

Court File No. 01-CL-4336

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

**IN THE MATTER OF THE BANKRUPTCY OF
CANADA 3000 SALES LIMITED**

JUDICIAL TRUSTEE'S SECOND REPORT TO THE COURT

June 3, 2003

INTRODUCTION

1. The purpose of this second report by PricewaterhouseCoopers Inc. (“PwC”), in its capacity as Judicial Trustee (“Judicial Trustee”) of certain trust funds (the “Trust Account”) held by Canada 3000 Sales Limited (“Sales” or the “Company”), is to provide the Court with sufficient information to enable it to provide directions to the Judicial Trustee with respect to the following matters:
 - Authorization for the Judicial Trustee to make a distribution of 100 cents on the dollar from Sales’ Trust Account to beneficiaries (the “Ticket Holders”) with proven claims;
 - Authorization for the Judicial Trustee to wind up the administration of Sales’ Trust Account, once the foregoing distribution has been completed; and
 - Authorization for the Judicial Trustee to make a distribution of the balance of unused funds in Sales’ Trust Account, after payment of Ticket Holder claims, to the only secured creditor, Royal Bank of Canada (“RBC”), pursuant to a General Security Agreement that is valid and enforceable against the assets of the Company.
2. The Judicial Trustee is also seeking approval from the Court with respect to its fees and activities for the period October 1, 2002 to March 31, 2003 (the “Period”), and that of its legal counsel, McMillan Binch and Davis & Company (“Davis”).

BACKGROUND

3. On November 9, 2001, Canada 3000 Airlines Limited (“Airlines”) ceased operations with the result that Sales also discontinued operations. On November 16, 2001, Sales filed an assignment in bankruptcy and PwC was appointed trustee in bankruptcy (the “Trustee”).
4. On December 6, 2001, the Ontario Superior Court of Justice (the “Court”) appointed PwC as Judicial Trustee of Sales’ Trust Account. The balance of funds on deposit in Sales’ Trust Account as at December 6, 2001 was \$945,143.25.

5. On December 18, 2001, the Court approved a claims process for Ticket Holders to make claims against the various C3 Group of companies including Sales (the "Claims Process"). Included in the Claims Process was the establishment of a call/claim centre for Ticket Holders to make claims against Sales and other C3 Group of companies (the "Claim Centre"). This was due largely to the fact that certain Ticket Holder information necessary to process claims, such as mailing addresses were not readily available in the records of the C3 Group of companies. In addition, the Court also approved an order allowing various credit card companies the right of subrogation with respect to chargebacks granted to their respective customers who were identified as Ticket Holders with claims for unused travel services against any member of the Canada 3000 Group of companies (the "Subrogated Claims").
6. On January 10, 2003, the Court determined that certain funds on deposit in RBC account number 123-789-0 or the Trust Account, are trust funds for the benefit of Ticket Holders with proven claims for unused travel services against Sales. The Court also approved an increase in the amount of the Judicial Trustee's fees and costs from \$150,000 to a maximum of \$260,000. A copy of the Order of Mr. Justice Ground dated January 10, 2003 is attached.
7. Prior to the January 10, 2003 motion, the Judicial Trustee reviewed with a former Sales' employee the Company's records, which indicate that there were potentially 1,700 customers holding tickets with a value of \$1.258 million, for Canada 3000 Airlines Limited ("Airlines") flights who may have claims for unused travel services against Sales' Trust Account.
8. Attached as Appendices A1, A2 and A3 are copies of Sales' records regarding customers that paid for tickets but may not have received travel services:
 - Appendix A1 is a listing of customers that may have claims for unused tickets, where the customer information such as, customer name, departure date, and routing information, is available. The total amount that may have been claimed is approximately \$977,115 (including taxes);
 - Appendix A2 is a listing of customers with unused tickets, where information about the customer is not available, indicating a liability of \$105,582 approximately (including taxes); and
 - Appendix A3, is a listing of customers with partially used tickets (i.e. passenger in-transit / stranded), indicating a liability of approximately \$175,624 (including taxes).

THE CLAIMS PROCESS

9. As a result of the Claims Process, the Judicial Trustee received 433 Ticket Holder claims totalling approximately \$1.6 million against Sales' Trust Account.
10. Of the total claims received, the Judicial Trustee approved 186 Ticket Holder claims totalling \$910,073. Of the approved Ticket Holder claims, those that the Judicial Trustee propose participate in a dividend, comprise 185 Ticket Holders with claims totalling \$570,242.
11. The following is a summary of the Ticket Holder claims received and approved to participate in a dividend by the Judicial Trustee, broken down by method of payment:

Ticket Holder by Payment Method	No. of Claims	Amount Claimed	Approved Claim	Dividend Claims
Cash	275	\$602,658	\$351,174	\$351,174
American Express – Subrogated Claims	1	285,202	9,160	9,160
American Express – Direct Claims	17	18,664	6,668	6,668
Diners' Club – Subrogated Claims	1	25,338	NIL	NIL
Diners' Club – Direct Claims	2	7,024	7,024	7,024
Bank of Montreal MasterCard – Subrogated Claims	1	194,738	153,042	153,042
Bank of Montreal MasterCard – Direct Claims	34	6,410	1,608	1,608
Royal Bank of Canada VISA – Subrogated Claims	1	383,922	339,831	NIL
Royal Bank of Canada VISA – Direct Claims	101	91,917	41,566	41,566
Total	433	\$1,615,873	\$910,073	\$570,242

12. Of the Ticket Holder claims received, approximately 63.5% by number or 275 Ticket Holder claims are represented by Ticket Holders who paid by cash for tickets that the Judicial Trustee reviewed and verified to Sales' records. The total dollar value of these Ticket Holder claims represents approximately 37.3% of the total claims received by the Judicial Trustee.
13. The above table also includes the various credit card company (the "Card Companies") claims. The Card Companies who filed claims against Sales' Trust Account include, RBC VISA ("VISA"), Bank of Montreal MasterCard ("MasterCard"), American Express ("Amex") and Citibank Diners' Club ("Diners").
14. The above table indicates two types of Card Company claims, as follows:
- A direct claim represents a claim from a Ticket Holder, who made a claim directly with the Judicial Trustee for unused travel services purchased on a credit card (the "Direct Claims") where the Ticket Holder did not subsequently receive a credit from his/her Card Company.
 - A Subrogated Claim represents a claim made by a Card Company for chargebacks or credits granted to customers for unused travel services against Sales' Trust Account. The Card Companies' right to make a Subrogated Claim was approved by the Court on December 18, 2002.
15. Initially, the Card Companies filed contingent claims by the Claims Bar Date that represented the maximum amount of potential chargebacks they could have against Sales' Trust Account. The contingent claim amounts were based upon information from Sales' records, provided by the Judicial Trustee to the Card Companies, in order to assist the Card Companies with the identification of potential chargebacks. The filing of contingent claims was due largely to the Card Companies' requirement, pursuant to cardholder agreements, to provide their customers with a period of time to make a claim for a chargeback. The time periods provided varied by Card Company.
16. In the case of VISA, there were approximately 1900 credits submitted by VISA's agent, Moneris Solutions Corporation ("Moneris"), that the Judicial Trustee needed to verify against Sales' records. The Judicial Trustee worked with Moneris to finalize VISA's Subrogated Claim. Included in the above table is an amount approved by the Judicial Trustee that represents VISA's Subrogated Claim totalling \$339,831.
17. To facilitate a global settlement between various stakeholders in the C3 Group of companies, RBC agreed to withdraw its VISA Subrogated Claim (the "Global Settlement"). The Global Settlement was approved by the Court on November 25, 2002.

18. In the case of MasterCard, the Judicial Trustee received a final claim on September 5, 2002, that consisted of approximately 250 credits granted to MasterCard customers that needed to be verified against Sales' records. Again the Judicial Trustee worked with Moneris, MasterCard's agent, to verify MasterCard's Subrogated Claim. There was only a small amount of MasterCard's Subrogated Claim that needed to be amended for credits granted to customers that could not be verified to Sales' Trust Account. MasterCard has agreed to the Judicial Trustee's amendments to its claim.
19. In the case of Diners, the Judicial Trustee was notified in late September 2002 and later again in January 2003 that Diners would not be filing a claim against Sales' Trust Account. Thus, Diner's contingent claim in the amount of \$25,833 was withdrawn.
20. In the case of Amex, the Judicial Trustee did not receive details of the credits provided to customers until February 3, 2003. After reviewing Amex's claim information, which consisted of approximately 350 credits granted to Amex customers, the Judicial Trustee determined that the majority of the credits granted by Amex were to customers with claims against Airlines rather than Sales. Amex agreed with the Judicial Trustee's amendments to their Subrogated Claim.
21. An explanation of the differences found by the Judicial Trustee between the amounts claimed by Ticket Holders and the Approved Claims are summarized below:

Cate gory	Explanation of Differences	No. of claims	Amount Claimed	Approved Amount	Differences
1	No Match or a Portion of the Claimed Amount does not match	242	\$612,572	\$519,940	\$92,632
2	Duplicate claims received	142	186,842	nil	186,842
3	No Record of Funds Received in Sales' Trust Account	24	48,992	nil	48,992
4	Claims outside the approved dates or portion of the ticket used	21	20,299	8,042	12,257
5	Card Company claims excluding Direct claims analyzed in the above categories	4	747,168	382,091	365,077
	Total	433	\$1,615,873	\$910,073	\$705,800

22. The first and largest category (242 claims totalling \$612,572) represents amounts claimed by Ticket Holders that in some cases did not match the actual cost of the ticket(s) when verified to Sales' records ("No Match" claims).
23. The second category (142 claims totalling \$186,842) represents duplicate claims made by either Ticket Holders calling in more than once to the Claim Centre or between Ticket Holders and travel agents who made claims for the same ticket (the "Duplicate" claims).
24. The third category (24 claims totalling \$48,992) represents Ticket Holders with claims where Sales' had no record of the funds being received into its Trust Account to match to the Ticket Holder claim ("No Funds Received" claims).
25. The fourth category (21 claims totalling \$20,299) represents Ticket Holder claims that were outside the approved travel dates for either the entire cost of the ticket or a portion of the ticket cost ("Outside Travel Dates" claims). The approved travel dates for Ticket Holders to make claims for unused travel services were for the period September 11 to 16, 2001 regarding the September 11, 2001 incident and after November 9, 2001 when Airlines had ceased operations.
26. The fifth category comprises four claims and represents the Card Companies' claims before any adjustments for Direct Claim amounts that were reimbursed by the Card Companies. The most significant amount included in the differences found by the Judicial Trustee, totals approximately \$351,000 and is with respect to amounts that should have been claimed against Airlines and not against Sales' Trust Account.
27. The majority of the differences found by the Judicial Trustee were resolved through correspondence with Ticket Holders. There were only a few Ticket Holders with claims that were not resolved in this manner and were disallowed by the Judicial Trustee in accordance with the Claims Process (the "Disallowed Claims").
28. The Disallowed Claims total \$53,348 and are represented by 21 Ticket Holder claims totalling \$144,150. In many cases only a portion of the Ticket Holder's claim was disallowed.
29. Of the Disallowed Claims the only objection received by the Judicial Trustee was from Eurosun Holidays Inc. ("Eurosun"). Eurosun is a tour operator, who purchased charter flights to Spain and Portugal from Sales. Eurosun made a claim for unused tickets it purchased for customers on charter flights to Spain and Portugal.

30. Included in Eurosun's claim is an amount for a "security deposit" totalling \$20,000. Attached as Appendix B is a copy of Eurosun's claim with supporting documentation and the Judicial Trustee's disallowance. There is a response letter from Eurosun dated March 18, 2003 regarding the disallowance notice issued by the Judicial Trustee.
31. The supporting documentation that Eurosun provided includes a copy of a cancelled cheque both front and back for Eurosun's "security deposit" payment to Airlines dated February 15, 2000. The cancelled cheque indicates that the funds were deposited to an Airlines' bank account with RBC. The Judicial Trustee is unable to trace the funds to Sales' Trust Account. In addition, the funds cannot be traced directly to any of Eurosun' customers who might be Ticket Holders.
32. Until this matter is resolved either by the Judicial Trustee or the Court, the Judicial Trustee proposes, with the Court's approval, setting aside an amount of \$20,000 for the "security deposit" plus an additional amount for costs should Eurosun be successful on its appeal of the Judicial Trustee's disallowance
33. Based upon information presented, the Judicial Trustee has accepted a total of \$910,073 in claims against Sales' Trust Account (the "Approved Claims"). Once the Judicial Trustee withdrew the amount of VISA's Subrogated Claim totalling \$339,831, the amount of Approved Claims to participate in a distribution totals 185 Ticket Holder claims for approximately \$570,242 (the "Dividend Claims").
34. Attached as Appendix C is a Dividend Sheet that comprises Ticket Holders with Dividend Claims for which the Judicial Trustee is seeking Court approval in order to make a distribution from Sales' Trust Account. The Judicial Trustee, for confidentiality purposes, has excluded from the Dividend Sheet the addresses and the credit card numbers of these Ticket Holders.
35. There are sufficient funds available in the Sales' Trust Account to make a distribution of 100 cents on the dollar to the Dividend Claims. Attached as Appendix D is the Judicial Trustee's Statement of Receipt and Disbursements as at April 30, 2003 indicating funds on hand totalling approximately \$746,302.
36. After a distribution to the Dividend Claims in the amount of \$570,242, there will be a balance of approximately \$176,060 in Sales' Trust Account. Once the Judicial Trustee sets aside the required funding to complete the administration of approximately \$38,000 and an amount of \$20,000 for resolution of Eurosun's disallowed claim, there will be a balance of unused funds in Sales' Trust Account of approximately \$118,060 (the "Unused Trust Funds"). The Judicial Trustee is seeking the approval of the Court to distribute the Unused Trust Funds to RBC, the only secured creditor in this estate.

37. The funding required to complete the administration in the amount of \$38,000 is the balance remaining of the Court-approved maximum of \$260,000 less the total disbursements to April 30, 2003 in the amount of approximately \$222,000. Attached as Appendix D is the Judicial Trustee's Statement of Receipts and Disbursements that provides details of the disbursements made to April 30, 2003.
38. Based upon the Dividend Sheet, the Judicial Trustee completed a mailing to respective Ticket Holders requesting that the Ticket Holder execute a statutory declaration confirming that they had not received reimbursement for their claims for unused travel services. In the case of the Card Companies, the statutory declaration confirmed that the Card Company had provided the chargebacks to customers that comprised their Subrogated Claim. The Judicial Trustee is still receiving completed statutory declarations from Ticket Holders.
39. Until all statutory declarations are received by the Judicial Trustee, there will be adjustments between Direct Claim amounts and Card Companies' Subrogated Claim amounts due to Ticket Holders acknowledging receiving a credit from their respective Card Company. In this regard, the total amount of \$570,242 for Dividend Claims may be reduced for Direct Claims reimbursed by VISA, as VISA has withdrawn its Subrogated Claim. The result will be an increase in the amount of Unused Trust Funds.
40. The Judicial Trustee proposes that a distribution be made to Ticket Holders who have completed the statutory declarations. As the Judicial Trustee receives the remaining statutory declarations, a distribution will be made to those Ticket Holders on their Dividend Claim amount.

ACTIVITIES OF THE JUDICIAL TRUSTEE

41. As Judicial Trustee, our activities for the Period have primarily comprised the following:
 - Negotiating the Global Settlement with the various stakeholders in the C3 Group of companies and obtaining the necessary inspector and Court approvals;
 - Preparing and attending in Court with respect to the Judicial Trustee's first report to the Court regarding approval of Sales' Trust Account;
 - Identifying affected customers and potential Trust Account beneficiaries;
 - Analyzing Card Companies' Subrogated Claim amounts;
 - Verifying Direct Claims and Subrogated Claim amounts;

- Obtaining the appropriate statutory declarations from Ticket Holders; and
- Supervising the Claim Centre and closure of same in February, 2003.

FINANCIAL POSITION OF THE JUDICIAL TRUSTEE ADMINISTRATION

42. As of April 30, 2003, the Judicial Trustee had approximately \$746,302 of cash on hand. The Judicial Trustee's Statement of Receipts and Disbursements is attached as Appendix D. The majority of the expenses to April 30, 2003, relate to the following:
- Fees and expenses of professional staff including the Judicial Trustee and its respective legal counsel in order to complete the activities previously highlighted; and
 - Costs relating to the operation of the Claim Centre that remained open until February 2003.
43. The Judicial Trustee's invoices for the professional time and expenses, totalling \$81,391, exclusive of taxes, for the Period are attached as Appendix E to this report (not including taxes).
44. Legal accounts for the Period for services rendered by McMillan Binch totalling \$10,797, excluding taxes, are attached as Appendix F to this report.
45. Legal accounts for the Period for services rendered by Davis totalling \$322, excluding taxes are attached as Appendix G to this report.
46. The total professional fees for the Period are \$92,510 exclusive of taxes. The Judicial Trustee is seeking for approval from the Court its fees and activities for the Period including that of its legal counsel.

CONCLUSIONS AND RECOMMENDATIONS

47. The following are the approvals the Judicial Trustee is seeking from the Court:

- Authorization of a distribution of 100 cents on the dollar to Ticket Holders with Dividend Claims against Sales' Trust Account;
- Authorization for the Judicial Trustee to withhold sufficient funds to satisfy Eurosun's disallowed claim should they be successful on appeal of the Judicial Trustee's Notice of Disallowance;
- Authorization for the Judicial Trustee to wind up the administration of Sales' Trust Account after the distribution of funds to Dividend Claims and resolution of Eurosun's claim;
- Authorization for the Judicial Trustee to distribute the Unused Trust Funds to RBC after completion of a distribution to Dividend Claims and resolution of Eurosun's claim; and
- Approval of the Judicial Trustee's activities and fees and that of its legal counsel for the Period.

48. All of the above is respectfully submitted by PwC in its capacity as Judicial Trustee of certain trust funds of Canada 3000 Sales Limited.

Dated this ____ day of June 2003.

Yours very truly,

PRICEWATERHOUSECOOPERS INC.

In its capacity

**as Judicial Trustee of Certain Trust Funds of Canada 3000 Sales Limited
and not in its personal capacity**

Sandra M. Sykora
Vice-President