

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
**(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,**  
**R.S.C. 1985, c. C-36, AS AMENDED**  
**AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT**  
**OF SAAN STORES LTD. - LES MAGASINS SAAN LTÉE**

**EIGHTH REPORT OF THE MONITOR**  
**(Dated as of May 14, 2008)**

1. This is the Eighth Report prepared by Mintz & Partners Limited (the "**Monitor**"), in its capacity as the monitor of SAAN Stores Ltd. – Les Magasins SAAN Ltée ("**SAAN**" or the "**Company**") appointed pursuant to section 11.7 of the *Companies' Creditors Arrangement Act* (the "**CCAA**") by an Order of the Honourable Justice Morawetz dated December 28, 2007 (the "**Filing Date**") and the Amended and Restated Initial Order dated December 28, 2007 (the "**2007 CCAA Order**"). As described further below, the current CCAA proceedings are an extension of CCAA proceedings that were commenced by the Company pursuant to an Initial Order by Mr. Justice Farley dated January 6, 2005 (the "**2005 Initial Order**") in respect of SAAN and are intended to facilitate an orderly restructuring of SAAN's business.
2. The Purpose of this Eighth Report is to:
  - i) update the court on the status of SAAN's restructuring efforts;
  - ii) update the court on the status of the sales process (the "**Sales Process**") being conducted by the Monitor pursuant to the Order of the Honourable Justice Morawetz dated May 6, 2008 (the "**Sales Process Order**"); and

- iii) comment on the Company's application for an extension to June 6, 2008 of the current stay of proceedings.
3. In preparing this Eighth Report, the Monitor has relied upon financial and other information provided by SAAN and on information contained in SAAN's financial records. The Monitor has not audited or independently verified the information provided by SAAN or contained in SAAN's financial records. Capitalized terms used in this Eighth Report and not otherwise defined herein have the meanings given to them in the 2007 CCAA Order, the Company's Plan of Compromise or Arrangement dated March 28, 2008 or the Sales Process Order dated May 6, 2008.

**I. Background and Status of SAAN's Restructuring**

4. SAAN was established in 1947 to provide surplus armed forces merchandise to the retail public. As at the Filing Date, the Company operated 126 department and family clothing stores in all Provinces and Territories of Canada except Prince Edward Island and Nunavut. The Company also operates 16 stores under The Red Apple Clearance Centre ("**Red Apple**") banner providing discounted clothing, housewares and grocery items. The Company employed approximately 1,800 full and part-time employees at its retail locations and 60 employees at its head office in Mississauga, Ontario as of the Filing Date.
5. On January 6, 2005, SAAN was granted protection from its creditors under the CCAA. On March 3, 2005, SAAN obtained an Order authorizing it to file a proposal under Part III of the *Bankruptcy and Insolvency Act* (the "**BIA**"). On May 2, 2005, the Honourable Mr. Justice Farley granted an order (the "**Sanction Order**") approving the Second Amended Proposal of SAAN dated April 20, 2005 (the "**Second Amended Proposal**"). The Sanction Order also expressly confirmed that all other Orders made in SAAN's CCAA proceedings remained in force.
6. The Second Amended Proposal provided for four payments into a Proposal Fund at various times. SAAN made two of the payments with the third payment due on August

- 31, 2007. The Trustee in the Proposal received inspector approval for SAAN to defer payment of the third payment until December 24, 2007, however the third payment was not made and the Company initiated the current proceedings under the CCAA.
7. As directed by the Honourable Justice Morawetz in his endorsement of December 28, 2007, the Monitor prepared its Second Report to the Court dated January 18, 2008 regarding the impact on the Company's creditors of the performance by the Company of its obligations to creditors pursuant to the Second Amended Proposal.
  8. On January 24, 2008, the Honourable Justice Morawetz granted an order (the "**January 24<sup>th</sup> Order**") that, among other things, extended the timing for the third payment (the "**Third Proposal Payment**") under the Second Amended Proposal until "the earlier of the first business day following the sanctioning of a plan of arrangement in the CCAA Proceedings or March 31, 2008, subject to further order of this Court."
  9. The Monitor's Third Report to the Court dated as of February 27, 2008 (the "**Third Report**") sought approval for, among other things, a Claims Procedure to be conducted by the Monitor with a claims bar date of 5:00 p.m on April 4, 2008. On February 29, 2008, the Honourable Justice Morawetz granted an order (the "**February 29<sup>th</sup> Order**") that, among other things, approved the Claims Procedure and extended the stay under the CCAA Proceedings to March 28, 2008.
  10. On March 28, 2008, the Company filed its Plan of Compromise or Arrangement (the "**Plan**") with the Court and sought an Order for an extension of the stay of proceedings to May 15, 2008 in order for the Company to convene a meeting of its creditors on May 2, 2008 (the "**Meeting**") to consider and vote on the Plan. The Monitor filed its Fourth Report to the Court dated as of March 26, 2008 (the "**Fourth Report**") in which the Monitor supported the Company's motion for an extension of the stay of proceedings to May 15, 2008. On March 28, 2008, the Court granted the Plan Filing and Meeting Order (the "**Plan Filing and Meeting Order**").
  11. On April 17, 2008, the Monitor caused to be mailed to all creditors with proven claims a copy of the Plan, along with its report on the Plan, and a voting letter, proxy and election

form (the “**Creditors Package**”). Of the Creditors Packages sent, approximately 100 were mailed by approximately 1:00 a.m. on April 18, 2008.

12. The Monitor’s Fifth Report to the Court dated April 14, 2008 (the “**Fifth Report**”) reported on the status of the claims of secured creditors that were listed in Schedule “A” to the Plan. Following its review of the claims of secured creditors, the Company prepared the First Amended Plan of Compromise or Arrangement (the “**First Amended Plan**”). The primary change reflected in the First Amended Plan was the removal from Schedule “A” to the Plan of five of the Company’s Senior Secured Creditors.
13. In its Sixth Report to the Court reported dated May 2, 2008 (the “**Sixth Report**”), the Monitor reported that the Meeting on May 2, 2008 was convened by the Monitor, and prior to any vote, was adjourned by the Company to be reconvened on at least 72 hours notice. The Meeting was adjourned by the Company as discussions between the Company, The Bargain! Shop (“**TBS**”) and other interested parties regarding a TBS-sponsored plan of compromise or arrangement (the “**TBS Plan**”) were continuing. The Sixth Report also provided the Monitor’s comments on the Company’s motion to commence the Sales Process for the company’s assets, property and undertakings to be conducted by the Monitor. On May 6, 2008, the Honourable Justice Morawetz issued the Sales Process Order.
14. On May 9, 2008, the Monitor issued its Seventh Report to the Court (the “**Seventh Report**”) in which it advised that, due to the Company’s cash flow constraints, the Company had prepared a revised cash flow forecast that did not provide for any COD purchases during the Sales Process Period nor any payments for any outstanding post-Filing Date accounts payable.
15. Pursuant to the Plan Filing and Meeting Order, the stay of proceedings was extended to May 15, 2008, to permit the Company to seek an order of the Court sanctioning the Plan, following a successful vote on the Plan. As noted above, a vote on the First Amended Plan was never held.

16. The Company is seeking a further extension to June 6, 2008 to permit the completion of the Sales Process.

## **II. Status of the Sales Process**

17. On May 7, 2008, pursuant to the Sales Process Order, the Monitor commenced the Sales Process by sending an e-mail to those parties listed on Schedule "A" to the Sales Process Order, informing them of the opportunity to submit an offer for the assets, property and undertakings of SAAN.
18. On May 13, 2008, the Monitor placed an advertisement in The Globe & Mail (National Edition) advertising the opportunity to submit an offer for the assets, property and undertakings of SAAN.
19. The Monitor has also established a secure on-line data room which contains confidential information regarding SAAN's assets, property and undertakings. Those interested parties who have executed a confidentiality agreement (as contemplated in the Sales Process Order) have been provided access to the data room. In addition, the Company has made available a data room at the offices of its counsel for interested parties to review premises lease documents.
20. The Monitor is also addressing further information requests of interested parties as they arise. The deadline for the receipt of offers is 2:00 pm (EST) on May 21, 2008 (the "**Offer Deadline**").
21. The Monitor has maintained contact with those parties who are involved in the negotiations with respect to a potential transaction involving TBS and has requested that both TBS and the Company keep the Monitor apprised as to the status of discussions regarding the finalization of a TBS Plan. As of the date of this Eighth Report, it appears to the Monitor that negotiations are still ongoing and that a TBS Plan has not yet been finalized. The Monitor is not aware whether any transaction involving TBS and/or the Company will be completed or whether such transaction will result in a TBS Plan.

22. The Monitor is also aware that counsel for the Company has been in contact with several creditors and has been dealing with creditor enquiries into the status of the proceedings and the various claims that have been filed in the Claims Process.

#### **IV. Status of Cash Flow**

23. In the Seventh Report, the Monitor advised the Court that the Company's revised cash flow forecast did not provide for any further purchase of merchandise, nor did it provide for the payment of any amounts outstanding from the purchase of post-Filing Date goods and services that were provided by suppliers on credit terms. The Monitor has been advised by the Company that since on or about May 5, 2008, the Company has not received any new merchandise.
24. While the Company has provided the Monitor with actual results up to May 4, 2008, the Company has advised the Monitor that it has not prepared a comparison of actual cash flow results to forecast for the period to May 10, 2008, as it has been focusing on assisting the Monitor with the Sales Process, as well as preparing information requested in the negotiations with The Bargain! Shop.
25. The Company has advised the Monitor that the cost amount of inventory on hand at May 12, 2008 is \$21,116,227 and that the loan balance with GMAC Commercial Finance – Canada ("GMAC") is \$24,168,182 as of that date. The Company has approximately \$512,000 in its operating account. The Company has advised GMAC that, in addition to outstanding cheques of approximately \$536,000, the Company has payroll obligations of approximately \$380,000 that need to be funded on May 14, 2008 and bi-weekly store rent payments of approximately \$600,000 to be funded on May 15, 2008. The Monitor has been advised by GMAC that it has agreed to fund the Company in order that the Company can make the aforementioned payments.

**V. SAAN's Request for an Extension of the Stay of Proceedings**

26. As noted above, the stay of proceedings in this matter will expire on May 15, 2008.
27. In the Monitor's view, it is appropriate that this Honourable Court extend the stay of proceedings. All parties have proceeded in good faith and with due diligence herein. Further, the Company, the Monitor and other stakeholders were last before this Court only a short time ago, on May 6, 2008. At that time, this Court issued an Order providing for the Sales Process. It is appropriate that the Sales Process continue through to its logical conclusion, as provided for in the Sales Process Order.
28. As described earlier herein, the Monitor is in the process of conducting the Sales Process. Pursuant to the provisions of the Sale Process Order, the Monitor is to review any offers submitted by May 21, 2008. Thereafter, the Monitor is to discuss the offers with the Senior Secured Creditors, and with the approval of GMAC, the Monitor is to prepare a report to the Court recommending which offer(s) should be accepted. A hearing to approve the successful offer(s) is to be held on May 28, 2008. If no offer is received by the Offer Deadline, the Monitor is to bring a motion to seek approval of the Baseline Offer on May 26, 2008.
29. To permit the Monitor to complete the Sales Process, and deal with the attendances required under the Sales Process Order, the Monitor recommends that the Company's request for an extension of the stay of proceedings to June 6, 2008 be granted.

**ALL OF WHICH** is respectfully submitted this 14<sup>th</sup> day of May, 2008

**MINTZ & PARTNERS LIMITED** in its capacity  
as the Monitor of SAAN Stores Ltd. – Les  
Magasins SAAN Ltée and not in its personal  
capacity

Per  \_\_\_\_\_