Aveos Fleet Performance Inc.
and
Aero Technical US, Inc.

vs.

Canadian North Inc.
and
FTI Consulting Canada Inc.

C.S. 500-11-042345-120

January 23, 2013

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Subject: Aveos Fleet Performance Inc. and Aero Technical US, Inc.
vs.
Canadian North Inc. and FTI Consulting Canada Inc.
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1 INTRODUCTION

1.1 Our understanding of the current situation[1]

On December 19, 2008, Aveos Fleet Performance Inc. (hereinafter "Aveos") entered into a seven-year General Terms Agreement for B737 Technical Services (hereinafter the "Agreement") with Canadian North Inc. (hereinafter "Canadian North"). According to Canadian North, the Agreement was terminated on or about March 18, 2012 (hereinafter the "Termination date"), but the termination is contested by Aveos.

Under the Agreement, Canadian North was to pay a fixed fee per hour of flight operation for certain maintenance services of its airplanes (hereinafter "PBH"). We understand that it is Aveos' position that the PBH component of the Agreement was in the nature of an insurance policy for the customer and that a monthly payment by the customer is not driven by the amount of services actually rendered during a given period.

[1] As per the Motion and the Contestation and Cross-Claim (as hereinafter defined).

On the other hand, Canadian North maintains that the volume of maintenance was an important underlying consideration of the Agreement and that, in fact, the PBH payment obligations under the Agreement cover both foreseeable scheduled and unscheduled maintenance services to be rendered by Aveos. It is also based on anticipated hours of flying and further based on flying hours/cycles for engines, parts, heavy maintenance, etc.

On July 16, 2012, Aveos filed an action against Canadian North to order, among others, the payment of a sum due to Aveos (hereinafter the "Debt"). However, we understand that Canadian North claims that it is entitled to be compensated for the value of PBH maintenance services paid by under the Agreement but that have not been rendered by Aveos at the Termination date.

Canadian North believes that the value of these services should be represented in Aveos' Deferred Revenue Account (hereinafter the "DRA") and that same should be a reliable indication of the value of such services paid in advance but not actually rendered. As per Canadian North estimation and restatement, Aveos' DRA should represent a larger sum than the Debt because of certain irregular entries of charges not related to its airplanes. Therefore, Canadian North constitutes itself Cross-Plaintiff and claims that Aveos was indebted in its favour to an amount at least equal to the Debt at the Termination date and seeks compensation between its claim and the Debt.

1.2 Nature and scope of our mandate

You have asked us to act as independent expert specialized in accounting and damages quantification on behalf of your client, Canadian North, in the context of a dispute with Aveos more fully summarized in **Section 1.1** of the present report.

Our mandate consisted in the analysis of the relevant accounting standards for recording the amounts paid by Canadian North to Aveos and the relevancy to use a DRA in order to establish the counterclaim of Canadian North.

We understand that our report will be submitted to the Quebec Superior Court as an

expert report and that we could be called upon to testify as an expert witness.

In preparing our report, we have consulted and relied upon the following documents:

a) Copy of the *Motion to Recover Amounts Due for Goods Supplied and Services Rendered and For Other Orders* dated July 16, 2012 (hereinafter the "Motion") and the exhibits in support thereof;
b) Copy of the *Contestation and Cross-Claim of the Respondent, Canadian North Inc., on Plaintiffs's Motion* dated November 23, 2012 (hereinafter the "Contestation and Cross-Claim") and the exhibits in support thereof;
c) Copy of the *Answer to Contestation and Contestation by Plaintiff of Cross-Claim of the Respondent Canadian North Inc.* dated December, 21, 2012;
d) Copy of the transcription of the *Examination Before Plea of Mr. Peter Timotheatos* held on September 11, 2012 and related undertakings;
e) Copy of Responses to additional questions and Undertakings in Complement of Mr. Peter Timotheatos' Examination Before Plea dated October 23, 2012; and
f) Information from CICA handbook.

Furthermore, we had discussions with Ms. Tracey Medve, President of Canadian North.

In the following pages, we present the details of our analysis in relation to our mandate.

1.3 Independence of Demers Beaulne

This report was prepared under the responsibility of Mr. Michel Hamelin, CPA, CA, CA•IFA, CBV. To our knowledge, the professionals who participated in the realization of this work have no connection with the parties involved in this litigation and their work was done independently and objectively.

The remuneration of our firm and its professionals is in no way conditional on the implementation of an action or event that would result from the use of this report.

1.4 Restrictions and limitations

This confidential report is not to be used for any purpose other than that stated above and is not intended for general circulation nor is it to be published or made available to other parties in whole or in part without our prior written consent. We will not assume any responsibility or liability for losses suffered by Canadian North and/or Aveos, or by other parties as a result of the circulation, publication, reproduction or use of this report contrary to the provision of this paragraph.

In addition, we reserve the right, without any obligation on our part, to revise our conclusions in light of facts or information which existed as of the date of our conclusion, but which were brought to our attention subsequent to the issuance of this report.

In the course of our mandate, we have relied upon the financial information and other information provided to us. We have assumed that all such information was accurate, and consequently, save for the information that was subject to our analyses, we have not verified the accuracy, completeness or fair presentation thereof.

2 ESSENTIAL NOTIONS AND CONCEPTS

In the following subsections, we review various notions that are essential to the present case. Our explanation of the said notions and concepts should not be construed as a legal opinion, but rather as a review of key accounting notions and concepts relevant to the current issues.

2.1 Definition of specific items in financial statements[2]

The CICA Handbook defines liabilities as obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

[2] As per concepts published in CICA Handbook, section 1000 (see **Appendix 1**).

As for revenue, it occurs in the ordinary activities of the entity and normally arises from the sale of goods and the rendering of service. It represents an increase in economic resources which results in an increase of assets or a reduction in liabilities.

Revenue is recognized in the income statement and liability in the balance sheet.

2.2 Recognition and Measurement[3]

The recognition is the process of including an item in the financial statements of an entity. Given this accounting notion, items recognized in financial statements are accounted for in accordance with the accrual basis of accounting which recognizes the effect of transactions and events in the period in which the transactions and events occur, thus:

- Liability: It is recognized when it is probable that an outflow of resources will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably;
- Revenue: As per CICA Handbook section 3400.06, *"in the case of rendering of services and long-term contracts, performance shall be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. [...]";* and
- Expenses: The recognition process for expenses is commonly referred to as the matching of costs with revenues; the expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income.

As for the measurement notion, it is the process of determining the amount at which an item is recognized in the financial statements. Transactions and events in financial statements are generally recognized as the amount of cash received or paid.

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3 As per concepts published in CICA Handbook, sections 1000 (see **Appendix 1**) and 3400 (see **Appendix 2**).

2.3 Deferred Revenue Account (DRA)

As previously discussed in **Section 2.2**, accrual basis accounting recognizes the effect of events in the period in which events occur. This justifies existence of DRA which can be defined as the money received for services which have not yet been delivered.

According to the revenue recognition principle, it is recorded as a liability until the service is rendered, at which time it is converted into revenue. In other words, deferred revenue reflects cash receipts (past transaction) in connection with services that have not yet been rendered (present obligation). When the services are performed, the revenue will be recognized and the liability eliminated (revenue recognition process).

The relationship between accounts receivable, which is commonly known, and deferred revenue, is that both accounts show that the company provides services:

- on a payment-per-delivery basis, for accounts receivable; or
- on a prepaid basis, for deferred revenue.

Finally to measure the revenue to be recognized, the CICA Handbook, section 3400.17, states that:

> *"The percentage of completion method is used when performance consists of the execution of more than one act, and revenue would be recognized proportionately by reference to the performance of each act. Revenue recognized under this method would be determined on a rational and consistent basis such as on the basis of sales value, associated costs, extent of progress, or number of acts. For practical purposes, when services are provided by an indeterminate number of acts over a specific period of time, revenue would be recognized on a straight line basis over the period unless there is evidence that some other method better reflects the pattern of performance. [...]"*

2.3.1 Examples

Here are examples of the recognition of a $12,000 annual maintenance contract where the total amount is paid in advance for:

Case no. 1: an indeterminate number of acts over 1 year; and
Case no. 2: more than one act easily identifiable and measurable over a certain period of time.

In Case no. 1, the straight-line basis recognition will be used:

- The amount paid will be initially accounted in a DRA;
- The liability will be reduced and the income will be recognized for $1,000 each month.

In Case no. 2, the revenue would be recognized proportionately by reference to the performance of each act:

- The amount paid will be initially accounted in a DRA;
- The total net income will be estimated: $2,000 (i.e. total sale price of $12,000 minus total estimated costs, let's say, $10,000);
- The percentage-of-completion will be estimated at the end of each reporting period based on, for instance, costs: 60% (cost for the period, let's say, $6,000 divided by total estimated costs $10,000) x 100; and
- At the end of the reporting period the liability will be presented in the balance sheet at $4,800 ($12,000 minus (60% times $12,000)) and the income statement will include income for $7,200 (60% times $12,000) and costs for $6,000.

3 MR. PETER TIMOTHEATOS' EXAMINATION

We reviewed a copy of the transcription of Aveos CFO, Mr Peter Timotheatos' examination held on September 11, 2012, in order to have a better understanding of the services rendered by Aveos and their accounting practices related to these.

According to this transcription, we understand that Aveos provides heavy maintenance, fleet management, engine maintenance, component and line maintenance services. The last four services listed were invoiced according to a payment by hour (PBH) and the heavy maintenance services had a separate pricing structure[4].

Deferred revenues were accounted for by PBH invoicing and all the invoices were accounted for in one DRA. Mr. Timotheatos explained the deferral of these revenues as follows:

> *"Because the purpose of a deferred account, it's a non-cash account, and the purpose of that account is really to apply the matching principle, which is, you know, one of the main principles in accounting. So, for line maintenance, it's a function that's driven largely by heads, payroll costs, so it's easy to match those costs with the revenue that you get every month from your customer, so you apply it directly into your P&L.*
>
> *To match your costs for components and engines is a little more difficult, because you need the event to happen, it may or may not happen. And so, you sort of apply those revenues to your P&L. As activity occurs, you draw down that non-cash account as the activity occurs."*[5]

[4] As per the transcription of the examination, page 15, line 4.
[5] Excerpt of the transcription of the examination, page 16, lines 12 to 25 and page 17, line 1.

It is also our understanding that this DRA account is, in fact, a net DRA (hereinafter "NDRA") which includes costs related to services rendered in relation with the deferred revenue or invoicing[6].

However, Mr. Timotheatos mentioned that no breakdown is applied to PBH payments in the DRA by aircraft type and/or for each service. He also mentioned that the whole number invoiced was included in the NDRA.[7]

4 OUR COMMENTS

First of all, the "matching principle" to which refers Mr. Timotheatos, commonly referred to as the matching of costs with revenues, as explained before (see **Section 2.2**), is related to the recognition of expenses and not revenues. In fact, expenses are recognized when the revenue is recognized in the income statement. Accordingly, to be precise and as previously discussed in **Section 2.3**, the purpose of a DRA is rather to be in accordance with the accrual basis of accounting.

However and more importantly, Mr. Timotheatos' examination reveals that the DRA related to Canadian North represents the invoicing under the PBH. In other words, the amount presented in this DRA, accordingly with GAAP and accounting concepts previously exposed in **Section 2**, should represent services to be rendered to Canadian North for which payment has been received (or accounted in accounts receivable), but services not rendered yet. Also, since Aveos incurred costs directly related to the deferred revenue, in order to comply with the matching principle, these have also been deferred and accounted in the DRA. Consequently, the NDRA can either present a credit balance (liability) or a debit balance (asset). A credit balance would mean that invoices paid are higher than costs already incurred for services uncompleted (matching principle). A debit balance (asset) would mean that costs incurred are higher than invoiced revenue.

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6 As per the transcription of the examination, page 25, lines 16 to 17.
7 As per the transcription of the examination, page 28, lines18 to 22.

Consequently, when the NDRA balance is a liability, it represents Aveos' profit estimation on the services rendered to date, but uncompleted, plus the value of services paid in advance. Then, when a major act (for which costs are deferred and accounted in the NDRA) is finally completed, the profit or loss incurred on the said service or act will be recognized in the income statement. On a continuation basis and when obligations of each party are completed, then, the NDRA would be nil.

Aveos accounting practices are complying with the GAAP previously explained.

Below is an example to illustrate our understanding of the nature of amounts included in the total value of the NDRA presented in Aveos' financial statements:

Let's say that, at a reporting date, the NDRA includes invoices amounting to $1,700 while costs incurred amount to $1,000, the total estimated costs for the contract is $10,000 and the total estimated revenue is $12,500, thus the profit margin is estimated at 20%.

The liability would amount to $700 ($1,700 minus $1,000), which represents a profit of $200 ($1,000 times 20%) on services partially rendered and the difference of $500 ($700 minus $200), represents value of services paid in advance for which no cost has been incurred yet.

In brief, it is our understanding that, for a specific action to be completed, several costs may be incurred and deferred until the action is 100% completed and revenue recognized in order to meet the revenue recognition criteria. Thus, Aveos' NDRA is measured with the percentage of completion method (see Section 2.3) rather than a straight-line method. Also, the NDRA credit balance presented in Aveos' financial statement includes both Aveos' profit on rendered services to date (but uncompleted) and client's upfront payments.

5 CONCLUSION

Based on the documents and information provided to us, and subject to the restrictions, reservations and assumptions included herein, in the event that the Court would find that the value of services paid by Canadian North, but not rendered by Aveos, is an actual obligation for Aveos, following the termination of the Agreement, it is clearly apparent that:

- The NDRA should be considered in the evaluation of the amounts owed by Canadian North to Aveos;

- However, Aveos' realized profit on incurred costs included in the NDRA should also be considered in the calculation of the amount that may be owed to Canadian North; and

- PBH revenue has not been recognized on a straight-line basis (See **Section 2.3**), which confirms that these revenues were related to more than one act and that these acts are separately identifiable, instead of representing revenue for an indeterminate number of acts.

DEMERS BEAULNE, LLP
CHARTERED ACCOUNTANTS

Michel Hamelin, CPA, CA, CA•IFA, CBV
Partner

GENERAL ACCOUNTING
SECTION 1000
financial statement concepts

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PURPOSE AND SCOPE

.01 This Section describes the concepts underlying the development and use of accounting principles in general purpose financial statements (hereafter referred to as financial statements). Such financial statements are designed to meet the common information needs of external users of financial information about an entity. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100, establishes what constitutes generally accepted accounting principles, and their sources, for private enterprises reporting in accordance with Part II of the Handbook.

.02 The Board expects this Section to be used by preparers of financial statements and accounting practitioners in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing.

.03 This Section does not establish standards for particular measurement or disclosure issues. Nothing in the Section overrides any specific standards elsewhere in Part II of the Handbook or any other accounting principle considered to be generally accepted.

Financial statements

.04 Financial statements of profit-oriented enterprises normally include a balance sheet, income statement, statement of retained earnings and cash flow statement. Notes to financial statements and supporting schedules to which the financial statements are cross-referenced are an integral part of such statements.

.05 The content of financial statements is usually limited to financial information about transactions and events. Financial statements are based on representations of past, rather than future, transactions and events, although they often require estimates to be made in anticipation of future transactions and events and include measurements that may, by their nature, be approximations.

.06 Financial statements form part of the process of financial reporting that includes, for example, information in other reports such as a funding proposal. While many financial statement concepts also apply to such information, this Section deals specifically only with financial statements.

OBJECTIVE OF FINANCIAL STATEMENTS

.07 In the Canadian economic environment, the production of goods and the provision of services are, to a significant extent, carried out by investor-owned business enterprises in the private sector and, to a lesser extent, by government-owned business enterprises. Debt and equity markets and financial institutions act as exchange mechanisms for

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investment resources used by these enterprises.

.08 Ownership of profit-oriented enterprises is often segregated from management, creating a need for external communication of economic information about the entity to investors. For the purposes of this Section, investors include present and potential debt and equity investors and their advisors. Creditors and others who do not have internal access to entity information also need external reports to obtain the information they require.

.09 It is not practicable to expect financial statements to satisfy the many and varied information needs of all external users of information about an entity. Consequently, the objective of financial statements for profit-oriented enterprises focuses primarily on information needs of investors and creditors. Financial statements prepared to satisfy these needs are often used by others who need external reporting of information about an entity.

.10 In making resource allocation decisions investors and creditors of profit-oriented enterprises are interested in predicting the ability of the entity to earn income and generate cash flows in the future to meet its obligations and to generate a return on investment.

.11 Investors also require information about how the management of an entity has discharged its stewardship responsibility to those that have provided resources to the entity.

Objective

.12 The objective of financial statements is to communicate information that is useful to investors, creditors and other users ("users") in making their resource allocation decisions and/or assessing management stewardship. Consequently, financial statements provide information about:

(a) an entity's economic resources, obligations and equity;

(b) changes in an entity's economic resources, obligations and equity; and

(c) the economic performance of the entity.

BENEFIT VERSUS COST CONSTRAINT

.13 The benefits expected to arise from providing information in financial statements should exceed the cost of doing so. In developing accounting standards, the Board weighs the anticipated costs and benefits of its proposals in general terms to assess whether they are justified on cost / benefit grounds. The benefits and costs of applying accounting standards may differ between entities depending in part on the nature, number and information needs of the users of their financial statements. Therefore, in developing an accounting standard, the Board considers whether the requirements of that standard should apply to all entities or whether different requirements should apply to different types of entities for which the cost / benefit trade-off differs significantly. The cost /

benefit trade-off is also a consideration for individual entities in the preparation of financial statements in accordance with applicable standards (for example, in considering disclosure of information beyond that required by the standards). The Board recognizes that the evaluation of the nature and amount of benefits and costs is substantially a judgmental process.

MATERIALITY

.14 Users are interested in information that may affect their decision making. Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgment in the particular circumstances.

QUALITATIVE CHARACTERISTICS

.15 Qualitative characteristics define and describe the attributes of information provided in financial statements that make that information useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

.16 For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of business and economic activities and accounting, together with a willingness to study the information with reasonable diligence.

Relevance

.17 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. Relevance is achieved through information that has predictive value or feedback value and by its timeliness.

(a) Predictive value and feedback value

Information that helps users to predict an entity's future income and cash flows has predictive value. Although information provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. For example, the predictive value of the income statement is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) Timeliness

For information to be useful for decision making, it must be received by the decision maker before it loses its capacity to influence decisions. The usefulness of information for decision making declines as time elapses.

Reliability

.18 For the information provided in financial statements to be useful, it must be reliable. Information is reliable when it is in agreement with the actual underlying transactions and events, the agreement is capable of independent verification and the information is reasonably free from error and bias. Reliability is achieved through representational faithfulness, verifiability and neutrality. Neutrality is affected by the use of conservatism in making judgments under conditions of uncertainty.

(a) Representational faithfulness

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form.

The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related transactions and events as a whole. The determination of the substance of a transaction or event will be a matter of professional judgment in the circumstances.

(b) Verifiability

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

(c) Neutrality

Information is neutral when it is free from bias that would lead users toward making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind.

Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

(d) Conservatism

Use of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. However, conservatism does not encompass the deliberate understatement of assets, revenues and gains or the deliberate overstatement of liabilities, expenses and losses.

Comparability

.19 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Comparability is important when comparing the financial statements of two different entities and when comparing the financial statements of the same entity over two periods or at two different points in time.

.20 Comparability in the financial statements of an entity is enhanced when the same accounting policies are used consistently from period to period. Consistency helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change may be necessary to maintain comparability.

Qualitative characteristics trade-off

.21 In practice, a trade-off between qualitative characteristics is often necessary, particularly between relevance and reliability. For example, there is often a trade-off between the timeliness of producing financial statements and the reliability of the information reported in the statements. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

ELEMENTS OF FINANCIAL STATEMENTS

.22 Elements of financial statements are the basic categories of items portrayed therein in order to meet the objective of financial statements. There are two types of elements: those that describe the economic resources, obligations and equity of an entity at a point in time, and those that describe changes in economic resources, obligations and equity over a period of time. Notes to financial statements, which are useful for the purpose of clarification or further explanation of the items in financial statements, while an integral part of financial statements, are not considered to be an element.

.23 In the case of profit-oriented enterprises, net income is the residual amount after expenses and losses are deducted from revenues and gains. Net income generally includes all transactions and events increasing or decreasing the equity of the profit-oriented enterprise except those that result from equity contributions and distributions.

Assets

.24 Assets are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained.

.25 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, in the case of profit-oriented enterprises, to contribute directly or indirectly to future net cash flows;

(b) the entity can control access to the benefit; and

(c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.

.26 It is not essential for control of access to the benefit to be legally enforceable for a resource to be an asset, provided the entity can control its use by other means.

.27 There is a close association between incurring expenditures and generating assets but the two do not necessarily coincide. Hence, when an entity incurs an expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet. For example, items that have been donated to the entity may satisfy the definition of an asset.

Liabilities

.28 Liabilities are obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

.29 Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand;

(b) the duty or responsibility obligates the entity leaving it little or no discretion to avoid it; and

(c) the transaction or event obligating the entity has already occurred.

.30 Liabilities do not have to be legally enforceable provided that they otherwise meet the definition of liabilities; they can be based on equitable or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations. A constructive obligation is one that can be inferred from the facts in a particular situation as opposed to a contractually based obligation.

Equity

.31 Equity is the ownership interest in the assets of a profit-oriented enterprise after deducting its liabilities. While equity of a profit-oriented enterprise in total is a residual, it includes specific categories of items (for example, types of share capital, contributed surplus and retained earnings).

Revenues

.32 Revenues are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an entity. Revenues of entities normally arise from the sale of goods, the rendering of services or the use by others of entity resources yielding rent, interest, royalties or dividends.

Expenses

.33 Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an entity's ordinary revenue generating or service delivery activities.

Gains

.34 Gains are increases in equity from peripheral or incidental transactions and events affecting an entity and from all other transactions, events and circumstances affecting the entity except those that result from revenues or equity contributions.

Losses

.35 Losses are decreases in equity from peripheral or incidental transactions and events affecting an entity and from all other transactions, events and circumstances affecting the entity except those that result from expenses or distributions of equity.

RECOGNITION CRITERIA

.36 Recognition is the process of including an item in the financial statements of an entity. Recognition consists of the addition of the amount involved into statement totals together with a narrative description of the item (for example, "inventory" or "sales") in a statement. Similar items may be grouped together in the financial statements for the purpose of presentation.

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.37 Recognition means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements. Notes either provide further details about items recognized in the financial statements, or provide information about items that do not meet the criteria for recognition and thus are not recognized in the financial statements.

.38 The recognition criteria below provide general guidance on when an item is recognized in the financial statements. Whether any particular item is recognized or not will require the application of professional judgment in considering whether the specific circumstances meet the recognition criteria.

.39 The recognition criteria are as follows:

(a) the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and

(b) for items involving obtaining or giving up future economic benefits, it is probable that such benefits will be obtained or given up.

.40 It is possible that an item will meet the definition of an element but still not be recognized in the financial statements because it is not probable that future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved. It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements. Not recognizing an expenditure as an asset does not imply either that the intention of management in incurring the expenditure was other than to generate future economic benefits for the entity or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the entity beyond the current accounting period is insufficient to warrant the recognition of an asset.

.41 Items recognized in financial statements are accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.

.42 Revenues are generally recognized when performance is achieved and reasonable assurance regarding measurement and collectibility of the consideration exists.

.43 Gains are generally recognized when realized.

.44 Expenses and losses are generally recognized when an expenditure or previously recognized asset does not have future economic benefit. Expenses are related to a period on the basis of transactions or events occurring in that period or by allocation.

.45 Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous

or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events. For example, the various components of expense making up the cost of goods sold are recognized at the same time as the income derived from the sale of the goods. However, the application of the matching concept does not allow the recognition of items in the balance sheet that do not meet the definition of assets or liabilities.

.46 When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognized in the income statement on the basis of systematic and rational allocation procedures. This is often necessary in recognizing the expenses associated with the using up of assets such as property, plant, equipment, patents and trademarks. In such cases, the expense is referred to as depreciation or amortization. These allocation procedures are intended to recognize expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire.

.47 An expense is recognized immediately in the income statement when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset.

MEASUREMENT

.48 Measurement is the process of determining the amount at which an item is recognized in the financial statements. There are a number of bases on which an amount can be measured. However, financial statements are prepared primarily using the historical cost basis of measurement whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place.

.49 Other bases of measurement are also used but only in limited circumstances. They include:

(a) Replacement cost — the amount that would be needed currently to acquire an equivalent asset. This may be used, for example, when inventories are valued at the lower of historical cost and replacement cost.

(b) Realizable value — the amount that would be received by selling an asset. This may be used, for example, to value temporary and portfolio investments. Market value may be used to estimate realizable value when a market for an asset exists.

(c) Present value — the discounted amount of future cash flows expected to be received from an asset or required to settle a liability. This may be used, for example, to estimate the cost of pension benefits.

.50 Financial statements are prepared with capital maintenance measured in financial terms

and with no adjustment being made for the effect on capital of a change in the general purchasing power of the currency during the period.

.51 The concept of capital maintenance used by profit-oriented enterprises in preparing financial statements affects measurement because income in an economic sense exists only after the capital of an enterprise has been maintained. Thus, income is the increase or decrease in the amount of capital at the end of the period over the amount at the beginning of the period, excluding the effects of capital contributions and distributions.

.52 Financial statements are prepared on the assumption that the entity is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. Different bases of measurement may be appropriate when the entity is not expected to continue in operation for the foreseeable future.

EFFECTIVE DATE

.53 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

SPECIFIC ITEMS
SECTION 3400
revenue

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PURPOSE AND SCOPE

.01 This Section establishes standards for the timing of recognition of revenue in the financial statements of enterprises. It is concerned with the recognition of revenue arising in the course of the ordinary activities of an enterprise from the sale of goods, the rendering of services, and the use by others of enterprise resources yielding interest, royalties and dividends. It does not deal with the measurement of revenue, which is usually determined by agreement between the parties involved. However, when uncertainties exist regarding the determination of the amount of revenue, these uncertainties may influence the timing of revenue recognition.

.02 The timing of recognition of the following types of revenue is dealt with elsewhere in other Sections:

(a) revenue arising from investments accounted for under the equity method (see INVESTMENTS, Section 3051);

(b) revenue arising from lease agreements (see LEASES, Section 3065); and

(c) revenue arising from government grants and other similar subsidies (see GOVERNMENT ASSISTANCE, Section 3800).

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) **Revenue** is the inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise, normally from the sale of goods, the rendering of services, and the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is net of items such as trade or volume discounts, returns and allowances, claims for damaged goods, and certain excise and sales taxes. Excise and sales taxes to be netted against revenue would normally include those imposed at the time of sale and would normally exclude those imposed prior to the time of sale on either the goods or their constituents.

(b) **Completed contract method** is a method of accounting that recognizes revenue only when the sale of goods or the rendering of services under a contract is completed or substantially completed.

(c) **Percentage of completion method** is a method of accounting that recognizes revenue proportionately with the degree of completion of goods or services under a contract.

RECOGNITION

.04 ♦ *Revenue from sales and service transactions shall be recognized when the requirements as to performance set out in paragraphs* 3400.05-.*06 are satisfied, provided that at the time of performance ultimate collection is reasonably assured.*

.05 ♦ *In a transaction involving the sale of goods, performance shall be regarded as having been achieved when the following conditions have been fulfilled:*

(a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and

(b) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned.

.06 ♦ *In the case of rendering of services and long-term contracts, performance shall be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. Such performance shall be regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service or performing the long-term contract.*

.07 Performance would be regarded as being achieved under paragraphs 3400.05-.06 when all of the following criteria have been met:

(a) persuasive evidence of an arrangement exists;

(b) delivery has occurred or services have been rendered; and

(c) the sellers' price to the buyer is fixed or determinable.

.08 Some of the items an entity would consider in determining if persuasive evidence of an arrangement exists are as follows:

(a) customary business practices;

(b) side arrangements;

(c) consignment arrangements;

(d) rights to return the product; and

(e) requirements to repurchase the product.

Other characteristics may exist. Accordingly, judgment is necessary in assessing whether the substance of a transaction is a consignment, a financing or other arrangement for which revenue recognition is not appropriate.

.09 Generally, delivery is not considered to have occurred unless the product has been delivered to the customer's place of business or another site specified by the customer. Some of the aspects of the revenue arrangement an entity would consider in determining if delivery has occurred or services have been rendered are as follows:

(a) bill and hold arrangements;

(b) customer acceptance of product;

(c) layaway sales arrangements;

(d) non-refundable fee arrangements; and

(e) licensing and similar fee arrangements.

.10 In determining if the seller's price to the buyer is fixed or determinable, an entity would consider the impact of the following factors:

(a) cancellable sales arrangements;

(b) right of return arrangements;

(c) price protections and/or inventory credit arrangements; and

(d) refundable fee for service arrangements.

.11 The recognition criteria in this Section are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. A single sales transaction may involve the delivery or performance of multiple products, services, or rights to use assets, and performance may occur at

different points in time or over different periods of time. In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form or a fixed fee or a fixed fee coupled with a continuing payment stream. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction. In such a case, the two transactions are dealt with together.

.12 ♦ *Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends shall be recognized when reasonable assurance exists regarding measurement and collectability. These revenues shall be recognized on the following bases:*

(a) interest: on a time proportion basis;

(b) royalties: as they accrue, in accordance with the terms of the relevant agreement; and

(c) dividends: when the shareholder's right to receive payment is established.

.13 Revenue from a transaction involving the sale of goods would be recognized when the seller has transferred to the buyer the significant risks and rewards of ownership of the goods sold. When the seller retains significant risks of ownership, it is normally inappropriate to recognize the transaction as a sale. Examples of a significant risk of ownership being retained by a seller are: when there is a liability for unsatisfactory performance not covered by normal warranty provisions; when the purchaser has the right to rescind the transaction; and when the goods are shipped on consignment.

.14 Assessing when the risks and rewards of ownership are transferred to the buyer with sufficient certainty requires an examination of the circumstances of the transaction. In most cases, revenue is recognized on passing of possession of the goods. In retail sales, this is usually coincident with the passing of legal title. In other cases, the passing of legal title may occur at a different time from the passing of possession or of the risks and rewards of ownership.

.15 The following considerations are relevant in deciding whether significant risks and rewards of ownership have been transferred to the buyer:

(a) whether any significant acts of performance remain to be completed; and

(b) whether the seller retains any continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership.

.16 Revenue from service transactions and long-term contracts is usually recognized as the

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service or contract activity is performed, using either the percentage of completion method or the completed contract method.

.17 The percentage of completion method is used when performance consists of the execution of more than one act, and revenue would be recognized proportionately by reference to the performance of each act. Revenue recognized under this method would be determined on a rational and consistent basis such as on the basis of sales value, associated costs, extent of progress, or number of acts. For practical purposes, when services are provided by an indeterminate number of acts over a specific period of time, revenue would be recognized on a straight line basis over the period unless there is evidence that some other method better reflects the pattern of performance. The amount of work accomplished would be assessed by reference to measures of performance that are reasonably determinable and relate as directly as possible to the activities critical to the completion of the contract. (Measures of performance include output measures, such as units produced and project milestones, or input measures, such as labour hours or machine use.) Amounts billed are not an appropriate basis of measurement unless they reflect the work accomplished.

.18 The completed contract method would only be appropriate when performance consists of the execution of a single act or when the enterprise cannot reasonably estimate the extent of progress toward completion.

Effect of uncertainties

.19 Recognition of revenue requires that the revenue is measurable and that ultimate collection is reasonably assured. When there is reasonable assurance of ultimate collection, revenue is recognized even though cash receipts are deferred. When there is uncertainty as to ultimate collection, it may be appropriate to recognize revenue only as cash is received.

.20 When the uncertainty relates to collectability and arises subsequent to the time revenue was recognized, a separate provision to reflect the uncertainty would be made. The amount of revenue originally recorded would not be adjusted.

.21 Uncertainties relating to the measurement of revenue may result from one or both of the following issues:

(a) Consideration
When consideration is not determinable within reasonable limits; for example, when payment relating to goods sold depends on the resale of the goods by the buyer, revenue would not be recognized.

(b) Returns
Revenue would not be recognized when an enterprise is subject to significant and unpredictable amounts of goods being returned; for example, when the market for a returnable good is untested. If an enterprise is exposed to significant and predictable

amounts of goods being returned, it may be sufficient to provide therefor.

.22 Consideration may include a note or other financial instrument issued by the purchaser to be settled in cash and under the terms of the note the seller has recourse effectively only against the assets sold. The transaction is considered to be a sale because the total amount of the consideration received is determinable within reasonable limits (see paragraph 3400.21). However, income from the sale is only recognized when:

(a) there is a substantial commitment by the purchaser demonstrating its intent to honour its obligations under the note; and

(b) the seller has reasonable assurance of collecting the note.

A commitment would include, for example, non-refundable cash consideration from resources other than those transferred from the seller, or the assumption of an obligation of the seller to a third party when the third party thereby releases the seller from that obligation.

Reporting revenue gross or net

.23 Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes and goods and services taxes are not economic benefits that flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue. Similarly, in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal that do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.

.24 An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:

(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order (for example, by being responsible for the acceptability of the products or services ordered or purchased by the customer);

(b) the entity has inventory risk before or after the customer order, during shipping or on return;

(c) the entity has latitude in establishing prices, either directly or indirectly (for example, by providing additional goods or services); and

(d) the entity bears the customer's credit risk for the amount receivable from the customer.

One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of

the amount billed to the customer.

Payments by a vendor to a customer

.25 Cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services and, therefore, is not normally recognized as revenue by the customer. However, if the consideration is a payment for assets or services delivered to the vendor, the customer recognizes the consideration as revenue and if the consideration is a reimbursement of costs incurred by the customer to sell the vendor's products, the customer recognizes the consideration as a reduction of that cost.

.26 Cash consideration represents a payment for assets or services delivered to the vendor if the vendor receives, or will receive, an identifiable benefit in exchange for the consideration. In order to meet this condition, the identified benefit must be sufficiently separable from the customer's purchase of the vendor's products such that the customer would have entered into an exchange transaction with a party other than the vendor in order to provide that benefit, and the customer can reasonably estimate the fair value of the benefit provided. If the amount of cash consideration paid by the vendor exceeds the estimated fair value of the benefit received, that excess amount is recognized as a reduction of cost of sales and related inventory.

.27 Cash consideration represents a reimbursement of costs incurred by the customer to sell the vendor's products if the cash consideration represents a reimbursement of a specific, incremental, identifiable cost incurred by the customer in selling the vendor's products or services. If the amount of cash consideration paid by the vendor exceeds the cost being reimbursed, that excess amount is recognized in the customer's income statement as a reduction of cost of sales.

.28 Cash consideration given by a vendor to a customer is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, is normally recognized by the vendor as a reduction of revenue. However, the vendor recognizes the consideration paid as a cost incurred if, and to the extent that, both of the following conditions are met:

(a) The vendor receives, or will receive, an identifiable benefit (products or services) in exchange for the consideration. The identified benefit must be sufficiently separable from the recipient's purchase of the vendor's products that the vendor could have entered into an exchange transaction with a party other than the purchaser of its products or services in order to receive this benefit.

(b) The vendor can reasonably estimate the fair value of the benefit identified under condition (a). (If the amount of consideration paid by the vendor exceeds the estimated fair value of the benefit received, that excess amount is recognized as a reduction in revenue.)

PRESENTATION

.29 ♦ *The amount of revenue recognized during the period shall be presented separately in the income statement.*

.30 The amount of revenue generated by an enterprise during the period is an important indicator of the level of the enterprise's activity. This information assists the users of financial statements in assessing the enterprise's performance.

DISCLOSURE

.31 ♦ *An enterprise shall disclose its revenue recognition policy. If an enterprise has different policies for different types of revenue transactions, including non-monetary (barter) sales, the policy for each material type of transaction shall be disclosed. If sales transactions have multiple elements, such as a product and service, the enterprise shall clearly state the accounting policy for each element as well as how multiple elements are determined and valued.*

.32 If sales transactions have multiple elements, the policy may contain items such as a description and nature of such an arrangement, including performance, cancellation, termination or refund-type provisions.

.33 ♦ *An enterprise shall disclose separately, either on the face of the income statement or in the notes to the financial statements, the major categories of revenue recognized during the period.*

.34 The objective of this disclosure is to assist the reader in understanding the sources of revenue and their effect on the financial statements.

.35 Judgment is necessary to determine the categories that an entity uses. An entity may separate out sources based on life expectancy (for example, initial and ongoing franchise fees), and significantly differing profit margins or sources that differ from the standard operation of the business (for example, a manufacturing business that has material investment income).

EFFECTIVE DATE

.36 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

Michel Hamelin, CPA, CA, CA•IFA, CBV
Partner, Financial and Organizational Services, Litigation & Forensic Accounting and Business Valuation
DEMERS BEAULNE, LLP

Michel Hamelin is the lead partner in the Financial and Organizational Services (FOS) and is member of the executive committee of Demers Beaulne. He is the partner responsible for the Litigation & Forensic Accounting and Business Valuation group and has focused his practice in these areas since 1996.

Michel has worked on litigation mandates in both appraisal and counter-valuation in the following areas: breach of contracts, shareholders disputes, post-acquisition disagreements, family disputes, extra contractual responsibilities and insurance claims. He has also conducted financial investigations in the areas of accounting fraud, financial fraud and banking fraud.

In the course of his litigation and forensic accounting engagements, he has performed numerous financial damages quantification and business valuations, reviewed work by the opposing party's expert, and taken part in mediations, arbitrations, court cases and negotiations of out-of-court settlements. As well, he has testified as an expert witness in court and acted as an arbitrator.

Michel has led several financial investigations during which he determined the camouflage tactics used by the fraudulent party to conceal his actions, confronted and questioned the fraudster, regularised accounting records of the defrauded company and, finally, quantified the amount of the fraud.

His engagements carried out in transactional contexts consisted essentially to determine the value of companies and the analysis of investment projects for start-up companies, corporate reorganizations, mergers, acquisitions and others. He has also actively participated in several mandates that aimed to deliver fairness opinions related to financial transactions.

Michel realized mandates to determine the value of shares, assets, trademarks, intellectual properties and other intangibles of private and public companies for accounting purposes (purchase price allocation, goodwill impairment).

Michel has served a broad range of clients in the following industries: retail, automotive, pulp and paper, metal, high technology, telecommunications, alcoholic beverages, agri-food, printing, financial services, professional services, recreation and leisure, education, health, Indian Affairs and cinematography, among others.

He has been a lecturer at HEC Montréal, since 1994, and at Rotman School of Management of University of Toronto, from 2001 to 2004. At HEC Montréal, he taught litigation & forensic accounting (loss quantification and financial investigations), finance and business valuations. In addition, he has taught the following courses several times: cost accounting, internal control and management accounting. He has also been invited by HEC Montréal on numerous occasions as an industry specialist in the preparatory courses for the Uniform Final Examination of Chartered Accountants.

Diplomas

- Bachelor of Business Administration from HEC Montréal, 1991

Professional Affiliations

- Member of the Institute of Professional Chartered Accountants of Québec (CPA, CA)
- Member of The Alliance for Excellence in Investigative and Forensic Accounting, CICA (CA•IFA)
- Member of The Canadian Institute of Chartered Business Valuators (CBV)

N° 500-11-042345-120

COUR **SUPÉRIEURE**
(Chambre commerciale)

DISTRICT **DE MONTRÉAL**

Dans l'affaire du plan d'arrangement de::

AVEOS FLEET PERFORMANCE INC./
AVEOS PERFORMANCE AÉRONAUTIQUE INC.
et
AERO TECHNICAL US, INC.

Débitrices/Requérantes

AVEOS FLEET PERFORMANCE INC./
AVEOS PERFORMANCE AÉRONAUTIQUE INC.

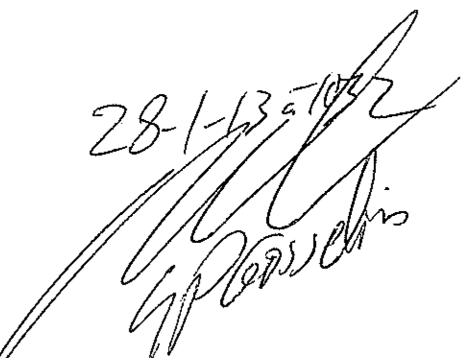
Débitrices/Demanderesses

c.
CANADIAN NORTH INC.

Intimée/Demanderesse incidente

et
FTI CONSULTING CANADA INC.

Mis-en-cause/Contrôleur



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COURT **SUPERIOR**
(Commercial Division)

DISTRICT **OF MONTRÉAL**

In the matter of the proposed plan of compromise and arrangement of:

AVEOS FLEET PERFORMANCE INC./
AVEOS PERFORMANCE AÉRONAUTIQUE INC.
and
AERO TECHNICAL US, INC.

Insolvent Debtors/Petitioners

AVEOS FLEET PERFORMANCE INC./
AVEOS PERFORMANCE AÉRONAUTIQUE INC.

Insolvent Debtor/Plaintiff

vs
CANADIAN NORTH INC.

Respondent/Cross-Plaintiff

and
FTI CONSULTING CANADA INC.

Mis-en-cause/Monitor

EXHIBIT D-18

REF.: ME STÉPHANE HÉBERT 144370-0003

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