

CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF QUEBEC  
DIVISION NO.: 01-Montréal  
COURT NO.: 500-11-025437-050  
ESTATE NO.: 41-329040

**SUPERIOR COURT  
(Commercial Division)**

**IN THE MATTER OF THE BANKRUPTCY OF:**

**Jetsgo Corporation**

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:  
7800 Côte de Liesse  
Montréal, Quebec H4T 1G

**Bankrupt**

– and –

**RSM Richter Inc.**

**Trustee**

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## TRUSTEE'S REPORT TO THE FIRST CREDITORS MEETING

On March 11, 2005, Jetsgo Corporation ("Jetsgo" or "Company") filed with the Quebec Superior Court, a "Petition for the Issuance of an Initial Order" pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"). On that same date, Mr. Chief Justice François Rolland, S.C.J., issued an initial order (the "Initial Order") appointing RSM Richter Inc. as Monitor.

On March 24, 2005, the Court amended the terms of the Initial Order, with the consent of the Company, *inter alia*, to enhance certain administrative powers of the Monitor, which included the control of Receipts and Disbursements, due to concerns raised by a number of creditors. On April 8, 2005, Mr. Chief Justice François Rolland, S.C.J., extended the Initial Stay Period until May 13, 2005.

On May 13, 2005, Jetsgo filed a motion to extend the initial stay period until May 25, 2005 which was not supported by the Company's major creditors and, as such, Jetsgo did not proceed with the motion. During the initial stay period, Jetsgo had failed to develop a Plan of Arrangement which was acceptable to the Company's major creditors. In this regard, given the Company's limited options, it decided to file an assignment in Bankruptcy on May 13, 2005 and RSM Richter Inc. ("Richter" or "Trustee") was appointed Trustee to the Bankruptcy.

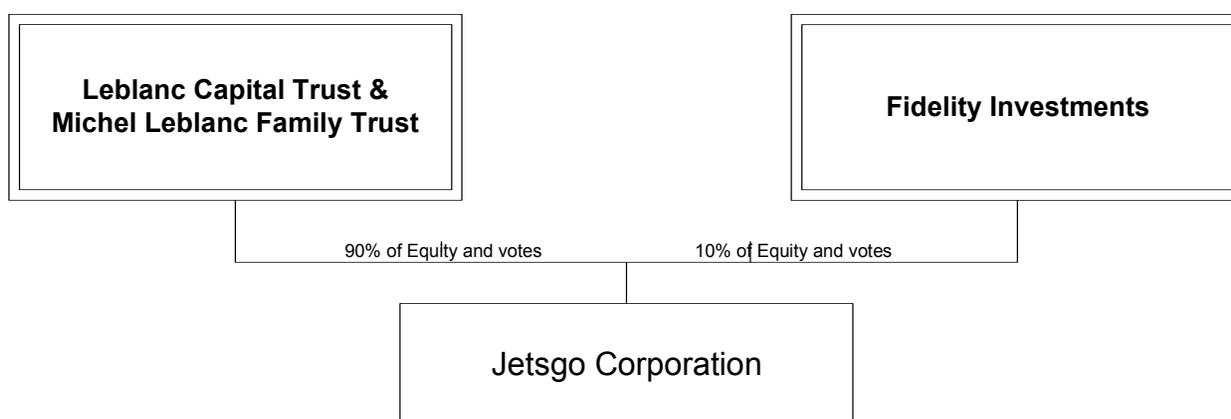
The information contained in this Report has been prepared from the available books and records of Jetsgo. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.

## I. CORPORATE STRUCTURE AND BACKGROUND

Jetsgo was Canada's third largest airline with approximately 10% of the domestic market. The Company also conducted flights to holiday destinations throughout the United States and the Caribbean.

The Company was founded in 2002 by Mr. Michel Leblanc and officially began operations on June 12, 2002 with three (3) leased MD-83 aircraft. Jetsgo proceeded to increase its fleet to fourteen (14) leased MD-83 aircraft and seventeen (17) owned Fokker F-100 aircraft ("Fokkers"), of which thirteen (13) were used in the flight operations. The Company employed approximately 1,200 employees.

Jetsgo is a privately held company and its corporate structure can be summarized as follows:



Jetsgo's head office was located in Montreal and the Company operated out of several important Canadian airports, including the Toronto - Lester B. Pearson International Airport and the Montreal-Pierre-Elliott-Trudeau International Airport, as well as other international airports located throughout the United States, Mexico, Cuba and the Dominican Republic.

Company owned assets comprised of seventeen (17) Fokkers, as previously mentioned, Fokker F-100 and MD-83 spare parts inventory, ground handling equipment, catering equipment, office furniture, office equipment and computer equipment. Jetsgo had leased all of its premises, which included several hangar facilities in Montreal, Quebec City and Toronto, as well as several office premises and counter space at various airports.

During 2004, the Canadian airline industry experienced heavy competition for the domestic market share, which generally led to lower ticket prices and lower profitability for Canadian airlines. In addition, industry profits were further depleted by an increase in fuel prices. Also during 2004, Jetsgo had planned to issue an initial public offering ("IPO") of \$100 M to fund the acquisition of the seventeen (17) Fokkers (previously paid for by a private equity investment) and to finance anticipated growth. For various reasons, the IPO was not done, and as such the anticipated expansion of more profitable flight routes was delayed and thus resulted in significant losses and deterioration of operating cash flow during 2004 and 2005.

The delay of the Company's IPO forced Management to begin an internal restructuring process in order to address decreasing industry profits, negative working capital and depleting cash flow. Nevertheless, despite the Company's internal restructuring efforts, the continued losses coupled with pressure from several large creditors for payment of significant arrears, forced the Company to file for protection under the CCAA on March 11, 2005.

In conjunction with the filing for protection under the CCAA on March 11, 2005, the Company ceased all operations and grounded its entire fleet of aircraft. Jetsgo had retained approximately sixty-five (65) employees for the restructuring period, with the intention of rehiring certain ex-employees once operations resumed.

During the CCAA stay period (i.e. from March 11, 2005 to May 13, 2005), Jetsgo was unable to develop a Plan of Arrangement which was acceptable to its major creditors. In this regard, given the Company's limited options without the support of its major stakeholders, it decided to file an assignment in Bankruptcy on May 13, 2005.

## **II. FINANCIAL INFORMATION**

The financial information contained herein has been extracted from the June 30, 2003 and 2004 audited financial statements and the internal unaudited financial statements for the seven (7) months ended January 31, 2005. The May 13, 2005 Statement of Affairs reflects the Company's best estimate of its affairs. This financial information is unaudited and, since the books and records of Company are not necessarily up-to-date, it may be subject to adjustments.

### **A. Historical Financial Results**

We provide below an overview of the financial results of Jetsgo for the last two (2) audited fiscal years ended June 30, 2003 and 2004, respectively, as well as the internal unaudited financial results for the seven (7) months ended January 31, 2005. The highlights pertaining to these results are as follows:

- Jetsgo's revenues had increased in 2004 by approximately \$140 M as compared to 2003. The Company's revenues for the seven (7) months ended January 31, 2005 attained approximately \$180 M;
- The Company's net losses in 2003 were \$6.5 M in 2004 and approximately \$46 M for the seven (7) months ended January 31, 2005;
- Jetsgo's working capital deteriorated since 2003, from a deficiency of approximately \$4.5 M to approximately \$13.5 M in 2004. The Company's working capital further deteriorated during the seven (7) months ended January 31, 2005 to \$72 M.

<b>JETSGO CORPORATION</b> Historical Financial Information (in 000's)					
	<b>2003</b> Audited		<b>2004</b> Audited		<b>2005</b> Unaudited 7 Months
<b>Revenues</b>					
Passenger and charter	\$113,837		\$255,585		\$179,826
Other	1,724		6,625		5,434
	<b>\$115,561</b>	<b>100.00%</b>	<b>\$262,210</b>	<b>100.00%</b>	<b>\$185,260</b>
<b>Expenses</b>					
Passenger service	\$ 17,777	15.38%	\$ 38,078	14.52%	\$ 17,271
Fuel	28,133	24.34%	68,082	25.96%	63,112
Maintenance	15,221	13.17%	41,532	15.84%	38,929
Sales and marketing	13,918	12.04%	18,378	7.01%	12,235
Flight operations	23,977	20.75%	61,194	23.34%	66,562
General and administration	3,887	3.36%	6,120	2.33%	9,718
Aircraft leasing	9,289	8.04%	19,632	7.49%	14,836
Inflight	3,049	2.64%	10,369	3.95%	8,032
Cost related to route expansion	-	0.00%	7,542	2.88%	-
	<b>\$115,251</b>	<b>99.73%</b>	<b>\$270,927</b>	<b>103.32%</b>	<b>\$ 230,695</b>
Earnings before non-operating income	310	0.27%	(8,717)	-3.32%	(45,435)
Interest and foreign exchange	(88)		705		(335)
	<b>\$ 222</b>		<b>\$ (8,012)</b>		<b>\$(45,770)</b>
Start-up costs	-	-	-		-
Future income taxes	560		1,602		-
<b>Net earnings (loss)</b>	<b>\$ 782</b>		<b>\$ (6,140)</b>		<b>\$(45,770)</b>

<b>JETSGO CORPORATION</b> Historical Balance Sheet (in 000's)			
	<b>2003</b> Audited	<b>2004</b> Audited	<b>2005</b> Unaudited 7 months
<b>Assets</b>			
<b>Current</b>			
Cash, cash equivalents and term deposits	\$28,564	\$ 62,839	\$18,129
Accounts receivable	3,031	7,113	9,060
Inventory	640	1,178	980
Prepaid expenses	3,957	5,668	2,815
	<b>\$36,192</b>	<b>\$ 76,798</b>	<b>\$30,984</b>
Capital assets	2,655	24,154	37,642
Deferred costs	1,228	1,955	1,775
Other long-term assets	2,558	5,188	4,179
Future income taxes	560	-	1,184
	<b>7,001</b>	<b>31,297</b>	<b>44,780</b>
	<b>\$43,193</b>	<b>\$108,095</b>	<b>\$75,764</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	21,056	44,219	45,351
Advance ticket sales	15,165	37,499	42,446
Non-refundable passenger credits	3,129	6,043	11,537
Advances from Shareholder	-	-	212
Current portion of long-term debt	1,387	2,445	2,647
	<b>\$40,737</b>	<b>\$90,206</b>	<b>\$102,193</b>
Long-term debt	3,548	3,763	4,032
Future income taxes	-	667	195
	<b>3,548</b>	<b>4,430</b>	<b>4,227</b>
<b>Shareholders' Equity (Deficiency)</b>			
Capital Stock	4,200	28,365	28,365
Deficit	(5,292)	(14,906)	(59,021)
	<b>(1,092)</b>	<b>13,459</b>	<b>(30,656)</b>
	<b>\$41,193</b>	<b>\$108,095</b>	<b>\$ 75,764</b>

**B. Statement of Affairs as at May 13, 2005**

The following is a summary of the Statement of Affairs as declared by Mr. Andre Deslauriers, CFO of Jetsgo Corporation as at May 13, 2005 (Bankruptcy date):

<b>Statement of Affairs as at May 13, 2005 (unaudited)</b>	
<b>Liabilities</b>	
• Secured Creditors	\$ 8,700,000
• Preferred creditors	–
• Unsecured creditors	<u>120,017,000</u>
	<b><u>\$128,717,000</u></b>
<b>Assets</b>	
• Cash	\$ 4,007,000
• Short Term Investments	2,200,000
• Inventory	2,000,000
• Aircraft and engines	<u>30,000,000</u>
	<b><u>38,207,000</u></b>
<b>Deficit</b>	<b><u>\$ 90,510,000</u></b>

**i. Assets**

The following consists of our comments in respect of Jetsgo's principal assets:

• **Cash (\$4,007,000)**

As at the date of Bankruptcy, RSM Richter Inc., acting as Monitor, had in trust approximately \$4,007,000 of cash resulting from the control of Receipts and Disbursements during the initial CCAA stay period and in accordance with the Court order of March 24, 2005. These funds are subject to several encumbered obligations and commitments accrued during the initial CCAA stay period from March 11, 2005 to May 13, 2005. Pursuant to the payment of said obligations and commitments, the Trustee has transferred approximately \$2,700,000 to its Bankruptcy trust account.

• **Short Term Investments (\$2,200,000)**

As at May 13, 2005, Jetsgo had \$2,200,000 invested in Term Deposits at National Bank of Canada (the "Bank"). These funds are pledged to the Bank as security for outstanding letters of credit issued to the benefit of certain of Jetsgo's suppliers and/or clients. There are currently proceedings before the Court to confirm the rights of Red Seal Tours Inc. with respect to a Letter of Credit it holds.

RSM Richter Inc. has obtained a legal opinion confirming the validity of the security held by the Bank.

• **Inventory (\$2,000,000)**

Jetsgo's inventory mainly comprises of F-100 and MD-83 rotatable and consumable aircraft parts, ground handling equipment, aircraft catering equipment, office furniture, office equipment and computer equipment. The inventory is not encumbered by any registered security. In this regard, the Trustee has initiated a Call for Tenders Process to sell the said inventory and has requested that offers be submitted by July 15, 2005. All offers will be opened in private, in the presence of the Inspectors to the Estate.

- **Aircraft and Engines (\$30,000,000)**

As at May 13, 2005, the Trustee took possession of seventeen (17) Fokker F-100 Aircraft. The aircraft have been previously subject to several offers to purchase initiated by Jetsgo during the CCAA proceedings. As the sale of such aircraft form an integral part of the realization process and ultimate dividend distribution of this Estate, the Trustee has deemed it critical to actively pursue all offers prior to the first meeting of creditors in order to preserve value for the Estate. To date, the sale of six (6) aircraft has been completed. The Trustee anticipates that all the Fokkers should be sold over the next several months. It is important to note that the proceeds from the sale of the Fokkers may be subject to the security interest of certain creditors in the amount of approximately \$11.5 M, pursuant to several legal proceedings currently filed against the Estate.

The Company also owns eight (8) Rolls-Royce Tay 650 engines, of which five (5) are currently located at Rolls-Royce Canada Limited for repair and maintenance and subject to their mechanic's liens. We are unable to determine the extent of any value, if any, the Estate may have with regard to these engines at this time. The other three (3) engines are currently in the possession of the Trustee.

Subject to the validity of the above-mentioned claims, the net proceeds from the sale of the aircraft and engines would otherwise be available for distribution to the unsecured creditors of the Estate.

- **Other**

The Company had initiated legal proceedings against WestJet prior to the Bankruptcy, which relates to allegations of proprietary information infringement. This matter is currently pending and shall be reviewed in more detail with the Inspectors of the Estate as to its merits and potential outcome.

**ii. Liabilities**

It is important to note that the exact quantum of the liabilities which existed as at May 13, 2005 will only be determined once all Proof of Claims are submitted by the creditors and have compiled, analyzed and collocated by the Trustee. We, nonetheless, present hereinafter, a summary of the Company's liabilities as reflected in its books and records as at May 13, 2005:

Description	Amount
Secured creditors	\$ 8,700,000
Preferred creditors	-
Unsecured creditors	<u>120,017,000</u>
	<b><u>\$128,717,000</u></b>

We comment on these liabilities as follows:

- **Secured Creditors (\$8,700,000)**

- *Directors' charge*

Pursuant to Jetsgo's initial CCAA filing on March 11, 2005 and to subsequent Court orders granted as previously mentioned, the Directors of Jetsgo have been granted a Directors' charge of \$5,000,000 for post March 11, 2005 obligations of the Company, which may be subject to their personal liability. As at the date of the preparation of this Report, we are unaware of any such obligations which relate to post March 11, 2005. Nonetheless, should such obligations exist, the Directors' may have a secured charge over Jetsgo's assets up to \$5,000,000 and this rank in priority over other creditors. It should be noted that the Company also maintains an insurance policy in the amount of \$10,000,000, protecting the Directors against such possible obligations.

- *Suppliers*

Based on representations made by certain suppliers as at May 13, 2005, there exist certain creditors who maintain that they hold security over Jetsgo's assets, as follows:

<b>Creditors</b>	<b>Estimated Amounts</b>	<b>Lien rights</b>
Rolls-Royce Canada Limited	\$3,880,000	Engines
IAI Aircraft	2,400,000	Engines
NordTech Aerospace (NTA) Inc.	950,000	Aircraft
ExceTech	1,300,000	Aircraft
Provincial and Federal Deductions at Source	<u>170,000</u>	General
	<b><u>\$8,700,000</u></b>	

It is important to note that the above creditors apparently hold rights of retention on both Company owned assets and leased assets, with the exception of the Federal and Provincial Governments for deductions at source. As such, it is unlikely that any surplus value exists in the above-noted assets should the alleged retention claims be valid.

The services of an independent legal advisor have been retained to review matters and provide the Trustee with an opinion with respect to the validity of the secured rights claimed by the creditors. This matter will be reviewed with the Inspectors at a later date.

It should also be noted that pursuant to legal proceedings initiated by NAV Canada and various airport authorities, alleging secured rights on the aircraft for unpaid obligations, the amount of secured liabilities may increase by an additional \$11,500,000 should the Court confirm the validity of the alleged secured rights. The Trustee will report to the Inspectors in this matter.

- **Preferred Creditors**

As at the date of Bankruptcy, the Company's books and records do not reflect any amounts owing to potential preferred creditors. However, as previously mentioned, the Trustee will only be able to determine the extent of preferred claims, if any, once all Proof of Claims have been filed, reviewed and collocated by the Trustee.

- **Unsecured Creditors (\$120,017,000)**

According to the Statement of Affairs of the Company, unsecured creditors total approximately \$120,017,000. As at the date of the preparation of this Report, the books and records of the Company have not yet been fully updated and the claims received from unsecured creditors may therefore differ from the amounts reflected in the Statement of Affairs. The aforementioned amount of unsecured liabilities may significantly increase as the amount reflected in the Statement of Affairs does not include a provision for unsecured claims of Aircraft Lessors pursuant to the return of the aircraft.

- **Other**

The Trustee has received several proofs of property claims from various creditors. The Trustee is currently reviewing such claims, and will address each one on a case by case basis, with the Inspectors of the Estate.

iii. **Summary of the Preliminary Administration of the Trustee**

a) **Hiring of Employees and Administration**

The Trustee has not continued the operations of the Company. However, the Trustee has engaged specific former employees of Jetsgo (approximately thirty-five (35)), on a temporary basis, to assist in the administration of the Estate, the realization of assets, including the recovery of prepaid expenses and deposits for fuel and other services. In addition, the retained employees have assisted the Trustee with the return of the leased aircraft fleet and are currently assisting the Trustee with the maintenance of the Fokker aircraft fleet, which must be performed in order to keep the aircraft certified. The retained employees will also assist the Trustee with updating of the Company's books and records and the eventual reconciliation of claims filed by the creditors.

b) **Security and Protective Measures**

Since the Bankruptcy date, the Trustee has undertaken various security and protective measures, such as:

- Changing of locks and limitation/control of access to the Company's premises;
- Presence of security guards and representatives of the Trustee on the Company's premises and at airports to safeguard Company owned assets;
- Taking of possession of the Company's Fokker F-100 aircraft and ensuring their safeguard at the Jean Lesage International Airport in Quebec City;
- Physical count of inventory, machinery, aircraft parts, equipment and other assets;

- Physical consolidation of Jetsgo's inventory located at hangers in Montreal and Toronto to a new leased warehouse in Montreal. This physical move of assets was deemed necessary by the Trustee in order to substantially reduce monthly rental costs from approximately \$150,000 per month to approximately \$20,000;
- The Company's insurance policy which is valid until June 30, 2005 has been maintained. The Trustee is currently negotiating with the Company's insurers for an extension to the existing policy, which shall be modified for the purposes of the administration of the estate;
- Opening of trust bank accounts;
- The guarantee of services for electricity, gas, alarm system, and other required services.

**c) Return of Leased MD-83 Aircraft**

The Trustee has entered into an agreement for the return of fourteen (14) leased MD-83 aircraft (for which the Estate has no equity and/or interest in) with the Company's Aircraft Lessors; namely, Boeing Aircraft Holdings Inc., Credit Lyonnais and GECAS. The decision to enter into this agreement was made in order to both minimize maintenance and safeguarding costs related to the leased aircraft as well as to minimize the eventual claim from the lessors. The Aircraft Lessors have agreed to assume all the costs associated with the return of the aircraft since the filing of the Bankruptcy, as well as fully indemnifying the Trustee.

**d) Sale of Assets**

The Trustee has continued the sale process initiated by the Company for the sale of its Fokker F-100 aircraft fleet. As at the date of this report, the Trustee has completed the sale of six (6) Fokker F-100s for a total price of US\$12,660,000 with two (2) purchasers. The majority of the remaining aircraft available for sale (i.e. eleven (11) aircrafts) are subject to either Aircraft Purchase Agreements or Letters of Intention to purchase.

In addition, the Trustee has initiated a private Call for Tenders to sell Jetsgo's other assets which include ground handling equipment, aircraft catering equipment, office furniture equipment and computer equipment. The Trustee has requested that all offers be submitted by July 15, 2005. The offers will be opened in private, in the presence of the Inspectors. The aircraft spare parts will be put up for sale once all aircraft are sold.

**e) Preferential Payment Review and Reviewable Transactions**

The Trustee has not performed a detailed analysis of the Company's transactions with suppliers in the three (3) months prior to the filing of the CCAA. A review of the above transactions will be completed and submitted to the Inspectors. Should the Inspectors decide, a more detailed analysis shall be performed.

iv. **Estimated Realization**

The following table summarizes the Trustee's estimated gross realization with respect to Jetsgo's owned aircraft and other assets:

Estimated Gross Asset Realization			
Quantity	Assets	(CAN\$)	
	<b><u>Aircraft</u></b>		
13	Serviceable	\$37,775,000	(Note 1)
2	In C-check	2,000,000	
<u>2</u>	Unserviceable	<u>500,000</u>	
<u>17</u>	<b>Total Aircraft</b>	<b><u>\$40,275,000</u></b>	
	<b><u>Other Assets</u></b>		
	Baggage carts (sold)	\$100,000	(Note 2)
	Engines	TBD	
	Other assets	<u>2,150,000</u>	
	<b>Total – Other Assets</b>	<b><u>\$ 2,250,000</u></b>	
	<b>Total – All Assets</b>	<b><u>\$42,525,000</u></b>	
	<i>Less:</i>		
	Payment of Right of Retention	950,000	(Note 3)
	General provision	<u>575,000</u>	
	<b>Total Estimated Gross Realization</b>	<b><u>\$41,000,000</u></b>	

**Note 1:** As at the date of this report, the Trustee had completed the sale of six (6) aircraft for approximately \$15,800,000 (all proceeds have been collected and the transactions have been approved by the Court). Given the potential secured claims of NAV Canada and the airport authorities, the Trustee had to segregate a portion of the proceeds amounting to \$11.5 M which are held in escrow until November 2005 pending the resolution of the above-mentioned legal proceedings initiated against the Estate by NAV Canada et al. In this regard, the escrowed amount will not be available for distribution to the unsecured creditors until the above matter is resolved in November 2005.

**Note 2:** As at the date of this report, the Trustee has completed the sale of eighty (80) Torsion Axel Bag Carts for \$100,000 pursuant to the approval of the Court. The sale of said bag carts was deemed necessary prior to the First Meeting of Creditors in order to preserve value for the Estate, otherwise the net realizable value of this asset would have depleted significantly due to the high storage and/or transportation costs of this equipment.

**Note 3:** As previously mentioned, NordTech Aerospace (NTA) Inc. holds a right of retention of approximately \$950,000 over several aircraft (the Trustee has received an independent legal opinion as to its enforceability against the Trustee). In this regard, this claim will have to be paid prior to the delivery of the aircraft in possession of NordTech Aerospace (NTA) Inc.

It is important to note that the above-mentioned values for the aircraft realizations have been compared to an independent appraisal received from an aviation expert retained by RSM Richter Inc., and as such, reflect fair market values. The Trustee has yet to receive an independent appraisal of the other assets realizable values as presented above, therefore, the above reflected values remain strictly an estimate.

**v. Projected Dividend Distribution**

Due to the complexity of the file, the pending legal proceedings initiated against the Estate and to the fact that both Moneris Solutions Inc. and the Aircraft Lessors have yet to file their respective claims, it is difficult to estimate the recovery rate/*pro rata* distribution to the creditors of the Estate.

Ultimately, the creditors who have filed their Proof of Claim with the Trustee will be advised of the details of the realization and the amount of dividend which is to be distributed.

DATED AT MONTREAL, this 23<sup>rd</sup> day of June 2005.

**RSM Richter Inc.**  
Trustee