

**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 Fourth Report**



**Background**

Transglobal began its business in 1989 and was incorporated in 2000. Steven Prescott is the sole Director. The Company designs and distributes such items as children's books, stationery, greeting cards, gift bags and gift wrap to major retailers primarily in the United States, as well as in Canada. The Company outsources the production of these goods to factories located in China. Transglobal has offices located in Edmonton, California and Hong Kong.

Transglobal Communications Group Inc. ("Transglobal", the "Company") filed a Notice of Intention to Make a Proposal ("NOI") on May 20, 2008 and Meyers Norris Penny Limited consented to act as Trustee. A Cash Flow Projection was filed on May 30, 2008 and an Order granting an extension for the time for filing the Proposal to July 7, 2008 was granted on June 19, 2008. Copies of the June 19, 2008 Order granting the extension and the Trustee's Report dated June 17, 2008 (the "First Report") were mailed to the creditors on July 2, 2008.

The Company made a further application to Court on July 7, 2008 for a second extension of time to file a Proposal. The Trustee submitted a Report dated July 4, 2008 (the "Second Report") for the July 7, 2008 Court application. An Order was granted extending the time for filing the Proposal to August 5, 2008, however, it is our understanding that this Order has not yet been filed with the Court as there has been some disagreement amongst counsel pertaining to the wording of the preamble in the Order.

The Company made a further application to Court on August 5, 2008 for a third extension of time to file a Proposal. The Trustee submitted a Report dated August 5, 2008 (the "Third Report") for the August 5, 2008 Court application. An Order was granted extending the time for filing the Proposal to September 5, 2008. It is our understanding that an Order from the August 5, 2008 Court application had not been filed as of the date of this report. All relevant Court documents including a copy of the Trustee's Third

Report have been posted on the Trustee's website at [www.mnpdebt.ca](http://www.mnpdebt.ca) under corporate engagements.

At the August 5, 2008 Court application, Justice D. Thomas Ordered that on or before 12:00PM September 4, 2008, the Trustee shall prepare and file a report in Court, and deliver to specified parties, which provides the following information:

1. A Cash Flow Statement for the month of August 2008;
2. A Variance Analysis between the actual August 2008 Cash Flow Statement, the projected August 2008 Cash Flow Statement and the historical August 2007 Cash Flow Statement and provide an adequate explanation as to any material variances;
3. A Variance Analysis between the actual and projected sales for May, June, July and August 2008 and provide an adequate explanation as to any material variances; and
4. Review and report as to the accounting methods by which aged accounts receivable are recorded as bad debt.

The Court also granted leave to HSBC Bank of Canada ("HSBC") to request from the Trustee at any time between the August 5, 2008 Court application and the September 5, 2008 Court application, clarity on any of the Cash Outflow items outlined in the revised Cash Flow Statement filed as Exhibit "C" to the Trustee's Third Report. The Court further ordered that the Trustee respond in writing to any such inquiries within seven days of the request. Attached as Exhibit "A" to this report is a copy of a letter from Ogilvie LLP (counsel for HSBC) dated August 7, 2008 and received by the Trustee on August 8, 2008, and a copy of the Trustee's response delivered to all parties on August 15, 2008.

On September 3, 2008, a Notice of Motion was served on behalf of Transglobal advising that the Company would be making an application on September 5, 2008 for a further extension of time to file a Proposal to October 15, 2008.

It is our view that Transglobal will not be in a position to file a definitive Proposal by September 5, 2008.

### **Status of Litigation**

#### **Stone Sapphire Ltd.**

As previously reported, we have been advised by management that the Company filed an appeal on July 31, 2008 with respect to the most recent decision issued by Justice Lee, upholding the original Summary Judgment in favor of Stone Sapphire Ltd. To the Trustee's knowledge a date for this appeal has not yet been determined.

As advised in the First, Second and Third Reports of the Trustee, HSBC appeared in Court on May 23, 2008 and obtained an Order authorizing them to bring an application for determination of HSBC's claim and the priority to the \$1.53M USD currently held in Court. At the date of the Third Report it was our understanding that this application would be proceeding on August 15, 2008, however, the date for this application has since been scheduled for September 5, 2008.

### **Transglobal Communications Group Inc. vs. Joshua Kulbaba and Julia Kulbaba**

As discussed in earlier reports, the Company's management alleges that the Company's former Controller, Joshua Kulbaba ("Kulbaba"), misappropriated over \$600,000 from the Company over a four year period, beginning in 2004 until April 2008 when, we are advised, it was discovered by management.

On July 10, 2008 the Court ordered that the prior Attachment Order granted in April 2008, which effectively froze Kulbaba's personal and real property, be set aside and further ordered that the claim of Transglobal be stayed until such time as security for costs in the amount of \$75,000 was paid into Court. Management had advised prior to the Third Report that it anticipated that these funds would be paid in approximately one week's time, and that the funds would be provided by way of a shareholder loan advanced to the Company. Management has since advised that these funds have not yet been paid into Court due to the fact that in the July 10, 2008 Order, Kulbaba was awarded costs in the amount of \$95,000 against Steve Prescott personally and that Kulbaba is now attempting to attach to Mr. Prescott's personal assets, leaving him unable to inject further funds into the company. Management further advises that an appeal of the July 10, 2008 Order was filed on July 30, 2008. An additional application was scheduled for September 3, 2008 whereby Kulbaba was requesting that prior to the appeal hearing, all costs awarded to Kulbaba should be paid and that an additional \$9,500 be paid into Court to further secure costs with respect to the appeal of the stay of the Attachment Order. A decision on this application has been reserved until Friday, September 5, 2008.

As previously reported, management anticipates that the Company will ultimately recover some funds at the outcome of this litigation, however, the timing of the resolution remains uncertain.

### **Financial Position**

#### **Assets**

##### *Accounts Receivable*

The Company reports Accounts Receivable as at August 29, 2008, totaling \$69,300 CAD and \$3,887,495 USD, for a combined CAD total of \$4,213,758 (using an exchange rate of

\$1.0661 CAD/USD). The August 29, 2008 balance is an increase of approximately \$1,676,909 from the July 31, 2008 balance of \$2,536,849 reported in the Trustee's Third Report. As discussed in earlier reports, we note that \$745,239 CAD (using an exchange rate of \$1.0661 CAD/USD) is reported to be due from Stone Sapphire Limited, a customer with whom the Company is currently involved in litigation, and is also listed as a creditor at the time of the filing of the NOI. Accordingly, it is our opinion that it is unlikely this account would be collected in the normal course.

Of the remaining balance of \$3,468,519 (\$4,213,758 - \$745,239), \$2,540,142 (or 73%) is less than 60 days outstanding, \$228,736 (or 7%) is 61 - 120 days outstanding, and \$699,639 (or 20%) is greater than 120 days outstanding. We have reviewed these accounts with management, and the Company anticipates that for the most part the accounts are fully collectable. However, we note that three additional accounts receivable were also listed as creditors at the time of the filing of the NOI, and accordingly, may assert a right of set-off. The potential set-off pertaining to these three accounts total \$91,009 CAD.

As reported previously, certain of the Company's Accounts Receivable are insured by Export Development Canada ("EDC") to a maximum coverage of \$3,000,000 USD. We have reviewed certain documents pertaining to the Accounts Receivable Insurance Policy, and note that USD accounts are insured to a maximum of 90%, subject to restrictions pertaining to credit limits and credit term periods which have been determined on an individual account basis. We also note from our review that it does not appear that CAD accounts are insured by EDC. We have compared the Accounts Receivable listing as at August 29, 2008 to the listing of current USD credit approvals and estimate that of the USD accounts approximately \$1,932,042 USD receivables are eligible for insurance. Accordingly, we estimate that based on insurance coverage of 90%, \$1,738,838 USD would be collectable through the Company's insurance policy. According to management, premiums for EDC insurance are up to date and Accounts Receivable continue to be insured.

At the August 5, 2008 Court application, there were questions raised by counsel for HSBC as to whether or not an appropriate allowance for doubtful accounts is being recorded by the Company when accounts receivable become aged. Accordingly, Justice D. Thomas ordered that the Trustee review and report on the Company's method for recording Bad Debt Expenses in accordance with Generally Accepted Accounting Principles ("GAAP").

As reported in the Trustee's Third Report, approximately 40% of the Company's accounts receivable as at July 31, 2008 had been outstanding in excess of 60 days, with 32% being in excess of 120 days. Management advises that the Company uses the prior years bad debt expense to forecast an allowance for the projected monthly bad debt expenses.

In order to provide an opinion as to whether or not the aged accounts receivable are being converted to a bad debt expense in accordance with GAAP, information pertaining to the above was provided to a Chartered Accountant within the Audit and Assurance practice of Meyers Norris Penny LLP. The information provided included the Company's detailed Accounts Receivable listing for August 29, 2008 together with detailed information from management regarding the status, reason for aging and likelihood of collection of each account outstanding more than 90 days, as well as historical accountant prepared financial statements.

The CICA Handbook Section 3020 (Accounts and Notes Receivable) refers to Allowance for Doubtful Accounts and Bad Debt Losses. Specifically, it advises that "the nature of the particular business, the class of customers, the frequency and value of individual sales, the collection policy, the efficiency of the collection department and general business practice conditions at the time are all factors that must be taken into account" (when estimating the allowance required). This section further advises that an individual appraisal could be made of each account, and as this is not always practical, a similar result may be obtained by aging the balance outstanding (ie; current, 30-60 days, 61-90 days, over 90 days) and by applying to the totals, varying percentages based on past experience, or an individual appraisal of larger balances may be combined with an aging of smaller balances. In some instances, the charge against income for doubtful accounts may be arrived at by applying a fixed percentage, calculated in light of the bad debt experience of corresponding prior periods, to the sales for the period. It further advises that the resulting allowance should be reviewed from time to time to see that it is not materially more or less than the amount that would be required on the basis of providing for the probable loss on accounts outstanding at the balance sheet date. Lastly, an account or note receivable should be written off as soon as it is known to be uncollectable, or should be written down to its estimated realizable value as soon as it is known that it is not collectable in full.

The Company's Accounts Receivable as at August 29, 2008, totals \$4,213,787 CAD, for which no allowance for doubtful accounts has been recognized. The aging of the Accounts Receivable is as follows:

Current:	\$1,981,355 or 47%
31-60 days	\$513,016 or 12%
61-90 days	\$189,941 or 5%
91-120 days	\$26,888 or 1%
> 120 days	\$1,502,586 or 35%

Historically, the Company's rate of bad debts expense has been approximately 0.2% of sales, based upon financial information prepared under either review or audit engagements for the fiscal years ended May 31, 2001 through December 31, 2007.

Accordingly, a minimum allowance of \$8,428 would be expected, although this is an insignificant balance.

In our analysis of specific accounts that have been outstanding for 61-90 days, we note that significant payments have been received on accounts which represent 59% of the total outstanding balance of approximately \$190,000 CAD. The outstanding balance on those accounts where payments have been received, represent less than 20% of the original sales amounts; the other 80% having already been collected. It is our understanding that management believes these aged outstanding accounts are fully collectable. Therefore it is reasonable to conclude that no allowance on accounts 61-90 days outstanding is required.

Approximately \$27,000 CAD has been outstanding for 91-120 days. We are advised that, of this amount, one account totaling approximately \$20,164 USD is scheduled to be paid in September and we further understand that confirmation has been received from Bank of America in that regard. Based upon this, and our understanding that management believed the various accounts are collectable, it is reasonable to conclude that no allowance on accounts 91-120 days outstanding is required.

Approximately \$1,502,586 CAD has been outstanding in excess of 120 days. Of this amount, approximately \$485,096 USD represents accounts where regular payment have been made, and management is of the opinion that these accounts are fully collectable. Of the remaining accounts, \$699,033 USD is outstanding from Stone Sapphire Limited, a customer with whom the Company is currently involved in litigation, and is also listed as a creditor at the time of the filing of the NOI. This account has been outstanding since November 2004. Due to the age of this account, the current litigation, and the uncertainty surrounding collection and enforcement given that this is a foreign customer, this balance should be fully allowed for when estimating doubtful accounts. Management believes the remaining accounts totaling \$106,161 USD and \$69,300 CAD that have been outstanding in excess of 120 days are collectable. This representation is supported in part by the Company's historically low rate of bad debt expense. Alternatively, applying conservatism, an allowance of 50% of this balance, or approximately \$91,234 CAD could be suggested.

#### *Accounts Receivable Conclusion*

The determination of a reasonable allowance for doubtful accounts is subject to estimates of management which take into account historical experience, an understanding of the industry in which the Company operates, and the economic factors impacting that industry. As such, it is not possible to identify a specific balance with accuracy that would be appropriate as an allowance for doubtful accounts.

However, based on the analysis above, we would recommend a range for the allowance between \$753,597 (Stone Sapphire Limited: US\$699,033 x 1.066 exchange rate utilized

= \$745,169 plus estimate of 2% of A/R Balance totaling \$8,428) and \$844,831 (\$753,597 plus \$91,234 as discussed above).

It is our opinion that the treatment of the outstanding balance of \$699,033 USD pertaining to Stone Sapphire Limited is not in accordance with GAAP as per CICA Handbook Section 3020.12: "The accounts and notes receivable, net of the allowance should be the best possible estimate of the amount for which reasonable assurance of collection exists, in light of current conditions....". It is our further opinion that, although we believe a further estimate for allowance for doubtful accounts is prudent, as there is no definitive evidence that other amounts are not collectable, and given management's opinion that the accounts are collectable, management's current treatment of not providing for an allowance for doubtful accounts on other outstanding amounts is in accordance with GAAP.

### *Inventory*

Management has provided an Inventory Valuation Report as at August 31, 2008, which values the Company's inventory at approximately \$1,758,000. We note this value has increased approximately \$38,000 from the Inventory Valuation Report as at July 30, 2008. Of the \$1,758,000, and as previously reported, we are advised that \$1,458,000 represents inventory previously returned from QVC Inc., one of the Company's largest unsecured creditors ("QVC Inventory"). Given that Transglobal outsources the production of its goods based upon specific customer orders, it is our understanding that the Company typically maintains minimal inventory levels as goods are not manufactured to be maintained in inventory. Consolidated financial statements reports inventory totaling approximately \$555,000 for the year ended December 31, 2007, and approximately \$408,000 for the year ended December 31, 2006, valued at lower of cost or net realizable value. The Trustee is unaware at this time what realization could be anticipated from the Company's inventory on a liquidation basis.

As discussed in the Trustee's three previous reports and as previously outlined in this report, management advises that QVC Inc. returned a substantial amount of inventory in the current fiscal period. We are advised by management that the QVC Inventory is presently valued at \$1,458,000 which is the amount QVC Inc. originally paid Transglobal for that inventory. In other words, this inventory is valued at the selling price to QVC Inc., and not the amount Transglobal originally purchased the inventory for, plus relevant shipping costs. As stated in the Trustee's Third Report, we are of the opinion that Transglobal is overstating the QVC Inventory by recording it at the sales price and not the purchase price, and that this valuation is not in accordance with GAAP. We have been advised by management that the cost to produce the QVC Inventory was approximately 60% of the selling price. Based on this profit margin, the cost of the QVC Inventory is estimated to be approximately \$875,000, so the Company's total inventory value that has been reported subsequent to the QVC Inventory being returned, appears to be overstated by approximately \$583,000.

Management has advised that as of the date of this report, no adjustments have been made to the value of the QVC Inventory with respect to bringing the reported values into accordance with GAAP . Management has further advised that they are currently assessing the values of the inventories with their accountants in order to determine costs which need to be added to the purchase value of goods. The applicable adjustments will be made once the accountant supplies management with adjusting entries in which all additional costs have been taken into account.

### Secured Creditors

#### *HSBC Bank Canada (“HSBC”)*

As outlined in the Trustee’s First Report, HSBC is the Company’s largest secured creditor who provided working capital by way of operating loans. The operating loans were margined against the Company’s accounts receivable, to a maximum of \$2,000,000. HSBC issued demand and a Notice of Intention to Enforce Security on May 8, 2008, and the operating facilities were frozen. Pursuant to the Notice of Intention to Enforce Security, HSBC made demand for payment pertaining to a Canadian dollar operating loan with a balance of approximately \$1,046,766, and a U.S. dollar operating loan with a balance owing of approximately \$1,091,800, as well as outstanding credit card facilities.

As previously reported, HSBC appeared in Court on May 23, 2008 and obtained an Order authorizing them to bring an application for determination of its claim and the priority to the \$1.53M USD currently held in Court. It is our understanding that this application will be proceeding on September 5, 2008.

#### *Business Development Bank of Canada (“BDC”)*

BDC registered security over all of Transglobal’s assets on March 2, 2004, and entered into a priorities agreement with HSBC in March 2005 such that HSBC holds a priority security position.

It is our understanding that the Company has two term loans with BDC, which are currently at a total balance of approximately \$120,000.

As reported in the Trustee’s previous reports, our review of the Company’s banking activity indicates that two BDC term loan payments, totaling approximately \$8,500, were directly debited from the Company’s account in June 2008 and payments totaling approximately \$8,400 were directly debited from the Company’s account in July 2008.

As outlined in the Trustee’s previous Reports, management had advised that these loan payments would discontinue during the current stay of proceedings in an effort to conserve working capital. It is our understanding that management took steps to stop these automatic bank debits from being processed each month, however, because the

amount being debited each month differed due to the variable interest component, the Company was unsuccessful in stopping the bank debits from being processed. It is our current understanding that management discussed this matter with a representative from BDC, and BDC has agreed to not process any further loan payments by way of bank debit until such time as a definitive Proposal is filed. A review of the Company's banking activity confirms no payments have been made to BDC in August 2008.

### *Lessors*

There are a number of Lessors that have registered financing statements pertaining to leased office equipment and computer equipment. As previously reported our review of the Company's banking activity indicates that one cheque was written to Key Equipment Financing (lessor of the Company's computers) on June 30, 2008 for \$2,955.14.

### *Vehicles*

Prior Trustee reports referred to payments made to various vehicle lessors pertaining to the Company's lease obligations, however, as indicated in our letter to Ogilvie LLP (attached as Exhibit "A" to this report), the Trustee was advised that the vehicles for which payments have been remitted are financed in the name of Steven Prescott. These payments have included two cheques written on May 27, 2008 to Chrysler Credit totaling approximately \$2,000, payments to Chrysler Credit in the amount of \$1,433.15 and Wells Fargo Auto in the amount of \$1,313.90 in July, 2008 and payments to Wells Fargo Auto for \$2,592.80 and two payments to Chrysler Credit totaling approximately \$2,000 in August 2008.

Management advises that the three of the vehicles are currently listed for sale privately, including both the Dodge Vipers and the Porsche Cayenne. At the time of this report no reasonable offers had been received.

### **Post Filing Operations**

August 2008

#### *Payroll*

The Company continues to utilize a payroll service in Canada and the US to complete the calculation of wages and source deductions. Management advises that the Company is paying its employees and remitting source deductions directly. A review of the Company's banking activity for the month of August 2008 supports payments being made directly to employees. Management further advises that source deductions in Canada are up to date, and that the US source deduction arrears of approximately \$15,000 as reported in the Trustee's Third Report remain outstanding.

### *Commercial Lease*

As reported previously, management executed a new lease for the Company's premises in Edmonton on July 3<sup>rd</sup>, 2008 which was effective July 1<sup>st</sup>, 2008. The Company's premises has been reduced from four bays to one commercial bay and the rent will be reduced by approximately \$7,000 per month. Management also advises that the leasehold improvements have been completed and approximately \$5,460 was paid for the renovations at the end of July 2008.

Management advises that August lease payment for the US office has not yet been made and that the July and August lease payments for the Hong Kong office are currently in arrears.

### *Shareholder Loans*

As of the date of this report, no further funds have been injected into the Company by the shareholders. As reported previously, Mr. Prescott had intended on injecting a further \$100,000 into the Company, of which \$75,000 was to be paid into court to secure costs in the Kulbaba litigation, however, with the recent cost award against him personally he has been unable to inject these monies. Since filing the NOI and as reported in the Third Report, Mr. Prescott has injected a total \$100,000 USD by way of shareholder loans.

Mr. Prescott had not been paid his regular monthly salary from the filing of the NOI to August 2008, which equates to approximately \$68,000 USD. The withholding of regular salary payments and shareholder loans advanced to the Company subsequent to filing the NOI has provided the Company with an additional \$168,000 USD in working capital.

Management and the company's counsel advise the Trustee that any further advances by the shareholders will be subject to a security agreement registered against the Company. The Trustee has confirmed that a General Security Agreement was registered against the Company on July 30, 2008 in the name of Steven Prescott and Dawn Prescott. The Trustee has not obtained an independent legal opinion as to the validity and enforceability of the security agreement.

### **Sales Variance Analysis**

The table below outlines the Projected vs Actual Sales of the Company for May, June, July and August 2008:

#### **PROJECTED VS ACTUAL SALES 2008**

	Projected	Actual	Variance \$	Variance %
May	1,158,951	939,218	(219,733)	-19%
June	1,155,609	1,362,074	206,465	18%
July	3,559,285	428,000	(3,131,285)	-88%

August	6,043,741	2,039,715	(4,004,026)	-66%
TOTAL	11,917,586	4,769,007	(7,148,579)	-61%

*May 2008*

Sales for May 2008 are reported to total approximately \$939,218. Sales were projected to total \$1,158,951, which is a negative variance of approximately \$219,733 or 19%.

As reported previously, management advises that sales in May were at a lower level than the projection primarily due, in their opinion, to customers ordering closer to their “in store” dates in order to consolidate freight and reduce costs. Management advises that this trend has been taking place over the past few years as retailers look to reduce costs by facilitating more of the shipping and warehousing process in China, where costs such as labor and overhead are substantially lower than in the US.

*June 2008*

Sales for June 2008 are reported to total approximately \$1,362,047. Sales were projected to total approximately \$1,155,609 which is a positive variance of approximately \$206,438 or 18%. Management advises that the higher than projected sales are due to the same premise as the lower than expected sales for May, wherein customers took delivery of their product later in the season.

*July 2008*

Sales for July 2008 were reported to total approximately \$428,000. Prior to the Third Report we are advised by management that an additional \$440,000 in sales for July 2008 had not yet been invoiced, and would be billed in the last week of July. Management has since advised that these invoices were not remitted during the last week of July, but rather the first week in August 2008, resulting in total sales for July of \$428,000. Sales were previously projected to total approximately \$3.5M resulting in a negative variance of \$3,131,285, or 88%. Management advised that this discrepancy is due to several factors. A significant portion of projected July sales related to the supply agreement with Entertainment Publications Inc. We are advised that these orders which were projected to be billed in July 2008 and were estimated to total between \$1M and \$1.5M. The status of the supply agreement and new agreement entered into with Entertainment Publications Inc. is detailed in the Trustee’s Third Report. Further, a number of purchase orders previously placed with Transglobal revised their ship dates from that provided on the original order such that the orders that were anticipated to be shipped and billed in July 2008 have been extended by two to four weeks. We are further advised by management that in an effort to reduce the carrying cost associated with maintaining inventory, customers are requesting later shipment dates to facilitate “just in time inventory”.

*August 2008*

Sales for August 2008 were reported to total approximately \$2,039,715. Sales were projected to total approximately \$6,043,741 which is a negative variance of approximately \$4,004,026 or 66%. Management advises that sales are significantly lower due to various factors including delays with some of the factories Transglobal does business with; cancellation of certain orders due to lack of production availability at the factories (including a significant order from Walmart USA); loss of documents by UPS which delayed the collection of an Accounts Receivable by more than two weeks whereby the proceeds of the Accounts Receivable were to be utilized to pay deposits on new orders which were subsequently lost as the production at the factories could not be secured; and a large order that was expected to be filled out of existing inventory is being currently reconsidered by the customer.

**Variance Analysis of Actual vs. Projected vs. Historical Cash Flow for August 2008**

Attached hereto and marked as Exhibit "B" to this report, is a Variance Analysis of the Actual vs. Projected and the Actual vs. Historical Cash Flow for the period August 2008 ("Variance Analysis").

As indicated in the Note shown on the Variance Analysis, General and Administrative Expenses for August 2007 have been reported as one total, as the volume of transactions was prohibitive in categorizing the individual expense categories.

In preparing the Variance Analysis, the Trustee reviewed the banking activity from August 2007 and 2008, reflected in the Company's USD Royal Bank account, CAD Royal Bank account, USD US Bank account, USD HSBC account, and CAD HSBC account, as well as the Company's internal bank reconciliations for each account in each month.

*Cash Inflow*

Accounts Receivable collected in August 2008 were considerably less than projected and historical as can be seen in Exhibit "B". The variance to projected equates to approximately \$1,888,445 or 80% and the variance to historical equates to approximately \$616,164 or 57%. Management advises these variances are attributed to various factors including an order with 10 day payment terms being delayed by approximately one month, documents lost by UPS required by RBC trade to draw on letters of credit and a large order that was projected to be filled out of existing inventory in August that is now being reconsidered by the customer.

Due in part to the nature of the Company's cashflow, whereby a portion of payments to suppliers are made when product is delivered from the suppliers, the actual Net Cash

from Operations has resulted in a smaller variance of approximately \$52,619 or 24% as compared to the Accounts Receivable Collected variance of \$1,888,445 or 80%. This variance is significantly larger when compared to the historical amounts (approximately \$464,585 or 73%), however, as reported in the Trustee's Third Report, management advises this is attributed to a reduction in orders compared to the same historical period and customers now taking delivery of their product later in the third and fourth quarters.

The actual Total Cash Inflow for August 2008 is significantly less than projected (approximately \$153,470 or 48%) due in part to the reasons discussed above and also due to the fact that management has been unable to inject the projected shareholder loan of \$100,000. As discussed previously in this report, management advises that this is attributed to the costs award against Steven Prescott personally in the Kulbaba litigation, through which Kulbaba is attempting to attach to Mr. Prescott's personal assets. Actual Total Cash Inflow for August 2008 has resulted in a similar variance to historical (approximately \$467,441 or 74%) due to the same rationale discussed previously.

#### *Cash Outflow*

In reviewing the comparison of actual to projected and historical Cash Outflows, the Company continues to realize significant cost reductions where actual Cash Outflows are approximately \$104,694 (or 36%) less than projected and approximately \$178,181 (or 48%) less than historical. Actual salaries and related benefits are tracking higher than projected (approximately \$35,844 or 35%) and management advises this is related to payment of termination and vacation pay for the staff who were terminated prior to the Trustee's Third Report. A comparison of actual salaries and benefits to historical salaries and benefits indicates a significant variance of approximately \$119,267 (or 47%) which is attributed to the reduction in staffing levels. Management expects salaries and related expenses to track much closer to projected in subsequent months. Actual professional fees paid in August were considerably less than projected (approximately \$80,930 or 85%). The majority of this variance is attributed to the fact that management has been unable to inject the projected shareholder loan, which was to be utilized to pay the \$75,000 into Court to secure costs on the Kulbaba litigation.

#### *Net Cash*

The comparison of actual Net Cash to projected Net Cash indicates an approximate variance of \$48,776 (or 180%). This is primarily attributed to the lower than projected collection of accounts receivable and inability of management to inject shareholder loans as discussed previously. The comparison of actual Net Cash to Historical Net Cash indicates an approximate variance of \$14,793 (or 215%).

## **Business Plan**

### *Operations*

As discussed in earlier reports, management has reviewed all operating processes in light of the former Controller's alleged misappropriation of Transglobal's assets. Management has implemented a number of reductions concerning production costs and administrative overhead in order to maximize the overall profitability of the Company.

### *Refinancing and Restructuring Options*

As previously reported, we are advised by management that they are currently in detailed discussions with five separate lenders, namely Maple Trade Finance Inc. ("Maple"), Royal Bank of Canada, RBC Capital Markets, Century Services Inc. and Merit Financial, with respect to the refinancing of the Company's operating loans and pre-shipment financing. Management further advises that Maple Trade Finance Inc. is receptive to approving a credit facility margined on accounts receivable, so long as the margined amount is sufficient to payout HSBC in its entirety. Management further advises that Maple will not proceed with any pre-shipment financing until the priority to the \$1.53M held in court has been determined. Management is confident that should it be determined that HSBC has priority to the funds currently held in Court, and the funds are made available to HSBC, that the proposed financing (in particular with Maple) will be sufficient to pay HSBC in full, and secure additional funding for operations and the funding of a Proposal to the Company's creditors.

The financing applications have not significantly progressed since the Third Report, as management advises the determination of priority to the \$1.53M held in Court will be a key determinant in which financing option to pursue.

As previously reported, management advises that it has had preliminary discussions with a competitor regarding the sale of the Company and that as at the date of this report these discussions are ongoing. As also reported in the Third Report, management advises that the Company has initiated discussions with an agent specializing in the sale of businesses, however, to date no listing agreement has been signed.

### *Application for further Extension*

As previously advised, a Notice of Motion was served on behalf of Transglobal on September 3, 2008, advising that the Company would be making an application on September 5, 2008 for a further extension of time to file a Proposal to 11:59 pm on, Monday, October 15, 2008. It is our view that Transglobal is currently not in a position to file a definitive Proposal to its creditors.

An extension of time will enable the Company to continue to operate during its peak season, while benefiting from the various cost saving measures that have been implemented. Based upon the projected Cashflow Statement (attached as Exhibit "C" to the Trustee's Third Report), management forecasts that the Company's cash position will improve by approximately \$899,951 in September 2008 and \$704,952 in October 2008, resulting in a projected closing cash balance in October 2008 of \$1,538,161.

Perhaps most significant is the application expected to proceed on September 5, 2008 to determine the priority to the \$1.53M USD currently held in Court. The outcome of the application will provide management with certainty required in order to advance discussions with potential lenders. We are advised by management and counsel that it is their intention to file a definitive proposal upon a decision being rendered with respect to priority to the \$1.53M USD currently held in Court.

An extension of time will also permit management to continue discussions with potential lenders concerning refinancing, and interested parties concerning a potential sale of the Company.

It is our opinion that:

- a) The Company has and continues to act in good faith and with due diligence in formulating a Proposal,
- b) The Company would likely be able to make a viable Proposal if an extension was granted, and
- c) No creditor will be materially prejudiced if an extension is granted and the Company continues to act in good faith.

**DATED** this 4<sup>th</sup> day of September, 2008.

**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



Grant Bazian, CRP, Trustee  
Senior Vice President

EXHIBIT "A"

OUR FILE: 3016.551

YOUR FILE:

REPLY TO:

KENTIGERN A. ROWAN

DIRECT LINE: (780) 429-6236  
DIRECT FAX: (780) 701-5936

EMAIL: krowan@ogilvie.com

CANADIAN WESTERN BANK PLACE  
SUITE 1400  
10303 JASPER AVENUE  
EDMONTON AB T5J 3N6  
FACSIMILE (780) 429-4453  
TELEPHONE (780) 421-1818

August 7, 2008

VIA EMAIL

Meyers Norris Penny Limited  
Attention: Grant Bazian  
Suite 300, 10104 – 103 Avenue  
Edmonton AB T5J 0H8

Dear Sir:

**Re: Transglobal Communications Group Inc.**

Further to the direction of the Honourable Justice D. Thomas on Tuesday, August 5, 2008, the following are our inquiries with respect to the expenses listed on the projected Cash Flow Statement and Variance Analysis attached as Exhibits "C" and "D" respectively to the Trustee's Third Report:

**1. Automotive Expenses**

Please provide us with a breakdown of the automotive expenses listed at \$8,500.00 per month. In providing this breakdown, please indicate whether the payments are on account of purchase financing or leases and whether any portion of the payment is for maintenance and operating costs. Further, identify the vehicles incurring this automotive expense, where the vehicles are located, who has use of the vehicles and the purpose for having the vehicles.

**2. Meals and Entertainment**

Please provide us with a breakdown of the \$1,000.00 per month meal and entertainment expense and why the meal and entertainment expense is not already covered in the travel expenses of \$5,000.00 per month.

**3. Office**

Office expenses are indicated to be \$26,381.00. Please confirm that there is no rent included in those office expenses. Further, please provide us with a general breakdown of office expenses such as – the approximate amount paid for lease of office equipment, approximate amounts paid for office supplies and any other individual item that would constitute a significant portion of the office expense.

**4. Professional Fees**

Professional fees for August of 2008 are indicated at \$95,000.00. It is our understanding that \$75,000.00 of that \$95,000.00 is to pay Security for Costs in an action commenced

against the former Controller of Transglobal Communications Group Inc. It is our further understanding that \$75,000.00 Security for Costs will be provided by Mr. Prescott through a \$100,000.00 Shareholder Loan to the corporation as indicated on the statements. Please confirm.

Further, please provide a breakdown of the \$20,000.00 professional fees budgeted per month. Is this solely for the costs of proceeding with the proposal proceedings or do any portion of the professional fees relate to costs of ongoing litigation with either the former Controller or Stone Sapphire? If any portion of the costs relate to ongoing litigation, please provide us with an estimate of the portion of the costs attributed thereto.

#### **5. Salaries and Benefits**

The projected salaries and benefits are \$101,266.84 per month. However, the June Cash Flow Statement indicates salaries and benefits were \$95,040.95 and the July statement indicates salaries and benefits of \$78,511.56. Further, the Trustee's report indicates that the corporation laid off approximately 28 employees in July of 2008 and is left with 11 full time employees. Based on the foregoing, it is assumed that the salaries and benefits would be substantially less than the \$101,266.84 projected. Please confirm the salaries and benefits projected for.

Further, the Trustee's report indicates that management of the corporation believes that they will be able to supplement labour with contract workers where required. Do the salaries and benefits projections include contract worker costs?

Please confirm whether any of the salaries and related benefits is paid to Stephen Prescott or Dawn Prescott or any parties related to them.

#### **6. Management Salaries**

Management salaries are indicated to be \$15,000.00 per month. Please confirm that the entirety of the \$15,000.00 per month is paid to Stephen Prescott. If there is any portion of the Management salary that is paid to any other party, please identify the portion and the party who is receiving that amount.

#### **7. Exhibit "D" to the Trustee's Third Report**

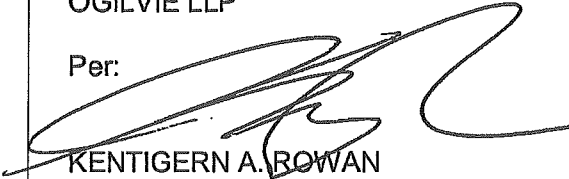
Exhibit "D" to the Trustee's Third Report indicates a payment to the Trustee in September of 2006 of the sum of \$60,000.00. We inquire whether this is a retainer or payment for services provided by the Trustee. Further, does the Trustee receive any portion of the professional fees mentioned above?

In accordance with the direction of Justice Thomas, we request a reply to the foregoing

within seven (7) days of receipt of this request.

Yours truly,  
OGILVIE LLP

Per:



KENTIGERN A. ROWAN  
KAR/sdp

cc: HSBC Bank Canada

Michael McCabe and Victor Lorette – Reynolds Mirth

Chuck Russell – McLennan Ross

Jeff Keeble – Deloitte & Touch  
Via e-mail

Michael Mysak – Bennett Jones, Calgary  
Via Fax – 1-403-265-7219



MEYERS NORRIS PENNY LIMITED

Writer's Direct Line: 780- 969-1491

Writer's Email: [Eric.Sirrs@mnp.ca](mailto:Eric.Sirrs@mnp.ca)

August 15, 2008

VIA EMAIL

Ogilvie LLP  
Canadian Western Bank Place  
Suite 1400, 10303 Jasper Ave  
Edmonton, AB T5J 3N6

Attention: Kentigern A. Rowan

Dear Sir:

Re: Transglobal Communications Group Inc. ("Transglobal" or the "Company")

In accordance with the direction of Justice D. Thomas on Tuesday August 5, 2008, please find below a response to each or your inquiries received by our office on August 8, 2008. The responses are based upon information provided by management of the Company.

1. Automotive Expenses

The \$8,500 monthly automotive expense listed on the projected Cash Flow Statement attached as Exhibit "C" to the Trustee's Third report ("Cash Flow Statement") is detailed in the table below:

VEHICLE	SECURED CREDITOR	MONTHLY PAYMENT	LEASE OR PURCHASE FINANCING	FINANCED IN THE NAME OF	DRIVEN BY	LOCATION	PURPOSE
2006 Dodge Viper #1	Wells Fargo Auto	1,275.00	Purchase Finance	Steve Prescott	Not currently being driven	California	Used for product development
2006 Dodge Viper #2	Chrysler Credit	1,433.00	Lease	Steve Prescott	Not currently being driven	California	Used for product development
2008 Porsche	Porsche Finance	2,200.00	Lease	Steve Prescott	Dawn Prescott	California	Personal vehicle
2007 Dodge 3500	Chrysler Credit	630.00	Purchase Finance	Steve Prescott	Steve Prescott	California	Used for small deliveries and other business activities
BMW #1	BMW Finance	1,435.00	Lease	Transglobal	Returned to BMW	Edmonton	N/A
BMW #2	BMW Finance	800.00	Lease	Transglobal	Returned to BMW	Edmonton	N/A

The vehicle payments total \$7,773 and the remaining \$727 (\$8,500 - \$7,773) is an estimate for fuel and maintenance. The Company has historically, and subsequent to filing the Notice of Intention to Make a Proposal ("NOI"), made payments on the four vehicles financed in the name of Steve Prescott. The two BMW's were returned to the BMW dealership subsequent to the Cash Flow Statement being completed, and as such the projected automotive expenses will be reduced by \$2,235 (\$1,435 + 800).

With respect to the two Dodge Vipers, the Company had been completing some research and development into the production of fibreglass parts such as hoods, wings, and side mouldings. This product development has not been pursued for the last four to five months as management has been focusing on the Company's core business. According to management, both of the Dodge Vipers and the Porsche are currently listed for sale.

## **2. Meals and Entertainment**

The meals and entertainment expense listed on the Cash Flow Statement is a projection expenses to be incurred entertaining clients where travel is not required such as local buyers for large customers. Also included in this projected expense are meals and entertainment for staff that would not be incurred while travelling.

## **3. Office**

With respect to the projected \$26,381 per month office expense, this monthly expense is broken down into the following categories:

- Office and General – CAD
- Office and General – USD
- Office and General – HK
- Utilities - CAD
- Utilities – USD
- Utilities – HK
- Late Fees Paid
- Maintenance (Repairs and Upkeep)
- Miscellaneous – USD
- Miscellaneous – HK
- Computer Expense
- Computer Expense – USD
- Lease – Office Equipment
- Waste Collection (BFI)
- Security System
- Inspection Costs (Factory Inspections)
- Couriers
- Warehouse Costs
- Janitorial

The utilities listed within the office expense are in addition to the utilities identified separately on the projected cash flow statement. The utilities included under this expense include the cell phone and landline phone expenses for the Hong Kong office, the internet and wireless card expenses for all offices and conference call charges. As per the categories listed above no rent is included in this projected expense.

Management was unable to provide approximate amounts of any item that might constitute a significant portion of the projected monthly expense at this time.

#### **4. Professional Fees**

With respect to the \$95,000 projected for professional fees in August 2008 and as indicated in the Trustee's Third Report, \$75,000 of this projected expense is to be paid into Court to secure costs in the Kulbaba litigation. According to management \$75,000 in shareholder loans will be paid into the Company to cover this expense.

The projected monthly \$20,000 in professional fees are for the ongoing legal and accounting expenses associated with the Proposal proceedings, the Kulbaba litigation (which includes a counterclaim against the Company and Steve Prescott and a separate claim against Steve Prescott and Dawn Prescott) and the Stone Sapphire litigation. Management is not able to provide a breakdown of the projected monthly costs for each of the proceedings.

#### **5. Salaries and Benefit**

Management advises that the \$101,266.84 continues to be their projection for salaries and related benefits. This is based upon wages for current staff, remaining severance and vacation pay to be paid to the recently terminated staff as well as payments to contract workers as required.

The projected salaries and benefit expense does not include payments to Steve Prescott, however, the projection does include a monthly salary for Dawn Prescott. Mrs. Prescott is the Vice President, Director of Human Resources for both the Edmonton and United States offices as well as managing the book department of the Company. The projection includes a salary of \$6,000 per month from the Edmonton operation and \$5,000 per month from the United States operation, which, according to management, is consistent with the salaries paid to Mrs. Prescott prior to filing the NOI.

#### **6. Management Salaries**

Management advises that the projected \$15,000 per month is solely for the management salary of Steven Prescott and that the projection does not account for payment to any other party.

#### **7. Exhibit "D" to the Trustee's Third Report**

With respect to the \$60,000 payment to the Trustee projected for September 2008, this payment is a retainer for services provided to date and for expected future services to be provided by the Trustee with respect to the Proposal proceedings. The \$20,000 per month projected payment for professional fees referenced in paragraph 4 does not include payments to the Trustee.

Should you require any further information please contact the undersigned at 780.969.1491 or Grant Bazian at 780.969.1490.

We remain,

Yours truly,

**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: Eric Sirrs, Manager

cc: John Lee – HSBC (via email)

Michael McCabe – Reynolds Mirth (via email)

Victor Lorette – Reynolds Mirth (via email)

Chuck Russell – McLennan Ross (via email)

Ken Fitz – McLennan Ross (via email)

Jeff Keeble – Deloitte (via email)

Steven Prescott – Transglobal Communications (via email)

Michael Mysak – Bennett Jones (via email)

EXHIBIT "B"

**ACTUAL VS PROJECTED**

	AUGUST 08 Actual	AUGUST 08 Projected	VARIANCE Variance \$	VARIANCE Variance %
<b>CASH INFLOW</b>				
Accounts Receivable Collected	470,813.03	2,359,258.55	(1,888,445.52)	-80%
Less Payments to Suppliers	(302,146.73)	(2,137,972.92)	(1,835,826.19)	86%
<b>NET CASH FROM OPERATIONS</b>	168,666.31	221,285.63	52,619.32	24%
ADD: Shareholder Loans	0	100,000.00	100,000.00	100%
Other Deposits	106.93			
Foreign Currency Adjustment	(958.53)		958.53	100%
<b>TOTAL CASH INFLOW</b>	167,814.71	321,285.63	153,470.92	48%
<b>CASH OUTFLOW</b>				
Automotive Expenses	(4,672.48)	(8,500.00)	(3,827.52)	45%
Bank Charges	(3,045.22)	(3,000.00)	45.22	-2%
Meals and Entertainment		(1,000.00)	(1,000.00)	100%
Professional Fees	(14,069.97)	(95,000.00)	(80,930.03)	85%
Telephone and Utilities	(2,730.28)	(7,800.00)	(5,069.72)	65%
Travel	(25.00)	(5,000.00)	(5,000.00)	100%
General and Admin Expenses - Various	(24,542.95)	(26,381.00)	(26,356.00)	100%
<b>SUBTOTAL EXPENSES (1)</b>	(82,727.88)	(146,681.00)	(122,138.05)	83%
Insurance	(8,277.88)	(7,800.00)	477.88	-6%
Rent	(4,572.95)	(13,452.00)	(8,879.05)	66%
Leashold Improvements		(10,000.00)	(10,000.00)	100%
Salaries and Related Benefits	(137,111.82)	(101,266.84)	35,844.98	-35%
Salaries - Management	(15,000.00)	(15,000.00)		0%
Payment to Trustee				
<b>TOTAL CASH OUTFLOW</b>	(189,505.60)	(294,199.84)	(104,694.24)	36%
<b>NET CASH</b>	(21,690.89)	27,085.79	48,776.68	180%
<b>PAYMENTS INTO COURT</b>				
<b>PAYMENTS TO SECURED CREDITORS</b>				
<b>OPENING CASH BALANCE</b>	80,566.65	(93,828.45)	(174,395.10)	186%
<b>CLOSING CASH BALANCE</b>	58,875.76	(66,742.66)	(125,618.42)	189%

**ACTUAL VS HISTORICAL**

	AUGUST 08 Actual	AUGUST 07 Historical	VARIANCE Variance \$	VARIANCE Variance %
Accounts Receivable Collected	470,813.03	1,086,977.85	(616,164.82)	-57%
Less Payments to Suppliers	(302,146.73)	(453,726.34)	151,579.61	-33%
<b>NET CASH FROM OPERATIONS</b>	168,666.31	633,251.51	(464,585.20)	-73%
ADD: Shareholder Loans	0			
Other Deposits	106.93	2,004.95	(1,898.02)	-95%
Foreign Currency Adjustment	(958.53)		(958.53)	100%
<b>TOTAL CASH INFLOW</b>	167,814.71	635,256.46	(467,441.75)	-74%
<b>CASH OUTFLOW</b>				
Automotive Expenses	(4,672.48)		(4,672.48)	
Bank Charges	(3,045.22)		(3,045.22)	
Meals and Entertainment				
Professional Fees	(14,069.97)		(14,069.97)	
Telephone and Utilities	(2,730.28)		(2,730.28)	
Travel	(25.00)		(25.00)	
General and Admin Expenses - Various	(24,542.95)	(72,125.52)	47,582.57	-66%
<b>SUBTOTAL EXPENSES (1)</b>	(82,727.88)	(16,709.07)	8,431.19	-50%
Insurance	(8,277.88)	(16,473.03)	11,900.08	-72%
Rent	(4,572.95)			
Leashold Improvements				
Salaries and Related Benefits	(137,111.82)	(256,379.36)	119,267.54	-47%
Salaries - Management	(15,000.00)		(15,000.00)	
Payment to Trustee				
<b>TOTAL CASH OUTFLOW</b>	(189,505.60)	(361,686.97)	172,181.37	-48%
<b>NET CASH</b>	(21,690.89)	(6,896.92)	(14,793.97)	-215%
<b>PAYMENTS INTO COURT</b>				
<b>PAYMENTS TO SECURED CREDITORS</b>				
<b>OPENING CASH BALANCE</b>	80,566.65	(1,769,178.90)	1,849,745.55	-105%
<b>CLOSING CASH BALANCE</b>	58,875.76	(1,776,075.82)	1,834,951.58	-103%

Notes:

(1) General and Administrative expenses have been reflected as one total for the historical cashflow statement as the volume of transactions was prohibitive in categorizing in individual expense categories