	-	-
DIP drawdown	550,000	550,000	-
Closing cash balance	628,181	11,956	616,226
Funding			
Opening senior secured debt	5,304,480	5,304,480	-
Drawdowns	-	-	-
Closing senior secured debt	5,304,480	5,304,480	-
Opening DIP balance	-	-	-
Drawdowns	550,000	550,000	-
Closing DIP balance	550,000	550,000	-

37. As reflected in the above summary table, AGL reported receipts of \$0.4 million and disbursements of \$0.6 million for a net cash outflow of \$0.2 million, which was better than forecast, however, is due to timing.
38. The positive receipts variance of approximately \$0.2 million is primarily a permanent difference as the Company negotiated additional addendums to the Interim Reimbursement Agreement subsequent to the February 15 Cash Flow Forecast.
39. The positive disbursements variance of approximately \$0.4 million is primarily due to timing differences in the payment of certain expenses. The variance relating to the Company's lease payments, which are for commercial property, are due to timing as the Company anticipates to pay these expenses during the week ending March 13, 2020. The Company is in the process of reconciling the direct costs relating to the asset return process

and expects to be in a position to disburse funds to the related suppliers within the coming weeks, offsetting the positive variance. The Company disbursed fewer funds than expected in payment of certain expenses, including its office and maintenance expenses and restructuring professional fees. The positive timing difference is anticipated to reverse in future weeks.

40. Consistent with the forecast, the Company borrowed \$550,000 from 222 during the three-week period ended March 6, 2020.

IX. CASH FLOW FORECAST

Cash Flow Forecast

41. The deadline on which the Company must file a proposal expires on March 16, 2020 (the “**Stay Period**”). The Company is seeking an extension of the Stay Period to April 17, 2020.
42. The Company, with the assistance of the Proposal Trustee, has updated its forecast of its receipts and disbursements (the “**March 7 Cash Flow Forecast**”) for the period from March 7, 2020 to April 17, 2020 (the “**Cash Flow Period**”). A copy of the March 7 Cash Flow Forecast is attached hereto as **Appendix “E”** and is summarized below:

AGL - March 7 Cash Flow Forecast	
For the period March 7, 2020 to April 17, 2020	
\$CAD	
	Total
Receipts	9,845
Disbursements	
Lease payments	(323,024)
Office, maintenance and other	(293,634)
Payroll and benefits	(843,099)
Direct asset return costs	(196,419)
Restructuring Professional Fees	(343,271)
Total Disbursements	(1,999,447)
NET CASH FLOW	(1,989,602)
Opening cash balance	628,181
Net cash flow	(1,989,602)
Senior secured debt	-
DIP drawdown	1,380,000
Closing cash balance	18,579
Funding	
Opening senior secured debt	5,304,480
Drawdowns	-
Closing senior secured debt (principal)	5,304,480
Opening DIP balance	550,000
Drawdowns	1,380,000
Closing DIP balance (principal)	1,930,000

43. The Proposal Trustee notes the following with respect to the March 7 Cash Flow Forecast:
- a. Receipts: Forecast collections during the Cash Flow Period of approximately \$10,000 are composed of reimbursements for aircraft return costs in order to return aircraft to Air Canada.
 - b. Disbursements: Forecast disbursements during the Cash Flow Period includes operating costs necessary to maintain the Company's Air Operator's Certificate ("AOC") and operational capabilities as well as direct costs associated with the return of aircraft to Air Canada.
44. The underlying assumptions in the March 7 Cash Flow Forecast are summarized as follows:

- a. Pursuant to the Interim Reimbursement Agreement (as amended), Air Canada and the Company have had ongoing negotiations regarding the timing for the return of Air Canada's aircraft and other assets. Air Canada has provided funding, most of which has been received, to facilitate the return of the aircraft on an interim basis. The Proposal Trustee understands that the process to return aircraft is almost complete.
- b. The March 7 Cash Flow Forecast excludes the collection of certain accounts receivable due from Air Canada prior to the Cash Flow Period, related to the Transition Agreement and/or Commercial Agreement which terminated on January 31, 2020. These receivables are excluded from the Cash Flow Period as certain amounts are overdue, and it is expected that collections may be further delayed as the Proposal Trustee understands there have been indications of potential commercial issues as between the parties.
- c. In order to maintain its AOC, the Company must be in compliance with certain regulations, including maintaining at least one aircraft and continued employment of certain key regulatory personnel. Accordingly, the March 7 Cash Flow Forecast includes lease payments and maintenance expenses for one aircraft, lease costs related to the Company's office and hangar, and wages and benefits for key regulatory and other personnel deemed necessary for the Company to maintain its operational capabilities.

X. THE COMPANY'S REQUEST FOR AN EXTENSION TO APRIL 17, 2020

45. The Stay Period expires on March 16, 2020. AGL is seeking an extension of time in which it may file a proposal up to and including April 17, 2020 (the "**Extension**").
46. The Company requires the Extension in order to close the Transaction. Although the Closing Date is scheduled for March 31, 2020, the Company is seeking an extension to April 17, 2020 as it desires to avoid a further Court appearance in the event of a short delay in closing.
47. The March 7 Cash Flow Forecast indicates that AGL will have sufficient liquidity to fund both operating costs and the costs of this NOI proceeding during the Extension, if granted.

This assumes, among other things, that the order approving the increase to the maximum borrowing under the Post-Filing Advances is granted.

48. The Proposal Trustee supports the Company's request for the Extension for the following reasons:
- a. the Company and its management are acting with good faith and with due diligence in taking steps to facilitate a sale of the business and assets in order to preserve the Company's business;
 - b. it is the Proposal Trustee's view that the granting of the Extension will not prejudice or adversely affect any group of creditors;
 - c. the March 7 Cash Flow Forecast indicates that AGL will have sufficient liquidity to continue to fund operations and the cost of this proceeding through April 17, 2020 if this Court grants the relief sought by the Company; and
 - d. the Extension should allow for the Transaction to close.
49. In the Proposal Trustee's view, the Company's request for the Extension is appropriate in the circumstances as it provides a reasonable timeframe in which to close the Transaction.

XI. INCREASE IN POST-FILING ADVANCES

50. Absent financing, the Company does not have sufficient liquidity to complete the Transaction.
51. Based on the March 7 Cash Flow Forecast, without additional funding the Company will not have sufficient funds to maintain its employee base and operating licenses - which are critical to the Transaction - past March 16, 2020.
52. The March 7 Cash Flow Forecast shows that the Company will need to draw \$0.8 million in additional funds to close the Transaction in order to fund its restructuring expenses, payroll and operational costs. For the proposed Extension period, it is anticipated that the Company will require total new borrowings of approximately \$1.13 million. Accordingly, the ability to borrow funds is vital to preserving the Transaction.

53. Prior to the Filing Date, the Company, Binder and 222 were in discussions regarding the Company's requirement for interim financing during the NOI proceeding. 222 had agreed to provide interim financing should no alternatives be available to the Company at that time.
54. As detailed in the First Report, the Post-Filing Advances were governed by the February 22 Letter and the February 26 Order. The Proposal Trustee has been provided with a copy of a letter agreement dated March 11, 2020 executed by the Company and 222 (and certain other parties as guarantors), a copy of which is attached hereto as **Appendix "F"**, pursuant to which an increase in the amount of the Post-Filing Advances will be granted by 222 on substantially the same terms and conditions.
55. Taking into consideration the above, the Proposal Trustee is supportive of the proposed increase in the Post-Filing Advances for the following reasons:
 - a. given that the Company has no substantial revenue, AGL is without the cash needed to maintain operational capabilities – funding is needed in the short term;
 - b. if funding is not available, the Company's operational capabilities will likely cease and the Company's employees will be terminated, both of whom are critical to the completion of the Transaction; and
 - c. borrowing under the 222 Secured Debt remains an efficient method of borrowing in the circumstances. The 222 Secured Debt is to be assumed by the Purchaser (a related party to 222) pursuant to the APA.

XII. CONCLUSION AND RECOMMENDATION

56. For the reasons set out above, the Proposal Trustee respectfully recommends that the Court grant the relief outlined in paragraph 7(h) of this Second Report.

All of which is respectfully submitted at Toronto, Ontario this 12th day of March, 2020.

**KPMG Inc., in its capacity as Proposal Trustee of
Air Georgian Limited.**



Per:

Katherine Forbes, CPA, CA, CIRP
Senior Vice President



Per:

Marcel Réthoré, CPA, CA, CIRP
Vice President

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**SECOND REPORT OF KPMG INC. in its capacity as
PROPOSAL TRUSTEE UNDER THE NOTICE OF
INTENTION OF AIR GEORGIAN LIMITED**

DATED MARCH 12, 2020

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Lawyers for Proposal Trustee, KPMG LLP

Appendix “E”

Amendment to the Asset Purchase Agreement dated April 13, 2020

AMENDMENT TO AGREEMENT OF PURCHASE AND SALE

THIS AMENDMENT dated as of April 13, 2020 to the **AGREEMENT OF PURCHASE AND SALE DATED** as of March 9, 2020

B E T W E E N :

AIR GEORGIAN LIMITED

(the “**Seller**”)

- and -

2746904 ONTARIO INC., a corporation existing
under the laws of Ontario

(the “**Buyer**”)

CONTEXT:

- A.** The Seller and the Buyer entered into an agreement of purchase and sale dated as of March 9, 2020 (the “**Agreement**”) for the purchase and sale of the Purchased Assets (as defined therein).
- B.** The parties wish to agree to certain amendments to the Agreement as set out below.
- C.** Capitalized terms used herein and not otherwise defined have the meaning given to them in the Agreement.

THEREFORE, in consideration of the promises, mutual covenants and agreements contained in this Amendment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties (as defined below), the Parties agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Amendments to Agreement

- 1.1.1 Section 1.1.42 of the Agreement is hereby amended to replace “April 17, 2020” with “June 1, 2020”.
- 1.1.2 The following shall be added to the end of Section 7.3: “The Buyer shall be entitled to provide information in connection with the Transaction and/or the Business to the Buyer’s investors or potential investors. The Buyer will obtain written confirmation from such investors or potential investors that they will keep any such information confidential.”

1.1.3 Schedule "C" – Other Equipment – is hereby amended to add the following motor vehicles:

2004	GMC	Sierra Pickup 1500 EXT C	1GTEC14V44E125312
2012	Chevrolet	Cruze	1G1PF5SC0C7353618
2015	GMC	SAVANNA RWD VAN 2500	1GTW7FC0F1119730
2011	GMC	Sierra Pickup	3GTP2UEA5BG347405

1.2 Remainder of Agreement

Other than as set out herein, all other terms and conditions of the Agreement shall remain unchanged and in full force and effect.

1.3 Counterparts

This Amendment may be executed and delivered by the Parties in one or more counterparts, each of which will be an original, and each of which may be delivered by facsimile, e-mail or other functionally equivalent electronic means of transmission, and those counterparts will together constitute one and the same instrument.

Both of the Parties has executed and delivered this Amendment, as of the date noted at the beginning of the Amendment.

AIR GEORGIAN LIMITED

Per _____
Name: Eric Edmondson
Title: President and CEO

2746904 ONTARIO INC.


Per _____
Name: John Binder
Title: President

1.1.3 Schedule "C" – Other Equipment – is hereby amended to add the following motor vehicles:

2004	GMC	Sierra Pickup 1500 EXT C	1GTEC14V44E125312
2012	Chevrolet	Cruze	1G1PF5SC0C7353618
2015	GMC	SAVANNA RWD VAN 2500	1GTW7FC0F1119730
2011	GMC	Sierra Pickup	3GTP2UEA5BG347405

1.2 Remainder of Agreement

Other than as set out herein, all other terms and conditions of the Agreement shall remain unchanged and in full force and effect.

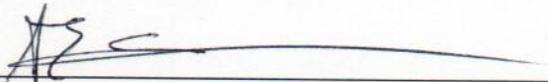
1.3 Counterparts

This Amendment may be executed and delivered by the Parties in one or more counterparts, each of which will be an original, and each of which may be delivered by facsimile, e-mail or other functionally equivalent electronic means of transmission, and those counterparts will together constitute one and the same instrument.

Both of the Parties has executed and delivered this Amendment, as of the date noted at the beginning of the Amendment.

AIR GEORGIAN LIMITED

Per



Name: Eric Edmondson
Title: President and CEO

2746904 ONTARIO INC.

Per

Name: John Binder
Title: President

Appendix “F”

Amended commitment letter dated April 13, 2020

2229275 ALBERTA LTD.

April 13, 2020

Air Georgian Limited
2450 Derry Road East
Mississauga, Ontario L5S 1B2

Dear Sir/Madam:

Reference is made to the amended and restated commitment letter dated as of August 8, 2018 (the "**Original Commitment Letter**") between Air Georgian Limited (the "**Borrower**"), as borrower, ATB Financial ("**ATB**"), as lender, and Regional Express Aviation Ltd. (the "**Guarantor**", and together with the Borrower, the "**Loan Parties**", and each, a "**Loan Party**"), as guarantor, and 1775526 Alberta Ltd. (formerly Avmax Air Inc.), Georgian Aircraft Corp. and Avmax Holdings Inc. (collectively, as the "**Conditional Guarantors**", and each, a "**Conditional Guarantor**") as conditional guarantors.

The Original Commitment Letter together with all of ATB's rights and obligations under, *inter alia*, the agreements and instruments listed in Appendix "A" hereto (the "**Assigned Documents**") was assigned by ATB to 2229275 Alberta Ltd. ("**222**" or the "**Lender**"), pursuant to an assignment of debt and security agreement dated as of January 24, 2020 between ATB, as assignor, and 222, as assignee.

By letter dated February 22, 2020, the Lender offered to extend additional financing to the Borrower in an amount of up to \$800,000 subject to the conditions set forth therein, and the Borrower, the Guarantor and the Conditional Guarantors accepted and acknowledged such offer as set forth therein (the "**DIP Letter Agreement**").

The Borrower has further advised the Lender that, as seller, the Borrower has entered into an Agreement of Purchase and Sale with 2746904 Ontario Inc., as buyer (the "**Original Purchase Agreement**") providing for the sale of the Purchased Assets as defined therein and that, in connection therewith, the Borrower has obtained from the Court: (i) the Approval and Vesting Order (as defined in the Purchase Agreement), and (ii) an order of the Court (the "**Ancillary Relief Order**") permitting additional Post-Filing Advances to be made on the same terms as provided in the revised Order substantially in accordance with the Revised Cash Flow (as defined in the Ancillary Relief Order).

The Borrower requested that the limit on New Advances set forth in the DIP Letter Agreement increase to \$2,000,000 and the Lender agreed to such increase, subject in all respects to all of the conditions set forth in the first amending agreement dated March 11, 2020 (the "**First Amending Agreement**", and the Original Commitment Letter, as so amended, is referred to as the "**Commitment Letter**").

The Borrower and 2746904 Ontario Inc. have mutually agreed to extend the date for closing under the Original Purchase Agreement in light of, among other things, the impact of COVID-19 on the airline industry and transaction. The Original Purchase Agreement has been or will be amended to extend the "Outside Date" for closing to June 1, 2020 (the "**Amendment**" and the Amendment together the Original Purchase Agreement, the "**Purchase Agreement**").

The Borrower has now requested: (i) an extension of time to complete the Purchase Agreement, and (ii) that the limit on Facility #4 be increased to \$2,200,000, and the Lender has agreed to such extension and limit increase, subject in all respects to all of the conditions set forth in this second amending agreement, with the consent and acknowledgement of the Guarantor and the Conditional Guarantors. All other terms and conditions contained in the Commitment Letter shall remain in full force and effect, unamended.

To give effect to the foregoing, the Borrower and Lender have agreed to amend the provisions of the Commitment Letter on and subject to the terms of this second letter amending agreement, with the consent and acknowledgement of the Guarantor and the Conditional Guarantors. All other terms and conditions contained in the Commitment Letter shall remain in full force and effect, unamended.

Capitalized terms used herein shall have the respective meanings ascribed to such terms in the Commitment Letter, the DIP Letter Agreement or the Purchase Agreement, as applicable, unless otherwise defined herein. The Commitment Letter, as amended hereby, shall be referred to herein as the "**Amended Commitment Letter**".

1. The Commitment Letter shall be amended as follows, such amendments being effective as of the Effective Date:

(a) Section 1, "**AMOUNTS AND TYPES OF FACILITIES**", is hereby amended by deleting Facility #4 in its entirety and replace it with the following:

"Facility #4 – DIP Operating Loan Facility (non-revolving) – Cdn. \$2,200,000

- Facility #4 is available by way of:
 - Fixed-rate loans in Canadian dollars
- The initial advances under Facility #4 in the amount of \$800,000 are to be used strictly as interim financing for the limited purposes of the Borrower as are set out in the Cash Flow (as defined in the original Order as defined in the DIP Letter Agreement, being the Order granted on February 26, 2020 in Ontario Court Action 32-2613233), and subject to the terms of this Amended Commitment Letter.
- Advances up to \$2,000,000 under Facility #4 were approved by Court Order on March 17, 2020.
- No Advances in excess of \$2,000,000 shall be made under Facility #4 unless approved by the Court on or prior to April 17, 2020 pursuant to an Order in form and substance satisfactory to the Lender.
- In the event such Order is granted on April 17, 2020, additional advances under Facility #4 up to the maximum amount available under Facility #4 of \$2,200,000 (in total including the initial advances) may be obtained by the Borrower provided that (i) the proceeds of such advances shall be used solely for the purposes set out in the Borrower's revised Cash Flow (as attached to the third report of KMPG Inc. in its capacity as proposal trustee, such revised Cash Flow to be in the form previously provided to the Lender) (an "**Approved Purpose**") and (ii) all advances shall be subject to the prior approval of the Lender, such approval not to be unreasonably withheld.

- Request for advances under Facility #4 shall be made by way of Drawdown Notice.”; and
- (b) the definition of "Facility #4 Maturity Date" in Section 18 "Definitions" of the Commitment Letter is hereby deleted in its entirety and replaced with the following:

“**Facility #4 Maturity Date**” means either (a) the earlier of (i) the completion of a sale or sales for substantially all of the Borrower’s assets, or (ii) June 30, 2020, or (b) such later date as the Lender and the Borrower may agree in writing.”.
- 2. The amendments to the Commitment Letter in Section 1 above shall be effective upon, but not prior to, the receipt by the Lender of an executed copy of this second letter amending agreement signed by all of the parties hereto (the date of such receipt being the "**Effective Date**").
- 3. Each Loan Party hereby acknowledges, confirms and agrees that, notwithstanding anything contained in this second letter amending agreement and the completion of any step, matter or proceeding contemplated herein, but subject in the case of the Security Documents other than the Guarantees to the terms of the Approval and Vesting Order, each of the Security Documents granted by such Loan Party to the Lender in connection with the Commitment Letter (including without limitation, in the case of the Guarantor, its Guarantee) continues in full force and effect, without in any way impairing or derogating from any of the mortgages, pledges, charges, assignments, security interests, guarantees and covenants therein contained or thereby constituted, as continuing security for or an unlimited guarantee (or conditional unlimited guarantee, as applicable) of all indebtedness, liabilities and obligations of such Loan Party to the Lender, arising or incurred in connection with the Commitment Letter and the Security Documents. Each Loan Party acknowledges and agrees that (i) the Lender is relying on this Section 3 in connection with its commitments under the Amended Commitment Letter and further acknowledges and agrees that references in the Security Documents to the "Commitment Letter", the "Loan Agreement" or the "Credit Agreement" (as applicable) shall include the Amended Commitment Letter, as the same may be amended, modified, supplemented, restated or replaced, from time to time, and the other documents, instruments and agreements entered into pursuant thereto, and (ii) obligations and liabilities of the Guarantor and the Conditional Guarantors under and pursuant to the Guarantees shall not be released, discharged or otherwise lessened, reduced or affected by the granting of the Approval and Vesting Order and the completion of any or all of the steps contemplated thereby.
- 4. Each Conditional Guarantor consents to this second letter amending agreement and the matters contemplated hereby and acknowledges and agrees that none of the entering into of this second letter amending agreement, the granting of the Approval and Vesting Order and the Ancillary Relief Order, the granting of security as contemplated or confirmed thereby, the entry into and performance of the Purchase Agreement and the completion of all steps or proceedings reasonably required in connection with the foregoing (such steps or proceeding individually or collectively referred to as the "**Approved Restructuring**") shall release, discharge, invalidate, waive or in any way affect the Guarantee provided by each Conditional Guarantor to the extent enforceable in accordance with the terms thereof (as such terms existed prior to the entering of this second letter amending agreement); provided for clarity that no Conditional Guarantor waives any defences that (i) were already available to it with respect to the enforceability of the Guarantees prior to this second letter amending agreement being entered into and (ii) which are not based on the Approved Restructuring or its implementation.
- 5. This second letter amending agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and such counterparts together shall constitute one and the same second letter amending

agreement. For the purposes of this Section 5, the delivery of a facsimile or other electronic copy of an executed counterpart of this second letter amending agreement shall be deemed to be valid execution and delivery of this second letter amending agreement.

6. The parties agree that Section 16(v) of the Commitment Letter shall apply to this second letter amending agreement and the Amended Commitment Letter in all respects.
7. The provisions of the Commitment Letter, as amended by this second letter amending agreement, are hereby ratified, confirmed and approved.
8. The Borrower agrees to be liable for all reasonable expenses of the Lender including, without limitation, legal fees (on a solicitor and his own client full indemnity basis) and other out-of-pocket expenses in connection with the negotiation, preparation, establishment, operation or enforcement of this second letter amending agreement (whether or not consummated) and all matters contemplated herein and incidental hereto. The Borrower irrevocably authorizes and directs the Lender to debit any account or drawdown under any Facility in payment of such fees without further consent from the Borrower.

[remainder of page intentionally left blank; signature pages follow]

Please acknowledge your acceptance of the same by returning an executed copy of this second letter amending agreement on or before April 13, 2020.

Yours truly,

2229275 ALBERTA LTD.

By:  _____

By: _____

Accepted and agreed as of this 13th day of April, 2020

Borrower:

AIR GEORGIAN LIMITED

Per: [Signature]
Name: A. Eric Edmondson
Title: President & CEO

Per: _____
Name: _____
Title: _____

Guarantor:

REGIONAL EXPRESS AVIATION LTD.

Per: [Signature]
Name: A. Eric Edmondson
Title: President & CEO

Per: _____
Name: _____
Title: _____

Conditional Guarantors:

Acknowledged and agreed to the extent of Paragraph 4 above this ____ day of April, 2020.

1775526 ALBERTA LTD.

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____

AVMAX HOLDINGS INC.

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____

GEORGIAN AIRCRAFT CORP.

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____

Accepted and agreed as of this ____ day of April, 2020

Borrower:

AIR GEORGIAN LIMITED

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Guarantor:

REGIONAL EXPRESS AVIATION LTD.

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Conditional Guarantors:

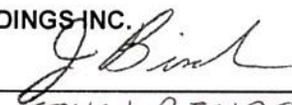
Acknowledged and agreed to the extent of Paragraph 4 above this 13 day of April, 2020.

1775526 ALBERTA LTD.

Per: 
Name: JOHN BINDER
Title: PRESIDENT

Per: _____
Name:
Title:

AVMAX HOLDINGS INC.

Per: 
Name: JOHN BINDER
Title: PRESIDENT

Per: _____
Name:
Title:

GEORGIAN AIRCRAFT CORP.

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Accepted and agreed as of this ____ day of April, 2020

Borrower:

AIR GEORGIAN LIMITED

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Guarantor:

REGIONAL EXPRESS AVIATION LTD.

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Conditional Guarantors:

Acknowledged and agreed to the extent of Paragraph 4 above this 13th day of April, 2020.

1775526 ALBERTA LTD.

AVMAX HOLDINGS INC.

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Per: _____
Name:
Title:

Per: _____
Name:
Title:

GEORGIAN AIRCRAFT CORP.

Per: _____
Name: *Samuel J. Revell*
Title: *Vice President*

Per: _____
Name:
Title:

APPENDIX "A"

ASSIGNED LOAN AND SECURITY DOCUMENTS

Commitment Letter:

1. Amended and Restated Commitment Letter, dated August 8, 2018 (the "**Commitment Letter**"), between ATB Financial, as lender, and Air Georgian Limited, as borrower.

Security Agreements:

2. General Security Agreement, dated September 24, 2018, as granted by Air Georgian Limited to and in favour of ATB Financial; and,
3. General Security Agreement, dated September 24, 2018, as granted by Regional Express Aviation Ltd. to and in favour of ATB Financial,

(collectively, the "**Security Agreements**").

Notice of Termination re Swap Documents:

4. Notice of Early Termination, dated January 24, 2020 (the "**Notice of Termination**"), as issued by ATB Financial to Air Georgian Limited in connection with the Swap Documents.

Guarantees:

5. Continuing Guarantee, dated September 24, 2018, as granted by Regional Express Aviation Ltd. to and in favour of ATB Financial; and,
6. Continuing Conditional Guarantee, dated September 24, 2018, as granted by Avmax Air Inc., Georgian Aircraft Corp., and Avmax Holdings Inc. to and in favour of ATB Financial;

(collectively, the "**Guarantees**").

Postponements:

7. Postponement and Assignment of Claims, dated February 14, 2018, as granted by Georgian Aircraft Corp. to and in favour of Alberta Treasury Branches;
8. Postponement and Assignment of Claims, dated February 23, 2018, as granted by Avmax Aircraft Leasing Inc. and Avmax Aviation Services Inc. to and in favour of Alberta Treasury Branches; and,
9. Subordination and Postponement Agreement, dated September 24, 2018, among Air Georgian Limited, as debtor, ATB Financial, as senior lender, and Avmax Aircraft Leasing Inc., Avmax Aviation Services Inc., and Georgian Aircraft Corp., as subordinate lenders

(collectively, the "**Postponements**").

Appendix "G"

April 11 Cash Flow Forecast

AGL - April 14 Cash Flow Forecast
 For the period April 11, 2020 to June 5, 2020
 \$CAD

	Forecast 17-Apr-20	Forecast 24-Apr-20	Forecast 1-May-20	Forecast 8-May-20	Forecast 15-May-20	Forecast 22-May-20	Forecast 29-May-20	Forecast 5-Jun-20	Forecast Total
Receipts	-	-	-	-	-	-	-	-	-
Disbursements	-	-	-	-	-	-	-	-	-
Lease payments	(70,777)	(23,730)	-	(94,284)	-	-	-	(94,284)	(283,076)
Office, maintenance and other	(37,250)	(294,460)	(9,000)	(70,812)	(9,000)	(9,000)	(9,000)	(55,292)	(499,814)
Payroll and benefits	(131,521)	-	(108,489)	(10,000)	(108,469)	-	(108,469)	(10,000)	(478,929)
Direct asset return costs	-	-	(83,896)	-	-	-	-	-	(83,896)
Restructuring Professional Fees	-	-	(84,750)	-	(23,730)	-	(47,912)	-	(156,392)
Total Disbursements	(239,549)	(318,190)	(286,115)	(175,096)	(141,199)	(9,000)	(165,381)	(159,576)	(1,494,107)
NET CASH FLOW	(239,549)	(318,190)	(286,115)	(175,096)	(141,199)	(9,000)	(165,381)	(159,576)	(1,494,107)
Operating cash balance	102,401	12,853	9,662	8,548	13,451	7,252	13,252	12,871	102,401
Net cash flow	(239,549)	(318,190)	(286,115)	(175,096)	(141,199)	(9,000)	(165,381)	(159,576)	(1,494,107)
Senior secured debt	-	-	-	-	-	-	-	-	-
DIP drawdown	150,000	315,000	285,000	180,000	135,000	15,000	165,000	155,000	1,400,000
Closing cash balance	12,853	9,662	8,548	13,451	7,252	13,252	12,871	8,295	8,295
Funding									
Operating senior secured debt	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480
Drawdowns	-	-	-	-	-	-	-	-	-
Closing senior secured debt (principal)	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480	5,304,480
Operating DIP balance	800,000	950,000	1,265,000	1,550,000	1,730,000	1,865,000	1,880,000	2,045,000	800,000
Drawdowns	150,000	315,000	285,000	180,000	135,000	15,000	165,000	155,000	1,400,000
Closing DIP balance (principal)	950,000	1,265,000	1,550,000	1,730,000	1,865,000	1,880,000	2,045,000	2,200,000	2,200,000

Air Georgian Limited - Debtor

SCOTT MOWSTERN, VP FINANCE & CFO
 Name and title of signing officer

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

**THIRD REPORT OF KPMG INC. in its capacity as
PROPOSAL TRUSTEE UNDER THE NOTICE OF
INTENTION OF AIR GEORGIAN LIMITED**

DATED APRIL 14, 2020

CHAITONS LLP

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Toronto, ON M2N 7E9

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Lawyers for Proposal Trustee, KPMG LLP