



Court No. 11 – 220857 / VA - 01

**IN THE SUPREME COURT OF BRITISH COLUMBIA  
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF  
C3 AVENTURE LIMITEE / C3 LEISURE LIMITED  
doing business as CANADA 3000 HOLIDAYS**

**BANKRUPTCY TRUSTEE'S FIRST REPORT TO THE COURT**

**FEBRUARY 25, 2002**

## **1. Purpose of Report**

PricewaterhouseCoopers Inc., in its capacity as Trustee in Bankruptcy for C3 Aventure Limitee / C3 Leisure Limited doing business as Canada 3000 Holidays ("Leisure") provides the Court with its initial report regarding its activities in administering Leisure's estate since November 16, 2001, the date Leisure filed an assignment in bankruptcy naming PricewaterhouseCoopers Inc. as Trustee in Bankruptcy (the Bankruptcy Trustee).

## **2. Background**

Leisure is a wholly owned subsidiary of Canada 3000 Inc. and was an integral part of the Canada 3000 Group of Companies, which also included Canada 3000 Airlines Ltd. ("Airlines"). Leisure's head office was located in Vancouver, but it maintained a large office and staff in Toronto, as well as smaller offices in Edmonton and Winnipeg

Leisure was a tour operator, within the Canada 3000 Group of Companies, and its clients were travel agents, who made travel bookings for their clients (travellers) with Leisure. These travel bookings were either air travel only or vacation travel packages (all inclusive air travel & destination accommodation), which were almost exclusively booked with Airlines, which was the air travel service provider.

The airlines industry in general has suffered financial hardships in recent years, and economic conditions did not improve during 2001. Further, the events of September 11, 2001 only worsened the situation.

In early November 2001 Leisure's parent company and other key entities of the Canada 3000 Group of Companies, including Airlines, filed for creditor protection under the Companies Creditors Arrangement Act (CCAA). Shortly thereafter, Airlines filed for bankruptcy protection and ceased all flight operations on November 9, 2001.

The bankruptcy of Airlines forced Leisure to suspend its operations. Provincial travel industry regulators in British Columbia, Ontario and Quebec became involved and seized certain trust funds that had been established by Leisure in compliance with provincial statutory requirements for the travel industry.

Leisure did not have the financial wherewithal to make alternative travel arrangements for its customers, having prepaid Airlines approximately

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\$12,000,000 for future air travel services. Upon determining that Airlines was not going to be able to provide the purchased future air travel services, Leisure was left with no real alternative but to assign itself into bankruptcy.

Because of the complex nature of the trust issues arising in Leisure's estate, coupled with Leisure's inter-relationship with the Canada 3000 Group of Companies (most of which are now also bankrupt), by Court Order the first meeting of creditors was postponed indefinitely. On February 7, 2002 the Court Ordered that the first meeting of creditors be convened on or before May 15, 2002 and, that if necessary, a further delay beyond May 15, 2002 would be restricted to 30 days.

### **3. Trust Funds & Court Directions**

In compliance with British Columbia's statutory requirements for the travel industry, all funds received by Leisure from travel agencies, and / or customers of those travel agencies, were initially deposited into a trust account maintained in British Columbia. Subsequently, Leisure transferred funds to trust accounts in Ontario and Quebec, in compliance with Ontario's and Quebec's provincial statutory requirements for the travel industry.

Leisure established three separate trust bank accounts and deposited all funds received from travel agents, on behalf of the travellers, to them. The total funds on deposit, as at November 16, 2001, was \$24 million broken down as follows:

- British Columbia: \$15.4 million
- Ontario \$8.7 million.

An additional \$2 million was being held in a Quebec trust account, but was seized by Quebec's regulatory authority on or about November 9, 2001.

The Bankruptcy Trustee's view is that these trust bank accounts (the trust accounts) constitute third party property in the possession of the bankrupt. Based upon information available from Leisure's records, the actions of travel industry regulators in British Columbia, Ontario and Quebec the Bankruptcy Trustee has determined that thousands of travellers will have claims against the trust accounts.

Our view as Bankruptcy Trustee is that Leisure's bankruptcy estate did not have an equitable interest in the trust accounts. Accordingly, the Bankruptcy Trustee made an application to Court for the appointment of a Judicial Trustee (the Judicial Trustee) to administer the trust accounts.

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On November 22, 2001 the Court granted an Order appointing PricewaterhouseCoopers Inc. as Judicial Trustee for Leisure's three trust accounts.

**4. Assets**

As at the date of bankruptcy (November 16, 2001), all of Leisure's assets are encumbered by a first ranking registered security interest, a General Security Agreement (GSA), in favour of the Royal Bank of Canada (the Royal Bank). The following is a summary of Leisure's assets that have been identified as being subject to the Royal Bank's GSA:

**a. Cash on Hand**

As at the date of bankruptcy there was \$1,933,000 cash on deposit in Leisure's general operating account, which was maintained at the Royal Bank. These funds are in the Bankruptcy Trustee's possession and, with the Royal Bank's consent; the Bankruptcy Trustee has used a portion of these moneys to fund its activities.

**b. Trade Accounts Receivable (Travel Agents)**

Leisure's accounting records indicate that, as at November 16, 2001, the net book value of accounts receivable was approximately \$1,080,000 for travel services provided to their customers (the travellers), but paid for by Leisure. During the period November 16, 2001 to February 22, 2002, the Bankruptcy Trustee has recovered \$68,000 from travel agents. However, the recovery of funds is being hampered by claims of set-off by the travel agents for unpaid commissions.

Depending upon the resolution of the set-off issue, we estimate that the Bankruptcy Trustee may recover between \$50,000 and \$500,000 from the remaining amounts owing by travel agents.

**c. Non-Trade Accounts Receivable (Travel Agents)**

Leisure's accounting records indicate that, as at November 16, 2001, there was approximately \$516,000 owing by travel agents for co-operative advertising charges. There was a further \$80,000 of miscellaneous amounts owing by other third parties.

During the period November 16, 2001 to February 22, 2002, the Bankruptcy Trustee has recovered \$92,000 of the co-operative advertising debt from travel agents. However, recovery activities are being hampered by claims of set-off by the travel agents for unpaid commissions.

**d. Accounts Receivable (Corporate Income Taxes)**

The Bankruptcy Trustee is in the process of filing Corporate Income Tax returns for Leisure. We estimate that the Bankruptcy Trustee could recover between \$2.0 million and \$3.1 million in Corporation Income Tax refunds.

**e. Security Deposits**

Certain hotels and resorts required Leisure to guarantee payment of their accounts by either posting a Letter of Credit or Cash Deposit. The Letters of Credit, which were issued by the Royal Bank, were supported by cash collateral (approximately \$1,400,000) lodged by Leisure with the Royal Bank. During the period November 16, 2001 to February 22, 2002, the Bankruptcy Trustee has recovered \$92,000 of cash collateral / security deposits.

The Bankruptcy Trustee is arranging for the surrender of the Letters of Credit, in order to recover any surplus deposits and we estimate that the Bankruptcy Trustee may still recover between \$440,000 and \$580,000 in surplus deposits.

**f. Computers, Office Furniture & Equipment**

A significant portion of Leisure's computers and related office equipment, situated at the four main office locations, was leased. The Bankruptcy Trustee reviewed all lease agreements in order to identify and segregate leased equipment from owned equipment.

In downsizing operations, the Bankruptcy Trustee sought and obtained Court approval to liquidate the excess equipment and move to smaller premises. The Vancouver office assets generated approximately \$95,000 from the sale of computers, office furniture and equipment.

Assets are also located in a number of cities throughout Canada. To date the sale of these assets by the Bankruptcy Trustee has generated \$7,000. The equipment remaining to be sold has yet to be valued, however based

on the net book value we estimate a recovery ranging from \$10,000 to \$50,000.

## **5. Creditors' Claims**

The following is a summary of issues and the various types / categories of creditors with claims in Leisure's bankruptcy estate:

### **a. Trust Claims / Property Claims**

The Bankruptcy Trustee is in receipt of a few property (trust) claims pursuant to *sub-section 81(1) of the Bankruptcy and Insolvency Act*. These claims all relate to equipment.

The single most important trust related and bankruptcy administration matter, has to do with the identification and contacting of the thousands of potential travellers that will have claims against the trust funds and the bankruptcy estate. In order to mitigate administrative costs across the Canada 3000 Group of Companies, PricewaterhouseCoopers Inc. in its various capacities as Judicial Trustee and Bankruptcy Trustee sought and obtained a Court Order authorizing the establishment of a 1-800 information line (Call Centre) to assist in the claims process.

#### **Call Centre**

A Call Centre servicing the entire Canada 3000 Group of Companies was established in Toronto. The purpose of the Call Centre was to provide a direct contact with the creditors seeking assistance filing a claim.

The Call Centre commenced operations in early December 2001 and is expected to remain open until February 28, 2002 and thereafter the Vancouver Claims Centre should be able to handle all calls.

The Call Centre will benefit all estates of Canada 3000. As a result, the fixed and variable costs will be allocated to each of the estates based on a number of factors including the percentage of calls received.

### **Claims Centre**

A Claims Centre for Leisure has been established in Vancouver. Its primary purpose is to process the trust claims received by the Judicial Trustee, but it will also facilitate the processing of claims in Leisure's bankruptcy estate.

As the Claims Centre will benefit both the Bankruptcy Trustee and the Judicial Trustee its costs are to be allocated to each based on usage. All claims processing prior to May 2002 will likely be solely for Judicial Trustee purposes; accordingly all costs to April 30, 2002 will be allocated to the Judicial Trustee. Thereafter, we anticipate that claims for both the Judicial Trustee and the Bankruptcy Trustee will be handled and the costs will be split accordingly.

By June 30, 2002, the Bankruptcy Trustee expects that it will have gathered missing information from most (85%+) of the potential claimants. At this time it is anticipated that both the Judicial Trustee and the Bankruptcy Trustee will surrender the leased premises, leased computer equipment and leased (licensed) software, currently being used for the Claims Centre, to the owners / lessors.

The Claims Centre anticipates processing between 35,000 and 45,000 claims, representing between 100,000 and 110,000 travellers.

The second most important trust related and bankruptcy administration matter, has to do with the expected shortfall to travellers on their claims for a refund of moneys paid to Leisure, for unfulfilled / non-performed travel services. The Bankruptcy Trustee and Judicial Trustee have held numerous meetings and lengthy discussions with various stakeholders, and their legal counsel, regarding claims to these trust funds. These parties include:

- Moneris Solutions Ltd. (Moneris), the credit card service provider;
- VISA;
- MasterCard;
- American Express (AMEX);
- Diner's Card (Diners)
- the Royal Bank;
- the Bank of Montreal;
- Travel Council of Ontario (TICO);

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- Travel Registrar of British Columbia (BC Registrar);
- the Office de la Protection de Consommateur (Quebec Registrar).

The purpose of these discussions was to develop a common process for administering the individual traveller's claims, by both the Judicial Trustee and the Bankruptcy Trustee. In excess of 85% of all travellers' claims involve payment by the traveller through use of a credit / charge card. Four major credit / charge card companies made an application to Court, wherein they were granted an assignment of the travellers' claims to these funds, upon making a reimbursement to the travellers.

To the extent there is a shortfall in the trust funds, all claimants (and there could be thousands of them) will have a claim against Leisure's bankrupt estate. Consequently, any streamlining / co-ordination of the claims process at the front-end would have significant benefits (cost savings, time savings and reduced errors).

In addition to a claim against the trust funds and the bankruptcy estate, certain individual travellers would also have the right to claim against Compensation Funds maintained by provincial travel industry assurance bodies in British Columbia, Ontario, and Quebec. These comprise the BC Registrar, TICO and the Quebec Registrar.

Consequently, the Bankruptcy Trustee's primary focus and administrative efforts have been on developing and implementing a paperless claims process for the tens of thousands of travellers that have been affected by the failure of Leisure and the Canada 3000 Group of Companies.

**b. Secured Creditors**

The Royal Bank has a first ranking registered security agreement (the GSA). The Bankruptcy Trustee's legal counsel (Davis & Company) has confirmed in writing that the GSA is validly registered.

The Royal Bank is asserting a secured claim against all of Leisure's assets or the proceeds therefrom. The amount of that claim has not been finalized.

The Bankruptcy Trustee has satisfied itself with respect to the bona fides of many of the lease agreements, but is still seeking advice from legal

counsel on others. Once satisfied as to the validity of a registered security interest over equipment, the Bankruptcy Trustee is releasing the equipment.

**c. Preferred Creditors**

Leisure's former employees comprise the largest category of preferred creditors, having total claims in excess of \$760,000. Of this amount, the Bankruptcy Trustee anticipates \$380,000 to be preferred claims and the remaining \$380,000 to be unsecured.

Leisure's former employees do not have ready access to personnel records and employment information, which is in the Bankruptcy Trustee's possession. Bearing in mind that there were hundreds of employees across Canada that have been affected by Leisure's failure, the Bankruptcy Trustee sought, and obtained, directions from the Court regarding a streamlining of the claims process, specifically for Leisure's former employees.

Preferred claims by landlords for accelerated and / or unpaid rents are anticipated to be relatively small.

**d. Unsecured Creditors**

We anticipate the shortfall on travellers' claims to the trust funds in the Judicial Trustee's possession will be in the range of \$17 million. The four major credit / charge card companies are in the process of reimbursing cardholders, and will bear in excess of 85% (\$14.5 million) of this shortfall. These four credit / charge card companies would become the largest unsecured creditors in Leisure's bankruptcy.

The unsecured claims by individual travellers, trade suppliers, former employees and unpaid equipment lessors will comprise the remaining unsecured claims. The total of these claims is not expected to exceed \$5 million.

**6. Receipts and Disbursements**

	\$
Receipts	2,178,700
Disbursements	<u>378,400</u>
Cash on Hand, February 22, 2002	<u>1,800,300</u>

Attached, as **Appendix A** is the Bankruptcy Trustee's interim statement of receipts and disbursements for the period November 16, 2001 to February 22, 2002.

Included in the receipts figure is \$1,932,516 of cash on hand as at November 16, 2001 which was subsequently converted into a term deposit. During the course of its administration, the Bankruptcy Trustee has drawn down on the term deposit (total draw down of \$200,000 as at February 22, 2002).

As mentioned previously, the cash on hand is subject to the Royal Bank's GSA and these funds may not be available to Leisure's creditors.

**7. Estimated Realizations and Distributions**

	Low	High
	\$	\$
Estimated Realizations	4,300,000	6,030,000
Estimated Distributions	<u>(320,000)</u>	<u>(145,000)</u>
Estimated Net Realization of Assets before Professional Fees	<u>3,980,000</u>	<u>5,885,000</u>

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Attached, as **Appendix B** is the Bankruptcy Trustee's estimated statement of realizations and distributions showing net realizations, before professional fees, of an estimated \$3.9 million to \$5.9 million.

These estimated net realizations represent funds that are subject to the Royal Bank's GSA and accordingly, these funds may not be available to Leisure's creditors.

**PricewaterhouseCoopers Inc.**  
**Bankruptcy Trustee**

**APPENDIX A**

**PRICEWATERHOUSECOOPERS INC., TRUSTEE IN BANKRUPTCY OF  
C3 LEISURE LIMITED / C3 AVENTURE LIMITEE dba CANADA 3000 HOLIDAYS**

**STATEMENT OF RECEIPTS AND DISBURSEMENTS  
FOR THE PERIOD OF NOVEMBER 16, 2001 TO FEBRUARY 22, 2002**

<b>RECEIPTS:</b>	<b>\$</b>	
Cash on hand - November 16, 2001		1,932,516.25
Sale of assets		57,000.00
Accounts receivable collection		68,257.80
Non-trade accounts receivable		92,435.83
Cash collateral / security deposits		-
Sale of other assets		-
Interest income		4,935.65
International tax refund		2,656.78
Other refunds		3,672.30
Sundry Receipts		1,500.00
Foreign currency exchange		8,966.26
GST refunded		2,820.40
GST collected		3,990.00
		<u>3,990.00</u>
<b>Receipts into bank account</b>		<u><b>2,178,751.27</b></u>
<b>DISBURSEMENTS:</b>		
Salary and Wages	671,538.39	
Less: Advances from Judicial Trustee	<u>400,000.00</u>	
Net salary and wages	271,538.39	271,538.39
Employee expenses		-
Contract services		26,090.32
Moving and storage		2,740.55
Searches		201.50
Repairs & maintenance		1,213.37
Computer services		-
Security		170.00
Miscellaneous		-
Filing fee		300.00
Advertising		2,002.56
Bond fee		-
Rent		50,376.75
Telephone		10,726.52
Bank charges		272.84
Office expense		7,006.65
Postage & courier		331.74
Storage		262.23
Utilities		231.21
GST paid		4,963.00
		<u>4,963.00</u>
<b>Total Disbursements</b>		<u><b>378,427.63</b></u>
<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>		<u><u><b>1,800,323.64</b></u></u>
<b>CASH ON HAND - Represented By:</b>		
Initial term deposit purchase		1,932,516.25
Less draw down of term deposit into bank account		(200,000.00)
Interest on term deposit		4,896.39
Net term deposit		<u>1,737,412.64</u>
Funds in operating account		62,911.00
		<u>62,911.00</u>
<b>TOTAL CASH ON HAND</b>		<u><u><b>1,800,323.64</b></u></u>

APPENDIX B

PRICEWATERHOUSECOOPERS INC., TRUSTEE IN BANKRUPTCY OF  
C3 AVENTURE LIMITEE / C3 LEISURE LIMITED dba CANADA 3000 HOLIDAYS

ESTIMATED REALIZATIONS AND DISTRIBUTIONS  
AS AT FEBRUARY 22, 2002

		<b>Estimated Recovery</b>	
		<b>Low</b>	<b>High</b>
		<b>\$</b>	<b>\$</b>
Estimated Realization of Assets	<b>Schedule 1</b>	4,300,000	6,030,000
Estimated Realization Costs, before Professional Fees	<b>Schedule 2</b>	<u>(320,000)</u>	<u>(145,000)</u>
<b>Estimated Net Realization of Assets before Professional Fees</b>		<u><b>3,980,000</b></u>	<u><b>5,885,000</b></u>

APPENDIX B - Schedule 1

PRICEWATERHOUSECOOPERS INC., TRUSTEE IN BANKRUPTCY OF  
C3 AVENTURE LIMITEE / C3 LEISURE LIMITED dba CANADA 3000 HOLIDAYS

ESTIMATED REALIZATION OF ASSETS  
AS AT FEBRUARY 22, 2002

	Net Book Value November 16, 2001 \$	Estimated Realization	
		Low \$	High \$
Cash on Hand at February 22, 2002	1,933,000	1,800,000	1,800,000
Accounts Receivable	1,080,000	50,000	500,000
Income Tax Refunds	-	2,000,000	3,100,000
Security Deposits	-	440,000	580,000
Fixed Assets	<u>1,450,000</u>	<u>10,000</u>	<u>50,000</u>
	<u><u>4,463,000</u></u>	<u><u>4,300,000</u></u>	<u><u>6,030,000</u></u>

APPENDIX B - Schedule 2

PRICEWATERHOUSECOOPERS INC., TRUSTEE IN BANKRUPTCY OF  
C3 AVENTURE LIMITEE / C3 LEISURE LIMITED dba CANADA 3000 HOLIDAYS

ESTIMATED REALIZATION COSTS  
AS AT FEBRUARY 22, 2002

	Note	Estimated Realization Costs	
		Low \$	High \$
<b>Estimated Disbursements:</b>			
Gross Salaries & Wages	1	55,000	155,000
Rent	2	30,000	45,000
Administration	3	<u>60,000</u>	<u>120,000</u>
<b>Total Estimated Realization Costs, before Professional Fees</b>		<u><b>145,000</b></u>	<u><b>320,000</b></u>

**Note**

- 1 To date salaries have amounted to \$95,000. However, we expect this to significantly decrease in the coming months.
- 2 Currently we are paying rent at \$18,000 per month, of which \$9,000 is being attributed to the Trustee. We are continuing to pay this level until the end of February. At this time we approximate to cut the rent by 1/2 to 1/3 and will require the space until the end of May.
- 3 The administration are the remaining miscellaneous costs like office expenses and postage. To date we have spent \$30,000 however we expect there to be significant postage costs on the mail out of claims.