

**IN THE MATTER OF THE BANKRUPTCY OF
PEACE COUNTRY FREIGHTLINER INC.
Estate #24-115050**

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

July 14, 2008

BACKGROUND

Peace Country Freightliner Inc. ("PCF") was incorporated in Alberta in April 2005 to carry on the business operations of Peace Country Freightliner Ltd. which was in the business of sales and service of tractors, trailers and accessories. PCF was an authorized Freightliner Dealer and sold Freightliner tractors, Doepker trailers and Tremcar tanks. PCF operated facilities in Kamloops, B.C., Fort St. John, B.C. and Grande Prairie, Alberta.

PCF is a private corporation owned by Aspire Enterprises Inc., and whose sole director was Blake Anderson.

When PCF was incorporated, the ongoing operations formerly conducted by Peace Country Freightliner Ltd. were transferred to PCF. As part of this transfer, the receivables and inventory (trucks, trailers, and parts) of Peace Country Freightliner Ltd. were transferred to PCF. Peace Country Freightliner Ltd. then changed its name to PCF Real Estate Ltd. ("Real Estate") in July 2005. Real Estate owns the Fort St. John and Kamloops premises plus the furniture, fixtures, and equipment in all three facilities. Real Estate is currently in receivership.

PCF began experiencing financial difficulty in 2007 as the forestry and the gas exploration/development sectors slowed down substantially. PCF found itself holding excessive levels of truck and trailer inventory which it was financing through a dealer wholesale financing plan from Daimler Chrysler Truck Financial, a division of DCFS Canada Corp. ("DCFS"), who placed PCF into receivership on May 28, 2008.

Subsequent to the receivership appointment, a Receiving Order was issued by the Court of Queen's Bench of Alberta (the "Court") on June 13, 2008 adjudging PCF to be bankrupt and appointing Deloitte & Touche Inc. as Trustee of the Estate of PCF. Pursuant to Section 13.4(1) of the Bankruptcy and Insolvency Act, the Trustee may act also as Receiver, if he has obtained an independent legal opinion as to the validity and enforceability of the petitioning creditor's security in advance of the second appointment. This opinion was received.

Both the Bankruptcy order and Receivership appointment can be found on the internet at www.deloitte.ca under the Insolvency and Restructuring site.

POSSESSION & PRESERVATION OF ASSETS

At the date of bankruptcy, PCF's assets were in the possession of the Receiver who had taken appropriate actions to count, secure, and protect the assets.

ESTIMATED REALIZABLE VALUE OF ASSETS

Based on a review of PCF's financial records and an appraisal of PCF's inventory (excluding parts) and equipment commissioned by the Receiver, we have estimated the realizable value of the PCF assets as follows:

Asset	Book Value	Low	High
Cash in Bank	\$ 160,000	\$ 160,000	\$ 160,000
Trade Receivables	1,200,000	700,000	900,000
New & Used trucks, trailers and tanks	16,500,000	13,350,000	14,900,000
Parts Inventory	1,400,000	500,000	800,000
Total	<u>\$19,260,000</u>	<u>\$14,710,000</u>	<u>\$16,760,000</u>

This estimate of the realizable value does not include the costs of winding up the operations and the fees of the Receiver or the Trustee in Bankruptcy. As a result, the net realizable value of the assets of PCF will be less than the realizable value.

ANALYSIS OF CLAIMS & ESTIMATED RECOVERIES

Based on a review of PCF's financial records, we estimate that as at the date of bankruptcy, the debts owing by PCF were as follows:

Nature of Debt	Estimated amounts
Deemed Trust/Property Claims	\$ 66,000
Secured Claims	19,371,000
Preferred Claims	193,000
Unsecured Claims	<u>3,085,000</u>
Total Debt	<u>\$22,716,000</u>

Deemed Trust/Property Claim

Canada Revenue Agency is expected to submit a claim for unremitted payroll source deductions for approximately \$66,000.

Secured Claims

These claims consist of three primary lenders, the Alberta Workers' Compensation Board and a number of lease creditors. We have reviewed the various security agreements and the registrations under the Alberta and BC *Personal Property Security Acts* for each of the three secured lenders in order to obtain a preliminary understanding of what security is held by each lender and who is entitled to the security in priority to one another. The following table summarizes the three lenders and the security interest each holds relative to the assets of PCF:

Lender	Approximate Amount Owing	General Description of Collateral
DCFS	\$17,720,000	First priority over all assets except accounts receivable arising from the sale of parts and the provision of services and used trucks taken in trade.
Bank of Nova Scotia	672,000	First priority over all accounts receivable arising from the sale of parts and the provision of services and used trucks taken in trade. Second priority over all assets after DCFS's interest in same.
Freightliner Ltd.	978,744	Third priority in the trucks and parts supplied by Freightliner and any proceeds derived therefrom after the interests of DCFS and the Bank of Nova Scotia
	<hr/> <u>\$19,370,978</u>	

We have obtained a legal opinion from counsel for the Trustee that indicates that the DCFS security is valid and enforceable and therefore would rank in priority to the interests of the Trustee (and unsecured creditors) in the assets subject to the DCFS security.

We have reviewed the Bank of Nova Scotia security and note that it has been registered in the BC and Alberta personal property registries. Although we have not yet obtained a legal opinion with respect to the validity and enforceability of this security, our preliminary view is that it will rank in priority to the interests of the Trustee in the assets subject to the Bank of Nova Scotia security.

We have reviewed the Freightliner Ltd. security and note that it has been registered in the BC and Alberta personal property registries but that the registration in Alberta is against Peace Country Freightliner Ltd rather than PCF. We have not obtained a legal opinion with respect to the validity and enforceability of this security, but our preliminary view is that the security will rank in priority to the interests of the Trustee in the assets subject to the Freightliner Ltd security that are located in B.C. It is possible that the security may not be valid and enforceable as against the Trustee with respect to the Alberta based assets given the discrepancy in the debtor name within the personal property registration. If this is the case, DCFS would claim the Alberta bond assets under its security.

We note that the Alberta Workers' Compensation Board has registered a deemed security interest in the assets of PCF located in Alberta in the Alberta Personal Property Registry. This deemed security interest is expected to be subordinate to the security interests of the above three lenders but would rank in priority to the interests of the Trustee with respect to Alberta based assets.

Based on the estimated net realizable value of the assets outlined above and the preliminary interpretation of the various secured assets, we have estimated that the secured creditors will experience a shortfall of between \$2.6 and \$4.7 million.

In addition to the above secured claims, a number of lease agreements had been entered into by PCF. We have received secured proofs of claim from Ford Credit, GMAC, Irwin Commercial Finance and National Leasing to date. We are in the process of reviewing the validity and enforceability of these claims against the Trustee.

Preferred Claims

The preferred claims consist primarily of unpaid wage claims (to a maximum of \$2,000 earned during the six months prior to the date of bankruptcy) and a claim by the landlord for any rent arrears (to a maximum of 3 months) and for accelerated rent (to a maximum of 3 months) for the Grande Prairie premises. We have received a proof of claim from the Director of Employment Standards of BC in respect of most BC employees. The Director's claim includes a preferred claim of \$76,839 and an unsecured claim for the remainder of the wages, vacation pay and compensation in lieu of notice amounting to \$287,699. Given the shortfalls anticipated for the secured creditors, we do not anticipate that there will be any funds to distribute to preferred unsecured creditors.

Unsecured Claims

The ordinary unsecured claims consist primarily of debts owing to trade creditors and employees. Given the shortfalls anticipated for the secured creditors, we do not anticipate that there will be any funds to distribute to unsecured creditors.

CREDITOR CLAIMS FILED

As of 12:00 noon, MDT on July 11, 2008, the Trustee received eleven (11) secured claims totaling \$1,199,951.98, forty-one (41) preferred unsecured claims totaling \$75,897.25, and one hundred (100) ordinary unsecured claims totaling \$728,423.45.

LEGAL PROCEEDINGS

The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the estate. The Trustee is aware of one legal proceeding against PCF commenced by a former employee with regard to his cessation of employment with PCF. This legal proceeding has been stayed by the bankruptcy proceeding.

Prior to the date of this first meeting of creditors, the Trustee has retained the law firm Blake, Cassels & Graydon LLP.

REVIEWABLE TRANSACTIONS AND PREFERENCES

The Receiver of PCF has secured the books and records for PCF as noted above. The Trustee has not yet completed its review of PCF's financial transactions to determine if there are reviewable transactions or that preferences occurred.

TRUSTEE REMUNERATION AND POSSIBLE CONFLICTS

The Trustee has received an indemnity from DCFS for its costs should no assets be available to the estate. Further, as noted previously, the Trustee has also been appointed by DCFS as its Receiver. As this dual appointment could give rise to a conflict of interest between representing DCFS as a Receiver and representing the unsecured creditors as a Trustee, we obtained an opinion from legal counsel independent of DCFS regarding the validity and enforceability of the security held by DCFS. This legal opinion provided by Blake, Cassels & Graydon LLP indicated that the DCFS security was valid and enforceable as against all present and after acquired property of PCF, subject to other secured interests.



Greg Stevens, CA•CIRP
Senior Vice President
Deloitte & Touche Inc.

*In its capacity as Trustee of the estate of
Peace Country Freightliner Inc., a bankrupt
and not in its personal capacity*