

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
CONQUEST VACATIONS INC.
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF NOVA SCOTIA AND
CARRYING ON BUSINESS IN THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO**

TRUSTEE'S SUPPLEMENTARY SECOND REPORT

DATED MARCH 5, 2010

IRA SMITH TRUSTEE & RECEIVER INC.
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- B. Conquest Vacations Inc. Review of Bank Accounts
- C. E-Commerce Risk Management Limited Proof of Claim
- D. Conquest Vacations Inc. Trust Account Balances

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**SUPPLEMENTARY SECOND REPORT OF
IRA SMITH TRUSTEE & RECEIVER INC.
IN ITS CAPACITY AS THE TRUSTEE OF THE ESTATE OF
CONQUEST VACATIONS INC., A BANKRUPT
DATED MARCH 5, 2010**

1.0 PURPOSE OF THIS REPORT

This Supplementary Second Report to Court (the “**Supplementary Second Report**”) of Ira Smith Trustee & Receiver Inc. (the “**Trustee**”), Trustee of the Estate of Conquest Vacations Inc., a bankrupt (the “**Company**” or “**Conquest**”) is Supplementary to the Trustee’s Second Report to Court dated January 19, 2010 (the “**Second Report**”) filed with this Honourable Court.

Background information concerning the history of Conquest, the events leading up to its bankruptcy and the administration of this bankruptcy Estate are contained in the Trustee’s Second Report. The Trustee refers the readers of this Supplementary Second Report to the Second Report for that detail.

The purpose of this report is to provide this Honourable Court (and creditors) with additional information in connection with the appeal to the Trustee's disallowance of the claim of the Travel Industry Council of Ontario ("TICO"). On February 11, 2010, TICO served a supplementary motion record, and on February 17, 2010, TICO served the Trustee with its factum in connection with its appeal to Court of the Trustee's disallowance of the TICO Proof of Claim filed as a secured creditor (the "TICO Factum"). The TICO Proof of Claim and its Amended Proof of Claim and the Trustee's Notice of Disallowance, are included in the Second Report as Exhibits "E", "F" and "J" respectively.

2.0 OTHER POTENTIAL CLAIMANTS

For factual reasons set out in this Supplementary Second Report and in the Trustee's Second Report and based on the legal analysis set out in the Trustee's factum, it is not clear to the Trustee that any trust was set up at all by Conquest. However, and again without prejudice to the balance of the Trustees's legal position, if a trust had been created then suppliers of travel services for which the money was received are also entitled to make a claim against any trust fund established under the provisions of the TIA along with consumers requiring a refund. The ranking of any such trust claims is unclear. There does not appear to be any express ranking within the TIA or its Regulations. Accordingly, the Trustee's view is that the most equitable interpretation is that such claims rank *pari passu* with each other, but in priority to any entitlement the registrant has to commissions.

As indicated in the Second Report, as of December 31, 2009, Proofs of Claim totalling approximately \$49.8 million were filed with the Trustee¹. As of the date of this Supplementary Second Report, Proofs of Claim filed with the Trustee total approximately \$51 million. The Proofs of Claim can be summarized as follows:

	\$000's	
TICO	2,242	4.3%
Travel Service Providers	41,060	80.4%
Credit Card Processors	4,702	9.2%
Employee Related Claims	2,026	4.0%
Consumers	28	0.1%
Other Creditors	965	1.9%
	<u>51,023</u>	<u>100%</u>

Although the Trustee's review of all Proofs of Claim is ongoing, and no doubt there may be some duplication between the amounts claimed by Travel Service Providers and TICO, which the Trustee ultimately will have to reconcile prior to any distribution to the unsecured creditors, it is clear that the final proven claims of Travel Service Providers, potentially with as much right to assert the same trust argument as TICO now is, will greatly outweigh the ultimately final

¹ For the summary of Proofs of Claim filed as at December 31, 2009, see Section 8.0 of the Second Report.

proven quantum of TICO's claim. Allowing TICO's alleged trust claim without providing the Travel Service Providers with the same opportunity may prejudice those claimants.

To be clear, the Trustee's position is that for reasons outlined in the Trustee's Factum, neither TICO nor the Travel Service Providers have a valid trust claim, but rather an ordinary unsecured claim, and the funds in the Royal Bank accounts in question should be available to the Trustee to distribute to the creditors of Conquest in accordance with the provisions of the Act.

3.0 OTHER CONSIDERATIONS

The Trustee notes that there are many foreign creditors in this bankruptcy administration, as may travel service providers, including hotels, are located in vacation destinations outside of Canada. As disclosed in the Trustee's factum, it is the Trustee's view that TICO did not follow the legislation that it was established to enforce in the supervision of registrants under the TIA. The Trustee is also of the view that the necessary elements of a trust do not exist to allow TICO to establish a trust claim. Finally, as described in this Supplementary Second Report, the Trustee is also of the view that even if TICO could establish its alleged trust claim, the value of that trust claim, based on TICO's Proof of Claim, may in fact be nil, and there may be travel service providers entitled to advance the same alleged trust claim as TICO.

Accordingly, the Trustee respectfully submits to this Honourable Court that foreign creditors in this bankruptcy administration are relying on the transparency, fairness and integrity of the Canadian bankruptcy system in establishing the amount to ultimately be calculated as distributable to the ordinary unsecured creditors of Conquest, and in a more global sense, the efficacy of the Canadian system of commerce. Therefore, it is the Trustee's view that the recent

alleged trust claim being raised by TICO must fail and the funds in the Royal Bank accounts in question should be available to the Estate for distribution in accordance with the provisions of the Act.

4.0 THE TRUSTEE'S CONCERNS WITH THE TICO FACTUM

In the Second Report, the Trustee describes in detail its discussions and correspondence with TICO during the administration of this bankruptcy Estate, the TICO Proof of Claim filed with the Trustee as a secured claim and the TICO Amended Proof of Claim filed with the Trustee. The Trustee also describes in detail the basis for having disallowed the TICO Proof of Claim and the fact that the Amended Proof of Claim is amended as to quantum only, but remains a claim as a secured creditor.² Accordingly, having disallowed the initial Proof of Claim, and TICO having advised the Trustee that the Amended Proof of Claim is subject to further amendments only as to quantum, the Trustee neither disallowed nor accepted the TICO Amended Proof of Claim.

Contrary to the position set out in TICO's initial Proof of Claim and TICO's Amended Proof of Claim, TICO now argues that TICO is a trust claimant by reason of its subrogation rights to the position of consumers by having paid out funds from the travel compensation fund established pursuant to the Ontario *Travel Industry Act, 2002* (the "TIA").

² See Section 6.0 TICO, of the Trustee's Second Report.

TICO filed a Proof of Claim as a secured creditor and that is the subject of the Trustee's disallowance. TICO never filed a Property Proof of Claim pursuant to section 81(1) of the *Bankruptcy and Insolvency Act* (Canada) (the "Act") or otherwise claimed that it had a trust claim over any of the assets of Conquest. Therefore, at an initial level, the Trustee's view is that TICO has filed to submit any evidence to this Honourable Court in support of its appeal of the Trustee's disallowance of TICO's secured Proof of Claim.

However, the Trustee believes that it would be appropriate for the Court to invoke its inherent jurisdiction pursuant to section 183(1) of the *Bankruptcy and Insolvency Act* and proceed to adjudicate this matter based on TICO's positions of being either a secured creditor or a trust claimant. The reason the Trustee makes this recommendation is because it is the Trustee's view that, if the Court rules that TICO's appeal of the disallowance of its secured claim only, then, TICO's most likely next step would be to file a Property Proof of Claim in the bankruptcy based on matters set out in the record on this appeal.

The Trustee further advises that, for the reasons set out in the Trustee's factum filed with this Honourable Court, the Trustee would then disallow such Property Proof of Claim and the Trustee envisages that TICO would then appeal that disallowance to this Honourable Court. Additional material and court attendances would need to take place, to in essence end up in the position we are currently in. Potentially, the only net result will be that the additional costs would be borne potentially by the unsecured creditors, who are innocent parties as it relates to the position of TICO.

5.0 ALLEGED CONQUEST TRUST ACCOUNTS

There are three bank accounts titled "Travel Industry Act Trust Account" held at the Royal Bank of Canada³ and the 000-112-3 Canadian dollar account ("112-3") was the main non-operating account utilized by Conquest for the receipt of consumer payments. However, the Trustee's analysis indicates that this bank account was not operated as a trust account and contained funds co-mingled with receipts from consumers for travel services, based upon the following:

1. Included as Exhibit B in the Motion Record of TICO dated November 23, 2009, is the Business Account Statement for 112-3 for the period April 9, 2009 to April 17, 2009. On April 13, 2009 there was a transfer from the Conquest operating account #102-903-2 in the amount of \$100,000, and a deposit that included a \$250,000 from Lawton Consulting. Lawton Consulting is a corporation owned or controlled by Mr. Simon Bala, one of the Directors of the Company as at the Date of Bankruptcy.
2. During the period covered by the Business Account Statements submitted by TICO, there were also two payments of \$150,000 and \$100,000 on April 14 and April 15th respectively, to 2148608 Ontario Inc. This is another entity owned by Mr. Simon Bala.
3. The Trustee has identified additional deposits into the account 112-3 which were received from other parties that were not related to customer payments for travel

³ See Exhibit "H" to the Trustee's Second Report.

services. These included monies received from airports, other vacation packagers, an airline, deposits from related companies and commission payments for the sale of insurance. These transactions are outlined in Exhibit A.

4. The Trustee has identified numerous transfers from this account to Conquest's general operating account to fund expenditures such as payroll and office overheads. A summary of withdrawals over \$50,000 for the period April 1, 2009 to April 15, 2009 are included in Exhibit B.

5. Although each individual traveller's reservation was tracked in Conquest's reservation system, Conquest was not able to match payments received from the credit card processing company-E-Commerce Risk Management ("ECRM")-to individual credit card payments. ECRM would submit over to Conquest payments less holdback and credit card processing fees. According to the ECRM Statement of Account as of May 5, 2009, the value of credit cards processed from February 17 to April 14, 2009 was \$28,262,849 and the Amounts paid on account to Conquest for the same period of time is \$21, 216,424. Therefore there were \$7,046,425 in credit card payments that never reached Conquest. Attached as Exhibit C is a copy of ECRM's Proof of Claim. ECRM never provided an accounting by individual transaction in order to determine which amounts were paid to Conquest.

Further, the books and records of Conquest, including its bank statements, indicate that the balance of the three Royal Bank of Canada accounts on March 31, 2009, had been reduced to the amount of \$358,516.82. Accordingly, and strictly without prejudice to the

balance of its legal position, it is the Trustee's view that any alleged trust claims resulting from transactions prior to March 31, 2009 would be limited to this amount. A summary of the Daily Bank balances for the period from March 2, 2009 to April 15, 2009 is included as Exhibit D.

In the Second Report, the Trustee has reported on the position of ECRM. As disclosed in the Second Report, ECRM is a company carrying on business in London, England. ECRM was the credit card processing intermediary pursuant to an Agreement between Conquest and ECRM dated September, 2007. The information available to the Trustee indicates that the last payment made by ECRM to Conquest, on account of credit card payments made by consumers for travel packages purchased from Conquest, was on April 15, 2009.

One of the causes of financial difficulty disclosed by Mr. Bala, the Designated Officer in this bankruptcy Estate, was the lack of payment from ECRM for consumer travel sold by Conquest due to clearing restrictions.

TICO has not provided any evidence in support of its position that the amount contained in certain Conquest bank accounts as at the date of bankruptcy is impressed with its alleged trust claim.

The Trustee submits that it is equally plausible that any alleged TICO trust claim may be limited to the funds withheld by E-Commerce. TICO has not provided sufficient evidence to allow the Trustee to determine the timing of the deposit of funds in the alleged trust accounts that TICO is asserting a trust claim against. The Trustee does not

believe that the Estate should be liable for the costs of such a forensic accounting and tracing exercise, and accordingly, the Trustee has not undertaken such an exercise.

The Trustee respectfully submits to this Honourable Court that based on the above, the claim of TICO as a trust claimant cannot be on the basis being claimed by TICO as the elements required to establish a trust, as articulated in the Trustee's factum, cannot be met.

6.0 TICO's CLAIM

TICO's Proof of Claim as a secured creditor is in the amount of \$1,086,592.84⁴. Schedule "A" to TICO's Proof of Claim indicates that the entire amount represents amounts paid to various hotels and airlines. None of that amount claimed was paid to consumers as refunds for travel not received. TICO's Amended Proof of Claim as a secured creditor is in the amount of \$2,242,007.57⁵. Schedule "A" to TICO's Amended Proof of Claim discloses payments made to travel suppliers, and estimates certain future contingent payments. However, the Schedule "A" does not disclose any amount having been paid to consumers as refunds for travel not received.

Section 27 of the Regulations of the TIA prescribes a requirement for a registrant to maintain a trust account for all money received from customers for travel services. However, section 28 of the Regulations of the TIA sets out that a trust fund need not be set up if a registrant has carried on business for more than one year. Any trust set up to meet the registration requirements of

⁴ Trustee's Second Report, Exhibit "E".

⁵ Trustee's Second Report, Exhibit "F".

section 27 of the Regulations of the TIA is not specifically in favour of TICO. In fact, the funds are impressed with the requirement that the funds in the trust account can only be disbursed:

- to make payment to the supplier of the travel services for which the money was received;
- to make a refund to a customer; or
- after the supplier of the travel services has been paid in full, to pay the registrant's commission.

The Trustee's understanding of TICO's position is that they allege that they now stand in the shoes of the consumers, as a result of having made payments from the compensation fund. However, it would appear based on TICO's Proof of Claim (and Amended Proof of Claim) that, no consumer refund amounts are either owing or to date, have been paid. Accordingly, the Trustee respectfully submits that, notwithstanding the TICO Factum, it would appear that to date there are no amounts that a consumer would be entitled to as a refund. Accordingly, the consumers' entitlement, and therefore that of any party who can establish that they are entitled to the consumers' entitlement, is nil.

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All of which is respectfully submitted at Toronto, Ontario this 5th day of March, 2010.

IRA SMITH TRUSTEE & RECEIVER INC.

The Trustee of the Estate of Conquest Vacations Inc., a bankrupt

Per:



Elaine Kilmer-Choi

Vice President

EXHIBIT "A"

EXHIBIT A

CONQUEST VACATIONS INC.
Deposits to RBC 02874-0001123
For the Period February 1, 2009 to April 14, 2009

Date	Cheques/Cash	Amex	Debit	Credit Card	Related Co's	Shareholder Loan	YVR Deposit	IATA	Sunquest	Other	Transfers	Total
14-Apr-09	70,316.59									166.80	302,500.00	372,983.39
13-Apr-09	10,345.64	258,856.95				250,000.00	9,612.18				100,000.00	619,202.59
9-Apr-09	27,424.19										0.00	37,036.37
8-Apr-09	31,264.29			377,000.00				1,495.32			493,000.00	902,759.61
7-Apr-09	106,547.36	31,936.39							2,070.00		0.00	140,553.75
6-Apr-09	96,531.61	175,713.03									452,320.00	724,564.64
5-Apr-09	0.00										0.00	0.00
4-Apr-09	0.00										0.00	0.00
3-Apr-09	13,121.83		1,288.00		46,000.00					121,616.90	554,975.00	737,001.73
2-Apr-09	10,398.19	68,421.80								148.22	16,661.49	95,629.70
1-Apr-09	3,216.49			460,000.00			11,034.77				591,760.00	1,066,011.26
31-Mar-09	25,094.39	38,991.20								127.42	0.00	64,085.59
30-Mar-09	58,044.21	120,261.85									0.00	178,433.48
29-Mar-09	0.00										0.00	0.00
28-Mar-09	0.00										0.00	0.00
27-Mar-09	28,707.86	108,842.99		150,000.00							247,700.00	535,250.85
26-Mar-09	13,300.67									3,270.36	0.00	16,571.03
25-Mar-09	17,756.13		116.28	727,000.00							557,360.00	1,302,232.41
24-Mar-09	147,763.62	200,419.12									0.00	348,182.74
23-Mar-09	57,574.56	98,487.20									370,500.00	526,561.76
22-Mar-09	0.00										0.00	0.00
21-Mar-09	0.00										0.00	0.00
20-Mar-09	17,122.58	91,638.66		600,000.00			20,916.86				370,500.00	1,100,178.10
19-Mar-09	11,428.34			200,000.00							184,800.00	396,228.34
18-Mar-09	13,313.50										1,054,921.70	1,068,235.20
17-Mar-09		65,523.17								2,890.10	0.00	68,413.27
16-Mar-09	73,042.78	220,201.26									0.00	293,244.04
15-Mar-09	0.00										0.00	0.00
14-Mar-09	0.00										0.00	0.00
13-Mar-09	15,231.04	187,760.79					18,586.15				760,650.00	963,641.83
12-Mar-09	27,790.48										0.00	46,376.63
11-Mar-09	97,513.20										766,500.00	864,013.20
10-Mar-09	107,112.81	67,770.40		541,863.08					5,954.26		0.00	722,700.55
9-Mar-09	52,440.05	193,557.48		300,000.00							0.00	545,997.53
8-Mar-09	0.00										0.00	0.00
7-Mar-09	0.00										0.00	0.00
6-Mar-09	33,363.26	122,205.22		400,000.00			10,578.80				510,800.00	1,076,947.28
5-Mar-09	11,317.92										385,500.00	396,817.92

EXHIBIT A

CONQUEST VACATIONS INC.
Deposits to RBC 02874-0001123
For the Period February 1, 2009 to April 14, 2009

Date	Cheques/Cash	Amex	Debit	Credit Card	Related Co's	Shareholder Loan	YVR Deposit	IATA	Sunquest	Other	Transfers	Total
4-Mar-09	25,754.87						10,797.68			270.00	1,281,500.00	1,318,322.55
3-Mar-09	12,159.92	99,369.95								501,229.57	0.00	612,759.44
2-Mar-09	87,144.39	195,589.25		199,966.00					43,888.00		0.00	526,587.64
1-Mar-09	0.00										0.00	0.00
28-Feb-09	0.00										0.00	0.00
27-Feb-09	6,430.57	97,049.99		800,000.00							0.00	903,480.56
26-Feb-09	41,040.64			146,702.44							0.00	187,743.08
25-Feb-09	52,180.41										0.00	52,180.41
24-Feb-09	140,858.10	58,072.62		1,113,220.77						-202.80	0.00	1,311,948.69
23-Feb-09	120,146.55	238,120.90									0.00	358,267.45
22-Feb-09	0.00										0.00	0.00
21-Feb-09	0.00										0.00	0.00
20-Feb-09	37,663.71			449,986.00			9,677.47			287.19	0.00	497,614.37
19-Feb-09	26,073.42									1,202.93	0.00	27,276.35
18-Feb-09	6,850.49										0.00	6,850.49
17-Feb-09	210,462.95	50,710.02		1,481,133.49							0.00	1,742,306.46
16-Feb-09		209,581.34									0.00	209,581.34
15-Feb-09	0.00										0.00	0.00
14-Feb-09	0.00										0.00	0.00
13-Feb-09	39,317.22	129,098.36		71,584.84							0.00	240,000.42
12-Feb-09	26,032.72			1,736,879.04							0.00	1,762,911.76
11-Feb-09	44,451.10						15,764.75	3,897.00			0.00	60,215.85
10-Feb-09	189,898.72	127,809.98		2,059,618.93							0.00	2,381,224.63
9-Feb-09	141,912.35	275,476.63									0.00	417,388.98
8-Feb-09	0.00										0.00	0.00
7-Feb-09	0.00										0.00	0.00
6-Feb-09	35,781.37	139,034.92		64,077.54							0.00	238,893.83
5-Feb-09	43,730.27			2,086,561.48							0.00	2,130,291.75
4-Feb-09	41,477.43										0.00	41,477.43
3-Feb-09	25,913.83	88,882.81		2,120,857.81						53,744.48	0.00	2,289,398.93
2-Feb-09	18,569.62	226,994.99		110,646.38					43,356.00	5,000.00	0.00	404,566.99
1-Feb-09	0.00										0.00	0.00
Total	2,550,934.24	3,986,379.27	1,404.28	16,197,097.80	46,000.00	250,000.00	106,968.66	5,392.32	89,314.00	695,705.43	9,001,948.19	32,931,144.19

EXHIBIT "B"

EXHIBIT B

Conquest Vacations Inc
Review of Bank Accounts

April 1, 2009 to April 15, 2009
 Account # 02874-003-000-112-3 CDN
 Threshold: \$50,000.00

Date	Cheque #	Amount	Payee	Notes
April 1 09	5909103041	50,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
	5909100921	100,000.00	113-1	Confirmed on 113-2 Bank Statement
	5909103035	122,918.00	Canjet Airlines	
April 2 09	5909200668	100,000.00	113-2	Confirmed on 113-2 Bank Statement
	5909200853	122,000.00	Canjet Airlines	
	5909200720	200,000.00	2148608 Ontario Inc	
Apr 3 09	5909303012	84,314.00	Canjet Airlines	
	5909303011	115,000.00	Canjet Airlines	
	5909300969	150,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
	5909303164	412,782.00	Touram Limited Partnership	
Apr 6 09	5909303163	500,000.00	Touram Limited Partnership	
	5909601554	50,000.00	113-1	Confirmed on 113-2 Bank Statement
	5909602301	50,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
	5909601143	75,205.07	Village Resorts Limited	
	5909600488	127,865.00	Canjet Airlines	
Apr 8 09	5909601141	134,758.00	Canjet Airlines	
	5909701069	52,185.00	Thomas Cook	
	5909801533	50,000.00	113-1	Confirmed on 113-2 Bank Statement
	5909801534	300,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
	5909900594	122,918.00	Canjet Airlines	
Apr 9 09	5910300809	105,000.00	Canjet Airlines	
	5910301223	115,000.00	Canjet Airlines	
Apr 13 09	5910301368	127,864.00	Canjet Airlines	
	5910300572	335,411.00	Touram Limited Partnership	
	5910300571	500,000.00	Touram Limited Partnership	
	5910402729	50,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
	5910402660	150,000.00	2148608 Ontario Inc	
Apr 15 09	5910500887	100,000.00	2148608 Ontario Inc	
	5910500996	100,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
	5910500997	150,000.00	113-1	Confirmed on 113-2 Bank Statement
	5910500958	200,000.00	113-1	Confirmed on 113-2 Bank Statement
	5910500959	400,000.00	Transfer to 1029032	Confirmed on 1029032 Bank Statement
		5,253,220.07		

EXHIBIT "C"

PROOF OF CLAIM
(see reverse for instructions)

IN THE MATTER OF THE BANKRUPTCY OF CONQUEST VACATIONS INC. (referred to in this form as "the debtor")

and the claim of Es-Commerce Risk Management Limited (referred to in this form as "the creditor")

All notices or correspondence regarding this claim to be forwarded to the creditor at the following address:

Harwood House, Harwood Road, London, SW6 4QP, United Kingdom

Telephone: 0845 0034 257

Fax: 0845 0034 258

I, Paul Linehan
(name of person signing claim)
of United Kingdom
(name of city, town, etc.)

residing in the City of London
(city, town, etc.)

in the Province of _____

I do hereby certify that:

If an officer of the company, state position or title

1. I am the creditor or I am _____ of the creditor
(state position or title)

The attached statement of account must specify the vouchers or other evidence in support of the claim

2. I have knowledge of all the circumstances connected with the claim referred to in this form.

Check and complete appropriate category. Other than as a customer contemplated by Section 262 of the Act

Check appropriate description and attach a separate sheet to details to support priority claim

Give full particulars of the claim, including the calculations upon which the claim is based

Give full particulars of the security, including the date on which the security was given and the value at which you assess the security, and attach a copy of the security documents

Attach a copy of sales agreement and delivery receipts

Check and complete appropriate category

Check appropriate description

To be filled when a proposal provides for the compromise of claims against directors

Give full particulars of the claim, including the calculations upon which the claim is based

Strike out "is" or "is not"

Attach a separate schedule if necessary

Applicable only in the case of the bankruptcy of an individual

Must be signed and witnessed

Notes: All references to "the Act" refer to the Bankruptcy and Insolvency Act. If a copy of this Form is sent electronically by means such as email, the name and contact information of the sender, prescribed in Form 1.1, must be added at the end of the document.

Warning: An affidavit or solemn declaration is attached, it must have been made before a person qualified to take affidavits or solemn declarations. A trustee may, pursuant to subsection 128(3) of the Act, redeem a security on payment to the secured creditor of the debt or the value of the security as assessed, in a proof of security, by the secured creditor. Subsection 301(1) of the Act provides severe penalties for making any false claim, proof, declaration or statement of account.

3. The debtor was, at the date of bankruptcy, namely the 27th day of April, 2009, and still is, indebted to the creditor in the sum of \$ CAD \$ 3,492,451, as specified in the statement of account attached hereto and marked Schedule "A", after deducting any counterclaims to which the debtor is entitled.

4. A Unsecured claim of \$ CAD \$ 3,492,451
In respect to the said debt, I do not hold any assets of the debtor as security and

(i) I do not claim a right to a priority
or
(ii) I do claim a right to a priority under section 136 of the Bankruptcy and Insolvency Act (the "Act").

B. Claim of landlord for disclaimer of a lease of \$ _____
That I hereby makes a claim under subsection 65.2(4) of the Act, particulars of which are as follows: _____

C. Secured claim of \$ _____
In respect of the said debt, I hold assets of the debtor valued at \$ _____ as security, particulars of which are as follows: _____

D. Claim by farmer, fisherman, or aquaculturist of \$ _____
That I hereby makes a claim under subsection 81.2(1) of the Act for the unpaid amount \$ _____

E. Claim by Wage Earner of \$ _____

(i) That I hereby make a claim under subsection 81.3(3) of the Act in the amount of \$ _____
(ii) That I hereby make a claim under subsection 81.4(8) of the Act in the amount of \$ _____

F. Claim against Director of \$ _____
That I hereby makes a claim under subsection 50(13) of the Act, particulars of which are as follows: _____

G. Claim of a Customer of a Bankrupt Securities Firm of \$ _____
That I hereby makes a claim as a customer for net equity as contemplated by section 262 of the Act, particulars of which are as follows: _____

5. To the best of my knowledge, the creditor ~~is~~ **is not** related to the debtor within the meaning of section 4 of the Act.

6. The following are the payments that the creditor has received from and the credits that the creditor has allowed to the debtor within the three months (or, if the creditor and the debtor are related within the meaning of section 4 of the Act, within the twelve months) immediately before the date of the initial bankruptcy event within the meaning of section 2 of the Act:

7. I request to be advised of any material change in the financial situation of the bankrupt.
 I request to be advised of any amendment made regarding the amount that the bankrupt is required to pay.
 I wish to receive a copy of the trustee's report on the bankrupt's application for discharge.

Dated at London this 9th day of MAY, 2009

Witness (signature of individual completing this form)

Schedule "A"

Proof of Claim

ECRM and Conquest

Background

Conquest vacations Inc. entered into a Payment Processing Agreement with E-Commerce Risk Management Limited (ECRM) of Harwood House, Harwood Road, London SW^A in September 2007 under which ECRM agreed to get Conquest's credit cards transactions processed by ECRM.

Conquest was not able to get its credit cards processed in Canada due to its poor financial condition and the very high level of security and guarantees being demanded by Canadian credit card processing entities.

ECRM agreed to take on this account.

Conquest's credit cards were being processed through various banking institutions using the gateways and processing technology provided by ECRM.

Initially the credit cards were being processed through Edelweiss Bank in Geneva who routed the transactions through Commonwealth Bank of Australia.

In and around February 2009, due to the global credit crisis, Commonwealth bank stopped processing credit cards in Canadian dollars and Edelweiss started processing them through the State Bank of Mauritius.

ECRM also arranged processing through other gateways using Barclays Bank of the UK, Allied Wallet in USA and Wire card in Germany.

During this period, payments for processed cards were being disbursed by the various banks slowly and there were increasing amounts of holdbacks by various banks which affected the regular flow of funds.

Conquest Ceases Operations

In spite of ECRM making the very best efforts to smoothen the regular flow of funds from the processing banks, Conquest found it necessary to shut down its operations abruptly without any notice to ECRM on April 15, 2009. In fact ECRM came to know about this through a third-party, and not from Conquest.

As the banks were not providing regular reports and were making payments on account, a full accounting of all the transactions was not available as at April 15, 2009.

The amounts due to Conquest at that time were a combination of past and future departures.

Meltdown and Charge backs

When Conquest ceased operations, a complete meltdown of the Conquest's credit card processing through ECRM took place, and since then there has been a large and steady flow of charge backs with respect to services not rendered from cardholders has occurred.

These charge backs fall into two categories:

- (a) Services which cannot now be rendered for departures after 15 April 2009.
- (b) Services which have been rendered only partially for departures prior to April 15 especially for those cardholders who left a week prior and were supposed to return by April 15. These cardholders in some cases did not receive hotel accommodation or had to pay for it again and also did not get the flights they were originally contracted and paid for.

Charge backs with respect to full and partial services not rendered are being received by all the processing banks.

As per Visa and MasterCard rules, cardholders have up to 6 months from the date of transaction to do charge backs and therefore the full extent of the charge backs from the processing banks and notice of the same to ECRM will not be fully known until September 2009.

However, based on the information we have at present, we expect that 100% of future travel after 15 April 2009 and at least 50% of the past travel during the one week prior to 15 April 2009 will definitely become charge backs.

Conquest as the Merchant is responsible for these charge backs plus fees and damages associated with these charge backs under the merchant agreement.

Statement of Claim

ECRM has estimated the amounts due to/from Conquest taking the above into account and has produced the best estimate of the amount due from Conquest. An accurate number will be available only when all the charge backs are in from the processing bank.

It is evident that Conquest ceasing its operations has resulted in a devastating loss for ECRM and also the processing banks and the securities posted by ECRM to the banking institutions are being called by them which in turn will result in severe damages to ECRM. It is also possible that this may result in ECRM being put into liquidation or receivership as a result of Conquest's failure..

ECRM/CONQUEST ACCOUNT

Statement of Account as at May 5, 2009

\$

Can \$

1.	Value of credit cards processed from Feb 17th to April 14th plus security deposit/holdbacks (Cards processed through CBA, SBM, Barclays, Allied Wallet and Wirecard)		28,262,849
2.	<u>Reversal of Charges - Chargebacks for Services not rendered</u>		
a)	Futre Travel after 15th April		
	CBA	45	(83,918.34)
	SBM	3,020	(6,325,643.82)
	Allied	569	(1,166,937.96)
		3,634	
			(7,576,500)
b)	Past Travel- Services not fully rendered - Charges still keep coming in card holders have 6 months to do a chargeback Week og April 7 -14, 2009		
		#	Amount
		of Transactions	
	CBA	37	(65,927.59)
	SBM	1,276	(2,758,791.37)
	Barclays	40	84,280.00
	Allied	245	(530,061.80)
	Wirecard	6	(6,149.60)
			(3,276,650.36)
	Estimate	1,604 say	50%
			(1,638,325)
3.	Balance due on account of processed cards		19,048,024
4.	Less: Credit card processing Fees (3.9%)		1,102,251
5.	Less: Chargeback fees	4,436.00	50.00
			221,800
6.	Balance Amount due to Conquest		17,723,973
7.	Amounts paid on account to Conquest February 17 - April 15, 2009		21,216,424
8.	Balance due to ECRM from Conquest		(3,492,451)

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A more detailed account of the charge backs and proof of claims as and when refunds /charge backs to the various credit cards for future travel are received in the next several months.

EXHIBIT "D"

EXHIBIT D

CONQUEST VACATIONS INC.
Trust Account Balances
For the Period March 2, 2009 to April 15, 2009

Date	Cnd. Trust 02874-0001123	Commission Acct. 02874-0001131	US Trust Acct 02874-4000006	US Rate to Cdn	Converted \$ Vaule	Total
15-Apr-09	570,079.60	359,340.65	106,656.17	1.20	127,987.40	1,057,407.65
14-Apr-09	320,079.60	36,995.67	106,656.17	1.21	129,053.97	486,129.24
13-Apr-09	203,078.77	-1,486.53	338,077.56	1.22	412,454.62	614,046.86
9-Apr-09	776,201.50	71,731.23	338,060.18	1.23	415,814.02	1,263,746.75
8-Apr-09	973,179.21	106,601.30	565,182.58	1.24	700,826.40	1,780,606.91
7-Apr-09	433,243.88	68,826.02	59,338.13	1.23	72,985.90	575,055.80
6-Apr-09	372,313.63	83,020.16	353,752.26	1.24	438,652.80	893,986.59
3-Apr-09	93,572.06	103,642.61	196,570.87	1.23	241,782.17	438,996.84
2-Apr-09	640,806.19	133,772.34	390,373.76	1.24	484,063.46	1,258,641.99
1-Apr-09	968,240.42	46,581.86	596,505.88	1.26	751,597.41	1,766,419.69
31-Mar-09	175,147.16	-21,476.96	162,576.68	1.26	204,846.62	358,516.82
30-Mar-09	163,807.57	10,785.78	217,376.68	1.26	273,894.62	448,487.97
27-Mar-09	914,260.73	55,873.59	137,088.03	1.24	169,989.16	1,140,123.48
26-Mar-09	1,183,602.88	85,520.64	54,236.14	1.23	66,710.45	1,335,833.97
25-Mar-09	1,648,866.26	22,315.29	198,813.66	1.22	242,552.67	1,913,734.22
24-Mar-09	561,113.02	51,209.43	330,853.65	1.23	406,949.99	1,019,272.44
23-Mar-09	363,089.94	101,129.04	517,936.35	1.23	637,061.71	1,101,280.69
20-Mar-09	415,592.47	72,484.58	337,341.35	1.24	418,303.27	906,380.32
19-Mar-09	201,904.56	25,705.62	484,295.83	1.23	595,683.87	823,294.05
18-Mar-09	73,027.68	-11,893.67	618,747.78	1.27	785,809.68	846,943.69
17-Mar-09	688,812.98	2,104.82	897,646.47	1.27	1,140,011.02	1,830,928.82
16-Mar-09	626,839.71	26,081.11	436,869.00	1.27	554,823.63	1,207,744.45
13-Mar-09	775,300.95	82,412.98	367,151.44	1.27	466,282.33	1,323,996.26
12-Mar-09	344,726.02	109,884.58	788,968.82	1.29	1,017,769.78	1,472,380.38
11-Mar-09	604,559.31	26,638.29	909,218.89	1.28	1,163,800.18	1,794,997.78
10-Mar-09	1,066,128.71	-14,862.21	925,437.52	1.28	1,184,560.03	2,235,826.53
9-Mar-09	582,490.08	-6,941.79	357,331.79	1.30	464,531.33	1,040,079.62
6-Mar-09	601,464.74	28,586.98	439,151.79	1.29	566,505.81	1,196,557.53
5-Mar-09	187,446.53	45,120.41	404,752.14	1.29	522,130.26	754,697.20
4-Mar-09	354,767.65	7,846.39	1,024,993.16	1.28	1,311,991.24	1,674,605.28
3-Mar-09	333,235.10	-2,231.72	315,971.53	1.29	407,603.27	738,606.65
2-Mar-09	486,426.66	-15,039.08	426,544.42	1.29	550,242.30	1,021,629.88

IN THE MATTER OF THE BANKRUPTCY OF

CONQUEST VACATIONS INC.

A COMPANY INCORPORATED PURSUANT TO THE LAWS OF NOVA SCOTIA AND
CARRYING ON BUSINESS IN THE CITY OF TORONTO IN THE PROVINCE OF ONTARIO

Court File No. 31-1197427

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY

Proceeding commenced at Toronto

TRUSTEE'S SUPPLEMENTARY SECOND REPORT
DATED MARCH 5, 2010

IRA SMITH TRUSTEE & RECEIVER INC.
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