

3 April 2009

Our ref: MNC/AMR/XL02ADL/ADM502/2203
Your ref:

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31 Wellington Street
Leeds LS1 4DL
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TO ALL KNOWN CREDITORS

When telephoning please ask for:
Erica Walters

Direct Line:
0113 386 0819

Dear Sirs

XL Airways UK Limited - In Administration (the Company) Administrators' Progress Report

As you may be aware Alastair Beveridge, Nick Cropper, Simon Appell and I were appointed Joint Administrators of the Company on 12 September 2008 by the High Court, Chancery Division, Companies Court. From 1 January 2009 Alastair Beveridge, Simon Appell, Nick Cropper and I are now licensed by the Insolvency Practitioners Association (IPA).

Please find attached a formal notice and detailed report covering progress in the Administration during the six month period ended 11 March 2009.

Please note that it is a statutory requirement for the Joint Administrators to prepare and make available for all actual and potential creditors of the Company a Progress Report. However, for those passengers who have submitted claims for refunds to the Civil Aviation Authority under the ATOL scheme, to their credit card company or through an insurance company THIS IS FOR INFORMATION ONLY and DOES NOT affect your claim in any way.

Further update as at 3 April 2009

In order to minimise costs (printing and postage) to the creditors, the Joint Administrators applied to Court on 3 April 2009, to release them from their statutory obligations of sending to all known creditors (of which there is approximately 144,000) the following documents:

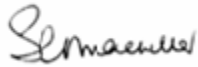
- Notices of the result of any meetings of creditors
- Progress reports to creditors
- Any notice of intention to declare and distribute a dividend
- Any notice of automatic end of Administration
- Any notice of moving from Administration to Creditors' Voluntary Liquidation
- Any notice of moving from Administration to Dissolution

Registrar Derrett of The High Court of Justice, Chancery Division, Companies Court granted the Joint Administrators' application and ordered that the Joint Administrators publish the relevant creditor information, instead of mailing hard copies to creditors.

Accordingly, for the purposes of this and future creditor communication, the Joint Administrators will publish all documents on the www.xladministration.com website and will provide a helpline for creditors to request information free of charge. The helpline number is 0800 068 8991.

Please also note that following the recent completion of a Management Buy-Out (MBO) by the partner group of Kroll's UK Corporate Advisory and Business Recovery practice from Kroll Inc, we will be operating under the Zolfo Cooper brand name going forward. Zolfo Cooper Europe will continue to be headquartered at 10 Fleet Place, London EC4M 7RB with our existing network of UK offices remaining in their current locations.

Yours faithfully
For and on behalf of
XL Airways UK Limited



S C E Mackellar
Joint Administrator

Enc

The affairs, business and property of the Company are being managed by the Joint Administrators. The Joint Administrators act as agents of the Company and without personal liability.

The Insolvency Act 1986

Administrator's progress report

Name of Company XL Airways UK Limited	Company number 02980023
--	----------------------------

In the High Court, Chancery Division, Companies Court	Court case number 7853 of 2008
--	-----------------------------------

(a) Insert full name(s) and address(es) of administrator(s)

We, Alastair Paul Beveridge, Simon Jonathan Appell, Mark Nicholas Cropper of Zolfo Cooper, 10 Fleet Place, London, EC4M 7RB and Stuart Charles Edward Mackellar of Zolfo Cooper, Wellington Plaza, 31 Wellington Street, Leeds, LS1 4DL

Joint Administrators of the above company attach a progress report for the period

from

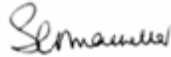
to

(b) 12 September 2008

(b) 11 March 2009

(b) Insert dates

Signed



Joint Administrator

Dated: 3 April 2009

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record

Erica Walters Zolfo Cooper, Wellington Plaza, 31 Wellington Street, Leeds, LS1 4DL	
Tel: 0113 386 0819	
DX Number	DX Exchange

Companies House receipt date barcode

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff

3 April 2009

Joint Administrators' Progress Report

For the Period
12 September 2008 to 11 March 2009

XL Airways UK Limited -
In Administration



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1 Statutory Information

- 1.1 I was appointed Joint Administrator of XL Airways UK Limited (the **Company**) together with Alastair Paul Beveridge, Simon Jonathan Appell and Mark Nicholas Cropper on 12 September 2008 by the High Court of Justice. The application for the appointment of an Administrator was made by the Directors of the Company.
- 1.2 Please note that as of 1 January 2009, Alastair Paul Beveridge, Simon Jonathan Appell, Mark Nicholas Cropper and I are now licensed by the Insolvency Practitioners Association (IPA).
- 1.3 The Company formed part of the XL Leisure Group of companies (the **Group**).
- 1.4 The Company is one of 11 Companies (the **Companies**) within the Group which were placed into Administration by the Court at 1am on 12 September 2008. The additional 10 companies are as follows:
- XL Leisure Group plc (04513359) (the **Parent Company**)
 - Travel City Flights Limited (03676161)
 - Excel Aviation Limited (03720932)
 - Explorer House Limited (05183147)
 - The Really Great Holiday Company plc (02813710)
 - Medlife Hotels Limited (05311104)
 - Aspire Holidays Limited (03813759)
 - Freedom Flights Limited (03761690)
 - Freedom Flights (Aviation) Limited (03778561)
 - Kosmar Villa Holidays plc (01673531)
- 1.5 A copy of the Group structure is attached at Appendix A.
- 1.6 The other entities within the Group are either dormant or non-trading.
- 1.7 The Administration is being handled by Zolfo Cooper's Leeds office, situated at Wellington Plaza, 31 Wellington Street, Leeds, LS1 4DL.
- 1.8 The Administration is registered in the High Court of Justice, Chancery Division, Companies Court under reference number 7853 of 2008.

- 1.9 The main headquarters of the Company were Explorer House, Fleming Way, Crawley, West Sussex, RH10 9EA (**Explorer House**).
- 1.10 The registered office of the Company has been changed from Explorer House c/o Zolfo Cooper, Wellington Plaza, 31 Wellington Street, LS1 4DL and its registered number is 02980023.
- 1.11 The functions of the Joint Administrators may be exercised by either or all, acting jointly or alone.
- 1.12 Please note that following the recent completion of a Management Buy-Out (**MBO**) by the partner group of Kroll's UK Corporate Advisory and Business Recovery practice from Kroll Inc, we will be operating under the Zolfo Cooper brand name going forward. Zolfo Cooper Europe will continue to be headquartered at 10 Fleet Place, London EC4M 7RB with our existing network of UK offices remaining in their current locations.

2 Progress of the Administration

Overall Administration Progress for the Companies

- 2.1 Since the date of my last report, I have continued to facilitate a controlled and orderly wind down of the operations of all of the Companies which entered Administration.
- 2.2 I have proceeded to realise the various assets held across the Companies which include agency and trade debtors totalling in excess of £15 million excluding intercompany debts, the brands, trademarks and intellectual property of the major trading entities, prepayments relating to airport charges, fuel and insurance, six freehold properties and aircraft stock.
- 2.3 A considerable amount of time has also been spent liaising and corresponding with the Companies' stakeholders and in particular in relation to the substantial telephone and written queries received from customers with regard to their pre-booked holidays which were unfortunately cancelled as a result of the Administrations. I have liaised extensively with the Civil Aviation Authority (**CAA**) and credit card providers to ensure that any information they have required relating to customer bookings has been provided swiftly, efficiently and accurately.
- 2.4 There has also been a large volume of correspondence received from former employees with regard to their redundancy and preferential claims, requests for access to training records and files and also with a view to obtaining references for their new employers.

- 2.5 As you are aware, the Companies' IT systems were complex and data was held across seven separate IT systems and packages, some of which were hosted by external providers. The operations of the Companies were heavily reliant on these systems, such as customer booking systems, finance systems and aircraft maintenance systems. As such, a managed shut down and decommissioning strategy of over 100 servers has had to be undertaken together with IT consultants and former third party service providers to the Companies. I can confirm that the shut down strategy is in its final stage.
- 2.6 An operation to box up the Companies' books and records which were held across various national locations has also been undertaken and a small number of former employees were initially retained on a consultancy basis to assist with this process. There are now in excess of 5,000 boxes of books and records held at a storage facility in Leeds.
- 2.7 In order to minimise costs (printing and postage) to the creditors, the Joint Administrators applied to Court on 3 April 2009, to be released from the statutory obligations of sending to all known creditors (of which there is approximately 144,000) the following documents;
- Notices of the result of any meetings of creditors
 - Progress reports to creditors
 - Any notice of intention to declare and distribute a dividend
 - Any notice of automatic end of Administration
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Registrar Derrett of The High Court of Justice, Chancery Division, Companies Court granted the Joint Administrators' application and ordered that the Joint Administrators publish the relevant creditor information, instead of mailing hard copies to creditors. Accordingly, for the purposes of this and future creditor communication, the Joint Administrators will publish all documents on the www.xladministration.com website and will provide a helpline for creditors to request information free of charge. The helpline number is 0800 068 8991.

Administration Progress for the Company

- 2.8 The Company operated charter aircraft (primarily for UK tour operators), together with providing ancillary services such as sub-leasing aircraft to overseas carriers during the Winter months. The Company had a turnover in excess of £300 million, with one of its major customers being Excel Aviation Limited, another group Company in Administration.

Employees

- 2.9 As you are aware from my previous report, prior to my appointment the Company employed 1,193 employees and subsequently upon appointment 1,117 employees were made redundant due to the considerable reduction in the Company's operations. Although 76 employees were initially retained to assist with the controlled wind down of operations, the number retained was gradually reduced and I can confirm that as of 31 December 2008 all employees had been made redundant.
- 2.10 A small number of former employees were employed on a consultancy basis to assist with book debt collection, the archiving of the books and records and the decommissioning of the IT systems, details of these employees can be found in Appendix D of this report.
- 2.11 In addition, the Company had a number of employees who were permanently based overseas and therefore their redundancy claims were dealt with under the relevant foreign jurisdiction.
- 2.12 The Company had been registered as an overseas company in Cyprus and had an operation in Larnaca employing 17 employees. All of these employees were made redundant immediately upon appointment and in accordance with Cypriot law the relevant notice of redundancy has been filed with the Cypriot Employment Minister.
- 2.13 There were also 18 employees who were based in Ireland and whose contracts of employment were governed by Irish Law. All 18 employees were made redundant upon appointment and McStay Luby, a firm of Dublin based accountants and the Liquidators of XL Leisure Group (Ireland) Limited, was engaged to assist the Irish employees with their employee claims. The preferential claims of these employees have now been agreed and the Irish Redundancy Payments Office has settled the claims of €29,435.

Leasehold properties

- 2.14 The Company held leases for various crew rooms at Gatwick, Manchester, Bristol, Glasgow and Newcastle airports respectively. These leasehold premises were attended, where circumstances permitted, immediately upon appointment in order to provide employees with formal notification of our appointment, and subsequent redundancies. The premises were then vacated and I have not occupied nor have I taken any benefit from them since appointment. As such, I have attempted to informally surrender the leases where the landlord details have been available.

Straumur funding

- 2.15 As you are aware upon appointment the Company entered into a funding agreement with Straumur-Burdarás Investment Bank hf. (**Straumur**) which allowed the Company access to loan funding to ensure a controlled wind down of the operations could be affected whilst the assets of the Company were realised. To date £140,000 has been received from Straumur and these sums are to be repaid from asset realisations from the Company's estate prior to any distribution to the creditors of the Company subject to there being sufficient realisations available.
- 2.16 Attached at Appendix B is my Receipts and Payments Account for the Company relating to the period from 12 September 2008 to 11 March 2009.

Aircraft spares and other aviation stock

- 2.17 As you are aware, my agents, Edward Symmons (**ES**) and The IBA Group Limited (**IBA**), an aviation specialist, were engaged to provide an initial high level valuation and formulate an appropriate realisation strategy for the Company's variety of aircraft spares and other related aviation equipment, which was held at the Company's leasehold premises and several other third party locations.
- 2.18 ES relocated the aircraft stock to one centralised location for interested parties' ease of viewing and began to market these assets for sale. All of the stock has now been sold and the proceeds amount to £725,000 which has been received into the Company's Administration bank account. Additional sales of aircraft spares and equipment and consumables located in Barbados have also been completed with funds of £4,806 received.
- 2.19 There is also further stock located at Larnaka Airport, Cyprus, currently being marketed by ES. An initial valuation by IBA valued the stock at \$50,000 but unfortunately due to the poor physical condition of the items in storage the only offer received to date is £6,000. I am currently discussing the matter with ES to establish whether the costs of realising the stock will negate the benefits to creditors resulting from a sale.

Deposits on new aircraft

- 2.20 As previously reported I attempted to pursue deposits which had been paid for leased aircraft for which the Company had not yet received delivery. Following correspondence with the lessors I can confirm that they are not obliged to return the deposits to the Administration estate and thus realisations from this source will be £nil.

Leased aircraft maintenance records

- 2.21 £45,973 has been received from the aircraft lessors in relation to the updating of the log books and technical records for their aircraft; these were updated following our appointment in order that they could be used in the future. I can confirm that all realisations from this source have been received and no further funds are expected.

Alpha monies

- 2.22 £3,376 has been received from Alpha Flight UK Limited (**Alpha**) with regard to the margin received on all sales of duty free stock sold during flights. A further £20,000 was also received following the sale of the Company's duty free stock which was held by Alpha. I can confirm that no further realisations are expected from this source.

Plant, machinery and equipment

- 2.23 £27,327 has been received in relation to the various items of plant, machinery and equipment located at Gatwick and Manchester airports and also at the Company's leasehold premises at Cobham Way, Crawley. I do not expect further significant realisations from this source.

Motor vehicles

- 2.24 The Company owned five Citroen vans and an offer of £2,300 was received which ES subsequently recommended acceptance of. These funds are currently held in ES's client account.

Cash at bank

- 2.25 As expected, the majority of the Company's pre-appointment credit bank account balances were subject to set off by the relevant Banks with whom these accounts were held, and thus realisations have been minimal. To date £66,424 has been received in relation to pre-appointment accounts which were not subject to set off, in addition to £2,107 realised from various denominations of foreign currency located at Explorer House upon appointment. I do not envisage further realisations from this source.
- 2.26 £6,773 has been received in relation to bank interest on monies held in the Administration bank accounts.

Refunds

- 2.27 £1,872 has been received from Uttlesford District Council in relation to a non-domestic rates refund and a sundry refund of £506 has also been received.

- 2.28 In accordance with Statement of Insolvency Practice No 13 (SIP13), I would advise you that no assets have been sold to a Director of the Company.

3 Assets still to be Realised

Freehold Properties

- 3.1 As detailed in my previous report, the Company owns a freehold property at Mitre Court, Crawley, West Sussex, RH10 9NJ (**Mitre Court**) which is subject to a mortgage with the National Westminster Bank plc (**Natwest**).
- 3.2 GVA Grimley (**GVA**) was instructed to market Mitre Court and initially valued it at approximately £1.35 million. The marketing has been undertaken in conjunction with Explorer House, a freehold property owned by Explorer House Limited which is also in Administration, and subject to a mortgage with Natwest.
- 3.3 Following a period of intense marketing of Mitre Court and Explorer House, tentative enquires were received and inspections of each of the properties by various interested parties were arranged. Subsequently six formal offers were received, all relating to a joint purchase of the properties. The value of the offers which have been received range substantially and are unfortunately significantly below GVA's initial valuation due to the recent downturn in the UK commercial property market.
- 3.4 I am currently in discussions with GVA and Natwest with regard to the offers which have been received, and whether these will be pursued further given the substantial shortfall expected to be suffered by Natwest based on the current level of offers.
- 3.5 The Company also owns a freehold property at 5 Mill Court, Crawley, West Sussex, RH10 1TT (**Mill Court**). As at the date of appointment the net book value of Mill Court was approximately £733,000 and is subject to a mortgage with Abbey National Bank plc (**Abbey**).
- 3.6 Edward Symmons (**ES**) were instructed to market Mill Court and although there have been expressions of interest, to date there have been no formal offers received. ES continue to market the property.

Debtors

- 3.7 The Company's debtor ledger consisted of debts due from airlines in respect of leasing charges, retrospective rebates, charge backs and sundry refunds; along with amounts due by other Group Companies also in Administration.

- 3.8 After accounting for the inter-company debts and credit balances, the debtors' ledger indicated outstanding debts of £7,722,000. As a result of my collection process it has been necessary to write off purchase ledger set off claims and rebate claims of £1,108,000, along with a number of bad debts totalling £702,000.
- 3.9 The residual balance on the ledger now stands at £5,912,000 and to date I can confirm that debts totalling £42,835 have been recovered.
- 3.10 The remaining ledger consists of a number of key debts; Xtra Airways £3,750,000, Specturm Leasing £848,000, Sunwing Airlines £517,000 and Avion Group £270,000. All these debts relate to leasing and maintenance charges following the leasing of aircraft by the Company. I can confirm that all of the debts are disputed and in many instances counter claims have been issued.
- 3.11 I am in negotiations with the financial advisors of Xtra Airways who are seeking to negotiate a settlement of this debt. To date the offer of settlement falls short of an acceptable offer and as a consequence I am pressing them to rethink their settlement proposal.
- 3.12 For the purpose of this report I have however provided in full for all of the remaining balances on this ledger.

Intercompany debts

- 3.13 As per my last report, it is believed that the Company is due funds from intercompany debts. However, the amount realised will be dependent upon whether the level of realisations in the debtor company are sufficient to enable a distribution to its unsecured creditors. If an unsecured distribution is made, the level of realisation is likely to be negligible and is likely only to represent a minimal amount of the intercompany debt which is owed.

Aircraft fuel repayments

- 3.14 I have continued to pursue prepayments for aircraft fuel, which upon appointment the Company's books and records indicated potential realisations of USD \$2.7 million. I have continued to liaise with the relevant fuel suppliers in order to agree the final accounts and can confirm that since my last report a further £479,063 has been received, and realisations to date total £871,634. A further £700,000 is expected to be received from MISR Petroleum based in Egypt imminently.

Airport charges and deposits

- 3.15 Upon appointment the Company's books and records showed potential refunds due of £903,000 from various European and worldwide airports in respect of airport deposits and refunds of landing, navigation, supervision and other related airport charges. Following my last report £10,467, £802,118 and £54,306 were received from Dublin Airport, AENA (in respect of all Spanish airports) and Calgary airport respectively. Realisations to date are £869,220.
- 3.16 Further to this, I am currently in discussions to finalise accounts for certain handling agents which are located at various worldwide airports. To date realisations of £74,485 have been received and I am currently negotiating recovery of a further £54,887.

VAT refund

- 3.17 The pre-appointment VAT repayment of £282,000 which was received into a pre-appointment bank account in relation to the August 2008 return had been mistakenly set off by the Bank. These funds should not be subject to set off as they were received after the Administration and thus I hope to have these funds transferred to the Administration account shortly. My VAT advisors, The VAT Consultancy (**VAT Consultancy**), continue to pursue foreign VAT recoveries for the Company on a contingent fee basis and although realisations to date are £nil, VAT Consultancy have advised that recoveries up to £176,000 are expected.

4 Joint Administrators' Remuneration

- 4.1 Creditors approved that the basis of the Joint Administrators' remuneration be fixed by reference to the time properly spent by them and their staff in managing the Administration.
- 4.2 The Joint Administrators' time costs at 11 March 2009 are £550,885. This represents 1,966 hours at an average rate of £280 per hour. Attached as Appendix C is a Time Analysis which provides details of the activity costs incurred by staff grade during this period. To date £434,362 plus disbursements of £30,874 have been drawn on account.
- 4.3 Attached as Appendix D is additional information in relation to our policy on staffing, the use of sub-contractors, disbursements and details of our current charge-out rates by staff grade.

Administration and Planning

The time recorded here reflects the statutory duties of the Joint Administrators including initial notification to creditors and the preparation of creditor reports. In addition, it covers the time spent formulating the strategy of the Administration, internal meetings and case related travel time.

Investigations

This section relates to time spent investigating the conduct and actions of the Company's directors prior to appointment

Realisation of Assets - Fixed Charge

This refers to time spent dealing with the sale of the Company's fixed charge assets which includes instructing agents, obtaining initial valuations and conducting negotiations with interested parties.

Realisation of Assets - Debtors

The work involved within this area covers the extensive time taken to reconcile the Company's debtor ledger to the date of appointment and the subsequent actions required to recover the book debts.

Realisation of Assets - Floating Charge

This refers to time spent dealing with the sale of the Company's floating charge assets which includes instructing agents, obtaining initial valuations and negotiations with interested parties. In particular, this section includes the extensive amount of due diligence and time connected with the marketing and potential sale of the Company's brands.

Trading

The time recorded here includes the ongoing day to day management and wind down of the Company, along with preparation of cash flow forecasts and maintaining funding requirements. This reflects the time spent reconciling and finalising the accounts and ledgers to the date of the appointment and ensuring that a potential sale of the Company's assets and brands would not be jeopardised.

Creditors

This area reflects the time incurred dealing with the large volume of both customer and trade creditors of the Company, including telephone calls and emails, which were substantial. The time spent dealing with employees is also recorded here.

5 Estimated Outcome for Creditors

Fixed Charge

- 5.1 The Company granted Natwest a mortgage over its freehold property at Mitre Court on 28 March 2002 with its indebtedness upon appointment understood to stand at £931,000.
- 5.2 On 6 February 2006 the Company granted Abbey a mortgage over its freehold property at Mill Court and its indebtedness as at 12 September 2008 stood at approximately £328,000.
- 5.3 The Company granted fixed and floating charges to Straumur, together with second ranking mortgages against Mitre Court and Mill Court, on 18 August 2008.
- 5.4 The indebtedness to Straumur secured by its fixed charge is supported by a cross guarantee provided by all of the Companies with the exception of Kosmar Villa Holidays plc.
- 5.5 It is believed that there may be sufficient funds to enable distributions to Natwest and Abbey under their fixed charges but this will be dependent upon whether sales of Mitre Court and Mill Court respectively can be achieved, and the quantum of these.
- 5.6 In the event that Natwest and Abbey's indebtedness is settled in full and there is a fixed charge surplus, this will be available to Straumur under its second ranking fixed charge. However, given the current level of offers which have been received as detailed in Section 3, it is anticipated that both Natwest and Abbey will suffer shortfalls in respect of their lending and thus it is believed that there will be no surplus funds to distribute to Straumur.

Floating Charge

- 5.7 Based on current information the preferential claims against the Company relating to employees' arrears of wages and holiday pay are estimated at £1,274,291. The Redundancy Payments Office (RPO) has yet to submit its preferential claim but I anticipate that this will be received shortly.

- 5.8 Net floating charge realisations are expected to be sufficient to enable repayment of the preferential creditors. However, this position will be confirmed when all assets have been realised and the Administration finalised.
- 5.9 Based on information presently available there are expected to be net floating charge realisations available for distribution. The amount of these are currently unknown. As Straumur's floating charge post-dates the introduction of the Enterprise Act 2002 on 15 September 2003, there is a requirement to set aside an "Unsecured Creditors' Fund". This obliges the Joint Administrators to ring-fence a proportion of the floating charge realisations for unsecured creditors under Section 176A (2) of the Insolvency Act 1986 (the Act). These funds are known as the Prescribed Part. In relation to the level of creditors, any distribution will be insignificant.
- 5.10 As per the Directors' Statement of Affairs the amount owed to the unsecured creditors is estimated at £303,842,370.
- 5.11 Based upon the current estimated financial position, it is believed that there will be insufficient funds to enable a distribution to the unsecured creditors, other than that available from the Prescribed Part.

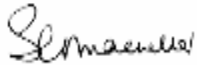
6 Ending the Administration

- 6.1 Based on present information, the Joint Administrators believe that a dividend may be payable to the Company's unsecured creditors from the Prescribed Part only (detailed above at section 5.9). In this situation, the Joint Administrators will file a notice with the Registrar of Companies in order that the Administration will cease and the Company will move automatically into Creditors' Voluntary Liquidation (CVL) in order to make a distribution. The Joint Administrators will also become the Joint Liquidators of the CVL.
- 6.2 Alternatively, if having realised the assets of the Company the Joint Administrators determine that the Company has no property which might permit a distribution to its creditors, a notice will be filed together with a final progress report at Court and with the Registrar of Companies for the dissolution of the Company. Copies of these documents will be published on the www.xladministration.com website. The appointment will end following the registration of the notice by the Registrar of Companies
- 6.3 The Joint Administrators will be discharged from liability under Paragraph 98 of Schedule B1 of the Act immediately upon their appointment as Administrators ceasing to have effect.

7 Next Report

- 7.1 The Joint Administrators are required to provide a progress report within one month of the end of the next six months of the Administration or earlier if the Administration has been finalised. All future reports will be available on the www.xladministration.com website.

For and on behalf of
XL Airways UK Limited

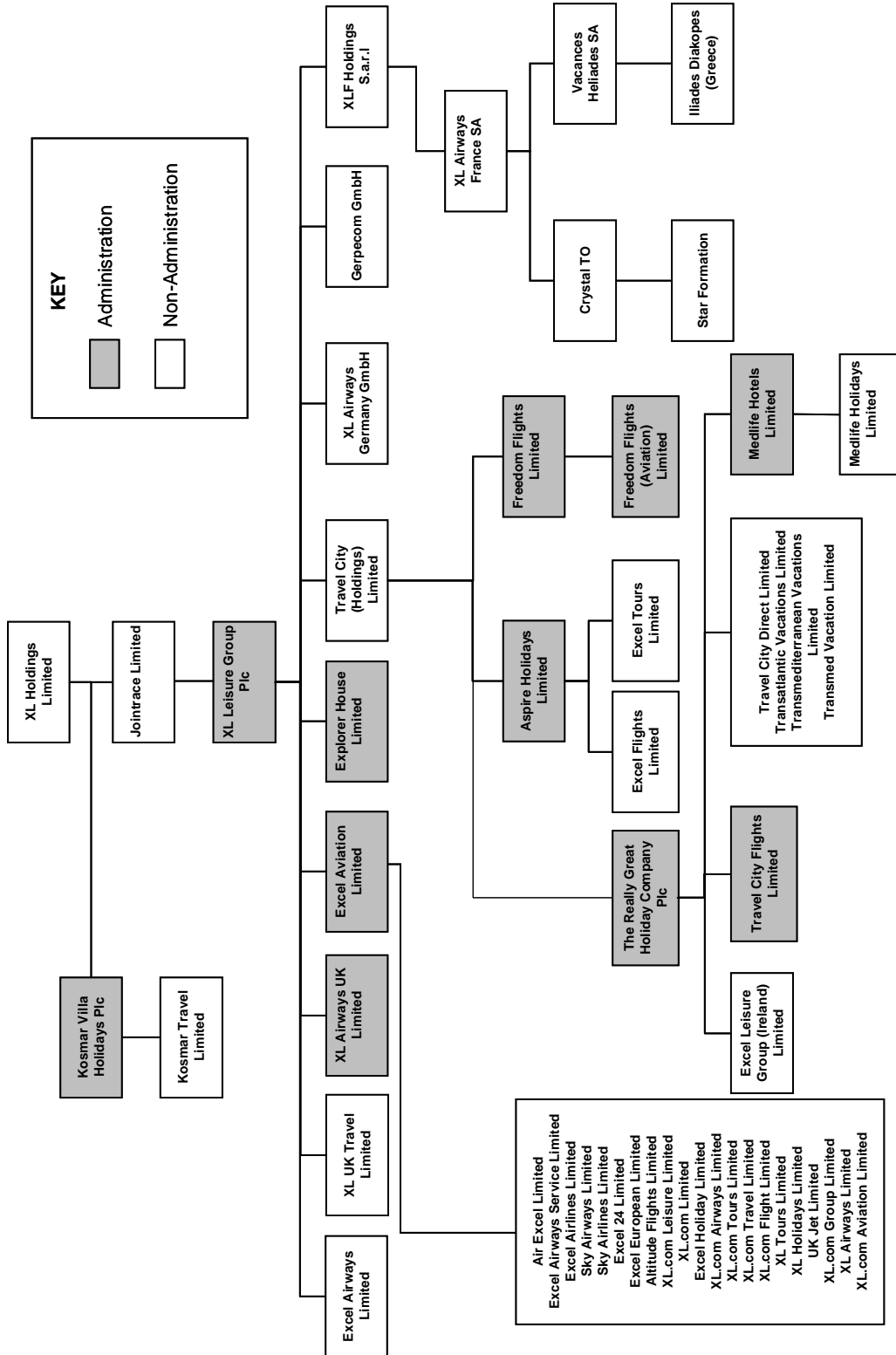


S C E Mackellar
Joint Administrator

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Group Structure

Appendix A



Receipts and Payments Account for the Period from 12 September 2008 to 11 March 2009

Appendix B

Statement of Affairs £		Fixed Charge £	Floating Charge £	Total £
RECEIPTS				
1,000,000.00	Mitre Court Property	NIL		NIL
500,000.00	Mill Court Property	NIL		NIL
	Wages & Salaries Reimbursement		700.00	700.00
	Bank Interest		196.29	196.29
	Funding provided by Straumur		140,000.00	140,000.00
	CAA Funding		64,101.98	64,101.98
	TSA Funding		11,630.18	11,630.18
	Furniture and Equipment		566.89	566.89
979,980.00	Aircraft Stock		729,805.68	729,805.68
	Plant and Machinery		26,760.00	26,760.00
3,069,936.00	Book Debts		42,835.20	42,835.20
	Rates Refund		1,872.44	1,872.44
220,565.00	Cash at Bank		66,424.15	66,424.15
	Fuel Prepayment Refunds		871,634.46	871,634.46
	Technical record update for lessors		45,973.00	45,973.00
	Bank Interest Gross		6,577.00	6,577.00
	Airport Charge Refunds and Deposits		869,220.85	869,220.85
	Airport Handling Charge Refunds		74,484.75	74,484.75
	Sundry Refunds		505.99	505.99
	Inflight Services Receivables		23,376.10	23,376.10
	Foreign Currency Exchanged		2,106.99	2,106.99
477,917.00	Overseas VAT		NIL	NIL
306,766.00	Intercompany Receivables		NIL	NIL
15,350.00	Tangible Fixed Assets		NIL	NIL
	TOTAL RECEIPTS	NIL	2,978,771.95	2,978,771.95
PAYMENTS				
(965,205.00)	Due to Natwest Under Fixed Charge	NIL		NIL
(318,449.00)	Due to Abbey Under Fixed Charge	NIL		NIL
(11,199,776.00)	Due to Straumur Under Fixed Charge	NIL		NIL
(6,220,880.00)	Due to Straumur Under Fixed Charge		NIL	NIL
	Wages & Salaries		354,624.22	354,624.22
	Staff Repatriation Costs		9,609.85	9,609.85
	Other Salary Deductions		950.00	950.00

XL Airways UK Limited - In Administration

	Payroll Services	9,599.31	9,599.31
	IT costs	200.00	200.00
	Preparation of S. of A.	11,250.00	11,250.00
	Administrators Fees	434,362.00	434,362.00
	Administrators Expenses	30,873.99	30,873.99
	Heat & Light	283.63	283.63
	Agents/Valuers Fees	101,410.00	101,410.00
	Agents/Valuers Disbursements	19,186.35	19,186.35
	Consultancy Fees	12,974.00	12,974.00
	Other Professional Costs	40,105.76	40,105.76
	Legal fees	19,720.50	19,720.50
	VAT - Overseas Repayments	4,669.40	4,669.40
	Telephone Telex & Fax	2,300.45	2,300.45
	Stationery & Postage	5,576.10	5,576.10
	Lease and HP Equipment	1,541.65	1,541.65
	Storage Costs	2,351.63	2,351.63
	Re-Direction of Mail	99.60	99.60
	Statutory Advertising	3,288.21	3,288.21
	Rents Payable	24,203.50	24,203.50
	Other Property Expenses	175.00	175.00
	PAYE and NI Contributions	210,127.91	210,127.91
	Pension Contributions	32,011.97	32,011.97
	Bank Charges	166.00	166.00
	Sundry Expenses	411.79	411.79
(1,269,523.00)	Preferential Creditors	NIL	NIL
(303,842,370.00)	Unsecured Creditors	NIL	NIL
	TOTAL PAYMENTS	NIL	1,332,072.82
			1,332,072.82
<hr/>			
(317,245,689.00)	Balances in Hand	NIL	1,646,699.13
			1,646,699.13
	REPRESENTED BY		
	Floating Interest Bearing		1,554,363.03
	External Funding Account		26,571.77
	VAT Receivable		92,336.10
			<hr/>
			1,646,699.13
			<hr/>

Time Analysis for the Period from 12 September 2008 to 11 March 2009

Appendix C

	Employee Grade				Hours To Date	Total Cost	Average Rate p/h
	Partner / Director	Senior Associate	Associate / Analyst	Junior Analyst / Support			
ADMINISTRATION AND PLANNING							
Strategy and Control	26.10	36.20	93.20	0.30	155.80	48,561.50	312
Bank and Creditor Reporting	0.20	16.90	75.10	4.50	96.70	25,469.50	263
Creditors Committee	0.00	0.00	1.50	0.00	1.50	435.00	290
Statutory Duties	0.30	0.20	5.30	1.40	7.20	1,789.50	249
Job Administration	0.00	61.00	33.00	43.20	137.20	35,209.50	257
Cash Accounting and Time Records	0.60	9.10	39.10	35.90	84.70	18,983.50	224
Case Related Travel Time	0.00	36.50	47.50	0.00	84.00	24,780.50	295
Internal Documentation and IT	0.00	1.90	35.80	0.70	38.40	9,750.00	254
ADMINISTRATION & PLANNING Total	27.20	161.80	330.50	86.00	605.50	164,979.00	272
INVESTIGATIONS							
D Reports	0.10	0.00	1.90	1.10	3.10	708.00	228
Other Investigations	6.00	0.60	1.10	0.50	8.20	3,521.00	429
INVESTIGATIONS Total	6.10	0.60	3.00	1.60	11.30	4,229.00	374
REALISATION OF ASSETS - FIXED CHARGE							
Initial Actions and Valuations	0.40	29.10	3.50	0.00	33.00	11,105.50	337
Sale of Assets	5.00	50.70	0.90	0.00	56.60	20,076.00	355
Insurance	0.00	0.00	0.80	0.40	1.20	242.00	202
Litigation	0.00	0.00	0.30	0.00	0.30	81.00	270
Internal Documentation	0.00	0.30	7.70	0.00	8.00	1,959.00	245
REALISATION OF ASSETS - FIXED CHARGE Total	5.40	80.10	13.20	0.40	99.10	33,463.50	338
REALISATION OF ASSETS - DEBTORS							
Debt Collection	2.00	72.20	53.60	40.40	168.20	44,931.50	267
Debtors Litigation	0.00	0.40	0.70	0.00	1.10	315.50	287
Crown Debtors	0.00	0.00	4.90	0.00	4.90	1,323.00	270
Internal Documentation	0.00	0.00	1.60	0.00	1.60	434.00	271
REALISATION OF ASSETS - DEBTORS Total	2.00	72.60	60.80	40.40	175.80	47,004.00	267
REALISATION OF ASSETS - FLOATING CHARGE							
Initial Actions and Valuations	0.00	37.80	69.60	0.00	107.40	31,127.50	290
Sale of Assets	0.00	72.80	10.40	0.00	83.20	27,721.00	333
Insurance	0.00	3.70	4.10	0.00	7.80	2,290.00	294
Retention of Title	0.00	17.70	6.90	0.00	24.60	7,701.00	313
Hire Purchase/Leased Assets	0.00	62.20	31.70	1.60	95.50	29,439.00	308
Litigation	0.00	0.00	0.60	0.00	0.60	144.00	240
Internal Documentation	0.00	6.90	9.10	0.00	16.00	4,645.50	290
REALISATION OF ASSETS - FLOATING CHARGE Total	0.00	201.10	132.40	1.60	335.10	103,068.00	308
TRADING							
Initial Actions	7.40	10.00	30.10	0.30	47.80	14,918.50	312
Cash Accounting	0.70	0.00	19.60	0.00	20.30	5,209.00	257
Ongoing Trading Activities	1.10	2.90	19.40	21.10	44.50	9,043.50	203
Internal and External Documentation	0.00	0.00	3.80	0.10	3.90	939.50	241
TRADING Total	9.20	12.90	72.90	21.50	116.50	30,110.50	258
CREDITORS							
Creditor Dealings	0.30	15.00	55.80	99.80	170.90	32,751.00	192
Creditor Claims	0.00	1.10	0.30	0.00	1.40	501.00	358
Litigation	0.00	0.00	1.50	0.00	1.50	435.00	290
Internal Documentation	0.00	2.80	2.50	0.10	5.40	1,585.50	294
Employees	46.90	150.70	214.60	31.90	444.10	132,758.50	299
CREDITORS Total	47.20	169.60	274.70	131.80	623.30	168,031.00	270
Total	97.10	698.70	887.50	283.30	1,966.60	550,885.00	280

Additional Information in Relation to Administrators' Fees Pursuant to Statement of Insolvency Practice 9

Appendix D

1 Policy

Detailed below is Zolfo Cooper's policy in relation to:

- staff allocation and the use of sub-contractors;
- professional advisors; and
- disbursements.

1.1 Staff Allocation and the use of Sub-contractors

Our general approach to resourcing our assignments is to allocate staff with the skills and experience to meet the specific requirements of the case.

The constitution of the case team will usually consist of a Partner, Senior Associate, Associate and Analyst. The exact constitution of the case team will depend on the anticipated size and complexity of the assignment and the experience requirements of the assignment. On larger, more complex cases, several staff at all grades may be allocated to meet the demands of the case. Our charge out rate schedule below provides details of all grades of staff and their experience level.

With regard to support staff, we would advise that time spent by cashiers in relation to specific tasks on an assignment is charged. Only if there is a large block of time incurred by a member of the secretarial team, eg, report compilation and distribution, do we seek to charge and recover our time in this regard.

The services of the following sub-contractors have been used in this case:

Name of Sub-Contractor	Basis of Fee Arrangement
G. Harper	Hourly rate and expenses
D. Harrison	Hourly rate and expenses
B. Key	Hourly rate and expenses
P. Harrold	Hourly rate and expenses
T. Bentley	Hourly rate and expenses
S. Broad	Hourly rate and expenses
L. Findlay	Hourly rate and expenses

1.2 Professional Advisors

On this assignment we have used the professional advisors listed below. We have also indicated alongside, the basis of our fee arrangement with them, which is subject to review on a regular basis.

Name of Professional Advisor	Basis of Fee Arrangement
Freshfields Bruckhaus Deringer LLP (legal advice)	Hourly rate and disbursements
Willis Limited (insurance)	Risk based premium
Edward Symmons (valuation and disposal advice)	Hourly rate and disbursements
BDO Stoy Hayward LLP (tax advice)	Hourly rate and disbursements
Twice2much Ltd (duplicate payments review)	Percentage of realisations
Jones Day (security review & legal advice)	Hourly rate and disbursements
PAYCO (ERA claims)	Hourly rate and disbursements
Hill and Knowlton (PR advice)	Hourly rate and disbursements
The VAT Consultancy (foreign VAT recovery)	Percentage of realisations

Our choice was based on our perception of their experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of our fee arrangement with them.

1.3 Disbursements

Category 1 disbursements do not require approval by creditors. The type of disbursements that may be charged as a Category 1 disbursement to a case generally comprise of external supplies of incidental services specifically identifiable to the case, such as postage, case advertising, invoiced travel and external printing, room hire and document storage. Also chargeable will be any properly reimbursed expenses incurred by personnel in connection with the case.

Category 2 disbursements do require prior approval by creditors before they are paid and as per my last report Kroll Security Consulting Group EMEA were instructed to provide onsite security of the properties immediately after appointment in order to safeguard assets. I can confirm that Kroll Security Consulting Group EMEA has been paid £23,000.

2 Charge-out Rates

A schedule of Zolfo Cooper charge-out rates for this assignment effective from 1 January 2009 is detailed below.

	(Per hour) £
Partner/Director:	
Partner 1*	550
Partner 2*	495
Director	430
Senior Associate:	
Senior Associate 1*	390
Senior Associate 2*	350
Associate/Analyst:	
Associate	290
Analyst*	265
Junior Analyst and Support Staff:	
Junior Analyst*	140
Senior Treasury Associate	210
Treasury Associate	140
Treasury Analyst	90
Support	90
*Key	
Partner 1 - Partners with 3 or more years experience at partner level	
Partner 2 - Partners with less than 3 years experience at partner level	
Senior Associate 1 - Staff who have been Senior Associates for over 2 years	
Senior Associate 2 - Staff who have been Senior Associates for less than 2 years	
Analyst - Staff who have been Analysts for more than 1 year	
Junior Analyst - First year Analysts	