

1. Purpose of Report

This is the third report of PricewaterhouseCoopers Inc. (“PWC”) as Judicial Trustee of the Trust Accounts of C3 Aventure Limitee / C3 Leisure Limited doing business as Canada 3000 Holidays (“Leisure”). The purpose of this report is to provide the Court with sufficient information to enable it to address the following directions sought by the Judicial Trustee:

- confirmation of the proposed Trust Administration Plan (the “Plan”) in order to permit distribution of funds held in the trust accounts (the “Accounts”);
- confirmation whether the funds on deposit in the Accounts being administered by the Judicial Trustee are, in fact, held in trust;
- confirmation as to the identity of the Beneficiaries of the Trust;
- confirmation whether the proceeds of recovery from certain assets, by the Judicial Trustee, are for the benefit of trust claimants or Leisure’s bankruptcy estate,

The Plan has been prepared by the Judicial Trustee in conjunction with legal counsel. The Judicial Trustee believes that the Plan represents the most practical and fair method of dealing with the various claims against the Accounts. Terms used in this report are as defined in the Plan.

2. Background

The following is a brief chronology of events:

- | | |
|-------------------|--|
| November 8, 2001 | Canada 3000 Airlines Ltd. (“Airlines”) grounds its planes. |
| November 9, 2001 | Leisure discontinues operations. Quebec regulator seizes Trust accounts of Vacances Air Pax Limitee (“Air Pax”). |
| November 16, 2001 | Leisure files an assignment in bankruptcy and PWC is appointed Trustee. |
| November 22, 2001 | B.C. Supreme Court appoints PWC as Judicial Trustee in respect of the Accounts. |
| December 5, 2001 | Ontario Superior Court of Justice appoints PWC as Judicial Trustee of Ontario Account. |
| December 18, 2001 | B.C. and Ontario Court Orders allow subrogation rights in favour of credit and charge card companies upon payment of claims of Ticket Holders. |

January 30, 2002 B.C. Court Order directing that PWC take no action with respect to Quebec trust account and that Quebec claimants be excluded from Ticket Holder Claims Process. For purposes of this report, it is assumed that Ticket Holders from Quebec and the Quebec regulator will be excluded from the Plan.

Leisure was subject to consumer protection legislation in the provinces of Quebec, Ontario and British Columbia. Each of these provinces' legislation contains some reference to "trust" accounts being maintained for the protection of the travelling public. No similar legislation is found in the other provinces in which Leisure operated. Leisure took steps to comply with the legislation, as set out in **Appendix A**.

The cash held by Leisure in the Accounts in respect of travel bookings with Leisure as at November 16, 2001 and the estimated liabilities of Leisure to the travelling public are as follows:

Province	Cash Held in Trust Accounts At November 16, 2001 \$	Estimated Passenger Claims for Incomplete Travel * \$ '000's	% of Estimated Claim in Cash
B.C.	15,428,801	13,394	117%
Other	0	16,657	0
Subtotal	15,428,801	30,051	51%
Ontario	8,679,695	12,436	70%
Subtotal	24,108,496	42,487	57%
Quebec**	2,022,672	2,673	76%
	<u>26,131,168</u>	<u>45,160</u>	<u>58%</u>

* Note: includes unearned revenue as per Leisure's records, estimated return segments and unearned commissions

** Note: the cash held in the trust account in Quebec was seized by the Quebec regulator on November 9, 2001 and is not in the possession or control of the Judicial Trustee.

Particulars of the Judicial Trustee’s estimates of claims by jurisdiction and form of payment are summarized in Table 1 on the opposite page. A detailed breakdown of the claims is attached as **Appendix B** to this report.

Excluding Quebec, the apparent shortage of cash in the Accounts as compared to estimated passenger claims is approximately \$18.4 million and arises primarily from the following payments from the B.C. Accounts:

	\$ million
Prepayment of \$12 million to Airlines for “non risk” flights (net of \$5.8 million payables to Airlines)	6.2
Prepayments to Airlines – “risk flights”	2.2
Hotel Prepayments and Deposits	4.7
Travel vouchers	0.7
Paid for November 9 and 10 charters to return passengers	1.1
Commissions paid to Travel Agents before departure	1.7
Profit taken in advance of return segments, other adjustments	<u>1.8</u>
	<u><u>\$18.4</u></u>

3. Determination of Trust

The Judicial Trustee requires direction from the Court on several issues with respect to confirmation of the Trust.

(a) Is the Trust Effective against the Trustee In Bankruptcy?

Section 7 of the British Columbia *Travel Agents Act* states: “money received from a traveller, tourist or sightseer by a travel agent or a travel wholesaler carrying on business in B.C. is deemed to be held in trust for the person who paid it.” The Judicial Trustee has received a legal opinion that this statutory trust is ineffective and that, unless the funds were maintained in a *de facto* trust, this property would revert to Leisure’s bankruptcy estate.

The Judicial Trustee believes that the manner in which Leisure handled the funds and earmarked the funds, both internally and externally, is sufficient to establish that these funds were maintained in a *de facto* trust.

Appendix C contains a summary of the facts that the Judicial Trustee has relied upon in arriving at this conclusion.

(b) How Many Trusts?

The Judicial Trustee has considered the following facts:

- all funds (with the relatively minor exception of cash payments within Quebec) were received by Leisure into the B.C. Accounts;
- payments for all travel services were made from the B.C. Accounts;
- periodic transfers of funds from the B.C. Accounts were made to the Ontario and Quebec Accounts in an effort to comply with provincial legislation;
- the adequacy of total trust funds on deposit and prepayments of travel services was consistently reconciled monthly (see **Appendix C, Exhibit C - 4**) to unearned revenue for all provinces;
- the total cash in trust and total travel prepayments consistently exceeded Leisure's estimate of unearned revenue (see **Appendix C, Exhibit C - 4**). The Judicial Trustee is advised that the reconciliation for October, 2001 (which incorrectly shows a deficiency of \$5.161 million) was the exception. The Judicial Trustee is further advised that a reconciliation was not completed that month and that there were prepaid air and hotel assets sufficient to cover the indicated shortfall.

Provincial legislation however, required that Leisure create separate trust accounts for operations in Quebec, Ontario and British Columbia. However, Leisure did not strictly adhere to the prescribed trust provisions in any of these provinces. For example:

- commissions were paid to travel agencies directly out of B.C. Accounts and not via the operating accounts;
- payments (including pre-payments) for travel services were neither paid from the Accounts separately nor was the prepayment allocated to each province on a consistent basis;
- monthly reconciliations of the Ontario trust position were inconsistently performed, particularly with regard to attempts to allocate prepaid travel services across provincial lines;
- the amounts transferred from the B.C. Accounts to the Ontario and Quebec Accounts appear to have been in pursuit of having "enough" to satisfy the legislative requirements, but were not made with any precision or predictable regularity;

- at the date of bankruptcy, Leisure was not registered as a travel wholesaler in Quebec. Air Pax was the registered tour operator in Quebec even though all Quebec bookings for departures after October 31, 2001 were made in the name of Leisure.

The Judicial Trustee recognizes that there are arguments in favour of each of the following conclusions:

- a single trust for all Ticket Holders;
- two trusts, with one trust fund for Ontario Ticket Holders only and one trust fund for B.C. Ticket Holders only; or
- two trusts, with one trust fund for Ontario Ticket Holders only and one trust fund for all other Ticket Holders.

The Judicial Trustee has developed the Plan which recognizes a compromise of these alternative conclusions. Essential elements of the plan are:

- Quebec Ticket Holders participate exclusively in the funds seized by the Quebec regulator and do not share in the Accounts or recoveries of Prepaid Assets;
- Ticket Holders in all provinces participate in the B.C. and Ontario Accounts. The amount distributed to Ontario Ticket Holders represents a compromise between the amounts that would be distributed if
 - non Quebec trust assets were considered one trust for all non Quebec Ticket Holders and
 - Ontario trust accounts were considered a separate trust, exclusively for Ontario Ticket Holders,
- All non Quebec Ticket Holders share in the recoveries of Prepaid Assets.

4. Beneficiaries and Claim Amounts

Leisure received payments for travel services in one of two ways:

- by direct payment from the traveller's credit card for deposit directly to Leisure's bank account. Leisure either then paid the agents' commissions by cheque or the travel agent withheld commissions on those sales from its next cash remittance to Leisure;

- by cheque from the travel agent. The travel agent typically withheld its commission ranging from 9% to 15% of the particular cash sales. Large agencies however, frequently withheld their commissions due on credit card sales as well.

(a) Who are the Beneficiaries?

Potential beneficiaries could be the traveller or the travel agent, depending on who paid Leisure. Alternatively, beneficiaries could be the traveller irrespective of whether the funds were received directly or indirectly.

In the Claims Process approved by the Court, the focus has been on the Ticket Holders and the identity of the party who initially paid for the travel services. The Judicial Trustee believes that this is consistent with the intent of the legislation discussed above and is also consistent with the intention evidenced by Leisure in terms of who was to benefit from the Trust.

The Judicial Trustee can presently identify (through data within Leisure’s computer ‘Logibro’ database) the relevant travel agent and net amounts received in all cases. Until data is received from Ticket Holders who paid cash or cheque for sales made on a “net” basis to the travel agent, the Judicial Trustee is not aware of the gross amount paid for travel services for those travellers. The Judicial Trustee is attempting to collect that information now through the Ticket Holder Claims Process.

(b) What is the amount of the Beneficiaries’ Claim?

(i) When did the Trust(s) fulfill their Obligations?

In many cases, Leisure had prepaid the travel arrangements on behalf of the customer. The customer had received the air tickets and vouchers necessary for their journey. There was nothing further that Leisure was required to do.

Further factual details relating to the prepayment of travel services are provided in **Appendix D** of this report, but are summarized below:

- Travellers dealt with travel agents to purchase their travel services in advance;
- Leisure dealt with the travel agents and sought to have bookings paid for 6 weeks in advance of departure;
- Leisure prepaid “non-risk” air services by way of a \$12 million prepayment to Airlines. This was intended to secure payment of past travel and cover two weeks future bookings;

- Leisure prepaid “risk” air services supplied by Airlines two weeks prior to departure;
- Leisure generally provided prepayments and/or deposits to hotels in advance of travellers arriving to the hotels. These arrangements varied widely by hotel;
- Leisure purchased tourist cards or visas in bulk for supplying to travellers;
- Leisure sought to provide travel agents with their customers’ tickets and travel vouchers a minimum of four weeks prior to departure. While shorter advance periods could be accommodated, travellers might be directed to pick up their documents at the airport;

Essentially, Leisure’s business practices were such that it would have prepaid travel services for travellers at least 2 weeks out. In addition, generally speaking, by reason of the ticketing process referred to above, customers travelling on or before November 22, 2001 would have been in possession of air tickets and other travel vouchers necessary for their trip.

We note that a review of the Logibro system revealed 149 instances of bookings for departures prior to November 23 that had not been recorded as having been ticketed.

The Judicial Trustee considered whether or not passengers who were to travel prior to November 23 should be excluded from distribution of the cash balances held in the Accounts.

The Judicial Trustee does not recommend this group of Ticket Holders be excluded as there are too many individual exceptions to the general pattern of prepayments and Ticket Holders would not perceive the result as equitable. Arguably, such a result would be contrary to the purpose for which the Accounts were established – to protect Ticket Holders for travel services they did not receive.

(ii) Commissions - Gross or Net

In accordance with industry practice (but apparently contrary to regulations in B.C., Ontario and Quebec) travel agents were entitled to their commission at the time the booking was paid in full by the traveller. The Judicial Trustee estimates \$1.8 million (excluding Quebec, \$1.7 million) of commissions were paid to travel agents prior to departure.

Particulars of how travel agents withheld their commissions (and margins) or were paid their commissions are provided in **Appendix D, Section (E)**.

It is another industry practice that travel agents refund commissions where the travel is not completed. The commissions paid back in these circumstances are known as “Recall Commissions”. In accordance with this practice, the Judicial Trustee is recalling these commissions without any provision for set-off by travel agents on other accounts that may be due to them by Leisure.

Within the Plan, the Judicial Trustee is proposing that Ticket Holders’ claims be recognized on a ‘gross’ basis. This will produce a ‘seamless’ process for Ticket Holders and is not prejudicial to any class of beneficiary.

(iii) Calculation of Claim where Partial Services Provided

In this report, the Judicial Trustee has valued the claims of Ticket Holders who received all travel services except the return air travel, by reference either to the specific amount paid for that travel or one half of the retail value of the return airfare.

5. Possible Assets of the Trust(s)

PWC holds the dual capacities of Judicial Trustee and Trustee in Bankruptcy of Leisure. As assets and potential recoveries are identified, there is a question as to whether these recoveries should be considered assets of the Trust(s) or property of the Estate.

Our recommendations are:

- Those assets that were derived from, or paid by, a Trust, ought to be restored to the Trust and not form part of the bankruptcy Estate. In this fashion, recoveries of prepaid travel services (“Prepaid Assets”) would be available to Ticket Holders in accordance with the proposed Plan.
- Those assets that were not derived from or paid by the Trust ought to be property of the Estate. Such assets include cash in operating accounts at the date of bankruptcy, proceeds from sale of furniture and equipment, tax refunds, cash collateral in support of letters of credit and collection of accounts receivable for completed travel.

Particulars of assets we believe may revert to the Trust(s) or the bankruptcy Estate are discussed in **Appendix D**.

6. Legal Analysis

The Judicial Trustee's legal counsel prepared an analysis of the legal issues relevant to the Trust funds and assets herein. That analysis will be submitted to the Court in a separate document.

7. Conclusions and Recommendation

The resolution of these issues could be subject to lengthy and costly litigation which may unduly prolong the administration and reduce the distribution to beneficiaries.

The Judicial Trustee recommends the resolution of these issues be achieved by the Court approval of the Plan, either as submitted by the Judicial Trustee or as amended by the Court.

In the opinion of the Judicial Trustee, the Plan represents the most practical, fair and cost effective method of dealing with the various claims against the Accounts.

It has been developed as a result of extensive financial analyses by the Judicial Trustee and detailed legal review of the various issues relating to the Accounts.

Appendix A

Provincial Legislation

The Provinces of Ontario, Quebec and British Columbia have enacted travel industry legislation that required travel wholesalers or tour operators conducting business in the respective provinces to establish trust accounts for the receipt of all monies from travel agents selling product on their behalf.

British Columbia and Ontario

Leisure was registered as a Wholesaler in British Columbia and Ontario. Copies of the relevant registration certificates are attached as **Exhibit A - 1**.

Quebec

Leisure was not registered in the Province of Quebec. It was intended that Leisure be registered in Quebec after the expiration of the registration of Air Pax Inc. (“Air Pax”) (a wholesale operator doing business in Quebec and sister company of Leisure) on November 30, 2001.

Circumstances regarding Air Pax’s and Leisure’s operation in Quebec are as follows:

- Air Pax was the licensed tour operator in Quebec. It’s license was due to expire on November 30, 2001;
- Canada 3000 Group management decided to convert all Air Pax operations to Leisure although Leisure was not, at that time, registered as a tour operator in Quebec. Effective August 28, 2001, all bookings for November 1, 2001 and later departure dates, were booked with Leisure and incorporated within the Logibro system (Leisure’s computer system);
- On October 3, 2001, solicitors for Air Pax and Leisure wrote to the Office de la Protection du Consommateur (the “OPC”) advising of the intention to allow the license of Air Pax to expire on November 30, 2001 and have a new license issued to Leisure on December 1, 2001. The application for Leisure’s licence was forwarded on November 6, 2001. Copies of correspondence to the Quebec regulator announcing these intentions are attached as **Exhibit A - 2**;
- At November 9, 2001, the Air Pax trust account with Bank of Montreal had not yet been converted to the name of Leisure although all required paperwork had reportedly been executed and transmitted to the Bank;
- On or about November 9, 2001 the OPC, by its agent, seized the balance of the Air Pax trust account (balance of approximately \$2 million). Most of the funds within that account had been advanced from Leisure’s trust account in B.C. in late October, 2001;

SUMMARY

PRE November 23rd Departures (Carveout)		British Columbia	Ontario	Quebec	Others	TOTAL	TOTAL (not including Quebec)
	# Claims	Amount	Amount	Amount	Amount	Amount	Amount
Visa	9,408	\$ 3,258,851	\$ 2,697,538	\$ 671,076	\$ 2,542,897	\$ 9,170,362	\$ 8,499,286
Mastercard	3,795	\$ 1,238,287	\$ 1,002,843	\$ 328,203	\$ 957,725	\$ 3,527,058	\$ 3,198,855
American Express	1,336	\$ 326,986	\$ 420,400	\$ 50,603	\$ 289,784	\$ 1,087,773	\$ 1,037,170
Diners Club	150	\$ 38,775	\$ 47,109	\$ 14,952	\$ 55,747	\$ 156,584	\$ 141,631
SubTotal	14,689	\$ 4,862,899	\$ 4,167,890	\$ 1,064,834	\$ 3,846,153	\$ 13,941,777	\$ 12,876,943
CASH	1,268	\$ 823,197	\$ 719,585	\$ 176,436	\$ 740,179	\$ 2,459,398	\$ 2,282,962
TOTAL	15,957	\$ 5,686,097	\$ 4,887,476	\$ 1,241,270	\$ 4,586,332	\$ 16,401,175	\$ 15,159,904

POST November 22rd Departures		British Columbia	Ontario	Quebec	Others	TOTAL	TOTAL (not including Quebec)
		Amount	Amount	Amount	Amount	Amount	Amount
Visa	14,888	\$ 4,620,247	\$ 4,041,597	\$ 828,274	\$ 6,693,294	\$ 16,183,411	\$ 15,355,138
Mastercard	5,871	\$ 1,516,283	\$ 1,620,363	\$ 309,376	\$ 2,542,556	\$ 5,988,579	\$ 5,679,203
American Express	1,574	\$ 343,962	\$ 667,683	\$ 58,984	\$ 985,489	\$ 2,056,117	\$ 1,997,133
Diners Club	362	\$ 75,795	\$ 105,266	\$ 17,062	\$ 140,225	\$ 338,348	\$ 321,286

SubTotal	22,695	\$ 6,556,287	\$ 6,434,909	\$ 1,213,696	\$ 10,361,564	\$ 24,566,455	\$ 23,352,759
CASH	4,530	\$ 1,152,218	\$ 1,113,220	\$ 218,105	\$ 1,708,859	\$ 4,192,401	\$ 3,974,297
TOTAL	27,225	\$ 7,708,504	\$ 7,548,129	\$ 1,431,800	\$ 12,070,423	\$ 28,758,856	\$ 27,327,056

TOTAL Credit Cards	37,384	\$ 11,419,186	\$ 10,602,799	\$ 2,278,530	\$ 14,207,717	\$ 38,508,232	\$ 36,229,702
TOTAL including CASH	43,182	\$ 13,394,601	\$ 12,435,605	\$ 2,673,071	\$ 16,656,755	\$ 45,160,031	\$ 42,486,960

**Cash and Commission figures by province are estimates

VISA

Up to + including Nov 22		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA MISC
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 365,922.47	\$ 127,235.52	\$ 131,785.59	\$ 13,070.36	\$ 32,325.31	\$ 59,651.69		\$1,854.00		
Quebec Bookings	\$ 671,075.50						\$ 671,075.50			
Claims for Unused Services Refund	\$ 8,133,363.98	\$ 3,131,615.67	\$ 1,912,339.33	\$ 82,649.88	\$ 229,096.24	\$ 2,637,886.10		#####	\$ 14,380.16	73494.96
TOTALS	\$ 9,170,361.95	\$ 3,258,851.19	\$ 2,044,124.92	\$ 95,720.24	\$ 261,421.55	\$ 2,697,537.79	\$ 671,075.50	#####	\$ 14,380.16	#####

Nov 23 + onwards		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 161,925.94	\$ 37,125.56	\$ 82,548.24	\$ 2,752.70	\$ 2,820.74	\$ 33,128.80		\$ 301.90		\$3,248.00
Quebec Bookings	\$ 828,273.68						\$ 828,273.68			
Claims for Unused Services Refund	\$ 15,193,211.72	\$ 4,583,121.54	\$ 4,848,121.21	\$ 326,662.43	\$ 1,073,580.96	\$ 4,008,467.95		#####	\$ 78,940.89	#####
TOTALS	\$ 16,183,411.34	\$ 4,620,247.10	\$ 4,930,669.45	\$ 329,415.13	\$ 1,076,401.70	\$ 4,041,596.75	\$ 828,273.68	#####	\$ 78,940.89	#####
GRAND TOTAL	\$ 25,353,773.29	\$ 7,879,098.29	\$ 6,974,794.37	\$ 425,135.37	\$ 1,337,823.25	\$ 6,739,134.54	\$ 1,499,349.18	#####	\$ 93,321.05	#####

MASTERCARD

Up to + including Nov 22		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA MISC
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 135,850.93	\$ 59,423.51	\$ 35,886.00	\$ 5,237.10	\$ 8,989.70	\$ 22,583.22			\$ 3,731.40	
Quebec Bookings	\$ 328,203.25						\$ 328,203.25			

Claims for Unused Services Refund	\$ 3,063,003.77	\$ 1,178,863.48	\$ 755,542.47	\$ 52,838.71	\$ 75,888.73	\$ 980,259.76		\$8,368.40	\$ 4,166.72	\$7,075.50
TOTALS	\$ 3,527,057.95	\$ 1,238,286.99	\$ 791,428.47	\$ 58,075.81	\$ 84,878.43	\$ 1,002,842.98	\$ 328,203.25	\$8,368.40	\$ 7,898.12	\$7,075.50

Nov 23 + onwards		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 29,940.65	\$ 7,123.32	\$ 17,284.23	\$ 400.00	\$ 2,556.68	\$ 1,784.42				\$ 792.00
Total Quebec	\$ 309,376.44						\$ 309,376.44			
Total Claims for Unused Services Refund	\$ 5,649,261.98	\$ 1,509,159.95	\$ 1,751,407.02	\$ 172,777.28	\$ 469,991.13	\$ 1,618,578.58		#####	\$ 19,631.22	#####
TOTALS	\$ 5,988,579.07	\$ 1,516,283.27	\$ 1,768,691.25	\$ 173,177.28	\$ 472,547.81	\$ 1,620,363.00	\$ 309,376.44	#####	\$ 19,631.22	#####
GRAND TOTAL	\$ 9,515,637.02	\$ 2,754,570.26	\$ 2,560,119.72	\$ 231,253.09	\$ 557,426.24	\$ 2,623,205.98	\$ 637,579.69	#####	\$ 27,529.34	#####

AMEX

Up to + including Nov 22		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA MISC
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 64,768.27	\$ 20,746.68	\$ 18,477.08	\$ 7,449.36	\$ 2,890.10	\$ 14,113.65				1091.4
Quebec Bookings	\$ 50,603.09						\$ 50,603.09			
Claims for Unused Services Refund	\$ 972,402.00	\$ 306,239.16	\$ 228,456.16	\$ 6,806.78	\$ 17,561.21	\$ 406,286.83		\$2,839.68		4212.18
TOTALS	\$ 1,087,773.36	\$ 326,985.84	\$ 246,933.24	\$ 14,256.14	\$ 20,451.31	\$ 420,400.48	\$ 50,603.09	\$2,839.68	\$ -	\$5,303.58

Nov 23 + onwards		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 19,193.23	\$ 8,582.56	\$ 1,600.00		\$ 720.52	\$ 6,808.75				\$1,481.40
Quebec Bookings	\$ 58,983.88						\$ 58,983.88			
Claims for Unused Services Refund	\$ 1,977,939.63	\$ 335,378.95	\$ 732,762.28	\$ 37,763.14	\$ 132,341.02	\$ 660,873.89		\$9,945.80	\$ 17,072.70	#####
TOTALS	\$ 2,056,116.74	\$ 343,961.51	\$ 734,362.28	\$ 37,763.14	\$ 133,061.54	\$ 667,682.64	\$ 58,983.88	\$9,945.80	\$ 17,072.70	#####
GRAND TOTAL	\$ 3,143,890.10	\$ 670,947.35	\$ 981,295.52	\$ 52,019.28	\$ 153,512.85	\$ 1,088,083.12	\$ 109,586.97	#####	\$ 17,072.70	#####

DINERS

Up to + including Nov 22		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA MISC
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 2,991.05		\$ 441.88			\$ 2,549.17				
Quebec Bookings	\$ 14,952.40						\$ 14,952.40			
Claims for Unused Services Refund	\$ 138,640.32	\$ 38,775.46	\$ 49,700.26	\$ 1,062.56	\$ 335.98	\$ 44,559.91		\$2,603.15	\$ 1,603.00	
TOTALS	\$ 156,583.77	\$ 38,775.46	\$ 50,142.14	\$ 1,062.56	\$ 335.98	\$ 47,109.08	\$ 14,952.40	\$2,603.15	\$ 1,603.00	\$ -

Nov 23 + onwards		British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	Maritimes	USA
	Amount	Amount	Amount	Amount	Amount	Amount		Amount	Amount	Amount
Claims for Cancellation Refunds	\$ 600.00		\$ 600.00							
Total Quebec	\$ 17,061.74						\$ 17,061.74			
Total Claims for Unused Services Refund	\$ 320,686.28	\$ 75,795.02	\$ 110,569.07	\$ 7,027.82	\$ 12,829.57	\$ 105,266.26		\$6,492.14	\$ 2,306.40	\$ 400.00
TOTALS	\$ 338,348.02	\$ 75,795.02	\$ 111,169.07	\$ 7,027.82	\$ 12,829.57	\$ 105,266.26	\$ 17,061.74	\$6,492.14	\$ 2,306.40	\$ 400.00
GRAND TOTAL	\$ 494,931.79	\$ 114,570.48	\$ 161,311.21	\$ 8,090.38	\$ 13,165.55	\$ 152,375.34	\$ 32,014.14	\$9,095.29	\$ 3,909.40	\$ 400.00

Appendix C

Trust Funds

Bank Accounts and Financial Statements

In order to “comply” with the requirements of the B.C. and Ontario travel industry legislation, Leisure established and maintained the following bank accounts, which Leisure referred to as “Trust Accounts” in the general ledger:

Financial Institution	Type of Accounts as Defined by Leisure	Name of the Account per Bank Statements	Account No.	Currency	November 16, 2001 Account Balance \$
RBC – Vancouver BC	Trust	C3 Leisure Limited	108-029-0	CDN	15,401,364
RBC – Vancouver BC	Trust	C3 Leisure Limited Trust Account	401-743-9	US	1,751
RBC – Toronto ON	Trust	C3 Leisure Limited ONT Travel Industry Acct	120-298-5	CDN	8,664,492

Copies of bank statements that confirm the names on the accounts are attached as **Exhibit C - 1**. In addition, copies of correspondence from RBC identifying and classifying Leisure’s accounts into trust, general and other are also attached.

While account 108-029-0 is not identified as a Trust account on the face of the bank statement, its predecessor account (101-071-9) was so identified. The predecessor account was closed due to fraudulent cheques being processed on the account. The omission of the term “trust” from the name of 108-029-0 appears to be due to inadvertence.

Further, we note that all cheque stock identifies the trust accounts as “trust” accounts.

Leisure's external financial statements and notes thereto specifically identify the balance of funds on deposit that are held in trust for the benefit of customers, the amount of customer obligations in respect of those trust funds, and the value of any surplus. In addition, Leisure's internal financial statements specifically identify the balance of funds on deposit that are held in trust for the benefit of customers.

Attached are copies of Leisure is audited April 30, 2001 financial statements, and its internal September 30, 2001 financial statements as **Exhibits C- 2 and C - 3** respectively.

Flow of Funds within Leisure

Regardless of the payment method used by customers (cash or credit), the type of sale (at-risk, non-risk), or the location of the customers/travel agents within Canada (with the exception of travel agents in Quebec), **all sales proceeds paid to Leisure were originally deposited into Leisure's B.C. \$CDN Trust Account with Royal Bank of Canada ("RBC")**.

Within Quebec, all charge card payments were received into this account and cash payments from travel agents were deposited to the Bank of Montreal ("BoM") trust account.

Leisure made disbursements from the B.C. \$CDN Trust Account in respect of the following:

- i. Disbursements of surplus funds in trust (net operating profit), to its B.C. \$CDN General Account with RBC (account #101-070-1), determined from a monthly calculation (documented) of Leisure's total unearned revenue liability (for all customers) and compared to its trust balance position plus prepaids / deposits (for all customers). If a net positive balance of excess funds in trust (for all trust accounts) existed, funds were transferred as required from the B.C. \$CDN Trust Account into the B.C. \$CDN General Account.

Leisure calculated its unearned revenue liability based upon departure dates of bookings. Thus, Leisure recognized its profit even though return legs of travel had not been completed. A copy of the overall trust reconciliations prepared by Leisure at the end of each month, in the current year, is attached as **Exhibit C - 4**.

- ii. Transfers to its Ontario \$CDN Trust Account with RBC and the (Air Pax) Quebec \$CDN Trust Account with BoM.

Instead of depositing sales proceeds received from Ontario and Quebec travel agents into its separate Ontario and Quebec \$CDN Trust Accounts, and then making the corresponding travel service payments out of each account, Leisure maintained a balance in its Ontario and Quebec \$CDN Trust Account that approximated its estimated net liability for the respective customers in those provinces (e.g. unearned revenue balance for customers booking through an Ontario travel agent less amounts that have been paid to service providers on behalf of these Ontario passengers). The amounts on deposit in these accounts were adjusted from time to time, based on changes in the net liability balance, by transfers to and from the B.C. \$CDN Trust Account (we noted five changes to the principal amount maintained in the Ontario account over the last seven months).

- iii. All payments to suppliers (airlines, hotels, etc.) for direct travel services purchased were made from B.C. \$CDN Trust Account, including payments to Airlines.
- iv. Prepayments to Airlines in respect of Leisure's ITC (at-risk) and Air Only (non-risk) business were made from the B.C. \$CDN Trust Account. Leisure's records indicate that as at November 9, 2001 Airlines was holding a \$12 million prepayment and a \$2.2 million prepayment in respect of its Air-Only (non-risk) and ITC (at-risk) sales respectively.
- v. In order to secure inventory, Leisure was required to provide various service providers (ex. hotels) with deposit amounts and, in some instances, guarantees of room bookings for certain periods. As at November 9, 2001 these deposit amounts, which were funded from the B.C. \$CDN Trust Account, approximated \$2.8 million.
- vi. In order to take advantage of early payment discounts offered by various service providers (i.e. hotels), Leisure often prepaid the cost of the bookings made in respect of ITC (at-risk) services purchased. As at November 9, 2001 these amounts, which were funded from the B.C. \$CDN Trust Account, approximated \$2.4 million.
- vii. Leisure made bulk purchases of tourist visa cards from Cuba and Dominican Republic, which were funded from the B.C. \$CDN Trust Account.
- viii. Direct travel agency commissions for all customers that paid by credit card (Leisure's merchant number was used by the travel agents and therefore Leisure initially received 100% of the gross proceeds in its account), were funded from the B.C. \$CDN Trust Account,.

As discussed above, Leisure transferred its net operating profit from its B.C. \$CDN Trust Account into its B.C. \$CDN General Account. These funds were

then used to pay Leisure's non-direct travel costs including payroll, rent, overhead, general and administrative expenses, capital expenditures, etc.

Based on a review of disbursements from the B.C. Trust Accounts and the B.C. Operating Account for the test months of May and September, 2001:

- we did not identify any instances of non-direct travel costs being paid out of the trust accounts (except commissions to travel agents)
- we did not identify any instances of direct travel costs being paid from the operating account.

Communications by Leisure with respect to Handling of Funds

We have not found any evidence of communication by Leisure to passengers or travel agents indicating that it was receiving funds into "Trust". In making this statement, we have reviewed sales brochures, invoices, and travel itineraries prepared by Leisure and distributed to passengers and travel agents. We have also reviewed some of Leisure's advertisements.

In our limited review of cheques received from travel agents, we have not identified any examples of payments to Leisure being marked "In Trust".

Within Leisure all references to funds received from passengers and travel agents identify them as "trust" funds.

Particulars of Assets which May be Assets of the Trust(s)

(A) \$12 million Prepayment to Airlines

Background

Leisure’s business was classified as either ITC (at-risk), where Leisure purchased the product in its name and therefore assumed the inventory risk, or Air Only (non-risk) where Leisure acted as a broker between the customer and the service provider and therefore did not assume any inventory risk. For Air Only (non-risk), charter and scheduled services, Airlines generally received payment from Leisure seven to ten days following completion of each departure or return flight segment. However, to offset the credit risk, Airlines required that Leisure (along with other tour operators) provide a prepayment (the “Air Only Non-Risk Prepayment”) that represented approximately 3 ½ weeks of sales (1 1/2 week of completed flights and two weeks of future flying). These payments were referred to, within Leisure, alternatively as prepayments or deposits.

The amount of the Air Only Non-Risk Prepayment required by Airlines would vary significantly based on the time of year (season) and the sufficiency of the prepayment was reviewed periodically by Leisure and Airlines. The amount of the prepayment and the changes to the prepayment were not formally documented within Leisure but the basis of review has been confirmed by Ms. Aletta Slater, former CFO of Leisure, together with some e-mail evidence.

We have set out below, based on Leisure’s records, the month end balance of the Air Only Non-Risk Prepayment paid to Airlines. We note that at the time Airline’s discontinued operations, the amount of the Air Only Non-Risk Prepayment was \$12 million:

Date	C3L Prepayment Due From C3A
	\$
January 31, 2001	9,000,000
February 28, 2001	9,000,000
March 31, 2001	9,000,000
April 30, 2001	7,000,000
May 31, 2001	9,000,000
June 30, 2001	10,500,000
July 31, 2001	12,000,000
August 31, 2001	12,000,000
September 30, 2001	12,000,000
October 31, 2001	12,000,000

Factual Considerations

Based on discussions with Leisure management and our tests of May and September 2001 disbursements, all payments from Leisure to Airlines in respect of the Air Only Non-Risk Prepayment were made from the Company's B.C. \$CDN Trust Account with RBC.

These payments were not separately made, but instead were included in one of the weekly cheques to Airlines for earned Air Only (non-risk) amounts. Based on a very limited review of a small number of Air Only Non-Risk Prepayment payments as set out in Leisure's 2001 general ledger (to confirm what payments were made in Airlines), copies of the supporting documentation for each cheque issued (to confirm that part of the total payment related to the Prepayment), and Leisure's bank statements/cancelled cheques (to confirm the actual payment), we have confirmed Leisure's management's assertion in this regard.

Some, but not all of these cheques were made payable to "Canada 3000 Airlines In Trust".

Airlines did not deposit these funds into a Trust account, rather they were deposited into its operating accounts.

When a reduction in the amount of the Air Only Non-Risk Prepayment was agreed to between Leisure and Airlines, Leisure would net the amount off one of its weekly payments to Airlines for earned Air Only (non-risk) amounts, as opposed to Airlines actually forwarding a payment.

As set out above (based on normal payment periods, cut-offs, etc.) the Air Only (non-risk) Prepayment paid by Leisure to Airlines was in respect of approximately 3 ½ weeks of sales, with the amount of the prepayment varying occasionally, but significantly, throughout the year based on the volume of business:

- the block of 1 ½ weeks of completed Air Only (non-risk) charter and schedule flights,
- the block of 2 weeks of future Air Only (non-risk) charter and schedule flights

However, given the problems being experienced by Airlines just prior to discontinuing operations, Leisure put a hold on funds being paid to Airlines. As a consequence, as at November 9, 2001, Leisure was indebted to Airlines for more than the standard 1½ weeks of completed Air Only (non-risk) charter and schedule flights.

At November 16, 2001, Leisure had a liability to Airlines of \$5.8 million for past non-risk flights, including taxes. After setting this amount off against the \$12 million prepayment, there remains a net receivable due to Leisure by Airlines for non-risk flights of \$6.2 million.

Leisure issued air tickets for travel on Airlines (apparently as agent of Airlines) to travellers well in advance of departure. Of bookings for departures in the period November 9 to 23, all but 149 tickets were produced. We also note that tickets produced on November 7 and 8 were not delivered to agents or passengers. While some of these tickets may have pertained to departures for November 9 to 23, we speculate that number would be very small.

Conclusion

Our review indicates that the prepayment provided by Leisure was more in respect of a general credit risk for a block of business, as opposed to a deposit in respect of specific identified passengers. In addition, the relationship between the prepayment amount and the block of business it was intended to represent becomes even less clear given that Leisure has put a freeze on payments to Airlines, and therefore the prepayment was now covering in excess of 1 1/2 weeks of completed Air Only (non-risk) flights. On this basis we cannot accurately trace the Air Only (non-risk) Prepayment amounts to individual passengers.

If the \$6.2 million balance is not recoverable from Airlines, this loss will be the single largest factor for the deficiency in the Trust(s) to meet the obligations of the Trust claimants.

We cannot yet provide an accurate estimate of recovery from this receivable.

Bond Claim

The Canada Transportation Act and the Air Transportation Regulations (“ATR”) governed Airlines’ operations. Pursuant to the ATR, Airlines was required to provide a financial guarantee, issued by a Canadian financial institution, where it accepted prepayments and deposits from tour operators in respect of international charter carrier operations. In the event Airlines could not provide the contacted services, the tour operators could then look to the financial guarantee in order to recover the prepayments and deposits provided. The guarantee (referred to as the “Bond”) was issued by The Guarantee Company of North America (the “Surety”) in the amount of \$15 million.

The Judicial Trustee/Trustee in Bankruptcy has prepared and submitted a claim in the amount of \$1.1 million to the Surety, in respect of that portion of the Air Only (non-risk) Prepayment of \$12 million, provided by Leisure to Airlines that related to international charter flights with departure dates from November 9 to November 23, 2001. The balance of the (net) prepayment was in respect of

scheduled (i.e. non-charter) flights. The Surety has reviewed this claim and the Judicial Trustee has been verbally advised that the claim is being refused. .

The claim under the Bond was prepared on the basis of seats sold on specific specific charter flights within the 2 week period following the failure of Airlines covered by the non-risk prepayment. The payments made by Leisure in respect of the Air Only (non-risk) Deposit of \$12 million were made directly from the B.C. \$CDN Trust Account, and any recoveries under the Bond would be directly related to these payments.

(B) \$2.2 million Prepayment to Airlines

In respect of its ITC (at-risk) business, Leisure was required to pay Airlines (on an invoice basis) approximately two weeks prior to the departure of the flight (“ITC (at-risk) Prepaid”). The ITC (at-risk) Prepaid amount provided to Airlines by Leisure would vary throughout the year, based on the season and the volume/type of business Leisure was selling.

We have set out below, based on Leisure’s records, the month end balance of the ITC (at-risk) Prepaid amount paid to Airlines. We note that at the time Airline’s discontinued operations, the amount of the outstanding prepaid was \$2.2 million:

Date	C3L Prepayment to C3A
	\$
January 31, 2001	4,466,505
February 28, 2001	5,332,010
March 31, 2001	4,374,743
April 30, 2001	824,330
May 31, 2001	1,707,310
June 30, 2001	1,381,030
July 31, 2001	1,094,700
August 31, 2001	998,480
September 30, 2001	781,420
October 31, 2001	2,108,895
November 16, 2001	2,228,460

Based on discussions with Leisure management and test procedures completed by us, all payments from Leisure to Airlines in respect of the ITC (at-risk) Prepayments were made from the Company’s B.C. \$CDN Trust Account with RBC. ITC Prepayments were made for each ‘rotation’ of a particular charter (i.e. the outbound journey and the return journey of the same day).

In this fashion, each ITC Prepayment did not prepay specific travellers return journeys. Rather, the prepayment was for one block of seats leaving and a block of seats returning. Accordingly, unless the final rotation for any chartered route

included an empty, outbound aircraft (a ‘ferry’ run), there would always be passengers at their destination without a return journey. Within the charters contracts, Leisure always contemplated an inbound ferry at the start of the charter and an outbound ferry at the end of the charter.

Airlines deposited these payments into an operating account, not a trust account.

Our review indicates that the prepaid amount provided by Leisure was in respect of specific flights on individual dates, and while we can trace some of the amount to the individual passengers, Leisure had not yet sold all of the seats it had purchased and we therefore cannot trace all amounts to individual customers.

As described earlier, the ATR governed Airlines’ operations and a Bond had been issued by the Surety which also covered these at-risk prepayments.

We have prepared and submitted a claim in the amount of \$3 million to the Surety, comprised of the ITC (at-risk) Prepayment of \$2.2 million provided by Leisure to Airlines and approximately \$0.8 million in respect of return travel segments not fulfilled by Airlines. The Surety has reviewed this claim and has verbally advised that the claim is being refused.

Given that the claim under the Bond was prepared on the basis of specific charter flights, on specific dates, the Judicial Trustee has calculated its claim on the same basis as the non-risk flights. In addition, the payments made by Leisure in respect of the ITC (at-risk) Prepayment of \$3 million were made directly from the B.C. \$CDN Trust Account, and any recoveries under the Bond would be directly related to the original payments.

(C) Hotel Deposits, Prepayments and Security

Background

In order to secure business with various hotels, Leisure was required to post security in the various forms of letters of credit, deposits, and/or prepayments. As at November 16, 2001, these outstanding amounts were:

		Amount
		(\$)
Letters of Credit	US	855,000
Deposits	US	1,834,349
Prepayments	US	792,524
Prepayments	CDN	596,151

Offsetting these amounts are the amounts payable to hotels. These accounts are still being reconciled with hotelier records.

Potential recoveries, particularly for Caribbean and Mexican destinations are difficult to predict. We are dealing with issues of guaranteed room production by Leisure, cancellation penalties, whether the contracts were frustrated by the demise of Airlines, faltering economic conditions in the travel industry, and a variety of foreign legal systems.

Factual Considerations

Based on discussions with Leisure management, which are confirmed by our tests, all deposits and prepayments were made from Leisure's B.C. Accounts with RBC.

The letters of credit were provided to hotels to secure payment of amounts billed in arrears to Leisure. These letters of credit were issued by RBC and are subject to cash collateral held by RBC. The cash collateral was provided from general operating funds of Leisure, not from any of the Accounts.

The deposit amounts, which generally represented a small percentage of the overall block of business with the hotel, were provided by Leisure to the individual hotels on a season by season basis, and related to securing the overall obligations of Leisure, as opposed to securing a specific number of rooms at a specific time. The amounts were paid from Leisure's B.C Accounts with RBC. In addition, the contact between Leisure and the individual hotels generally specified how the deposit amount was to be applied (i.e. to the first invoice, last invoice, allocated to all invoices, etc.).

Prepayments were disbursed from the Leisure's B.C. Accounts with RBC. These payments were generally made to prepay the anticipated charges for specific bookings for specific customers.

We are currently in the process of attempting to recover these amounts from the various hotels and seeking return of the excess cash collateral securing the letters of credit.

Conclusion

Given that the deposit amounts and letters of credit related to a general liability as opposed to individual customers, or even unidentified customers travelling at a specific time, we cannot trace recoveries of these amounts to individual customers.

As the payments made by Leisure in respect of the hotel deposits and prepayments were made directly from the B.C. Accounts, we believe any recoveries of these amounts should therefore be restored to the Accounts.

The cash collateral supporting the outstanding letters of credit was paid from non-trust accounts of C3 Leisure. We therefore believe any recovery of these funds ought to be a corporate asset and not an asset of the Trust(s).

(D) Travel Vouchers

Background

Tourist Cards represent prepaid entry visa coupons or 'tourist cards' (for Cuba, France, Dominican Republic, etc.) purchased by Leisure (Leisure resells the cards to its customers travelling to those destinations). As at November 16, 2001, Leisure was holding an inventory of these tourist cards, for eventual resale to its customers, with an approximate cost of \$0.7 million.

Factual Considerations

Based on discussions with Leisure management and our review of disbursements, the amounts paid to the various governments in respect of purchasing these tourist cards were paid from the B.C. Accounts.

As these inventories were purchased in bulk, it is not possible to allocate recoveries to particular passengers.

We are currently in the process of attempting to return or otherwise sell the unused tourist cards. We expect to recover a significant portion of the \$0.7 million.

Conclusion

Given that the tourist card inventory held by Leisure was in respect of future customers, we cannot trace the payments for the cards to specific passengers.

The payments made by Leisure in respect of the tourist card inventory of \$0.7 million were made directly from the B.C. Accounts. Accordingly, we believe that any recoveries ought to be restored to the Accounts.

(E) Recall Commissions

Travel agents received their direct commissions in respect of Leisure product sales in a number of ways, based in part on the method of payment by the customer, and in part on the type of system being used by the travel agent:

Cash Sales - for non-credit card sales (cash/cheque/debit), the various travel agents doing business with Leisure remitted the funds to Leisure net of their commissions. These travel agents only netted their commission once the customer had paid his account in full. Payments were remitted by the various travel agents to Leisure on an intermittent basis (daily, weekly, monthly, etc).

Credit Card Sales (For Smaller Travel Agents) - for all Leisure sales paid for by the customer with a credit card, the various travel agencies were required to use Leisure's merchant numbers. As a result, 100% of the sales proceeds would be deposited into Leisure's RBC \$CDN Trust Account. Leisure would then on a weekly basis generate from its Logibro system a listing of bookings for each travel agent. For those bookings identified as paid in full in the period, Leisure would then issue a commission cheque (Leisure's policy required that customers pay for their trips in full 42 days prior to departure, or if the trip was booked with 42 days of departure, payment was due immediately).

Credit Card Sales (Large Travel Agents) - the above payment process did not apply in respect of credit card sales made through larger travel agency groups (i.e. Sears, Thomas Cook, etc.) that were using the Global Travel Agent Accounting System. These travel agencies would submit one consolidated report for all their sales offices on a bi-weekly basis, along with the cash proceeds collected (cash/cheque/debit) net of their cash sale commissions and credit card sales commissions.

It is noteworthy that while most travel agents arranged for the purchase of travel services on the basis of receiving a commission, another method of purchasing was to purchase on a 'net' basis. In that method, the travel agent would earn a 'margin' of the difference between the price he sold the product to the customer and the net price agreed to by Leisure. This practise was reportedly most prevalent in the Toronto market. Margins were received by travel agents in the same fashion as commission where the traveller paid by credit card. Commissions and margins are collectively referred to as commissions in this report.

Based on discussions with Leisure's management, written contracts between Leisure and the various travel agents selling their product were only used with larger travel agencies with whom Leisure negotiated 'over-ride commissions' or extra commissions if particular volumes of business were reached. Any such over-ride commissions paid were paid from general operating, not trust, funds.

In respect of normal, or direct, commissions, Leisure verbally communicated the "general" terms to those travel agents wanting to sell their product. As a result, we cannot confirm with any certainty the agreed basis between Leisure and the travel agents as to when the direct commission was earned (i.e. at the time of sale,

when the customer departed, when the trip was completed, etc.). However, Leisure management has advised that industry practice is that the direct commission is not 'earned' by the travel agent until the customer departs. On this basis, Leisure would often recall commissions from travel agents when, for whatever reason, the customer did not travel and Leisure was required to refund the amounts paid by the customer.

Commission payments (whether paid directly or withheld from other remittances) can be traced by specific customer or travel agent through Leisure's Logibro database system. In addition, the Logibro system can be used to identify recallable commissions, on the basis that the flight did not depart and therefore the commission amount needs to be repaid, by customer/by travel agent, and automatically create a report.