

Court File No. 31-396479

Canada 3000 Airlines Limited

TRUSTEE'S PRELIMINARY REPORT TO THE CREDITORS

May 15, 2002

**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**

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

**SUBMITTED BY PRICEWATERHOUSECOOPERS INC.
IN ITS CAPACITY AS TRUSTEE**

INTRODUCTION

1. By order of the Ontario Superior Court of Justice, Commercial List (the "Court"), an application by Canada 3000 Airlines Limited ("Airlines"), Canada 3000 Inc. ("Inc.") and Royal Aviation Inc. ("Royal") (the "Parent Companies") pursuant to the provisions of the *Companies' Creditors Arrangement Act* (the "CCAA") was granted on November 8, 2001 and Deloitte & Touche Inc. ("D&T") was appointed to monitor the business and affairs of the Parent Companies (the "Monitor").
2. On November 11, 2001, D&T was appointed trustee in bankruptcy of the Parent Companies pursuant to the *Bankruptcy and Insolvency Act* (the "BIA"). Subsequently, on November 30, 2001, PricewaterhouseCoopers Inc. ("PwC" or the "Trustee") was substituted as trustee in bankruptcy by the Court, with effect from December 3, 2001 (the "Substitution Date").

REASONS FOR POSTPONEMENT OF THE FIRST MEETING OF CREDITORS

3. On November 30, 2001, the Trustee sought and received an order from the Court postponing the first meeting of creditors until further notice.
4. At that time, the primary reason for seeking the postponement was to allow the Trustee sufficient time to gather the information necessary to communicate with over 50,000 members of the public who have claims for travel services not provided (“Ticket Holders”). Airlines’ records did not contain the names and addresses of these Ticket Holders. Accordingly, the Trustee was unable to send the notices required by Section 102(1) of the BIA advising of the first meeting of creditors to all creditors with provable claims.
5. The only feasible way to collect contact information was to publish advertisements requesting customers to contact the Trustee via a Call Centre and related Web Site established for this purpose and to maintain and operate the Call Centre and Web Site to allow the Trustees sufficient time to gather the necessary information to ultimately communicate with these and other creditors regarding their claims. As of April 30, 2002, the Call Centre had received 42,433 calls from Ticket Holders and there were over 243,000 hits on the web site.
6. Subsequent to November 30, 2001, another reason arose for the continued postponement of the first meeting of creditors. In the interests of easing the burden of the demise of Airlines and related entities to Ticket Holders and to assist in streamlining the Trustee’s claims process relating to Ticket Holders, the four credit card companies with merchant agreements with Airlines (the “Card Companies”) were advocates of providing credits to Ticket Holders who had used their charge or credit cards to buy travel services from Airlines. If such credits were to occur, the Card Companies wanted to be subrogated to the rights of

Ticket Holders with respect to any claims against Airlines, to the extent of such credits. This would considerably reduce the number of Ticket Holders whose claims the Trustee would have to process. By orders of the Court dated December 18, 2001, a Ticket Holder Claims Process was approved and the Card Companies obtained the subrogation order they were seeking.

7. The Card Companies advised the Trustee that they would have substantially completed the processing of credits to Ticket Holders who paid for travel services using a credit or charge card by the end of March 2002. It was then estimated to take a further 30 days to approximately the end of April 2002 for Ticket Holders to be advised of the credit, through their monthly credit/charge card statements. Accordingly, the Trustee was of the view, and the Court concurred, that it was appropriate to defer the meeting of creditors until May 2002 when the majority of credits had been processed and Ticket Holders knew that they had received credits.

BACKGROUND

8. D&T and PwC, in their respective capacities, have filed several reports with the Court. The most significant of these reports are as follows:
 - D&T's ninth report dated March 7, 2002 (the "Ninth Report") summarizing the events leading to the bankruptcy filing, various conservatory and protective measures undertaken and D&T's activities as Monitor, trustee and agent for the Trustee before and after the Substitution Date;
 - the Trustee second report to the Court dated March 8, 2002 (the "Second Report") setting out the Trustee's activities since the Substitution Date and providing detailed descriptions of the assets on hand and claims; and

- the Trustee's fifth report to the Court dated May 6, 2002 (the "Fifth Report") summarizing the offers received for the most significant of Airlines' assets, the aviation assets, and seeking approval for the offers accepted by the Trustee, subject to Court approval.
9. Highlights of the contents of each of D&T and the Trustee's reports are summarized in Appendix A. Copies of D&T and the Trustees' previous reports to the Court may be obtained from the Trustee's Web Site at www.pwcglobal.com/brs-canada3000.
 10. For ease of reference and context, certain highlights of D&T and the Trustee's previous Court reports have been included in this report.

CAUSES OF BANKRUPTCY

11. The chief cause of bankruptcy was the inability of Airlines to support the significant cash injection of \$40 million required to satisfy outstanding obligations and support the operations of its newly acquired subsidiary, Royal. This situation was exacerbated by the significant downturn in air travel experienced by the airline industry subsequent to the September 11, 2001 terrorist attack on New York City and the launch of a new discount carrier by Air Canada.
12. On November 7, 2001, the Parent Companies determined that they would need to file for protection under the CCAA in order to preserve their assets while they formulated a restructuring plan. The CCAA order was obtained on November 8, 2001 and Section 304 proceedings were initiated by the Monitor under the United States Bankruptcy Code to prevent the seizure of assets located outside of Canada.

13. Despite the filings, five planes were seized and, on November 8, 2001 the directors made the decision to cease operations. On November 11, 2001, an Order was granted to the Monitor to file assignments in bankruptcy.

STATUS OF RELATED BANKRUPTCY ESTATES

14. PwC is acting as Trustee for the Parent Companies as well as various subsidiaries. A table identifying the companies in the Canada 3000 group over which PwC has been appointed Trustee and their primary activity is set out below.

| Company | Primary Activity |
|--|---|
| Canada 3000 Inc. | Holding Company |
| Canada 3000 Airlines Limited/Lignes Aeriennes Canada 3000 Limitee | Airline |
| Royal Aviation Inc. | Airline |
| C3 Aventure Limitee/ C3 Leisure Limited (doing business as Canada 3000 Holidays) | Tour operator |
| Holiday Travel Consultants Ltd. (doing business as Canada 3000 Tickets) | Travel agent |
| Canada 3000 Sales Limited | General sales agent for Canada 3000 Airlines |
| Canada 3000 Airport Services Limited | “Ground side” services (curb to passenger loading) |
| Royal Handling Inc. | “Air side” services (aircraft servicing in Toronto) |
| Air Pax Inc. | Quebec tour operator |

15. The Trustee is administering the activities of the various estates separately, to the extent that it is feasible to do so. Due to the interrelationship among the entities in the group, the Trustee has carried out certain functions on a joint basis, particularly those relating to customers who did not receive travel services (the “Ticket Holders”) and the return of leased aircraft.
16. The head offices of C3 Aventure Limitee/C3 Leisure Limited (“Leisure”) and Holiday Travel Consultant Ltd. (“Holidays”) were located in Vancouver, British Columbia and the Trustee’s Vancouver office is administering these estates. First meetings of creditors in these estates were also postponed and were held on May 14, 2002.

17. The First Meetings of Creditors in the estates of Inc., Royal and Canada 3000 Sales Limited (“Sales”) were postponed until further order of the Court and are being held on May 15, 2002.

The Trustee held First Meetings of Creditors of Royal Handling Inc. (“Handling”) and Airport Services Limited (“Services”) on December 7, 2001 and for Air Pax Inc. on December 21, 2001. At that time, the Trustee reported on its activities to date. The Trustee is updating the inspectors and creditors of these estates in the normal course.

CONSERVATORY AND PROTECTIVE MEASURES

18. D&T and the Trustee instituted various conservatory and protective measures including:
- Posting security guards and/or changing access codes at those locations containing valuable assets;
 - Securing of aircraft in accordance with industry requirements;
 - Continuing insurance coverage and, in certain cases, expanding coverage;
 - Ensuring that IT systems were adequately backed up and access restricted to authorized personnel;
 - Performing physical counts of assets located in Canada and internationally, where appropriate; and
 - Ensuring that accounting records and other company records were adequately secured.

OPERATIONS

19. As will be discussed later in this report, the Trustee has completed sales of substantially all of Airlines' assets, pending approval of the Court for the most recent sales, and is in the process of winding down its administration of the estate.
20. The Trustee intends to vacate Airlines' head office by May 31, 2002. It intends to retain the services of 13 employees for the month of June to complete its realization process and required human resources functions and then to terminate all but four employees whose services it will retain to assist in the wind down of the administration of the estate.
21. The Trustee continues to occupy two leased premises at 7040 Torbram Road and the Millard Air Hangar. The Trustee has received offers for substantially all the assets located at both these locations but does not expect to receive Court approval to complete the sale until May 21, 2002. Accordingly, the Trustee expects that it will need to occupy the premises until June 30, 2002 in order to provide the purchasers with sufficient time to remove the assets. In this respect, the Trustee has entered into a sub-lease with Air Transat for the space at the Millard Air Hangar.

ASSETS

22. As at the date of bankruptcy, the accounting records of Airlines listed the following significant assets, having the following book values. The Trustee notes that, with the exception of cash and short-term investments, these book values do not reflect current market values or expected realizations. The current status of these assets is also noted.

| Asset | Net Book Value | Status |
|----------------------------------|-------------------|-------------------------|
| (C\$ millions) | | |
| Aviation Assets: | | |
| Aircraft Parts | 35.0 | Tranche Three Sale |
| Ground Equipment | 2.4 | Tranche Three Sale |
| Security Deposits | 35.5 | Under review |
| Catering Supplies | 2.2 | Tranche Two Sale |
| Galley Equipment | 1.4 | Tranche Three Sale |
| Total Aviation Assets: | 76.5 | |
| Non-aviation Assets: | | |
| Cash and Short-Term Investments | 29.8 | Majority frozen by RBC |
| Land and Buildings | 8.8 | Tranche One Sale |
| Leasehold Improvements | 5.6 | No recoveries |
| Office Furniture & IT Equipment | 10.3 | Tranche Two Sale |
| Third-Party Receivables | 21.0 | Collections in progress |
| Inter-company Receivables | 43.9 | No recoveries |
| Prepaid Expenses | 9.5 | Limited recoveries |
| Other Assets | 13.2 | No recoveries |
| Total Non-aviation Assets | 142.1 | |
| Total Assets | 218.6 | |

23. The references to sales in the Status Column above will be discussed in more detail below.
24. RBC has GSAs over the assets of Airlines located in Ontario and those located outside of Ontario that are covered by RBC's registration of its security interest in Ontario (the "RBC Collateral"). This represents the majority of the assets.
25. A detailed description of the above noted assets and the various conservatory and protective measures that the Trustee undertook in respect of them is available in the Trustee's Second Report, a copy of which has been posted on its Web Site.

Leased Assets

26. At the date of bankruptcy, Airlines operated a fleet of 24 aircraft, all of which were leased. The Trustee's legal counsel, McMillan Binch, conducted a detailed review of the leases to assess whether or not the Trustee had any economic interest in the leases or the aircraft, attached engines or related equipment (the "Equipment"). McMillan Binch determined that all of the leases were true leases and that the lessors were entitled to the return of their Equipment.
27. The Trustee returned the Equipment to the lessors upon receiving (i) an executed acceptance agreement, which set forth the rights of the parties and allocated the costs and liabilities associated with the preservation of the Equipment, and (ii) a reimbursement of such preservation costs incurred by the Trustee.
28. The Trustee has retained the right to pursue recovery of amounts paid by Airlines to the aircraft lessors pursuant to the leases in respect of security deposits ("Deposits") and maintenance reserves ("Reserves"). At the date of bankruptcy, Airlines' accounting records indicated Deposits of \$35.5 million and Reserves of US\$69.0 million paid to lessors. The Trustee is working with its counsel and has retained counsel in the United States to review its position with respect to the Deposits and Reserves.
29. In addition to the leased aircraft, the Trustee has returned all leased IT equipment and vehicles that it did not require to the respective lessors.

Owned Assets

30. The Trustee is in the process of realizing on the assets that Airlines owned. The Trustee's realization process is discussed in further detail below.

31. D&T, and subsequently, the Trustee have undertaken extensive activities to prepare the assets for sale. This was necessary to maximize realizations from the assets, particularly with respect to spare parts and other aviation assets (the “Parts”) where the value of the Part could be severely negatively impacted if all of the documentation tracing the history of the Part could not be provided to a prospective purchaser.
32. D&T and the Trustee’s activities in this regard were detailed in D&T’s Ninth Report and the Trustee’s Second Report and included the following:
- Performing comprehensive physical counts of the assets;
 - Consolidating the Parts from nine stations in Canada to a single site in Toronto;
 - Commissioning appraisals and audits of the Parts certificates;
 - Organizing certificates and histories of the Parts and creating a comprehensive database on compact disk detailing the maintenance history of each Part by serial number;
 - Dealing with 30-day goods and property proofs of claims to ensure that property subject to legitimate claims was not sold; and
 - Advertising the assets for sale in trade magazines, national and international newspapers and web-media.

Realizations Resulting from Sale Activities

33. Details of the Trustee’s marketing process may be found in its Second Report and Fifth Report. Briefly, the Trustee advertised and marketed Airlines’ assets for sale in three tranches. A summary of the assets comprising the respective tranches and the realizations to date is summarized below:

| Tranche | Assets Included | Type of Offer | Offer Accepted (C\$'000) | Status |
|----------------|---|--|-------------------------------------|------------------------|
| 1 | Buildings - 23 & 31 Fasken Dr. Building contents – 23, 27 & 31 Fasken Dr. | Cash Sale/ Net Minimum Guarantee | 4,267 | Completed |
| 2 | IT equipment Vehicles Catering supplies Miscellaneous office furniture & supplies Various other non-aviation assets | Cash Sale/ Net Minimum Guarantee | 904 | Completed |
| 3 | Aviation assets | Cash Sale | 16,118 | Pending court approval |
| | Gross Anticipated Realizations from Sales of Above | | 21,289 | |
| | Anticipated mortgage/ lien payments | | (3,683) | |
| | Net Anticipated Realizations from Sales of Above | | 17,605 | |

34. The Trustee received approximately \$4.1 million from the sale of the buildings at 23 and 31 Fasken Drive. Just over \$2 million of these funds were paid to the mortgage-holder, Sun Life Assurance Company of Canada (“Sun Life”), in respect of its first mortgage on 31 Fasken Drive. The remainder of the funds are being held in trust pending the determination of priority of certain lien claimants and Sun Life. Pursuant to an agreement with Sun Life, and as approved by the Court, just over \$400,000 of the funds may be paid to the Trustee if Sun Life maintains its priority as against the lien claimants on 23 Fasken Drive.
35. The Tranche Three Assets are comprised of the aviation assets, primarily spare parts, and represent the majority of Airlines’ assets. The Trustee has reached agreements with eight parties and has accepted offers from these parties, pending Court approval totalling \$16.1 million. The Fifth Report provides further details on the offers received and the Trustee’s recommendation. The Trustee will be

seeking approval of the offers at a Court hearing scheduled for May 21, 2002. The Trustee will review the offers received with the inspectors prior to the hearing.

36. In addition to the sale of the three tranches detailed above, the Trustee has realized approximately \$1.1 million from the disposal of various miscellaneous assets. As at the date of this report, the Trustee has not received all proceeds from its realization activities. A summary of the Trustee's expected realization proceeds in this respect is detailed below:

| Asset | Purchaser | Realization Proceeds (C\$'000) |
|-------------------------------------|---|---|
| Galley and Ground Service Equipment | Skyservice Airlines Limited | 373 |
| Galley Equipment and Seats | International Lease Finance Corporation | 266 |
| Seats | GATX Corporation | 128 |
| Millard Hangar office contents | Air Transat | 100 |
| Out-station Assets | Various | 74 |
| Vehicles | Various | 34 |
| Catering Supplies | Columbus Air Vacancies | 30 |
| Towbars | Various | 10 |
| Various | Various | 75 |
| Total Realizations to date | | 1,090 |

37. The Trustee estimates that realizations to date from its completed and pending sales, net of anticipated mortgage-holder or lien payments, are \$18.7 million (\$17.6 million from the three tranches and \$1.1 million from miscellaneous sales). The Trustee is still in possession of various miscellaneous pieces of equipment and intends to consolidate these and offer them for sale on an expedited basis in the next two to three weeks.

Other Realization Activities

Cash

38. As previously reported in the Second Report, the Trustee determined that approximately \$32.4 million existed in various operating bank accounts as at the date of bankruptcy. Of this total, approximately \$29.1 million was held at RBC in Canada and the United Kingdom and the remaining \$3.3 million was held in other bank accounts.
39. RBC made approximately \$10 million, of the \$29.1 million in its possession, available to the Monitor and the Trustee to fund the payment of wage arrears and expenses incurred in the bankruptcy proceedings. RBC has asserted rights of consolidation and set off in respect of the remaining balance of \$19.1 million..
40. The Trustee has recovered approximately \$1.1 million of the \$3.3 million held in other bank accounts. The remaining funds in other institutions are primarily being held as offsets against credit card chargebacks. The Trustee is continuing to pursue recovery of these funds, wherever possible. However, these funds are also subject to RBC's security.

Third-Party Accounts Receivable

41. As at the date of bankruptcy, the books and records of Airlines indicated approximately \$21 million as due and receivable from various third parties. To date, the Trustee has recovered approximately \$422,000 of the third-party receivables.
42. The Trustee has determined that significant portions of the third-party accounts receivable may be subject to offsets. However, the Trustee is pursuing recoveries where feasible.

Corporate Income Taxes Recoverable

43. The Trustee has reviewed the accounting records of Airlines for the taxation period beginning August 15, 2001 to November 10, 2001 (deemed taxation year end due to bankruptcy), and has determined that Airlines may be entitled to various federal and provincial tax refunds totaling approximately \$5.5 million and \$4.3 million respectively. However, there are federal and provincial tax reassessments as well as outstanding income, GST and payroll taxes owing by Airlines that may serve to reduce any amounts payable by the government in respect of the tax refunds. The current estimate of the potential offsets is approximately \$6 million.

CLAIMS

44. The following summarizes the claims received in the Airlines' estate as of May 10, 2002, compared to the draft Statement of Affairs. The Trustee has received a significant number of claims in the past two weeks and is in the process of reviewing these claims.

45. As will be discussed below with respect to Ticket Holder Claims, the Trustee has received numerous duplicate claims from individual Ticket Holders as well as the Credit Card Companies who have subrogated claims from some of these Ticket Holders. For the purpose of the table below, the Trustee has reflected total maximum Ticket Holder Claims of \$28 million, being \$24 million in unearned revenue reflected in the books and records of Airlines, plus a cushion of a further \$4 million.

| Nature of Claim | Total Claim as per Statement of Affairs (C\$'000) | Total Claim Received to Date (C\$'000) |
|--------------------------------|---|--|
| Secured/Property Claims | | |
| RBC | 15,690 | Est. 15,000 ¹ |
| Property | | Est. 4,500 |
| 30-day Goods | | 4,229 |
| Other | | 3,650 |
| Preferred Claims | | |
| Employees | | 588 |
| Other | | 3,652 |
| Unsecured Claims | | |
| Employees | 7,300 | 9,500 |
| Ticket Holders | 40,000 | Est. 19,900 ² |
| Trade Creditors | 153,796 | Est. 63,500 |
| Total Claims | 216,786 | 124,519 |

¹ \$15 million before any claims under Airlines' guarantee and indemnity regarding Leisure. The components of RBC's claim are detailed in the table below in paragraph 48.

² \$28 million net of \$8.1 million in Visa chargeback claims for which RBC is claiming as secured.

Secured/Property Claims

RBC's Claims

46. As indicated earlier, RBC has GSAs over the assets of Airlines. RBC also holds a GSA over the assets of Leisure and Airlines has guaranteed Leisure's obligations to RBC in this respect. The Trustee's counsel, McMillan Binch, was conflicted from providing the Trustee with an opinion on the validity and enforceability of RBC's security. Consequently, the Trustee engaged Davis & Company ("Davis") to provide the opinion. Davis has advised the Trustee that RBC's security with respect to Airlines is valid and enforceable as against the Trustee in respect of personal property assets located in Ontario and assets located outside of Ontario covered by RBC's registration of its security in Ontario (the "RBC Collateral", as previously defined).

47. RBC's potential claim against Airlines is comprised of the following components:

| Component | Value |
|--|-----------------------|
| | (C\$ millions) |
| Letters of Credit | 6.3 |
| Payments re. RBC Customer Loyalty Programs | 0.5 |
| Cheque Chargebacks | Est. 0.1 |
| Visa Chargebacks | Est. 8.1 |
| Amount pursuant to guarantee and indemnity of Leisure debt | TBD |
| Total* | 15.0 |

* (Not including costs incurred in realizing on security and other recoverable costs)

48. RBC's claim against Leisure consists of approximately \$25.4 million in Visa chargebacks and \$300,000 in Loyalty Program claims. RBC can look to either Airlines or Leisure in respect of its debts owing by Leisure and is considering its options in this regard. Accordingly, the amount that RBC will recover from Leisure is not yet known.
49. A detailed discussion of the components of RBC's claim is available in the Second Report. Briefly, the largest component, the Visa chargebacks, arises from RBC being the Visa Merchant Bank for Airlines and Leisure. According to RBC, in certain circumstances specified in the Visa merchant agreement between Airlines and RBC, RBC is entitled to reverse the amount of the credit previously given to Airlines in respect of a transaction. It is this process that gives rise to the Visa chargebacks in respect of customers who paid by Visa but did not get the services for which they paid.
50. The Trustee has concluded that there is no issue concerning the validity of RBC's claim with respect to the LCs, to the extent that they are validly drawn upon prior

to expiry, and cheque chargebacks. The Trustee has not yet taken a position on the other components of RBC's claim, but expects to do so shortly with respect to the claims relating to RBC's Customer Loyalty Program.

51. With respect to its claims against Airlines for Visa chargebacks, either directly or under the guarantee and indemnity relating to Leisure's obligations, RBC asserts that its Visa chargeback claims are secured as a result of the provisions of its GSAs, which cover all obligations, indebtedness or liabilities, however incurred. The Trustee has received an opinion from legal counsel regarding the Visa chargebacks and the Trustee will review the opinion with the inspectors.

30-Day Goods and Property Claims

52. The Trustee's review of 30-day goods and property claims ("Property Claims") is substantially complete. For those Property Claims that have been accepted, the Trustee has returned or is in the processing of returning the property to the claimants.
53. The process of establishing the validity of the Property Claims required that the Trustee undertake numerous procedures, including the following:
 - Review of the lease, license or other agreements, delivery, and other supporting documentation to establish ownership of the property (the "Property");
 - Determination of the current status of the Property; and
 - Locating the property and organizing its return to the beneficial owner.
54. In the case of Property Claims in respect of Parts, the Trustee was required to undertake additional procedures including:

- Determining whether the particular Part claimed was held by Airlines, out for repair or installed on an aircraft;
- Tracking engines, reviewing log books, service bulletins, and engine manuals; and
- Utilizing Aircraft Maintenance Engineers and other personnel to track the history or perform physical inspections of the Part.

55. The Trustee is satisfied that the Parts included in the Tranche Three Sale process are not the subject of valid property claims and that it is within its rights to dispose of the assets included in the Tranche Three Sale.

Other Secured Claims

56. The Trustee is in the process of reviewing the other secured claims received of \$3.6 million and has not yet made a determination as to their validity.

Preferred Claims

Employee Claims

57. Pursuant to the Court Order of December 18, 2001, the Trustee has calculated the employees' entitlements to unpaid wages, vacation pay, severance, expenses, bonus etc. In the case of unionized employees, the Trustee has prepared one claim per union. The claims, as prepared by the Trustee, have been agreed to and accepted by three of the four unions. With respect to non-unionized employees, the Trustee calculated the individual employee claim entitlement, inserted the calculated values in the proof of claim forms and mailed the forms to the employees for approval. To date, the majority of the employees have indicated acceptance of the claims as calculated.

58. Pursuant to an order dated November 8, 2001 issued by the Canada Industrial Relations Board, it was held that certain entities in the Canada 3000 Group were

deemed to be a common employer. Accordingly, it is possible that employees of Royal, Handling and Airport Services may be entitled to file claims against the Airlines estate, thereby increasing the preferred and unsecured claims from employees.

Other Preferred Claims

59. The Trustee recently received other preferred claims of \$3.6 million and will review these for validity in due course.

Unsecured Claims

Ticket Holder Claims

60. As at the date of bankruptcy, Airlines had unearned revenue relating to future travel services not provided to Ticket Holders of approximately \$24 million; this represented approximately 52,000 tickets. The Trustee sought and obtained a Court Order on December 18, 2001 approving a streamlined claims process. As part of the claims process, a deadline of April 30, 2002 was set for the receipt of claims from Ticket Holders and the Trustee has received a significant volume of claims in the last two weeks.
61. The Trustee understands that a significant portion of those Ticket Holders that made payment using a credit card have received credits from their respective Card Companies. As indicated at the outset of this report, the Card Companies sought and obtained a Subrogation Order allowing them to step into the shoes of Ticket Holders to whom they provided credits for travel services not provided that were paid for using a charge or credit card. The Trustee has received claims valued at approximately \$16.7 million from the Card Companies in this respect, of which approximately \$1.5 million have been filed as contingent claims. The Card Companies are still processing credits and have provided for a cushion to accommodate any differences that may arise between the amounts the Trustee

- says are validly owing to Ticket Holders and the credits actually granted by the Card Companies.
62. Of the \$16.7 million, \$8.1 million represents a claim in respect of Visa chargebacks. For the purpose of the tables in paragraphs 46 and 48, the Visa chargebacks are shown as part of RBC's secured claim.
 63. In addition to the claims received from the Card Companies, the Trustee has received claims from individual Ticket Holders totalling \$12.1 million. It is possible that there is duplication amongst the claims received from the Card Companies and those received from Ticket Holders. The Trustee will be assessing this as it prepares a Master Claimants List of Ticket Holder Claims. As indicated earlier, as a result of this duplication, the Trustee has used an amount of \$28 million in its summary in paragraph 46 of claims received to date, to reflect its estimate of the maximum amount of Ticket Holder Claims. This \$28 million is further broken down into \$8.1 million in respect of Visa chargebacks which are shown as part of RBC's secured claim and \$19.9 million in unsecured Ticket Holder Claims.
 64. As indicated in the Second Report, Ticket Holders may also be eligible to seek recovery from the provincial compensation funds maintained by the Office de la Protection du Consommateur, the Travel Registrar of British Columbia, and the Travel Industry Council of Ontario. Ticket Holders are advised to contact these parties directly with respect to filing claims against the compensation fund. Contact details can be found on the Trustee's Web Site at www.pwcglobal.com/brs-canada3000.

Trade Creditor Claims

65. The books and records of Airlines indicate potential trade creditors claims of approximately \$153.8 million. A summary of the significant creditors listed in the books and records is provided below:

| Trade Creditor | Amounts Due |
|------------------------------|--------------------|
| | (C\$'000) |
| ILFC | 23,010 |
| GTAA | 10,438 |
| GE Engine Services | 7,800 |
| NAV Canada | 7,331 |
| Rolls-Royce | 4,793 |
| SITA | 4,378 |
| Ansett | 3,834 |
| US Airways | 2,716 |
| Other | 89,600 |
| Total Trade Creditors | 153,800 |

66. To date, the Trustee has received approximately \$63.5 million in trade creditor claims.

Contingent Claims

67. As indicated above, the Trustee has received contingent claims from the Card Companies in respect of credits issued to Ticket Holders. These claims total approximately \$1.5 million.
68. In addition to the potential claims for amounts outstanding at the date of bankruptcy, the Trustee expects to receive contingent claims from various aircraft lessors arising from the termination of their leases with Airlines. The Trustee may have offsets against such claims in respect of Deposits and Reserves paid to the lessors by Airlines.
69. One of the regulations of the Canadian Transport Agency (the "CTA") was that Airlines post a bond to cover unearned revenue generated from charter flight sales. The Guarantee Company of North America (the "GCNA") underwrote and

supplied a bond in the amount of \$15 million, to satisfy this requirement. In the event that CTA makes a claim against GCNA, the Trustee expects that GCNA will in turn file a claim against Airlines.

70. The Trustee has received a notional claim of \$1 from the Canada Customs and Revenue Agency.

Claims Arising During CCAA Period

71. As was discussed in the Second Report, there are various creditors who supplied goods or services to the bankrupts during the days of November 8 and 9, 2001 who have not been paid. One of these parties is NAV Canada, which is seeking payment of an amount in excess of \$100,000.
72. It is expected that this issue will be the subject of a motion before the Court on May 30, 2002.

RECEIPTS AND DISBURSEMENTS

73. A detailed Statement of the Trustee's receipts and disbursements as at April 28, 2002 has been attached as Appendix B. A summary is provided below:

| Cash Receipts: | (\$'000) | (\$'000) |
|--|---------------|---------------|
| Deposits on account – asset sales | 8,255 | |
| RBC Funding | 3,050 | |
| Recoveries from aircraft lessors | 1,583 | |
| Repatriation of Foreign Cash | 1,127 | |
| Realization of Assets - miscellaneous | 958 | |
| Recovery of Funds held by ADP | 727 | |
| Realization of Assets - tranche sales | 706 | |
| Business Tax Refunds | 626 | |
| Collection of third party receivables | 422 | |
| Fuel Tax Refunds | 139 | |
| Other | 980 | |
| Total Cash Receipts | 17,955 | 17,955 |
| Cash Disbursements: | | |
| Payroll | 2,293 | |
| Rent | 824 | |
| Operating Expenses | 644 | |
| Mortgage-holder payout – 31 Fasken Drive | 618 | |
| Security | 408 | |
| Call Centre | 346 | |
| Telephone | 319 | |
| Insurance | 186 | |
| Other | 813 | |
| | 6,875 | 6,875 |
| Net Cash Inflow | | 11,080 |

74. Certain of the deposits in respect of asset sales were returned to parties whose offers were not accepted by the Trustee and others are being held pending Court approval of the sale transactions and closing of such sales.
75. In addition to the above disbursements, the Trustee and its counsel have incurred fees and expenses that have not yet been paid. Fees and expenses of the Trustee and McMillan Binch incurred to January 31, 2002 were approximately \$4.2 million and are currently before the Court for approval. Details have been included in the Second Report.

76. In D&T's Ninth Report, it provided details of its fees and expenses and those of its legal counsel as Monitor under the CCAA (\$706,000 of which \$479,000 relates to Airlines) and as Trustee prior to the Substitution Date and agent for PwC after the Substitution Date (collectively \$2.1 million). D&T is also seeking approval of the Court for these fees and expenses.
77. The Trustee and its counsel are in the process of preparing bills for the period from February 1, 2002 to April 30, 2002.

ANTICIPATED REALIZATIONS AND PROJECTED DIVIDENDS TO CREDITORS

78. Attached as Appendix C is a Statement of Estimated Net Realizations which indicates that the net realizations from Airlines' assets are expected to be in the range of \$11.2 million to \$12.7 million.
79. The Trustee has determined that essentially all of the estimated net realizations relate to the RBC Collateral. The Trustee's realizations from unencumbered assets are expected to be fully absorbed by its costs in realizing on those assets and administrative costs.
80. As will be discussed later in this report, it is intended that RBC will be appointing PwC as its Receiver in respect of the RBC Collateral in the near future. Upon being appointed, the Trustee will prepare an accounting of the net realizations to date relating to the RBC Collateral and will forward such amount to RBC. This will be subject to RBC agreeing to reimburse the Trustee for any net realizations paid to RBC in excess of the amount required by RBC to discharge debts determined to be covered by its security.

81. Despite the fact that the Trustee has disposed of the majority of Airlines' assets, it is not in a position to project the availability of any potential dividend to the creditors due to the following:

- It has yet to receive Court approval for the Tranche Three Sale;
- The quantum of RBC's secured claim has not yet been finally determined;
- It continues to receive claims on a daily basis; and
- It has yet to resolve the status of certain lien claimants.

REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

82. The Trustee will complete a review of the Company's books and records in order to identify any preference payments or reviewable transactions. The Trustee will report the results of its review to the inspectors.

LEGAL MATTERS

83. Subject to the approval of the inspectors, the Trustee has retained the law firm of McMillan Binch as estate solicitor. As indicated earlier, McMillan Binch was conflicted from providing the Trustee with an opinion on the validity and enforceability of RBC's security. Consequently, the Trustee engaged Davis to provide the opinion.

84. Davis has advised the Trustee that RBC's security with respect to Airlines is valid and enforceable as against the Trustee in respect of the RBC Collateral. As indicated earlier, the Trustee will be consulting with the inspectors as to an issue with respect to the quantum of RBC's secured claim.

85. D&T retained the services of Chaiton and Chaiton to review certain leases, where McMillan Binch was again conflicted. In addition, the Trustee retained US counsel, Vedder Price, to review the Trustee's position with regard to Deposits and Reserves paid by Airlines.
86. The Trustee retained the firm of Stutman, Treister & Glatt in respect of the ancillary proceedings under Section 304 of the U.S. Bankruptcy Code brought in the United States bankruptcy court, Central District of California. Currently, the Preliminary Injunction ordered by the U.S. Court remains in place. Such order contains a stay of proceedings consistent with the stay provided under the BIA in order to ensure that there was no seizure of assets outside of Canada.
87. McMillan Binch has provided the Trustee with legal opinions of various claims of secured creditors in respect of leases and property claims and continues to review such claims as they are received.

CONFLICTS OF INTEREST

88. It is anticipated that RBC will appoint PwC as its Receiver in respect of the RBC Collateral. At that time, it is also anticipated that RBC will agree to allow fees and expenses incurred in the administration of the bankruptcy of Airlines and certain of its related companies to be paid from proceeds of realization or cash on hand. This arrangement has not been finalized but will not, at least, extend to the costs of any challenge to RBC's rights, debt or security that the Trustee may be asked by the creditors or inspectors to bring.
89. As indicated in the Trustee's first report to the Court dated February 1, 2002, in December 2001, RBC appointed PwC as its agent with respect to the sale by Airlines of the inter-company receivable owing from Canada 3000 Cargo Inc.

The Trustee respectfully submits to the creditors this, its Preliminary Report.

Dated this 15th day of May 2002.

Yours very truly,
PRICEWATERHOUSECOOPERS INC.
Trustee of the Estate of
Canada 3000 Airlines Limited

Hazel C. Claxton
Senior Vice-President

TABLE OF CONTENTS

| | |
|--|-----------|
| INTRODUCTION | 1 |
| REASONS FOR POSTPONEMENT OF THE FIRST MEETING OF CREDITORS | 2 |
| BACKGROUND | 3 |
| CAUSES OF BANKRUPTCY | 4 |
| STATUS OF RELATED BANKRUPTCY ESTATES | 6 |
| CONSERVATORY AND PROTECTIVE MEASURES | 7 |
| OPERATIONS | 8 |
| ASSETS | 8 |
| LEASED ASSETS | 10 |
| REALIZATIONS RESULTING FROM SALE ACTIVITIES | 11 |
| OTHER REALIZATION ACTIVITIES | 14 |
| <i>CORPORATE INCOME TAXES RECOVERABLE</i> | 15 |
| CLAIMS | 15 |
| SECURED/PROPERTY CLAIMS | 16 |
| PREFERRED CLAIMS | 19 |
| UNSECURED CLAIMS | 20 |
| <i>TRADE CREDITOR CLAIMS</i> | 22 |
| CONTINGENT CLAIMS..... | 22 |
| CLAIMS ARISING DURING CCAA PERIOD..... | 23 |
| RECEIPTS AND DISBURSEMENTS | 23 |
| ANTICIPATED REALIZATIONS AND PROJECTED DIVIDENDS | 25 |
| TO CREDITORS | 25 |
| REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS | 26 |
| CONFLICTS OF INTEREST | 27 |