

**IN THE MATTER OF THE BANKRUPTCY
OF
CANADA 3000 SALES LIMITED
doing business as CANADA 3000 SALES**

TRUSTEE'S PRELIMINARY REPORT

(MAY 15, 2002)

I. BACKGROUND

Canada 3000 Sales Limited (“Sales” or “the Company”) was a licensed wholesale tour operator and a retail travel agency selling tickets on charter flights to travel agents and the general public, respectively. The charter flights were between Canada and Portugal, Spain and Australia.

The Company is a wholly-owned subsidiary of Canada 3000 Airlines Limited (“Airlines”). Both the Company and Airlines are members of the Canada 3000 Group of Companies (“the Group”). The Company’s air travel arrangements were exclusively made with Airlines and it carried on operations from headquarters in Toronto.

In early November 2001, Airlines, and other key entities of the Group, filed for creditor protection under the Companies Creditors’ Arrangement Act (“CCAA”). On November 9, 2001, Airlines ceased operations and was assigned into bankruptcy on November 11, 2001.

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 Aviation Inc. (“Royal”). The 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.

The bankruptcy of Airlines forced the Company to suspend its operations as it did not have the financial wherewithal to make alternative travel arrangements for its

customers, having prepaid Airlines for future air travel services. Upon determining that Airlines was not going to be able to provide the purchased future air travel services, the Company was left with no real alternative but to assign itself into bankruptcy on November 16, 2001.

On November 30, 2001, the Trustee sought and received an order from the Court postponing the first meeting of creditors, in an effort to improve the process of administering the estate. The extension of time allowed the Trustee to deal with the claims of Ticket Holders and Card Companies. The Trustee, with this extension, had sufficient time to establish a call centre and web-site, to gather the necessary information not available in the Company's books and records, that included the names and addresses of Ticket Holders.

Trust Funds

In compliance with Ontario statutory requirements for the travel industry, the Company established a trust account. All funds received by the Company from travellers were initially to have been deposited into this trust account. We are completing a review to verify that this, in fact, is the case.

The funds on deposit in the trust bank account (the "Trust Account") as at November 16, 2001, totalled \$945,000. At the time of making the assignment in bankruptcy, the Bankruptcy Trustee identified these funds as potentially being subject to subsection 81(1) of the *Bankruptcy and Insolvency Act* ("the BIA"), more specifically, persons claiming property in the possession of the bankrupt. Based upon information available from the Company's records, the Bankruptcy Trustee determined that in excess of 1,500 travellers would have claims against the Trust Account.

Our preliminary view as Bankruptcy Trustee was that the Company's bankruptcy estate did not have an equitable interest in the Trust Account. Accordingly, the Bankruptcy Trustee made an application to Court for the appointment of a Judicial Trustee (the Judicial Trustee) to administer the Trust Account. On December 5th, 2001, the Court granted an Order appointing PricewaterhouseCoopers Inc. as Judicial Trustee for the Company's Trust Account.

II. ASSETS

As at the date of bankruptcy, (November 16, 2001), all of the Company's assets were encumbered by a first ranking registered security interest, a General Security

Agreement (“GSA”), in favour of Royal Bank of Canada (“RBC”). The following is a summary of the Company’s assets that have been identified as being subject to RBC’s GSA:

a. Cash on Hand

As at the date of bankruptcy, there was \$436,000 in cash on deposit in the Company’s general operating account, which was maintained at RBC. These funds have been transferred by RBC to the Bankruptcy Trustee but are subject to RBC security.

b. Inter-Company Accounts Receivable Recoverable Under the Charter Bond

The Company’s accounting records indicate that, as at November 16, 2001, the net book value of the inter-company accounts receivable was approximately \$2,166,200.

Because the companies in the Group are all bankrupt, with apparently few unencumbered assets, we anticipate these accounts receivable will have no realizable value.

c. Prepaid Expenses/Other Assets

The Company’s accounting records indicate that, at the date of bankruptcy, the net book value of prepaid amounts and other assets was \$50,800. We do not anticipate any recovery from these assets.

d. Inter-Company Receivable Recoveries Under the Charter Air Carrier Bond

As at the date of bankruptcy, Sales had approximately \$800,000 on deposit with Airlines in respect of unearned revenue for sales of future air travel services. In this regard, the Company has filed a claim of approximately \$800,000 against The Guarantee Company of North America (“Guarantee”) against a bond that was required by the Canadian Transport Agency (“CTA”). The purpose of the bond was to protect consumers for advance payment for charter flights booked through Sales. Guarantee is disputing the claim on a variety of fronts. The Trustee is considering its options for pursuing the claim and will seek directions from the Inspectors in this regard. Any recoveries under the bond may go first to the Trust Account to satisfy any deficiency in the account. The residual would then be

available to RBC under its security.

III. LIABILITIES

The following summarizes the claims filed 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 Claim	
	#	\$		#	\$
Secured	Nil	Nil		4	2,506
Preferred	0	0		Various	234,460
Unsecured	Various	1,933,500		Various	1,504,419
Contingent	Nil	Nil		Nil	Nil

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

(a) Trust Claims/Property Claims

The single most important trust related and bankruptcy administration matter involves the identification and contacting of in excess of 1,500 potential travellers that will have claims against the trust funds and or the bankruptcy estate ("Ticket Holders"). As indicated earlier, Sales has a Trust Account with \$945,000 on deposit. According to the Company's books and records, there are potential claims from Ticket Holders for travel services not provided, that total approximately \$1.25 million. To date, the Judicial Trustee has received individual Ticket Holder claims in the amount of \$447,597. There have also been claims filed by the Card Companies, who have subrogated claims from Ticket Holders to whom they have issued credits. The total amount of the Card Company claims received is \$1,084,748. It is possible that there is duplication amongst the claims received from the Card Companies and those received from individual Ticket Holders. The Judicial Trustee is in the process of reviewing the claims for duplication. Any shortfall in the Trust Account, in respect of Ticket Holders claims, will result in an unsecured claim in the bankruptcy estate.

Call Centre

In order to mitigate administrative costs across the Group, 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.

A Call Centre servicing the entire Group 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 remains open as at the current date, but with reduced staff.

The Call Centre benefits all estates of the Group. As a result, the fixed and variable costs are being allocated to each of the estates based on a number of factors including the percentage of calls received.

Claims Centre

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

(b) Secured Creditors

As indicated earlier, RBC has a first ranking GSA. The Bankruptcy Trustee's legal counsel, Davis & Company ("Davis"), has confirmed that the GSA is validly registered.

RBC is asserting a secured claim against all of the Company's assets or the proceeds there from. The amount of that claim has not been finalized. The Company has indemnified RBC with respect to debts owing to RBC from Airlines and Leisure. Claims in this regard may be forthcoming from RBC.

The Bankruptcy Trustee has received four secured claims totalling \$2,506 as at May 10th, 2002. These claims will be reviewed and determined to be either preferred or unsecured claims. There is a Property Proof of Claim filed by Canadian Customs and Revenue Agency ("CCRA") in the amount of \$32 for unremitted source deductions.

(c) Preferred Creditors

The Company's former employees have a preferred claim in the amount of \$234,460.

The Company's former employees did 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 the Company's failure, the Bankruptcy Trustee sought, and obtained, directions from the Court regarding a streamlining of the claims process, specifically for the Company's former employees.

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

(d) Unsecured Creditors

To the extent there is a shortfall in respect of Ticket Holders' claims in the Trust Account, in the Judicial Trustee's possession, the residual claims will be unsecured claims in the bankruptcy estate.

The Bankruptcy Trustee has received unsecured claims totalling \$1,504,419 as at May 10th, 2002. The largest unsecured creditors are employees' unsecured claims in the amount of \$1,161,999.

IV. REVIEW OF BOOKS AND RECORDS

As required by the BIA, the Bankruptcy Trustee is conducting a review of the Company's books and records, as well as the inter-company transactions, for reviewable transactions, preferences and settlements.

Based upon our review to-date, no transactions have come to our attention that are out of the ordinary course of business. However, the Bankruptcy Trustee will report the final results to the Inspectors.

V. LEGAL

Subject to the approval of the Inspectors, the Bankruptcy Trustee has retained McMillan Binch as estate solicitor. McMillan Binch was conflicted from providing the Trustee with an opinion on the validity and enforceability of RBC's security. Consequently, the Bankruptcy Trustee engaged Davis & Company ("Davis") to provide such opinion. Davis has rendered a legal opinion that RBC's GSA is validly registered and is enforceable as against the Trustee.

VI. RECEIPTS AND DISBURSEMENTS

The Bankruptcy Trustee's Statement of Receipts and Disbursements for the period November 16, 2001 to April 28, 2002 is summarized below:

	\$
Receipts – Cash on Hand at the date of bankruptcy	440,300
Disbursements	2,794
Cash on Hand, April 28, 2002	437,506

VII. ESTIMATED REALIZATIONS AND DISTRIBUTIONS

The extent of any realizations and dividends is dependent upon the following:

- a resolution of any legal issues regarding claims of beneficiaries to the trust funds;
- the extent of any recoveries under the charter air carrier bond; and
- the amount claimed, if anything, by RBC under its GSA.

VIII. TRUSTEE'S FEES & CONFLICT OF INTEREST

Pursuant to a Court order, the total cost of the administration of the trust fund was capped at \$150,000. To date, the Judicial Trustee has incurred fees of \$53,306 that have not been paid and are subject to Court approval.

Aside from the Judicial Trustee appointment, over which the Court has jurisdiction, the Trustee is not aware of any circumstances that would give rise to a conflict of interest.

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 Sales Limited

Hazel C. Claxton
Senior Vice-President