

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 Fifth Report

Purpose

The Trustee submits this fifth 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 September, 2008 represents a material adverse change from the Company's projected cash flow statement.

Variance Analysis of Actual vs. Projected Cash Flow for September 2008

Attached as Schedule "A" to the Trustee's Fifth Report is a variance analysis of the actual verses projected cash flow of the Company for September, 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 \$3.4 million (or 80%) less in accounts receivable than what was projected in the September, 2008 cash flow statement. 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, in some cases seventy (70) days beyond the purchase order terms, impacting the company's ability to pay suppliers' deposits on later orders;
- c) EPI agreement (referenced in the Trustee's Third Report), where payment was expected in September and has yet to be paid. Management advises they will be issuing a claim on their EDC insurance if this account is not paid in the near future;

- d) One of the factories failed to ship a large order to Dollar Tree Stores, one of the Company's largest customers, which has resulted in Dollar Tree Stores cancelling their current and subsequent two (2) orders for similar product;
- e) QVC UK has exercised their right of offset and as such has not paid their outstanding invoice as expected in September; and
- f) One of the factories has delayed shipment until the first week of October, 2008 on an order that was expected to be shipped in August, 2008.

The variance in collection of accounts receivable has resulted in a 70% negative variance in Net Cash from Operations and a 71% negative variance in Total Cash Inflow.

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

Professional Fees and Payments into Court

Professional Fees were 213% higher than projected in September, 2008. Management advises that this is attributed to higher than anticipated costs for funding the two (2) ongoing litigations of Kulbalba and Stone Sapphire (both of which have been detailed in the Trustee's previous reports) as well as the Company's legal fees for the Proposal proceedings. The \$59,800 of professional fees paid in September, 2008 all represent legal fees.

Payments into Court were not projected for September, 2008, however, the Company was required to pay security for costs into Court on two (2) separate occasions for the Kulbalba matter (\$75,000 CAD and \$9,500 CAD totaling \$84,500 CAD converted to USD at 0.92 USD/CAD equaling \$77,740 USD) in order to continue with the appeal action for this litigation.

The result of the material adverse variances indentified in the Cash Inflows and Cash Outflows is an actual closing cash balance that is \$782,053 less than projected (\$51,155 vs. \$833,208).

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. Also, one of the Company's larger customers has initiated it's right of offset. 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.

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



Per: Grant Bazian, CRP, Trustee
Senior Vice President

SCHEDULE "A"

ACTUAL VS PROJECTED

	SEPTEMBER 08	SEPTEMBER 08	VARIANCE	
	Actual	Projected	Variance \$	Variance %
CASH INFLOW				
Accounts Receivable Collected	848,529.87	4,243,741.91	(3,395,212.04)	-80%
Less Payments to Suppliers	(499,939.50)	(3,074,591.01)	(2,574,651.51)	84%
NET CASH FROM OPERATIONS	348,590.37	1,169,150.90	(820,560.53)	-70%
ADD: Shareholder Loans	-	-	-	
Other Deposits	11.72		(11.72)	-100%
Foreign Currency Adjustment	(5,982.15)		(5,982.15)	-100%
TOTAL CASH INFLOW	342,619.94	1,169,150.90	(826,530.96)	-71%
CASH OUTFLOW				
Automotive Expenses	(11,583.65)	(8,500.00)	3,083.65	-36%
Bank Charges	(2,129.22)	(3,000.00)	(870.78)	29%
Meals and Entertainment		(1,000.00)	(1,000.00)	100%
Professional Fees	(59,800.00)	(20,000.00)	39,800.00	-199%
Telephone and Utilities	(3,750.31)	(7,800.00)	(4,049.69)	52%
Travel		(5,000.00)	(5,000.00)	100%
General and Admin Expenses - Various		(26,381.00)	(26,381.00)	100%
SUBTOTAL EXPENSES (1)	(77,263.18)	(71,681.00)	5,582.18	-8%
Insurance	(10,951.00)	(7,800.00)	3,151.00	-40%
Rent	(36,125.32)	(13,452.00)	22,673.32	-169%
Office Equipment Lease	(8,004.04)		8,004.04	-100%
Salaries and Related Benefits	(124,959.31)	(101,266.84)	23,692.47	-23%
Salaries - Management	(15,000.00)	(15,000.00)	-	0%
Payment to Trustee		(60,000.00)	(60,000.00)	100%
TOTAL CASH OUTFLOW	(272,302.86)	(269,199.84)	3,103.02	-1%
NET CASH	70,317.08	899,951.06	(829,633.98)	-92%
PAYMENTS INTO COURT	(77,740.00)		(77,740.00)	-100%
PAYMENTS TO SECURED CREDITORS			-	
OPENING CASH BALANCE	58,578.27	(66,742.66)	(125,320.93)	188%
CLOSING CASH BALANCE	51,155.35	833,208.40	(782,053.05)	-94%