

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
IN BANKRUPTCY & INSOLVENCY
JUDICIAL DISTRICT OF EDMONTON**

**IN THE MATTER OF THE PROPOSAL OF
TRANSGLOBAL COMMUNICATIONS GROUP INC.**

Trustee's Sixth Report

Purpose

The Trustee submits this Sixth Report to the Court on Transglobal Communications Group Inc. (the "Company") pursuant to Section 50(10)(a)(i) of the *Bankruptcy and Insolvency Act*, whereby the Trustee is directed to "file a report on the state of the insolvent person's business and financial affairs, . . . with the official receiver forthwith after ascertaining any material adverse change in the insolvent person's projected cash-flow or financial circumstance . . .".

The Trustee is of the opinion that the variance between the actual cash flow of the Company for October, 2008 and November, 2008 represents a material adverse change from the Company's projected cash flow statement.

Variance Analysis of Actual vs. Projected Cash Flow for October, 2008 and November, 2008

Attached as Schedule "A" to the Trustee's Sixth Report is a variance analysis of the actual verses projected cash flow of the Company for the combined period of October, 2008 and November, 2008. The following Cash Inflow variances were considered to be materially adverse from the projected cash flow statement:

Accounts Receivable Collected, Net Cash from Operation and Total Cash Inflow

The Company collected approximately \$2.6 million (or 34%) less in accounts receivable than what was projected in the October, 2008 and November, 2008 cash flow statements. Management advises that the variance is attributed to the following factors:

- a) Recent events in the global economy have caused some of the international retail customers to cancel or reduce orders given the uncertainty in the retail sector;
- b) Delayed payment by customers, impacting the company's ability to pay suppliers' deposits on later orders;
- c) The Company's inability to facilitate some orders due to inadequate liquidity;

The variance in collection of accounts receivable has resulted in a 36% negative variance in Net Cash from Operations and a 37% negative variance in Total Cash Inflow.

The following Cash Outflow variances were considered to be materially adverse from the projected cash flow statement:

Insurance

Insurance premiums (which includes health insurance premiums) were 55% higher than projected. Management had not provided comment on this variance as at the date of this Report.

Salaries and Related Benefits

Salaries and Related Benefits were 70% higher than projected, with a majority of the variance attributed to a lump sum payment of \$129,330.94 to Dawn Prescott. Management advises that this payment was accrued holiday pay the Company has been paying to all current employees.

Management Salaries

Management Salaries were 81% higher than projected, with a majority of the variance attributed to a lump sum payment to Steve Prescott for \$36,686.46. Management advises that this lump sum payment was a reimbursement for the expenses for Steve Prescott, and also includes reimbursement for the expenses of two employees that Mr. Prescott paid personally.

Payments to HSBC

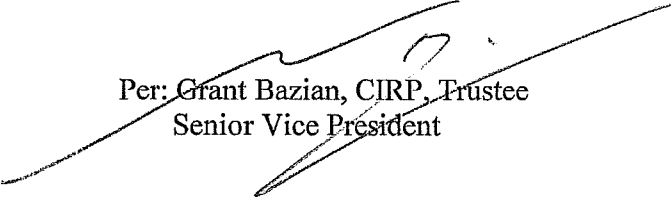
Payments to HSBC were not contemplated in the Projected Cash Flow Statement, however, the Company and HSBC reached an agreement whereby the Company would pay the difference between the current outstanding balance and professional fees, totaling approximately \$1.23 million CAD and \$1.2 million USD, and the proceeds currently held in Court estimated to be \$1.65 million CAD. As at December 12, 2008 the Company had paid the difference of \$829,506.15 USD to HSBC, pursuant to the agreement outlined above and HSBC will now wait for the results of the Court of Appeal application as to entitlement to the remaining funds in Court.

The result of the material adverse variances indentified in the Cash Inflows and Cash Outflows is an actual closing cash balance that is \$2,196,821 (or 97%) less than projected (\$69,885 vs. \$2,266,707).

Conclusion

Recent global economic factors have caused the Company's customers (retailers) to prolong payment on existing orders and cancel some future orders. Factories in China have delayed shipping and in once instance failed to ship an entire order. While management continues to search for ways to reduce the Company's expenses, such as downsizing it's Hong Kong operations, the global economic factors affecting large international retailers has had a negative effect on the Company's sales and ability to collect accounts receivable within similar time frames as historical periods. Despite the challenges posed by the changing global economy, the Company has managed to pay HSBC in accordance with their agreement. Management advises that they expect to be able to remit the \$300,000 payment for the unsecured creditors to the Trustee pursuant to the terms of the Proposal.

Meyers Norris Penny Limited
in it's capacity as Trustee in the Division I Proposal of
Transglobal Communications Group Inc.
and not in it's personal capacity



Per: Grant Bazian, CIRP, Trustee
Senior Vice President

SCHEDULE "A"

ACTUAL VS PROJECTED

	OCTOBER and NOVEMBER 08	OCTOBER and NOVEMBER 08	VARIANCE	
	Actual	Projected	Variance \$	Variance %
CASH INFLOW				
Accounts Receivable Collected	2,637,894.40	4,024,403.80	(1,386,509.40)	-34%
Less Payments to Suppliers	(1,457,533.20)	(2,172,505.52)	714,972.32	-33%
NET CASH FROM OPERATIONS	1,180,361.19	1,851,898.28	(671,537.09)	-36%
ADD: Shareholder Loans				
Other Deposits	24.18		24.18	100%
Foreign Currency Adjustment	(5,548.43)		(5,548.43)	-100%
TOTAL CASH INFLOW	1,174,836.94	1,851,898.28	(677,061.34)	-37%
CASH OUTFLOW				
Automotive Expenses	(12,957.85)	(17,000.00)	4,042.15	-24%
Bank Charges	(3,100.48)	(6,000.00)	2,899.52	-48%
Meals and Entertainment		(2,000.00)	2,000.00	-100%
Professional Fees	(26,569.44)	(40,000.00)	13,430.56	-34%
Telephone and Utilities	(5,506.38)	(15,600.00)	10,093.62	-65%
Travel		(10,000.00)	10,000.00	-100%
General and Admin Expenses - Various	(32,825.55)	(52,762.00)	19,936.45	-38%
SUBTOTAL EXPENSES	(80,959.71)	(143,362.00)	62,402.29	-44%
Insurance	(24,136.65)	(15,600.00)	(8,536.65)	55%
Rent	(2,744.35)	(26,904.00)	24,159.65	-90%
Office Equipment Lease				
Salaries and Related Benefits	(345,028.09)	(202,533.68)	(142,494.41)	70%
Salaries - Management	(54,386.44)	(30,000.00)	(24,386.44)	81%
Payment to Trustee		(60,000.00)	60,000.00	100%
TOTAL CASH OUTFLOW	(507,255.24)	(478,399.68)	(28,855.56)	6%
NET CASH	667,581.70	899,951.06	(232,369.36)	-26%
PAYMENTS TO HSBC	(647,467.95)		(647,467.95)	
OPENING CASH BALANCE	49,771.27	833,208.40	(783,437.13)	94%
CLOSING CASH BALANCE	69,885.01	2,266,707.00	(2,196,821.98)	-97%