

**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**

**THIRD REPORT OF THE MONITOR
(Dated as of February 27, 2008)**

1. This is the Third 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 Mr. 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 Third Report is to:
 - i) update the court on the status of SAAN's restructuring efforts;
 - ii) obtain an order approving a claims procedure (the "**Claims Procedure**") to be conducted by the Monitor;
 - iii) obtain approval of the Monitor's activities; and

- iv) comment on the Company's motion for an extension of the stay of proceedings until April 28, 2008.
3. In preparing this Third 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 Third Report and not otherwise defined herein have the meanings given to them in the 2007 CCAA Order or the Claims Procedure.
- I. SAAN Stores Ltd. – Les Magasins SAAN Ltée**
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 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 Mr. 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 Mr. Justice Morawetz granted an order (the "January 24th Order") that, among other things, extended the timing for the third 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."

II. Status of SAAN's Restructuring

Leased Premises

9. Since the Filing Date, SAAN closed two stores on January 31, 2008. The stores were located in Prince Albert, Saskatchewan and Humbolt, Saskatchewan. A further five stores are scheduled to be closed by the Company on February 29, 2008. The Company has indicated that all of these locations have not been profitable and were not contributing positively to the Company's operating results. The landlords for the closed locations were each provided with seven days notice of the repudiation of the lease as required under the 2007 CCAA Order.
10. The Company continues to review its operations and may close further locations should it identify further locations that are not profitable.

Employees

11. As part of the two store closures referred to above, 13 store employees were terminated and two employees were transferred to other store locations. The Company has indicated that the terminated employees were provided with the notice required by Employment Standards in Saskatchewan. The employees in the five stores that will be closed on February 29, 2008 have also been provided with statutory notice of the store closures and

the Company is working on redeploying as many of the employees as possible to other Company stores.

12. Two District Sales Managers have resigned. To address the resignations, SAAN has realigned its sales districts. As a result, SAAN will only need to hire one District Sales Manager to replace those who resigned.
13. The Company's Vice President, Operations resigned on February 6, 2008 and the Company has filled this position internally. In addition, SAAN's corporate controller tendered his resignation effective February 22, 2008. The Company has filled the controller's position and the resigned controller has agreed to provide ongoing consulting services to the Company after his resignation date.
14. There have been 5 other head office employees (1 from product development and 4 merchandise allocators) who have resigned. The Company has sourced three replacement merchandise allocators and is considering its options with respect to filling the product development vacancy.

Suppliers

15. Immediately after the Filing Date, the Company commenced discussions with its logistics suppliers to negotiate the terms for the recommencement of the delivery of product. The Company was successful in coming to terms with all of its logistics suppliers resulting in the release of product that had been in transit, in storage or had been awaiting release at ports of entry.
16. The Company has advised that it has re-established supply terms with substantially all of its product suppliers. For many of its vendors, the Company has established 1 to 4 day credit terms whereby payment is initiated immediately after product is received at the Company's third party warehouse and has been sorted and verified.
17. However, the time that elapsed due to the negotiations with the logistics suppliers and product suppliers resulted in an initial delay in the receipt of product at the store level. The delay was not factored in by the Company in its cash flow forecast submitted to the

Court in its application materials for the 2007 CCAA Order for the period from the week ending December 30, 2007 to March 2, 2008 (the “**Initial Cash Flow Projections**”). This will be discussed further by the Monitor in the cash flow results section below.

18. The Company, under the Monitor’s supervision, provided a copy of the 2007 CCAA Order to all of its creditors owed greater than \$500 as required under the 2007 CCAA Order. In addition, the 2007 CCAA Order and other court documents have been posted on the Monitor’s website.

Landlords

19. Whereas the 2007 CCAA Order provides the Company with the opportunity to pay rent to its landlords bi-weekly, since the Filing Date, the Company has been paying rent on a monthly basis. Rent cheques were mailed by the Company on the first day of each of January and February, 2008. The Company has indicated that rent payments for March, 2008 will be released by the Company on February 29, 2008.

III. Cash Flow Results

20. Attached as **Appendix “A”** hereto is a comparison of the Initial Cash Flow Projections to the actual results for the period December 28, 2007 to February 17, 2008 (the “**Results Period**”).
21. The operating loan balance as of February 17, 2008 is approximately \$1.175 million lower than forecast. Whereas store deposits are approximately \$963,000 below the Initial Cash Flow Projections, most disbursements for the Results Period have also been lower than forecast.
22. In particular, for the Results Period:
 - Sales are approximately 4% below forecast sales. The Company has indicated that this negative variance is a result of the initial delays in having product delivered to the Company’s stores as a result of the time taken to reestablish supply arrangements with logistics suppliers and product suppliers, as well as

delivery delays arising from severe weather in Western Canada. Such delays were not contemplated in the Initial Cash Flow Projections;

- Store Deposits are approximately 7% below the Initial Cash Flow Projections. The Company has indicated that this negative variance is due to the negative variance in sales discussed above and approximately \$390,000 of deposits that have been retained by Global Payments Direct Inc., the Company's debit and credit card processing provider, as a reserve against potential returned charges;
- Sales Tax disbursements are approximate 71% lower than forecast. The Company has indicated that the Initial Cash Flow Projections included payment of all sales taxes (GST and provincial sales taxes) accruing due in December, 2007 which were forecast to be paid at the end of January 2008. Instead, the Company has paid taxes for the period December 28 to 31, 2007 and has not remitted sales taxes of approximately \$897,000 relating to the period prior to the Filing Date, of which \$411,502 is for GST and the balance is for provincial sales taxes;
- the Initial Cash Flow Projections included a line item disbursement for interest payments to GMAC Commercial Finance Corporation – Canada ("GMAC") under the operating line totalling \$264,000. The Company has alternatively reported interest payments under the Loan Balance section of its reporting since GMAC charges those interest payments directly to the loan balance. In addition, GMAC has also charged the loan balance for legal fees, resulting in total net fees and interest of \$460,000 for the Results Period, a \$196,000 increase over the Initial Cash Flow Projections;
- Payroll – Stores is approximately \$688,000 greater than forecast. However, the Company has indicated that payroll should be considered as combined with Payroll – Head Office and DSM due to a cross-mingling of the reporting of payroll expense between the two line items. The net difference in total payroll expense is approximately \$90,000 or 2.2% lower than forecast;

- Utilities expense is approximately \$470,000 or 75% lower than forecast. The Company indicates that this variance is substantially a timing difference due to a delay in the receipt of invoices from certain utilities. The Monitor understands that utility invoices are being paid upon receipt and payments are current;
- Other Store Expense indicates a negative variance of \$390,000. The Company has indicated that, rather than adjust the book balance of opening cash, it reversed cheques totaling approximately \$400,000 that were outstanding at the Filing Date to this account as substantially all of the outstanding cheques related to this account category. Actual Other Store Expenses were in line with those forecast;
- Advertising is approximately \$79,000 greater than forecast as the Company was required to prepay a portion of advertising for a March 2008 flyer. The Initial Cash Flow Projections did not anticipate the requirement for a prepayment;
- Warehousing and logistics disbursements were approximately \$525,000 or 27% lower than forecast partially due to timing, as the Company has been able to obtain credit terms from their logistics suppliers which was not included in the Initial Cash Flow Projections, and partially due to logistics costs being lower than anticipated; and
- Inventory Purchases are approximately equal to forecast, however there was initial delay in the receipt of inventory after the Filing Date for the reasons described earlier in this report. The Company has indicated that inventory shipments are substantially back to those initially forecast.

IV. Borrowing Base Facility

23. In its First Report, the Monitor reported that the Initial Cash Flow Projections indicated that by the week ending February 10, 2008, the required loan balance was forecast to be \$25,553,000 which was \$553,000 in excess of the amount available under the Company's borrowing base facility with GMAC (the "Facility Cap"). In fact, the Company has been

able to manage its cash such that, to date, its cash requirements have not approached the Facility Cap.

24. Nevertheless, the Company has been in ongoing negotiations and discussions with GMAC to obtain an increase of the Facility Cap to \$30.0 million. The Monitor understands from GMAC that the Company's request will be presented to GMAC's credit committee on February 28, 2008. The Company will provide an update on GMAC's position at the within motion scheduled for February 29, 2008.

V. Claims Procedure

25. The purpose of the Claims Procedure is to:
- i. solicit proofs of claim for the various claims and outline the manner in which such proofs of claim will be evaluated;
 - ii. establish a date that claims must be filed by or otherwise be forever barred against the Company; and
 - iii. outline a process to resolve any disputes that may arise in respect of Proofs of Claim filed.
26. Attached hereto as **Appendix "B"** is an outline of the Claims Procedure. The following is a summary of the Claims Procedure:
- On or before 11:59 p.m. on March 7, 2008, the Monitor shall send to each known Affected Creditor a Proof of Claim together with a copy of the Claims Procedure;
 - On or before March 7, 2008, the Monitor shall cause an advertisement of the Notice to Creditors substantially in the form attached as Schedule "A" to the Claims Procedure to be placed in The Globe & Mail (National Edition) calling for Claims and providing notice of the Claims Bar Date;
 - The Monitor shall post a copy of the Claims Procedure and Proof of Claim package on its website;

- Any Claim not filed with the Monitor by 5:00 p.m. on March 28, 2008 shall be extinguished and forever barred against the Company;
- The Monitor shall review all Proofs of Claim received prior to the Claims Bar Date and to the extent that the Monitor determines that a Claim should be revised or rejected, the Monitor will send to that Creditor no later than 11:59 pm on April 21, 2008 a Notice of Revision or Disallowance, substantially in the form attached as Schedule “C” to the Claims Procedure;
- Where the Monitor does not send a Notice of Revision or Disallowance to a Creditor who has submitted Proof of Claim by 11:59 p.m. on April 21, 2008, the Monitor and the Company shall be deemed to have accepted such Creditor’s Claim in the amount set out in the Proof of Claim; and
- Any Creditor who intends to dispute a Notice of Revision or Disallowance shall, by no later than 5:00 p.m. on the day that is 10 days after the delivery of the Notice of Revision or Disallowance, serve a Notice of Motion on the Monitor seeking to appeal the Monitor’s determination. The motion must be returnable for scheduling on April 28, 2008. Where a Creditor does not serve a Notice of Motion by the date required, the value of such Creditor’s Claim shall be deemed to be as set out in the Notice of Revision or Disallowance.

VI. SAAN’s Request for an Extension of the Stay of Proceedings

27. The stay of proceedings pursuant to the 2007 CCAA Order expires on February 29, 2008.
28. The Company had originally intended to be in a position by the end of February, 2008 to file its plan of arrangement and convene a meeting of its creditors. However, a number of issues have arisen since the Company’s appearance before this Court at the beginning of January, 2008 that have impeded the Company’s progress towards filing a plan of arrangement.

29. In mid-January 2008, the secured creditor of Cotton Ginny Inc. ("**Cotton Ginny**") initiated receivership proceedings against Cotton Ginny. Mr. Tony Chahine, the President of SAAN, is also the President of Cotton Ginny. In addition, other key SAAN personnel are also significantly involved in Cotton Ginny as both companies operate from the same premises and in some respects, have overlapping processes. As a result of the receivership proceedings against Cotton Ginny, SAAN's management's attention was necessarily directed towards dealing with the immediate needs facing Cotton Ginny thereby resulting in delays establishing a claims process and preparing a plan of arrangement for SAAN.
30. The Cotton Ginny situation was stabilized at the end of the week of February 18, 2008 with the termination of receivership proceedings and the granting of protection under the CCAA by this honourable Court. SAAN's management has since been able to devote the attention required to proceed with a restructuring of the Company.
31. In order to complete its restructuring through a Claims Procedure and filing of a plan of arrangement, SAAN is seeking an extension of the stay of proceedings until April 28, 2008 (the "**Extension Period**").
32. Attached hereto as **Appendix "C"** is a cash flow forecast for the Extension Period (the "**Extension Cash Flow Projection**"). The Monitor has reviewed the Extension Cash Flow Projection and the assumptions included therein. The Monitor's review consisted of the following:
 - held discussions with representatives of SAAN, as well as the Restructuring Officer, to understand the assumptions used to prepare the Extension Cash Flow Projection;
 - reviewed supporting schedules to the Extension Cash Flow Projection to ensure the assumptions were reflected in the supporting documentation;
 - compared projected sales to prior years' results and the Company's assumptions for changes for 2008 in the context of available funding and current and projected inventory levels; and

- reviewed major disbursement categories to assess the reasonability of projected disbursements based on results since the Filing Date and the Monitor's understanding of payment terms with suppliers.
33. The Extension Cash Flow Projection indicates that the Company is able to continue operations during the Extension Period, however, the GMAC loan balance is forecast to exceed the current Facility Cap by the week ending March 16, 2008. The loan balance is projected to continue to exceed the Facility Cap throughout the remainder of the Extension Period. As such, in order for SAAN to be able to continue to operate subsequent to the week ending March 16, 2008, SAAN must either secure GMAC's agreement to increase the Facility Cap to \$30 million, or obtain funding from alternate sources. As set out in the Extension Cash Flow Projection, the Company does not forecast to have a loan balance in excess of \$30 million during the Extension Period.
34. As mentioned in Paragraph 8 above, the timing for payment of the third proposal payment was extended by the January 24, 2008 Order to "... 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." The Company has indicated that the March 31, 2008 date was selected based on the assumption that it would be in a position to present a plan of compromise and arrangement to its creditors by the end of February, 2008. As previously mentioned, this timing has been delayed. As such, the Company has indicated it they may have to negotiate with the proposal trustee named in the Second Amended Proposal and may, if necessary, apply to the Court to extend the time for payment of the third proposal payment. The Company, at this time, has not included the third proposal payment in the Extension Cash Flow Projection.
35. Other than the requirement to have the Facility Cap increased or otherwise obtain further funding to meet the Company's cash flow requirements during the Extension Period and the requirement to extend the timing for the payment of the third proposal payment, nothing has come to the Monitor's attention that causes the Monitor to believe that, in any material respects, the assumptions developed by the Company are not suitably supported and consistent with the Company's plans or do not provide a reasonable basis

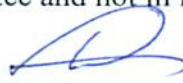
for the Extension Cash Flow Projection. Since the Extension Cash Flow Projection is based on assumptions regarding future events, actual results may vary from the information presented, and such variations may be material. Accordingly, the Monitor expresses no assurances as to whether the Extension Cash Flow Projection will be achieved.

36. It is the view of the Monitor that the Company has been acting in good faith in its restructuring efforts. The Monitor therefore recommends that the Company's request for an extension of the stay of proceedings to April 28, 2008 be granted.

ALL OF WHICH is respectfully submitted this 27th day of February, 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 _____



DANIEL WEISS
SENIOR VICE PRESIDENT

APPENDIX "A"

**SAAN Stores Ltd.
Comparison of Actual Cash Flow Results to Forecast for the Period December 28, 2007 to February 17, 2008
(\$000's)**

| | Forecast to Feb 17 | Actual to Feb 17 | Difference \$ | % |
|--|-----------------------|---------------------|------------------|-------|
| Total Sales | 10,606 | 10,183 | (423) | -4% |
| Deposits | 13,995 | 13,032 | (963) | -7% |
| <u>Cash Flow Forecast</u> | | | | |
| Operating bank balance | | | | |
| Opening bank balance | 675 | 668 | (7) | -1% |
| Draw from GMAC | 18,496 | 15,898 | (2,598) | -14% |
| | <u>19,171</u> | <u>16,566</u> | <u>(2,605)</u> | -14% |
| Disbursements | | | | |
| Sales taxes | 1,618 | 473 | (1,145) | -71% |
| Interest - GMAC | 264 | - | (264) | -100% |
| Payroll - Stores | 3,249 | 2,561 | (688) | -21% |
| Payroll - Closed Stores | - | - | - | |
| Payroll - Head Office and DSM | 796 | 1,394 | 598 | 75% |
| Rent, CAM, Insurance and Taxes - Stores | 2,347 | 2,400 | 53 | 2% |
| Rent, CAM, Insurance and Taxes - Head Office | 66 | 34 | (32) | -49% |
| Utilities - Stores | 629 | 159 | (470) | -75% |
| Other Store Expenses | 262 | (128) | (390) | -149% |
| Other Expenses - Head Office and DSM | 777 | 785 | 8 | 1% |
| Advertising | - | 79 | 79 | |
| Warehousing and Logistics | 1,916 | 1,391 | (525) | -27% |
| Merchandise Purchases | 6,221 | 6,198 | (23) | 0% |
| Professional Fees | 1,026 | 990 | (36) | -4% |
| Restructuring costs re: New CCAA Proposal First Proposal to creditors (3rd installment) | | | | |
| | <u>19,171</u> | <u>16,336</u> | <u>(2,835)</u> | -15% |
| Closing bank balance | - | 230 | | |
| <u>Borrowing base</u> | | | | |
| Collateral | 30,438 | 27,087 | (3,351) | -11% |
| Borrowing base | 30,000 | 25,000 | | |
| <u>Loan Balance</u> | | | | |
| Opening loan balance | 21,438 | 21,438 | | |
| Draw | 18,496 | 15,898 | | |
| Fees & Interest | | 460 | | |
| Repayment | (13,995) | (13,032) | | |
| Loan balance | 25,939 | 24,764 | (1,175) | -5% |
| Availability (Borrowing base - Loan) | <u>4,061</u> | <u>236</u> | | |

APPENDIX "B"

Claims Procedure

A. Definitions

The following terms shall have the meanings ascribed:

"Affected Claim" means all Claims other than Unaffected Claims;

"Affected Creditor" means all Creditors with Affected Claims

"Applicant" means SAAN Stores Ltd. – Les Magasins SAAN Ltée;

"Business Day" means a day which is not: (a) a Saturday or a Sunday; or (b) a day observed as a holiday under the laws of the Province of Ontario or the federal laws of Canada applicable in the Province of Ontario;

"CCAA" means the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36;

"CCAA Proceedings" means the proceedings before the Court in respect of the application by the Applicant commenced pursuant to the CCAA;

"Claim" means any right or claim of any Person against the Applicant, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind of the Applicant, which indebtedness, liability or obligation is in existence at the Commencement Date and which is not a Post-Filing Claim, and any interest that may accrue thereon which there is an obligation to pay, and costs which such Person would be entitled to receive pursuant to the terms of any contract with such Person at law or in equity, any right of ownership of or title to property or assets or to a trust or deemed trust (statutory or otherwise) against any property or assets, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known, or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, or any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, based in whole or in part on facts which exist prior to the Commencement Date, together with any other claims that would have been claims provable in bankruptcy had the Applicant become bankrupt on the Commencement Date;

"Claims Bar Date" means 5:00 p.m. on March 28, 2008;

“Claims Procedure” means the claims procedure and schedules set out herein and as approved in the Filing Order, as may be amended from time to time;

“Commencement Date” means December 28, 2007;

“Court” means the Ontario Superior Court of Justice (Commercial List);

“Creditor” means any Person having a Claim and, if the context requires, an assignee or transferee of a Claim or a trustee, receiver, receiver manager or other Person acting on behalf of such Person;

“Dollars” or **“\$”** means lawful money of Canada unless otherwise indicated;

“Filing Order” means the Order dated February 29, 2008 establishing, *inter alia*, the procedure for Creditors to prove their Claims;

“Landlord Claim” means the claim of a landlord arising as a result of the actual or prospective repudiation of a Lease where notice of the repudiation of such Lease was given by the Applicant in accordance with the Initial Order which shall be calculated, in the case of a repudiation, as the Rent payable by an Applicant to such Landlord for the one (1) month following the delivery of the notice of repudiation.

“Lease” means a real property lease or sublease, an offer to lease or sublease of real property, or any other occupancy agreement for real property pursuant to which the Applicant has or had the right to occupy premises, and includes all amendments and supplements thereto;

“Monitor” means Mintz & Partners Limited, as appointed by the Initial Order, and any successor thereto appointed by any further Order;

“Notice to Creditors” means the notice substantially in the form attached hereto as Schedule “A”;

“Notice of Revision or Disallowance” means the notice substantially in the form of Schedule “C”;

“Order” means any order of the Court in connection with the CCAA Proceedings;

“Person” means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other juridical entity howsoever designated or constituted;

“Proof of Claim” means the Proof of Claim substantially in the form attached hereto as Schedule “B”;

“Rent” means, in respect of each Lease, the base rent payable per month provided for under such Lease plus any amounts payable under the Lease for utilities, taxes, common area maintenance charges, percentage rent or other additional amounts;

“Secured Creditor” means GMAC Commercial Credit;

“Unaffected Claims” means (a) Claims of the Monitor and its counsel, and Claims of the Applicant’s counsel arising before or after the Commencement Date; (b) Claims of the Secured Creditor; (c) Claims compromised by the Second Amended Proposal Dated April 20, 2005; (d) Claims for wages, salary and vacation pay accruing due to employees; and (e) Claims for amounts due for goods or services actually supplied to the Applicant after the Commencement Date; and

“Unaffected Creditor” means any Creditor with an Unaffected Claim.

B. General Provisions

1. Copies of all Proofs of Claim and Notices of Revision or Disallowance, and determinations of Claims by the Court shall be maintained by the Monitor and, subject to further order of the Court, all Creditors will be entitled to have access thereto by appointment during normal business hours on written request to the Monitor.
2. For the purposes of this Claims Procedure, all Claims which are denominated in a foreign currency shall be converted to Canadian dollars as at the Commencement Date as provided by subsection 18.6(8) of the CCAA.
3. The Monitor is authorized to use reasonable discretion as to adequacy of compliance with respect to the manner in which Proofs of Claim and Notices of Revision or Disallowance are completed and executed, and may, where the Monitor is satisfied that a Claim has been adequately proven, waive strict compliance with the requirements of this Claims Procedure as to completion and execution of Proofs of Claim or Notices of Revision or Disallowance.
4. Any document to be sent pursuant to this Claims Procedure may be sent by e- mail, ordinary mail, registered mail, courier or facsimile transmission. An Affected Creditor shall be deemed to have received any document sent pursuant to this Claims Procedure five (5) Calendar Days after such document is sent by ordinary mail and registered mail and one Calendar Day after such document is sent by e-mail, courier or facsimile transmission.
5. In the event that any provision of the Claims Procedure is amended by or is contrary to a provision of an Order of the Court made in the CCAA Proceedings, the provision of such Order shall have precedence over the provision of the Claims Procedure.

6. All references to time herein shall mean local time in Toronto, Ontario, Canada and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. on such Business Day unless otherwise indicated herein.

7. References to the singular herein include the plural, the plural includes the singular and any gender includes the other gender.

C. Schedules

The following Schedules form part of this Claims Procedure:

Schedule "A" - Notice to Creditors (Publication)

Schedule "B" - Proof of Claim

Schedule "C" - Notice of Revision or Disallowance

D. Claims Procedure

1. The Monitor shall send, on or before 11:59 p.m. on **March 7, 2008**, to each known Affected Creditor a Proof of Claim together with a copy of the Claims Procedure and the order approving the Claims Procedure.

2. On or before **March 7, 2008**, the Monitor shall publish the Notice to Creditors substantially in the form attached as **Schedule "A"** hereto, in The Globe & Mail (National Edition).

3. The Monitor shall send to each Affected Creditor responding to the Notice to Creditors a Proof of Claim together with a copy of the Claims Procedure.

4. Each Affected Creditor must return the Proof of Claim to the Monitor by no later than the Claims Bar Date. The Monitor shall forthwith provide a copy of such Proof of Claim to the Applicant.

5. Any Affected Creditor that does not file a Proof of Claim by the Claims Bar Date: (a) shall not be entitled to attend or vote at any Affected Creditors' Meeting; (b) shall not be entitled to receive any distribution and its Claim shall be forever extinguished and barred; and (c) shall not be entitled to notice of any further matters in the CCAA Proceedings.

6. Unaffected Creditors shall not be required to participate in the Claims Procedure in respect of their Unaffected Claims. The Monitor will not review or consider any Proof of Claim filed in respect of an Unaffected Claim.

7. The Monitor shall review all Proofs of Claim received by the Claims Bar Date and by no later than 11:59 p.m. on **April 21, 2008**, have notified each Creditor who has filed a Proof of

Claim as to whether such Creditor's Claim as set out therein has been revised or rejected, and the reasons therefor, by sending a Notice of Revision or Disallowance substantially in the form attached as **Schedule "C"** hereto. Where the Monitor does not send by such date a Notice of Revision or Disallowance to a Creditor who has submitted a Proof of Claim, the Applicant shall be deemed to have accepted such Creditor's Claim in the amount set out in the Proof of Claim.

8. Any Creditor who intends to dispute a Notice of Revision or Disallowance shall, by no later than 5:00 p.m. on the day that is ten (10) days after the delivery of the Notice of Dispute or Disallowance, serve a Notice of Motion on the Monitor seeking to appeal the Monitor's determination. The motion must be returnable for scheduling on **April 28, 2008**.

9. Where a Creditor that receives a Notice of Revision or Disallowance does not serve a Notice of Motion by the date required, the value of such Creditor's Claim shall be deemed to be as set out in the Notice of Revision or Disallowance.

Schedule "A"

NOTICE TO CREDITORS OF SAAN STORES LTD. – LES MAGASINS SAAN LTÉE

TAKE NOTE THAT SAAN Stores Ltd. – Les Magasins SAAN Ltée (the "Applicant") has filed a plan of compromise (the "Plan") pursuant to an Order of the Ontario Superior Court of Justice made February 29, 2008 (the "Order"). The Order provides for a procedure for the determination of all claims, contingent or otherwise, against the Applicant.

THE CLAIMS BAR DATE is 5:00 p. m. (Toronto time) on March 28, 2008. You must file a Proof of Claim by this date in order to participate in the Plan. Any creditor who has not received a Proof of Claim in the mail must contact the Monitor immediately to determine if they are an Affected Creditor and obtain a Proof of Claim. The Monitor can be contacted at:

**MINTZ & PARTNERS LIMITED
1 Concorde Gate
Suite 200
Toronto ON M3C 4G4**

**Attention: Anna Koroneos
Telephone: (416) 644-4432
Facsimile: (416) 644-4303
akoroneos@deloitte.ca**

HOLDERS OF AFFECTED CLAIMS who do not file a Proof of Claim by the Claims Bar Date will not be entitled to vote at any meeting of creditors regarding any plan of arrangement proposed by the Applicant or participate in any distribution provided for in the Plan of compromise to be filed by the Applicant

Schedule "B"

Proof of Claim

A. Particulars of Creditor:

- (1) Full Legal Name of Creditor:
- (2) Full Mailing Address of Creditor:
- (3) Telephone Number of Creditor:
- (4) Facsimile Number of Creditor:
- (5) E-mail Address of Creditor:
- (6) Attention (Contact Person):

B. Particulars of Original Creditor from Whom You Acquired Claim, if Applicable:

- (1) Have you acquired this Claim by assignment?

Yes [] No []

(if yes, attach documents evidencing assignment)

- (2) Full Legal Name of original creditor(s):

C. Claim:

I,, [*name of Creditor or authorized representative of the Creditor*], do hereby certify that I am a Creditor of/hold the position of of the Creditor and have knowledge of all the circumstances connected with the Claim described herein; and

The Creditor makes the following Claim (e.g. claims as at December 28, 2007) against SAAN Stores Ltd. – Les Magasins SAAN Ltée (the "Applicant"):

Claim Amount \$ _____

D. Particulars of Claim:

Is your claim secured?

Yes [] No []

The Particulars of the undersigned's total Claim are attached.

(Provide full particulars of the Claim and supporting documentation, including amount, description of transaction(s) or agreement(s) giving rise to the Claim, name of any guarantor(s) which has guaranteed the Claim, and amount of Claim allocated thereto, date and number of all invoices, particulars of all credits, discounts, etc. claimed, description of the security, if any, granted by the Applicant to Creditor or title retention arrangement with the Applicant and estimated value of such security or title retention arrangement).

THIS PROOF OF CLAIM MUST BE RETURNED TO AND RECEIVED BY THE MONITOR BY 5:00 P.M. (TORONTO TIME) ON THE CLAIMS BAR DATE (MARCH 28, 2008) AT THE FOLLOWING ADDRESS:

**MINTZ & PARTNERS LIMITED
1 Concorde Gate
Suite 200
Toronto ON M3C 4G4**

**Attention: Anna Koroneos
Telephone: (416) 644-4432
Facsimile: (416) 644-4303
akoroneos@deloitte.ca**

DATED at this day of, 2008.

Per: _____
Authorized Signing Officer

Schedule "C"

Notice of Revision or Disallowance

TO: *[insert name and address of creditor]*

MINTZ & PARTNERS LIMITED (the "**Monitor**"), has reviewed your Proof of Claim dated the ___ day of _____, 2008, and has revised or rejected your claim for the following reasons:

[Please see attached]

Subject to further dispute by you in accordance with the provisions of the Claims Procedure, your Claim will be allowed as follows:

| Claims as Filed | Affected Claim as Allowed |
|------------------------|----------------------------------|
| | |

If you intend to dispute this Notice of Revision or Disallowance, you must, no later than **ten (10) days after the delivery of this notice**, bring a Motion seeking to appeal the Monitor's determination by serving a Notice of Motion seeking to appeal the Monitor's determination. Your Motion must be returnable for scheduling on **April 28, 2008** and served on the Monitor at:

MINTZ & PARTNERS LIMITED
1 Concorde Gate
Suite 200
Toronto ON M3C 4G4
Canada

Attention: Hartley Bricks
Facsimile: (416) 644-4303

with a copy to:

KRONIS ROTSZTAIN MARGLES CAPPEL
25 Sheppard Avenue West
Suite 700
Toronto, ON M2N 6S6
Canada

Attention: Mervyn D. Abramowitz
Facsimile: (416) 225-3910

If you do not bring a Motion appealing, the value of your Claim shall be deemed to be as set out in this Notice of Revision or Disallowance.

DATED at Toronto, this _____ day of _____, 2008.

MINTZ & PARTNERS LIMITED

Per: _____
Authorized Signing Officer

TOR_LAW\67707154

APPENDIX "C"

SAAN Stores Ltd.
Cash Flow Projection for the Week-Ended Feb 24, 2008 to the Week-Ended April 27, 2008
(in \$ 000's)

| | Fcst 24-Feb | Fcst 2-Mar | Fcst 9-Mar | Fcst 16-Mar | Fcst 23-Mar | Fcst 30-Mar | Fcst 6-Apr | Fcst 13-Apr | Fcst 20-Apr | Fcst 27-Apr |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Sales | 1,385 | 1,793 | 1,540 | 1,638 | 2,053 | 2,121 | 1,791 | 1,796 | 2,851 | 2,148 |
| Deposits | 1,434 | 1,532 | 1,903 | 1,721 | 1,916 | 2,277 | 2,242 | 1,971 | 2,266 | 2,943 |
| Cash Flow Forecast | | | | | | | | | | |
| Operating bank balance | | | | | | | | | | |
| Opening bank balance | 231 | - | - | - | - | - | - | - | - | - |
| Draw from GMAC | 1,499 | 1,554 | 3,317 | 1,831 | 1,569 | 1,819 | 3,420 | 2,179 | 1,736 | 2,649 |
| | <u>1,730</u> | <u>1,554</u> | <u>3,317</u> | <u>1,831</u> | <u>1,569</u> | <u>1,819</u> | <u>3,420</u> | <u>2,179</u> | <u>1,736</u> | <u>2,649</u> |
| Disbursements | | | | | | | | | | |
| Sales taxes | (143) | - | - | - | - | (242) | - | - | - | (915) |
| Interest & Fees - GMAC | - | - | - | - | - | - | - | - | - | - |
| Payroll - Stores | (376) | (500) | (467) | (259) | (452) | (259) | (425) | (450) | (450) | (450) |
| Payroll - Head Office and DSM | - | - | - | (201) | - | (201) | - | - | - | - |
| Rent, CAM, Insurance and Taxes - Stores | (4) | - | (1,160) | (15) | - | - | (1,050) | (10) | (10) | (10) |
| Rent, CAM, Insurance and Taxes - Head Office | - | - | (34) | - | - | - | (34) | - | - | - |
| Utilities - Stores | (68) | (56) | (56) | (56) | (56) | (56) | (56) | (56) | (56) | (56) |
| Other Expenses - Stores | - | (10) | (30) | (30) | (30) | (30) | (30) | (30) | (30) | (30) |
| Other Expenses - Head Office and DSM | (37) | (40) | (40) | (40) | (40) | (40) | (40) | (40) | (40) | (40) |
| Advertising | - | - | (17) | - | - | - | (110) | - | - | - |
| Warehousing and Logistics | (161) | (160) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) |
| Merchandise Purchases | (863) | (692) | (1,192) | (954) | (715) | (715) | (1,399) | (1,317) | (932) | (905) |
| Professional Fees | (78) | (96) | (101) | (76) | (76) | (76) | (76) | (76) | (18) | (43) |
| Restructuring costs re: New CCAA Proposal First Proposal to creditors (3rd installment) | - | - | - | - | - | - | - | - | - | - |
| | <u>(1,730)</u> | <u>(1,554)</u> | <u>(3,317)</u> | <u>(1,831)</u> | <u>(1,569)</u> | <u>(1,819)</u> | <u>(3,420)</u> | <u>(2,179)</u> | <u>(1,736)</u> | <u>(2,649)</u> |
| Closing GL balance | - | - | - | - | - | - | - | - | - | - |
| Collateral | 27,128 | 27,246 | 27,344 | 27,291 | 26,944 | 26,578 | 27,094 | 27,241 | 26,763 | 26,527 |
| Borrowing base | 25,000 | 25,000 | 27,344 | 27,291 | 26,944 | 26,578 | 27,094 | 27,241 | 26,763 | 26,527 |
| Loan Balance | | | | | | | | | | |
| Opening loan balance | 24,764 | 24,829 | 24,982 | 26,396 | 26,506 | 26,160 | 25,845 | 27,023 | 27,230 | 26,701 |
| Draw | 1,499 | 1,554 | 3,317 | 1,831 | 1,569 | 1,819 | 3,420 | 2,179 | 1,736 | 2,649 |
| Interest & Fees | - | 131 | - | - | - | 144 | - | - | - | - |
| Repayment | (1,434) | (1,532) | (1,903) | (1,721) | (1,916) | (2,277) | (2,242) | (1,971) | (2,266) | (2,943) |
| Loan balance | <u>24,829</u> | <u>24,982</u> | <u>26,396</u> | <u>26,506</u> | <u>26,160</u> | <u>25,845</u> | <u>27,023</u> | <u>27,230</u> | <u>26,701</u> | <u>26,406</u> |
| Availability (Borrowing base - Loan) | <u>171</u> | <u>18</u> | <u>948</u> | <u>785</u> | <u>785</u> | <u>733</u> | <u>71</u> | <u>10</u> | <u>62</u> | <u>121</u> |