

**IN THE MATTER OF THE BANKRUPTCY  
OF  
C3 AVENTURE LIMITEE / C3 LEISURE LIMITED  
dba CANADA 3000 HOLIDAYS**

**TRUSTEE'S PRELIMINARY REPORT**

**(MAY 14, 2002)**

**I. BACKGROUND**

The business C3 AVENTURE LIMITEE / C3 LEISURE LIMITED dba CANADA 3000 HOLIDAYS (“the Company”) was a wholesale tour operator, which carried on business across Canada dealing with over 1,200 retail travel agencies.

The Company is a wholly owned subsidiary of Canada 3000 Inc. and a member of the Canada 3000 Group of Companies (“the Group”). Most of the Company’s air travel arrangements were made with an associated company, Canada 3000 Airlines Limited / Lignes Aeriennes Canada 3000 Limitee dba Canada 3000 Airlines (“Airlines”).

On November 9, 2001 Airlines ceased operations and was assigned into bankruptcy on November 11, 2001. The Company did not have the financial wherewithal to make alternative arrangements for its customers and was forced to make an assignment into bankruptcy on November 16, 2001.

**a) Trust Funds**

At the time of making the assignment in bankruptcy, the Company had trust bank accounts with in excess of \$24 million on deposit. The Bankruptcy Trustee identified these funds as potentially being subject to subsection 81(1) of the *Bankruptcy and Insolvency Act* (“the BIA”).

This section deals with property in the possession of the bankrupt at the time of the bankruptcy.

On November 22, 2001 the Bankruptcy Trustee made an application to the Supreme Court of British Columbia for the appointment of a Judicial Trustee for the trust accounts.

**b) First Report to Court**

Attached hereto as **Appendix A** is a copy of the Bankruptcy Trustee's first report to the Court, dated February 25, 2002. This report describes the Bankruptcy Trustee's activities for the period November 16, 2001 to February 25, 2002.

Highlights of this report include:

- \$24 million trust fund and the appointment of a Judicial Trustee to administer the fund;
- establishment of a Call Centre for the Canada 3000 Group to assist in processing claims;
- establishment of a Vancouver Claims Centre for processing claims against the trust funds and the bankruptcy estate;
- review of the company's assets and liabilities;
- estimate recoveries of between \$4 million and \$6 million before professional fees, all of which is subject to security held by the Royal Bank of Canada;
- receipts to date totaling \$2.2 million of which \$1.9 million relates to the company's bank account on hand at the time of the bankruptcy.

## **II. ASSETS**

Attached hereto as **Appendix B** is a copy of the Bankruptcy Trustee's statement of receipts and disbursements dated April 30, 2002. All of Leisure's assets have been identified as being subject to the Royal Bank of Canada's ("the Royal Bank") General Security Agreement ("GSA").

Since our report to Court dated February 25, 2002, we confirm that the following assets have been recovered:

**a) Trade Accounts Receivable (Travel Agents)**

An additional \$5,524 has been recovered, bringing the total recovery as at April 30, 2002 to \$73,524. The recovery of funds is still being hampered by claims of set-off by the travel agents for unpaid commissions.

**b) Non-Trade Accounts Receivable (Travel Agents)**

The Bankruptcy Trustee has collected an additional \$25,436, which brings the total recovery to \$117,436. However, these recovery activities are also being hampered by claims of set-off by the travel agents for unpaid commissions.

**c) Accounts Receivable (Corporate Income Taxes)**

The Bankruptcy Trustee has filed the Company's pre-bankruptcy Income Tax Return with Canada Customs and Revenue Agency (CCRA).

The total Income Tax refund claimed is \$2.9 million and to-date \$100,000 has been recovered. We estimate that the recovery should be in the range of \$2 million to \$2.8 million, depending upon whether CCRA takes issue with the tax return as filed.

We anticipate receiving the remainder of the refund sometime in June or July 2002.

**d) Prepaids & Deposits**

The Bankruptcy Trustee is arranging for the surrender of the Letters of Credit (posted as security deposits with hotels), in order to recover any excess funds on deposit. To-date there has been no recovery of security deposits, but we continue to estimate that the Bankruptcy Trustee may still recover between \$440,000 and \$580,000.

**e) Computers, Office Furniture & Equipment**

To-date, the sale of assets has generated \$102,000 of which \$45,000 is being held by the purchaser until the Trustee is finished using these assets and surrenders them. No other assets are available for sale and therefore no further recovery is expected.

### **III. LIABILITIES**

The following summarizes the proven claims in the Company's bankruptcy estate, as at 5:00 p.m. Friday, May 10, 2002:

	As Per		As Per	
	Statement of Affairs		Proofs of Claims	
	#	\$	#	\$
Secured	1	8,262,997	nil	nil
Preferred	260	189,693	253	213,026
Unsecured*	232	14,410,768	291	22,939,827
Contingent**	Nil	Nil	1	10,261,284

\*The unsecured claims are calculated as follows:

Total estimated claims against trust funds	\$42,486,960
Less: estimated trust funds available for disbursement	<u>\$21,688,223</u>
	\$20,798,737
Proven claims other than ticket holders	<u>\$ 2,141,090</u>
Total	<u>\$22,939,827</u>

\*\*The contingent claims represent the potential claims against the trust account funds in excess of what the Leisure records indicate.

The Trustee is aware several parties that have some form of security interest in the Company's assets:

- CCRA has a claim of \$50,000 for unpaid source deductions, which the Company forwarded to Airlines prior to the bankruptcy proceedings, but Airlines failed to remit to CCRA;
- the Royal Bank has a first registered security interest (GSA) over the Company's assets in support of a Visa Merchant Agreement with an estimated shortfall /overdraft in excess of \$15 million;
- GE Capital has a registered security interest of approximately \$2.5 million in relation to specific computer equipment;
- Various leasing companies have registered security interests covering office and computer equipment.

## IV. REVIEW OF BOOKS AND RECORDS

As required by the BIA, the Trustee has examined the Company's available books and records (cash disbursements and numerous bank statements), as well as the inter-company transactions for reviewable transactions, preferences and settlements.

Based upon our review, no transactions have come to our attention that are out of the ordinary course of business.

## V. LEGAL

The various security documents have been forwarded to Davis & Co., the Bankruptcy Trustee's independent legal counsel in British Columbia, for legal opinions as to validity and enforceability of the security interests as against the Bankruptcy Trustee.

Davis & Co. have provided opinions that:

- the Royal Bank's GSA is validly registered;
- GE Capital's equipment lease may be validly registered, but its opinion is subject to clarification of certain registration issues and documents;
- other equipment leases are validly registered.

## VI. RECEIPTS AND DISBURSEMENTS

Attached as Appendix B is the Bankruptcy Trustee's statement of receipts and disbursements for the period November 16, 2001 to April 30, 2002. This statement can be summarized as follows:

	\$
Receipts	2,419,782
Disbursements	<u>177,155</u>
Cash on Hand, April 30, 2002	<u><u>2,242,627</u></u>

The cash on hand as at April 30, 2002 is subject to the Royal Bank's GSA.

## VII. ESTIMATED REALIZATIONS AND DISTRIBUTIONS

The Company's assets are fully encumbered by the Royal Bank's GSA, but the Royal Bank has not quantified the underlying debt owing by the Company. Until such time that the Royal Bank provides this information, we cannot be certain whether any funds will be available for distribution to the bankruptcy estate's creditors.

Attached as Appendix C is the Bankruptcy Trustee's estimated realizations and distributions as at April 30, 2002. This statement can be summarized as follows:

	Low	High
	\$	\$
Estimated Realizations	4,747,600	6,137,600
Estimated Future Disbursements	<u>(75,000)</u>	<u>(15,000)</u>
	<u>4,672,600</u>	<u>6,122,600</u>

The range of estimated net realization values is before payment of professional fees (Bankruptcy Trustee, BC and Ontario legal counsel).

## VIII. TRUST FUNDS

As stated earlier PricewaterhouseCoopers Inc. was appointed Judicial Trustee for the Company's trust bank accounts, by the Supreme Court of British Columbia and the Ontario Superior Court.

On May 10, 2002, the British Columbia Supreme Court and the Ontario Superior Court confirmed that these are trust funds and are not part of the bankrupt estate. The funds are being administered by the Judicial Trustee in accordance with a Trust Administration Plan that was approved by both Courts on May 10, 2002.

## IX. TRUSTEE'S FEES

As at April 30, 2002 the Bankruptcy Trustee has incurred (but not paid) fees of \$510,000 and estimates that its total basic fees to administer the bankruptcy and oversee asset recoveries will be in the range of \$650,000 to \$750,000.

A large portion of the Trustees' time has been spent in asset recovery, including updating corporate records, filing tax returns, preparing bond claims, contacting Hotels for the recovery of deposits, etc, and dealing with the company's European subsidiaries.

In addition a significant portion of these fees relate to the time spent in setting up a Call Center in conjunction with Canada 3000 Airlines. It is estimated that the total number calls received by the call center from ticket holders was over 42,000. In addition a web site was developed and used to assist creditors in understanding how to

proceed with the filing and processing of their claims.

The bankruptcy estate's British Columbia legal counsel's fees incurred (but not paid) to March 31, 2002 are \$83,000. We estimate that the total legal fees will range between \$115,000 and \$159,000 once Ontario legal counsel's fees have been included.

Total disbursements (excluding professional fees) incurred and paid to April 30, 2002 are \$177,000 (salary, wages, advertising, rent, etc.) and we estimate that the total disbursements to be incurred will range from \$190,000 to \$250,000.

**PRICEWATERHOUSECOOPERS INC.**  
**TRUSTEE**

**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 APRIL 30, 2002**

<b>RECEIPTS:</b>	<b>\$</b>
Cash on hand - November 16, 2001	1,932,516.25
Recovery of cash from outstanding bank accounts	209,187.52
Sale of assets	57,000.00
Accounts receivable collection	73,523.89
Non-trade receivables	117,436.12
Cash collateral / security deposits	-
Sale of other assets	-
Interest income	5,462.35
Income tax refund	109,903.10
Other refunds	3,672.30
Sundry Receipts	2,550.00
Foreign currency exchange	8,966.26
GST refunded	2,820.40
GST collected	3,990.00
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<b>Receipts into bank account</b>	<b>2,527,028.19</b>

**DISBURSEMENTS:**

Salary and Wages	158,428.13
Employee expenses	-
Contract services	8,054.10
Moving and storage	2,740.55
Searches	201.50
Repairs & maintenance	426.47
Computer services	-
Security	260.95
Miscellaneous	-
Filing fee	225.00
Advertising	2,002.56
Bond fee	-
Rent	381.95
Telephone	-
Bank charges	319.40
Office expense	2,468.93
Postage & courier	165.87
Storage	612.32
Utilities	231.21
GST paid	635.98
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<b>Total Disbursements</b>	<b>177,154.92</b>

**EXCESS OF RECEIPTS OVER DISBURSEMENTS**

**2,349,873.28**

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APPENDIX C

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

ESTIMATED REALIZATIONS AND DISBURSEMENTS  
AS AT APRIL 30, 2002 AND FORWARD

		Estimated Recovery	
		Low	High
		\$	\$
Estimated Realization of Assets	Schedule 1	4,747,600	6,137,600
Estimated Future Disbursements, before Professional Fees	Schedule 2	<u>(75,000)</u>	<u>(15,000)</u>
<b>Estimated Net Realization of Assets before Professional Fees</b>		<b><u>4,672,600</u></b>	<b><u>6,122,600</u></b>

APPENDIX C - Schedule 1

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

ESTIMATED REALIZATION OF ASSETS  
AS AT APRIL 30, 2002 AND FORWARD

	Net Book Value November 16, 2001 \$	Estimated Realization	
		Low \$	High \$
Cash on Hand at April 30, 2002	1,933,000	2,242,600	2,242,600
Accounts Receivable	1,080,000	20,000	470,000
Income Tax Refunds	-	2,000,000	2,800,000
Security Deposits	-	440,000	580,000
Fixed Assets	<u>1,450,000</u>	<u>45,000</u>	<u>45,000</u>
	<u><b>4,463,000</b></u>	<u><b>4,747,600</b></u>	<u><b>6,137,600</b></u>

APPENDIX C - Schedule 2

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

ESTIMATED FUTURE DISBURSEMENTS  
AS AT APRIL 30, 2002 AND FORWARD

	Note	Estimated Realization Costs	
		Low \$	High \$
<b>Estimated Future Disbursements:</b>			
Gross Salaries & Wages	1	5,000	45,000
Rent	2	5,000	20,000
Administration	3	<u>5,000</u>	<u>10,000</u>
<b>Total Estimated Future Disbursements, before Professional Fees</b>		<b><u>15,000</u></b>	<b><u>75,000</u></b>

**Note**

- 1 To date salaries have amounted to \$158,000. However, we expect this to significantly decrease in the coming months.
- 2 Currently we are paying rent at \$10,000 per month, of which \$5,000 will be attributed to the Bankruptcy Trustee commencing May 1, 2002.
- 3 The administration are the remaining miscellaneous costs like office expenses and postage. We expect the postage on the mail out of information packages and advertising of the first creditors meeting to be in the \$5,000 range.