

**ONTARIO
SUPERIOR COURT OF JUSTICE**

IN BANKRUPTCY

**IN THE MATTER OF THE BANKRUPTCY OF CANADA 3000 INC.,
Of the City Of Toronto, in the Province Of Ontario**

**AND IN THE MATTER OF THE BANKRUPTCY OF CANADA 3000 AIRLINES
LIMITED/
LIGNES AÉRIENNES CANADA 3000 LIMITÉE
Of the City Of Toronto, in the Province Of Ontario**

**AND IN THE MATTER OF THE BANKRUPTCY OF ROYAL AVIATION INC.
Of the City Of Toronto, in the Province Of Ontario**

**THIRD REPORT OF THE TRUSTEE,
PRICEWATERHOUSECOOPERS INC.**

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INTRODUCTION

1. On November 11, 2001, Deloitte & Touche Inc. (“D&T”) was appointed Trustee in Bankruptcy of Canada 3000 Inc., Canada 3000 Airlines Limited/Lignes Aériennes Canada 3000 Limitée (“Airlines”) and Royal Aviation Inc. (together referred to as “Canada 3000”). Subsequently, on November 30, 2001, PricewaterhouseCoopers Inc. (“PwC” or the “Trustee”) was substituted as Trustee in Bankruptcy of Canada 3000 by the Court, with effect from December 3, 2001.

PURPOSE OF THE REPORT

2. By Order of the Court dated November 30, 2001, the requirement for holding of the first meeting of creditors of Canada 3000 was suspended until further order of the Court. The Trustee intends to hold the first meeting of creditors on or before May 15, 2002. As there are

no inspectors to approve the activities of the Trustee, the Trustee is reporting to the Court with respect to its activities.

3. The purpose of this report is to seek the approval of the Court with regard to the following:

- (a) the sale of the property located at 23 Fasken Drive, Toronto (“23 Fasken”); and
- (b) permitting the Trustee to notify ticketholders of Airlines and former employees of Canada 3000 of the first meetings of creditors by advertising the date, time and place of such meeting in one Saturday edition of the National Post and Globe & Mail.

23 FASKEN DRIVE

4. As indicated in the Trustee’s Second Report, the properties at 31 Fasken Drive, Toronto (“31 Fasken”) and 23 Fasken have been offered for sale by the Trustee. The Trustee advertised the building for sale in a national newspaper and distributed information packages to potentially interested parties. The Trustee also had numerous discussions with real estate agents and brokers encouraging them to submit offers from any interested parties.

5. Three offers were received by the Trustee for 23 Fasken as a result of this process but none of them were acceptable to the Trustee. One of the offers received was extremely low and was rejected as out of hand. A second offer was conditional on Sun Life Assurance Company of Canada (“Sun Life”) continuing to provide financing. The third offer was a package offer for both 23 Fasken and 31 Fasken but the amount offered for 31 Fasken was substantially below the amount which the Trustee ultimately accepted for that property. The Trustee will make available to the Court a copy of the offers received and seek an order sealing this material from the public record pending completion of a sale of 23 Fasken.

6. On March 20, 2002, the Trustee received a further offer from 23 Fasken from Boston United Realty Corporation ("Boston United"). This offer was in the amount of \$1,350,000 and was in a form acceptable to the Trustee. A copy of the offer is attached as Appendix A. Boston United subsequently instructed us that it wished to enter into the transaction using 1508204 Ontario Limited. The Trustee was also requested to agree to a conditional period up to April 15 during which time the purchaser could satisfy itself with respect to environmental, structural and title matters. The Trustee has agreed to this request and accepted the offer, subject to Court approval. The offer is scheduled to close on April 30, 2002, subject to the right of the Trustee to insist on an earlier closing date.

7. The Boston United offer is less than the appraised value of the property and the value paid by Canada 3000 when it acquired the property in September of 2001 for \$2,300,000. It is the Trustee's view that, for a number of reasons, the property is no longer worth the amount paid by Airlines and that the Boston United offer is commercially reasonable in all of the circumstances.

8. Following its purchase of the property, Airlines began a capital improvement program to upgrade the building from a general warehouse use facility for use as a call centre. As a result of these capital improvements, construction liens have been registered against the property in an amount totalling \$2,096,538.01. Based on the Trustee's review of these lien claims and information provided by counsel for the general contractor, some of these claims are duplicative in that the claims of subcontractors are included in the claim filed by the general contractor.

9. The capital improvements are not completed and substantial work will have to be done by any new owner in order to finish the capital improvements and use the building as a call centre. A report commissioned by the Trustee and prepared by Hellyer and Associates Inc. (“Hellyer”) indicates that approximately \$500,000 in additional work will be required to complete the conversion of the building to a call centre. A copy of this report is attached as Appendix B. In addition, power units necessary to use the premises as a call centre valued at approximately \$175,000 had to be returned to a supplier. The return of these units was approved by an order of the Court dated February 8, 2002. In the event a purchaser wished to use the building as general office space rather than as a call centre additional expenditures would likely be required.

10. The location of the property and its present configuration make its attractiveness to potential purchasers limited. Although its proximity to the airport makes it attractive to persons engaged in the airline industry, that industry is going through difficult times following September 11, 2001 and the relatively few offers received by the Trustee and the purchase prices set forth in those offers indicate that the subject property can no longer be considered to be valued at the level at which it was purchased by Airlines.

11. The Trustee retained A. E. LePage to conduct an appraisal of the property and also had its internal staff conduct an appraisal. Copies of these reports and the report referred to in paragraph 12, below, will be made available to the Court and a request will be made to have those reports sealed from the Court records pending completion of the sale of 23 Fasken. Those reports indicate that the sale price set forth in the Boston United offer is commercially reasonable especially after taking into account holding costs and sales commissions which, assuming the building were held for 12 months, would be approximately \$345,000.00.

12. Colliers International Realty Advisors (“Colliers”) also prepared a valuation analysis of 23 and 31 Fasken which was made available to D&T and PwC. This document was not prepared at the request of either D&T or PwC but was prepared by Colliers as a marketing exercise in an effort to obtain a listing agreement for these properties. A copy of the Colliers’ document will also be made available to the Court, under seal. The Trustee does not believe that the value set forth in the Colliers appraisal are realistic in the present market. It does not take into account the additional work required nor does it appear realistic in view of the actual offers received to date. Colliers declined a request to update its conclusions in light of these factors.

13. Sun Life holds first mortgages on 23 Fasken and 31 Fasken with principal and interest owing at the present time of approximately \$1.3 million on 23 Fasken and approximately \$1.9 million on 31 Fasken. Sun Life also holds a collateral second mortgage on 31 Fasken. Sun Life also held a \$500,000.00 Letter of Credit which it has drawn upon and it proposes to apply those funds to reduce the amount owing on the first mortgage on 23 Fasken.

14. Sun Life originally took the position that it would oppose the sale of 31 Fasken and brought a cross-motion returnable March 21, 2002. Sun Life has now indicated that it is content that the Trustee proceed with the sales of 23 and 31 Fasken and has entered into an agreement with the Trustee with respect to these issues. A copy of this agreement is attached as Appendix C.

TRUSTEE’S RECOMMENDATION WITH RESPECT TO THE PROCEEDS OF SALE

15. As noted above, construction liens have been registered against 23 Fasken in an amount totalling \$2,096,538.01. Twelve of the lien claimants claiming \$1,732,331.03 claim

priority over the Sun Life first mortgage. Construction liens have also been registered against 31 Fasken in the amount of approximately \$215,000.00 and the lien claimants also claim priority over the Sun Life first mortgage over 31 Fasken.

16. With respect to the proceeds of sale of 31 Fasken Drive, the Trustee proposes that approximately \$215,000.00 be paid into Court or held as otherwise agreed pending determination of the lien claims filed with respect to 31 Fasken and that Sun Life be paid the balance due on its first mortgage on 31 Fasken. The remaining proceeds (the “Surplus Funds”) shall be held in trust by McMillan Binch pursuant to the terms of the agreement between the Trustee and Sun Life which is Appendix C.

17. All of the proceeds with respect to 23 Fasken would be held by the Trustee or paid into Court pending determination of priority issues with respect to those funds as between the lien claimants on 23 Fasken and Sun Life.

18. In the event of a final determination by the Court concluding that Sun Life has priority over the lien claimants with respect to 23 Fasken, the Surplus Funds will be released to the Trustee and form part of the bankruptcy estate or in the event that such funds are insufficient to satisfy the mortgage of Sun Life on 23 Fasken then a portion of the Surplus Funds will be paid to satisfy the Sun Life Mortgage on 23 Fasken and the remainder will be released to the Trustee. In the event that an order is made declaring that certain lien claimants have priority as against Sun Life on 23 Fasken, the lien claimants shall receive the portion of the funds upon which they are held to have priority and the remaining funds and the portion of the Surplus Funds required will be paid to Sun Life to satisfy the principal and interest on its first mortgage on 23 Fasken.

FIRST MEETING OF CREDITORS

19. As previously reported to the Court, the Trustee intends to hold a first meeting of creditors in the Canada 3000 estates on or before May 15, 2002.

20. On December 18, 2001, a claims procedure for ticketholders and employees was approved by this Honourable Court. A copy of the order approving the claims process is attached as Appendix D.

21. As a result of the ticketholders claims process and the employees claims process, streamlined mechanisms were put in place to deal with the large number of relatively small claims held by these groups. These groups have received mailings which indicate that the first meeting of creditors will be held and that notice of the first meeting of creditors will be provided by advertisement in the Globe & Mail and National Post and by information available on the Trustee's web site.

22. By reason of the claims processes for ticketholders and employees, the ticketholders and employees have already received information packages quantifying their claims and the process with respect to determining the final quantum of their claims is well advanced. In the case of ticketholders, many have already received credits from credit and/or charge card companies. In order to save the substantial cost which would arise if a further mailing had to be made to ticketholders and employees with respect to the notice of first meeting of creditors, the Trustee requests an order permitting it to notify these stakeholders of the first meeting of creditors by advertising the date, time and location of the meeting not less than 14 days in advance of the meeting in the national edition of the Globe & Mail and the National Post.

SUMMARY

23. The Trustee seeks approval of the Court with regard to the following:
- (a) the sale of the properties located at 23 and 31 Fasken Drive, Toronto; and
 - (b) permission to notify ticketholders and former employees of the first meeting of creditors of Canada 3000 by advertising the date, time and place of the meeting in the national edition of the Globe & Mail and the National Post.
24. All of the above is respectfully submitted by PricewaterhouseCoopers Inc. in its capacity as Trustee in Bankruptcy of Canada 3000.

April 2, 2002

PRICEWATERHOUSECOOPERS INC., as
Trustee in Bankruptcy of Canada 3000 Inc.,
Canada 3000 Airlines Limited/Lignes Aériennes
Canada 3000 Limitée (“Airlines”) and Royal
Aviation Inc.

Per: _____

IN THE MATTER OF THE BANKRUPTCY OF CANADA 3000 INC., CANADA 3000 AIRLINES LIMITED/ LIGNES AÉRIENNES CANADA 3000 LIMITÉE and ROYAL AVIATION INC.

Court File No. 31-396479

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Proceeding commenced at Toronto

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