RSM Richter Inc.

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[TRANSLATION]

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
COURT NO. : 500-11-022070-037

SUPERIOR COURT

(Sitting as Tribunal designated under the *Companies' Creditors Arrangement Act*)

IN THE MATTER OF THE PLAN OF COMPROMISE AND ARRANGEMENT OF:

Les Boutiques San Francisco Incorporées, Les Ailes de la Mode Incorporées and Les Éditions San Francisco Incorporées, companies duly constituted under the laws of Canada, having their head office at:

50 de Lauzon Street
Boucherville QC J4B 1E6

Petitioners

– and –

RSM RICHTER INC.

Monitor

REPORT OF THE DESIGNATED MONITOR ON THE STATE OF THE PETITIONERS' FINANCIAL AFFAIRS AND THE PLAN OF COMPROMISE AND ARRANGEMENT
(Section 11.7(3) (b) (ii) of the *Companies Creditors' Arrangement Act*)

I. Introduction

1. On June 7th, 2004, Les Boutiques San Francisco Incorporées ("BSF") and Les Ailes de la Mode Incorporées ("Les Ailes") et Les Éditions San Francisco Incorporées ("Les Editions") (hereinafter referred to collectively as the "Petitioners") filed a Plan of Compromise and Arrangement ("Plan") with the Superior Court of Quebec ("Court") in accordance with the provisions of the *Companies' Creditors Arrangement Act* ("CCAA") and the orders rendered by the Court.

2. On December 17, 2003, the Petitioners filed a Motion for the issuance of an initial order in accordance with the provisions of the CCAA. On that date, Mr. Justice Clement Gascon issued an Initial Order (hereinafter the "Initial Order") appointing Richter & Associés, now known as RSM Richter Inc., *inter alia* as Monitor (the "Monitor"). The Initial Order has been renewed and amended successively and the Stay of Proceedings against the Petitioners was extended until July 30, 2004.

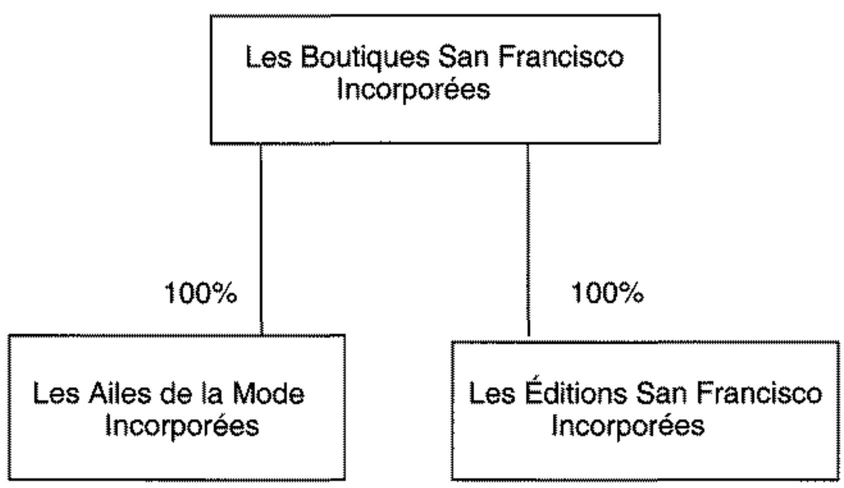
3. In order to assist the creditors in their assessment of the Plan, which will be subject to a vote at a Meeting of Creditors to be held July 5, 2004, the Monitor hereby submits its report on the state of the Petitioners' financial affairs and the Plan.

4. All amounts are stated in Canadian currency unless noted otherwise.

5. We would caution the Court and the creditors that the Monitor has not conducted an audit or an investigation of the books and records of the Petitioners. Accordingly, we cannot provide an opinion regarding the accuracy or completeness of the information contained in this report. The information included in this report has been extracted from books and records that have been made available to us as well as from discussions with the Petitioners' Management.

II. Background

6. The Petitioners' business consists of the retail sale of apparel and accessories through stores located primarily in the province of Québec, as well as in Ontario. The corporate structure of the Petitioners can be summarized as follows:



7. Les Boutiques San Francisco Incorporées is a public company whose shares are traded on the Toronto Stock Exchange.

8. Prior to the issuance of the Initial Order, BSF operated 112 stores under six (6) banners, detailed as follows:

Banner	Number of Stores	Number of Employees
San Francisco (and New York New York)	36	357
Bikini Village	38	279
San Francisco Maillots	20	164
Victoire Delage / Moments Intimes	18	215
Total	**112**	**1,015**

9. As well, prior to the issuance of the Initial Order, Les Ailes operated four (4) department stores, that offered merchandise similar to that available in most of its other banner stores, as well as complementary departments and products including: fashion accessories; fragrances; cosmetics; home décor; linen; kitchen articles; stationery; gift ideas; and gourmet products. The stores also incorporated restaurants, and hair / beauty salons. The following is a summary of the Les Ailes locations prior to the reorganization:

Les Ailes	Area (square feet)	Number of Employees
Brossard	81,700	336
Laval	63,900	319
Sainte-Foy	99,000	355
Montréal Downtown	223,000	607
Total		**1,617**

10. Les Éditions ceased operations in May 2003.

11. The Petitioners' head office is located at 50 de Lauzon Street in Boucherville, Québec, and the warehouse is located at 1250 Nobel Street in Boucherville, Québec.

12. The Petitioners' management attributes its financial difficulties to several factors including the following:

- During fiscal year 2000, Les Ailes undertook an expansion plan which included the opening of stores in Ottawa, Pointe-Claire and downtown Montréal. Significant time and money was spent in the construction of the Ottawa and Pointe-Claire stores; the Ottawa store was closed within a year of its opening while the Pointe-Claire store never opened. The downtown Montréal store opened in August 2002 following significant financial investments, which drained the financial resources of the Petitioners. Despite the Petitioners' efforts, the downtown store did not achieve the anticipated performance prior to the current restructuring;

- Two (2) banners, Frisco and L'Officiel, which had been underperforming and draining financial resources, were eventually sold during 2003;

- Several stores, under various banners, were under-performing and, as a result, were closed in 2003;

- BSF was providing financial support to Les Boutiques West Coast Incorporées (hereinafter "West Coast"), in which it had a 50.1% ownership. West Coast went Bankrupt in 2003 after BSF withdrew its financial support. As a result of this Bankruptcy, BSF lost approximately $7 million.

13. During 2003, the Petitioners implemented an informal restructuring plan which included the closure of unprofitable stores, the disposal of the previously mentioned unprofitable banners and certain cost-cutting measures, including the reduction of the work force from approximately 4,200 to 2,500 employees. Notwithstanding these measures, the Petitioners remained unprofitable, thereby requiring the further restructuring described later in this report.

III. Historical Financial Results

14. The financial information contained herein essentially emanates from the Petitioners' unaudited consolidated financial statements for the fiscal quarter immediately preceding the issuance of the Initial Order and for the corresponding period in the prior year. This information is presented for discussion purposes and to assist the reader in assessing the current financial situation of the Petitioners. We reiterate that we make no representation and give no guarantee as to the accuracy or the completeness of the financial information contained in this report.

15. We have summarized the Petitioners' unaudited consolidated results for the third quarter ended November 1, 2003 and the corresponding period in the prior year, as follows:

Les Boutiques San Francisco Incorporées
Unaudited Consolidated Statement of Earnings

	Three months ended		Nine months ended	
(In thousands of dollars)	Nov. 1, 2003	Nov. 2, 2002	Nov. 1, 2003	Nov. 2, 2002
Net sales	$ 43,417	$72,031	$147,105	$191,069
Cost of goods sold, operating and admin. expenses before undernoted items	44,943	68,705	144,171	182,651
Interest	737	622	2,195	1,263
Amortization	2,598	3,703	7,725	9,527
Restructuring costs	38,190	0	36,391	0
Income taxes and other	124	(160)	487	(1016)
	86,592	72,870	190,969	192,425
Net loss	**$(43,175)**	**$ (839)**	**$(43,864)**	**$ (1,356)**

16. Consolidated sales for the third quarter were $43.4MM compared to $72MM in the prior year. The decline in sales is primarily due to the closure in the quarter of the Les Ailes store located in Bayshore shopping center, Ottawa and the sale of underperforming banners: Frisco, L'Officiel, and West Coast. BSF also closed seven (7) Bikini Village stores at the beginning of the third quarter.

17. BSF incurred a consolidated net loss of $43.2MM in the third quarter ended November 1, 2003, compared to a net loss of $839K in the third quarter of the prior year ended November 2, 2002.

18. For the nine (9) month period ended November 1, 2003, net consolidated sales were $147.1MM, compared to $191.1MM for the corresponding period in the prior year. BSF recorded a consolidated net loss of $43.9MM for the nine (9) month period ended November 1, 2003, compared to a net loss of $1.4MM for the same period ended November 2, 2002.

19. In the third quarter, given the operating losses incurred, BSF recognized a loss in the value of its capital assets of $23.6MM, of which $22.9MM related to the Les Ailes Montreal downtown store. In addition, BSF also wrote-off previously capitalized store-opening expenses and other current assets amounting to $2.9MM, of which $1.8MM related to the Les Ailes downtown store. BSF also subjected goodwill to impairment tests, leading to the recognition of a loss in value of goodwill of $11.7MM for the period. Accordingly, the loss in value of assets recognized in the quarter amounted to $38.2MM.

20. The Petitioners' unaudited consolidated balance sheet as of November 1, 2003 reflected the following:

Les Boutiques San Francisco Incorporées
Unaudited Consolidated Balance sheet
As at November 1, 2003

(In thousands of dollars)

Assets	
Current assets	
Cash and equivalent	$ 5,126
Accounts receivable	1,235
Inventories	39,971
Prepaid and others	2,738
	49,070
Capital assets	31,831
Other assets	296
	$81,197
Liabilities and Shareholders Equity	
Current liabilities	
Accounts payable and accruals	$48,534
Current portion of long-term debt	18,595
	67,129
Long-term debt	9,195
Future income taxes	1,306
Preferred shares	4,000
	81,630
Shareholders equity (deficit)	(433)
	$81,197

IV. Senior Executive and Board Members Resignations and Chief Restructuring Officer ("CRO") Appointment

21. On December 18, 2003, Mr. Paul-André Guillotte resigned as a member of the Board of Directors and as Chairman of the Audit Committee. Mr Gaétan Frigon replaced Mr. Guillotte as Chairman of the Audit Committee.

22. On December 29, 2003, Mr. Pierre Hébert resigned as a member of the Board of Directors and Mr. Sylvain Toutant resigned as President and Chief Executive Officer, and as a member of the Board of Directors.

23. Following the above-noted resignations, Mr. Gaétan Frigon was appointed Chief Restructuring Officer (the "CRO"), with the responsibility of preparing an operational restructuring plan ("Restructuring Plan") and developing the Petitioners' Plan.

24. Furthermore, the services of Mr. Jean-Claude Gagnon FCMC, FCA and Mr. Laurent Mériaux were retained to act, during the restructuring period, as Chief Operating Officer and Chief Financial Officer, respectively.

25. The three (3) vacant positions on the Board of Directors were filled through the appointments of Mr. Pierre Marchessault on January 19, 2004 and Messrs Michel Cadrin and Richard Soly on March 9, 2004.

V. Operational Restructuring Plan ("Restructuring Plan")

26. Further to the Initial Order, the CRO and the Petitioners, in cooperation with the Monitor, undertook an analysis of the Petitioners' various business units. This analysis enabled the Petitioners to identify the key strengths and weaknesses of the business units and led, in conjunction with the Monitor, to the development of the Restructuring Plan.

A) Outline of the Restructuring Plan

27. The objective of the Restructuring Plan presented to the Court on January 15, 2004 was for the Petitioners' to return to profitability, which required the implementation of a Plan of compromise and arrangement.

28. The Restructuring Plan focused on two (2) core businesses for which the Petitioners' have a strong market presence, namely:
    - Les Ailes de la Mode;
    - The swimwear division (San Francisco Maillots and Bikini Village).

29. The above decision was largely supported by the following:

- The Les Ailes department-store chain is a leading Québec fashion-apparel retailer with proven success in smaller markets (i.e. suburbs);
- The Bikini Village and San Francisco Maillots banners have a 50% share of the Québec swimwear market and a 20% share of the remainder of the Canadian swimwear market.

30. The Petitioners decided to dispose of non-core business units (San Francisco and Victoire Delage/Moments Intimes) on a going-concern basis in order to maximize the intrinsic value of these banners. The reasons behind this decision are summarized as follows:

- The unprofitable San Francisco banner did not evolve with the marketplace and as such had lost market share. The banner was unprofitable and required significant investments in leaseholds and marketing in order to return to profitability;
- The Victoire Delage and Moments Intimes banners did not have sufficient buying power to compete effectively in the lingerie sector.

31. In order to return the Les Ailes Montreal downtown store to profitability, it was decided to downsize the store to approximately 75,000 sq. ft. on two (2) levels and to eliminate certain unprofitable departments.

32. In order to allow for the renovation and reconfiguration of the store, Les Ailes planned for a liquidation sale of the excess inventories.

33. The Restructuring Plan also provided for the sale of Petitioners' head office building (44,000 sq. ft.) and the relocation into existing available office space (18,000 sq. ft.) at its Les Ailes Brossard store.

34. The funds generated from the above-noted disposal of non-core business units, redundant assets and inventory liquidations were to be used to reduce the Bank Syndicate term loan.

35. Furthermore, the Restructuring Plan provided for significant cost-cutting measures (approximately $8.5MM on an annual basis) resulting from the rationalisation of the remaining administration and warehousing functions and the downsized operations.

36. The Restructuring Plan included a search process for working-capital financing.

37. An important aspect of the Restructuring Plan was the eventual recapitalization of the business, concurrent or subsequent to the Plan of compromise and arrangement.

B) Implementation of Restructuring Plan

1) Cost-cutting measures

38. Commencing in January, 2004, the Petitioners' accomplished the following:

- Rationalization of head office functions, which resulted in the reduction of 88 head office positions, representing annual savings of $3.7MM;
- Rationalization of non-salary head office expenses and distribution center expenses resulting in estimated savings of $1.7MM in F2004 ($4.5MM forecasted in F2005);
- Conversion of restaurant and hair dressing operations in the Les Ailes stores into third party concessions;
- Rationalization of 282 sales and purchasing positions at Les Ailes pursuant to the reconfiguration of the Montreal downtown store and the streamlining of the sales and purchasing functions.

2) Repositioning of the Les Ailes stores

39. Commencing in January 2004, Les Ailes began closing underperforming departments and phasing out underperforming merchandise lines in each of its stores.

40. Management developed a plan to reconfigure the layout of the Les Ailes Montreal downtown store to allow the best performing departments to be concentrated on two (2) floors and to preserve the cosmetics and perfume aisle (Ste Catherine St. entrance).

41. On January 23, 2004, Les Ailes issued notices to sub-lessees of the downtown store, to vacate their premises, situated on the two top floors of the store.

42. In order to permit the reduction of the floor space at the downtown store, Les Ailes began a planned liquidation of excess merchandise on January 29, 2004, continuing through to the end of April, 2004, which generated sales in excess of $5.0MM.

43. The Restructuring Plan originally provided for the temporary closure of the Les Ailes Montreal downtown store during the months of May, June and July, 2004 in order to allow for the renovations and reconfiguration of the store. The Petitioners' management, however, reworked the floor plan in order to avoid the temporary closure of the store. In so doing, the Petitioners' management attempted to maintain the goodwill generated from the store liquidation sale. In addition, by eliminating the need for a temporary store closure, Les Ailes did not need to lay off employees and avoided the risk that these employees would not be available for the reopening of the store.

3) Disposal of non-core business units

i) Boutiques San Francisco Banner

44. On February 13, 2004, further to a Court order, BSF sold the assets relating to 33 of the 36 San Francisco stores, including inventory, to Boutique Marie Claire Inc., for a total of $3.2MM (before taxes). The selling price obtained was higher than the estimated proceeds of a liquidation of the assets and higher than similar recent transactions in the retail sector.

45. Pursuant to the transaction, the purchaser offered employment to 301 employees, representing virtually all of the employees of the banner.

46. Lease repudiation notices were sent on February 19, 2004 to the landlords of two (2) of the San Francisco stores excluded from the above-mentioned transaction and the stores were closed on February 28, 2004.

47. In regard to the third store not purchased by Boutique Marie Claire, Inc., the San Francisco Ste. Catherine street store, BSF sold the store assets to La Senza Corporation, for approximately $415K(plus taxes) on February 26, 2004 pursuant to a Court Order granted on February 23, 2004.

ii) Victoire Delage/Moments Intimes Banners

48. BSF sold the assets relating to the Victoire Delage/ Moments Intimes banners to Ace Style Boutique Inc for $1,640,0000 (prior to adjustments) on March 9, 2004, pursuant to a Court Order granted on February 27, 2004 authorizing the sale. The selling price obtained was higher than the estimated proceeds of a liquidation of the assets and higher than similar recent transactions in the retail sector.

49. Pursuant to the transaction, the purchaser offered employment to 135 employees, representing virtually all of the employees of the banner.

4) Sale of redundant assets

50. Certain redundant assets, including store fixtures and equipment of the Les Ailes downtown stores as well as distribution center assets, were made available for sale to the public on March 4, 2004.

5) Closure of under-performing stores

51. BSF closed one underperforming Bikini Village store (Westmount Mall, London, Ontario) on March 5, 2004, pursuant to a lease repudiation notice sent on February 27, 2004.

52. The remaining stores that the Petitioners' management had initially slated to be closed were instead sold as part of the transactions noted above.

6) Search for financing

53. Further to the Initial Order, the Petitioners, in conjunction with the Monitor, began approaching financial institutions considered most likely to be interested in financing the Petitioners' operations.

54. The institutions contacted included chartered Banks as well as asset-based lenders.

55. At the time of the writing of this report, the group of investors have received a number of financing offers and their intention is to finalize the financing, immediately following the creditors' approval of the Plan, so that financing is in place by August 2004.

VI. Recapitalization of the Business

A) Process

56. As previously mentioned, the Restructuring Plan provided for a recapitalization of the business concurrent with, or subsequent to, the Plan of compromise and arrangement.

57. A data room containing information pertinent to potential investors was prepared by the Petitioners' management in collaboration with their legal counsel and the Monitor.

58. On February 22, 2004, the Petitioners' created an Independent Committee of independent directors of its Board ("Independent Committee"), responsible for (i) supervising the recapitalization of the Petitioners, (ii) analyzing all recapitalization offers received by the Petitioners and (iii) issuing a recommendation to the Board of Directors in this regard.

59. Initially, the Independent Committee and/or its legal counsel met with parties having expressed an interest in the recapitalization of the business in order to inform them that a data room was available for consultation, subject to the execution of a confidentiality agreement.

60. Conscious of the need to consider several alternatives in order to maximize the value for the creditors, the Independent Committee decided that it would be advisable to contact parties interested in acquiring all or some of the assets of the Petitioners, while continuing the search for parties interested in the recapitalization of the Petitioners.

61. Furthermore, the Independent Committee decided that in order to ensure that any offers received were the best under the circumstances, it would be in the interest of all parties that the search for investors and potential purchasers as well as the offer process be structured in such a manner that all investors and potential purchasers would have an equal opportunity to make an offer.

62. Accordingly, on March 22, 2004, the Independent Committee awarded Richter Corporate Finance, a division of RSM Richter Inc., a mandate to develop and control the process of soliciting offers from third parties interested in participating in the recapitalization or, alternatively, in the acquisition of certain assets of the Petitioners.

63. On March 22, 2004, the Independent Committee also retained the services of PricewaterhouseCoopers Corporate Finance Inc. ("PWC") in order to (i) provide financial advice regarding offers to be received from third parties, as well as regarding the optimal capital structure of the business once the restructuring is completed and (ii) provide advice to the Independent Committee, the Board of Directors and the Court as to the equitable nature, from a financial standpoint, of the offers received.

64. In the days following, Richter Corporate Finance, in conjunction with the Petitioners' Management, prepared a list of potential investors and purchasers that were most likely to be interested in participating in a recapitalization of the Corporation or in acquiring certain assets of the Petitioners. The list was subsequently approved by the Independent Committee.

65. Richter Corporate Finance prepared a summary document ("Investment Opportunity") describing the activities of Les Boutiques San Francisco Incorporées, including its San Francisco Maillots and Bikini Village divisions, as well as its wholly-owned subsidiary, Les Ailes de La Mode Incorporées.

66. Commencing March 26, 2004, Richter Corporate Finance transmitted the summary document to 52 potential interested parties.

67. Richter Corporate Finance subsequently communicated with virtually all of the potential interested parties to assess their interest in participating in the process and their willingness to enter into a confidentiality agreement, which would allow access to the data room.

68. Commencing April 8, 2004, Richter Corporate Finance issued a copy of the bid procedures to all interested parties having received a copy of the confidentiality agreement. The procedures indicated, among other things, that offers were to be submitted to Richter Corporate Finance in a sealed envelope no later than 5:00pm, April 19, 2004.

69. A number of interested parties executed confidentiality agreements and had access to the data room.

70. On April 13, 2004, the Petitioners' Board of Directors appointed Mr. Richard Soly to the Independent Committee. Mr. Soly joined the two existing members of the Committee, namely Mr. Pierre Marchesseault, president of the Committee, and Mr. Lucien Perron.

71. Throughout the process, Richter Corporate Finance initiated follow-ups with the various potential investors/acquirers that had not yet responded in order to assess their interest in pursuing the presented opportunity.

72. It is important to note that during the period April 6 to April 13, 2004, the interest level displayed by potential investors / purchasers increased significantly and that many of the parties executed confidentiality agreements or requested a copy of same.

73. Furthermore, many of the parties had indicated that they were concerned by the limited time-frame to submit their offer.

74. The Independent Committee was advised that certain interested parties had expressed their interest late in the process and that many had indicated that the time-frame to submit their offer was very limited.

75. As a result, on April 15, 2004, acting upon a recommendation from Richter Corporate Finance and the collaboration of the Monitor, the Independent Committee extended the deadline for submission of offers by one week. This decision was taken in order to ensure a fair and equitable process for all of the parties having demonstrated an interest during the solicitation process, to increase the likelihood of receiving numerous and complete offers, and in order to increase the likelihood of maximizing the value of the offers ultimately realized.

76. The deadline for submission of offers was therefore extended to 5:00pm, April 26, 2004. The offers were to remain valid and irrevocable until May 3, 2004. All of the parties that had received the bidding procedures were advised by email on April 15, 2004 of the new deadline for submission of offers.

77. On April 26, 2004, seven (7) offers were received at the Montreal offices of Richter Corporate Finance.

78. A meeting of the Independent Committee was held on the evening of April 26, 2004, for the opening of the offers. Representatives of the Monitor, Richter Corporate Finance, PWC, the Petitioners' legal counsel as well as the CRO were present.

79. In accordance with the terms of their mandate, PWC proceeded with an analysis of the offers received. This analysis was presented to the Independent Committee at a meeting held on April 29, 2004.

80. During this meeting it became apparent to the Independent Committee that clarifications of certain offers were needed to allow for a more precise analysis, to facilitate the comparison of the various offers, and in order to allow the Independent Committee to make an appropriate decision.

81. Pursuant to the meeting, two (2) of the parties having submitted offers were informed in writing of the Independent Committee's decision not to retain their offers.

82. During the period May 3 to May 5, 2004, meetings were held with the five (5) parties whose offers were considered to be the most interesting by the Independent Committee. The goal of the meetings was to clarify certain aspects of the offers received. Representatives of Richter Corporate Finance and the Petitioners' legal counsel, as well as the CRO, met with the five (5) parties.

83. During the meetings, the Independent Committee invited the five (5) parties to submit offers by May 5, 2004, which would include the clarifications discussed during the meetings.

84. Four (4) of the five (5) parties submitted clarified offers. The fifth party notified Richter Corporate Finance in writing on May 6, 2004 of its decision not to submit a clarified offer and indicated its decision to withdraw its April 26, 2004 offer.

85. The Independent Committee met on May 6, 2004 at which PWC was invited to present its analysis of the four (4) clarified offers.

86. Following the meeting, the Independent Committee recommended the acceptance of an offer of recapitalization (the "Recapitalization Offer") made by a group of investors ("the Group of Investors") composed of business persons including the Petitioners' founder, Mr. Paul Delage-Roberge, the whole subject to certain clarifications and additional modifications requested from this Group.

87. The Recapitalization Offer provided for the recapitalization of BSF and Les Ailes by way of a private placement of a minimum of $15.4MM and provided for a payment of $15.6MM to creditors of the Petitioners as part of a Plan of compromise and arrangement in accordance with the provisions of the CCAA.

88. On May 10, 2004, the Independent Committee met again and made the decision to formally recommend to the Petitioners' Board of Directors that it accept the offer made by the Group of Investors. The Board of Directors subsequently accepted the offer as they considered it to be the best offer for all stakeholders, specifically the creditors of the Petitioners'. It is important to note that neither Mr. Paul Delage-Roberge nor Mrs. Camille Roberge, Directors of the Petitioners, attended the Board meeting or participated in the process.

B) Description of the Transaction

89. The Recapitalization Offer consists of a private placement involving the purchase of units of BSF (up to one third of the amounts subscribed) and unsecured debentures of BSF (up to two thirds of the amounts subscribed). The minimum amount of the placement is $15.4 million.

90. The unit subscription price will be $0.50 per unit for a total of $5.1 million. Each unit will be composed of one Class B Subordinated Share of BSF ("Subordinated Share") and one purchase warrant for a Subordinated Share. Each purchase warrant will entitle its holder to purchase one Subordinated Share at any time within 24 months of the issuance thereof, at an exercise price of $0.60 per share in the first year and $0.70 per share in the second year.

91. The $10.3 million in debentures will be for a term of four years and will be unsecured, contrary to what was initially offered and reported by BSF, will bear interest, as of the first month following the issuance thereof at a per annum rate of 10% calculated and payable monthly. They will be redeemable at the discretion of BSF after the third anniversary of their issuance and will be convertible at the discretion of the holder at any time up to maturity, in whole or in part, into Subordinated Shares at a conversion price of $0.50 per share.

92. Under the terms of the placement, and assuming complete conversion of the debentures, BSF will issue a total of 30,880,000 Subordinated Shares representing approximately 71.6% of all shares issued and outstanding further to implementation of the private placement (including the Subordinated Shares that make up the units and the Subordinated Shares underlying the debentures, but excluding the Subordinated Shares to be issued further to the exercise of the warrants). As of the closing date of the placement, the Group of Investors, together with Paul Delage-Roberge, will hold a majority of the shares of BSF.

93. The Petitioners intend on applying the proceeds of the private placement to repay the outstanding balance of the secured loan granted by the Banking syndicate and to pay the first instalment of the dividends to the creditors of BSF and of Les Ailes, payable after Plan ratification.

94. The Recapitalization Offer was conditional upon an agreement between BSF, Les Ailes and Ivanhoe Cambridge ("Ivanhoe") regarding the Complexe Les Ailes in downtown Montreal. On June 4, 2004, an agreement was reached and accordingly, the condition was met.

95. On May 28, 2004, the Toronto Stock Exchange conditionally approved the listing of the Class B Subordinated Shares to be issued to the Group of Investors in accordance with the terms of the Recapitalization Offer.

96. On June 7, 2004, the Petitioners received a written confirmation that $16.4MM was placed in trust with the Group of Investors' legal counsel, Brouillette, Charpentier, Fortin, pending the closing of the private placement.

97. The transaction is conditional on, among others, the approval of the Plan by the creditors as well as ratification of the Plan by the Court.

VII. Other Proceedings

A) Director and Officers Liability Insurance

98. The Petitioners took the necessary measures to maintain the Directors and Officers Liability insurance coverage. However, the Petitioners consider that the insurance policy submitted by the St-Paul Guarantee Insurance Company does not respect the terms of the Initial order.

99. On April 20, 2004, BSF filed a motion in Court to ensure the adherence to the Initial Order by the insurance company, St. Paul Guarantee Insurance Company. The motion asked for the Court to declare null and void, Rider 4 of the Insurance Policy and to declare a certain article of the insurance policy non-applicable. These sections of the policy relate to the exclusion of claims arising after the Initial Order, pursuant to the Petitioners' insolvency. The Motion is scheduled to be heard in Court on June 11, 2004.

B) Claudel Lingerie and Vanessa Lingerie

100. On March 12, 2004, Claudel Lingerie and Vanessa Lingerie ("CL & VL") filed a motion in Court for property rights and requesting the payment of amounts due under these rights. CL & VL requested payment of an amount of $108,260.24 from the Petitioners for alleged consignment merchandise sales. The Petitioners and the Monitor contested this Motion and a hearing was held on April 23, 2004. CL & VL's motion was dismissed by Mr. Justice Clement Gascon on May 26, 2004.

C) Place Rosemère

101. On March 24, 2004, Place Rosemère filed a motion in Court claiming rent arrears in the amount of $87,283.68 allegedly due from BSF in respect of a lease in a shopping centre in Rosemère, Quebec. The motion was settled out of Court.

D) Geetex trading Inc.

102. On March 17, 2004, BSF filed a Motion in Court against Geetex Trading Inc. ("Geetex") to recover monies owed ($22,956.85) by Geetex as a result of the return of defective merchandise to Geetex previously paid for by Les Ailes. The motion was settled out of Court.

E) Intercompany Advances

103. As indicated in the 6th Monitor's Report dated April 22, 2004, the Petitioners continued the practice whereby the parties, in certain instances, can pay some of the operating costs (i.e., salaries, interest, etc.) incurred by each other. A diligent accounting of these transactions is maintained in this regard.

104. Furthermore, the Petitioners honor each others' loyalty program rewards, gift certificates and credit notes, all in accordance with the contractual obligations to customers.

105. BSF has paid for all of the professional fees incurred in connection with the CCAA filing.

106. BSF similarly incurs all common administrative and distribution center expenses and charges a management fee to Les Ailes of approximately $100,000 per week representing its estimated share of these expenses.

107. As of May 29, 2004, Les Ailes owed approximately $3.6MM to BSF for its share of the common administrative expenses and its share of the professional fees incurred in connection with the CCAA filing since March 20, 2004, as well as for operating disbursements and transactions relating to customer loyalty programs subsequent to January 31, 2004.

108. Based on the cash flow prepared by management in relation to the CCAA proceedings, the funds generated by Les Ailes from operations will not be sufficient to reimburse the $3.6MM due to BSF or the amounts that will be incurred by BSF and due by Les Ailes for future common overhead and distribution costs, unless BSF advanced the necessary funds to Les Ailes.

109. To ensure that any such advances are best protected under the circumstances, the Petitioners requested that the Court allow BSF to advance funds to Les Ailes (up to a maximum of $5MM), that these advances be secured by all of the assets of Les Ailes and that such security rank immediately after the Bank syndicate term loan.

110. On June 4, 2004, Mr. Justice Clement Gascon issued an order granting the Petitioners' request.

VIII. Current Financial Results

111. The Petitioners' unaudited statement of earnings for the three-month period ended May 1, 2004 is summarized as follows:

Les Boutiques San Francisco Incorporées
Unaudited Statement of Earnings [1]

	Consolidated [2]		BSF [2]		Les Ailes	
	Three months ended		Three months ended		Three months ended	
(In thousands of dollars)	May 1, 2004	May 3, 2003	May 1, 2004	May 3, 2003	May 1, 2004	May 3, 2003
Net sales	$26,758	$42,642	$ 9,176	$21,612	$18,716	$27,436
Cost of goods sold, operating and admin. expenses before under noted items	27,885	41,569	9,047	21,763	20,058	27,373
Interest	490	564	(447)	215	937	475
Amortization	1,104	2,084	518	1,076	586	1,391
Restructuring costs	2,666	--	947	--	1,931	--
Income taxes and other	46	280	26	(413)	20	25
Loss from discontinued operations net of related income taxes	406	1,075	--	--	--	--
	32,597	45,572	10,091	22,641	23,532	29,264
Net loss	$ (5,839)	$ (2,930)	$ (915)	$ (1,029)	$ (4,816)	$ (1,828)

(1) For presentation purposes, statement of earnings for companies other that BSF and Les Ailes have not been presented as they are not considered meaningful.

(2) Operating results of BSF include sales and expenses relating to discontinued operations which are grouped under the heading "loss on discontinued operations" in the consolidated statement of earnings.

112. The net loss of $5.8MM for the first quarter ended May 1, 2004 of the current fiscal year includes $3.0MM of restructuring costs and losses from discontinued operations, compared to a net loss of $2.9MM for the same period in the prior year.

113. Net sales for continuing operations were $26.8MM for the three months ended May 1, 2004, a 37% decrease over the $42.6MM of sales in the corresponding period in the prior year. The decline in sales was primarily due to the sale or closure of certain banners, including L'Officiel, Frisco, West Coast and the closure of one Les Ailes store (Bayshore). Sales were also impacted by lower inventory levels during the restructuring period.

114. The Petitioners' unaudited balance sheets as of May 1, 2004 reflect the following:

Les Boutiques San Francisco Incorporées
Unaudited Balance Sheet
as at May 1, 2004

(In thousands of dollars)	Consolidated	BSF	Les Ailes	Les Éditions
Assets				
Current assets				
Cash and short-term investments	$ 7,936	$ 5,059	$ 2,877	$ --
Accounts receivable	1,726	672	723	331
Inventories	17,755	4,432	13,675	--
Advance to related company	--	2,829	--	--
Prepaid expenses and others	969	422	547	--
	28,386	13,414	17,822	331
Loan to related company	--	37,040	--	4,410
Loan to related company (subrogated payments)	--	2,150	--	--
Capital assets	23,035	8,750	14,285	--
	51,421	61,354	32,107	4,741
Liabilities and Shareholders Equity				
Current liabilities				
Accounts payable and accruals	10,321	3,140	7,181	--
Payable to a related company	--	--	2,829	--
Current portion of long-term debt	10,593	1,562	9,031	--
	20,914	4,702	19,041	--
Long term debt – Ivanhoé	5,000	--	5,000	--
Due to related company	--	4,410	37,040	--
Due to related company (subrogated payments)	--	--	2,150	--
Amounts subject to the Plan				
- Suppliers and others – continued operations	33,965	4,221	29,684	60
- Suppliers and others – discontinued operations	5,379	5,379	--	--
- Liability component of debentures	5,058	5,058	--	--
- Preferred shares – Ivanhoé	4,000	4,000	--	--
	74,316	27,770	92,915	60
Shareholders equity (deficiency)				
- Share capital	24,308	24,308	1	1
- Equity component of convertible debentures	11,924	11,924	--	--
- (Deficit) Retained earnings	(59,127)	(2,648)	(60,809)	4,680
	(22,895)	33,584	(60,808)	4,681
	$51,421	$61,354	$32,107	$4,741

Cash and Equivalents

115. Includes cash and outstanding deposits relating to credit card sales.

Accounts Receivable

116. The accounts receivable include the following:

(In thousands of dollars)	Consolidated
Amounts receivable in connection with the credit card loyalty program	$ 300
Coop salaries	175
Deposits	215
Income taxes receivable	650
Other	386
	$1,726

117. In the event of a sale of assets, certain of these amounts may not be fully collectible. Accordingly, in such a scenario, the realization value of the receivables would be significantly less than book value.

118. Income taxes recoverable may be applied against amounts due by the Petitioners.

Inventories

119. Inventories are comprised of merchandise for resale and are carried net of a reserve for obsolescence. As of May 1, 2004, the cost of inventory was $14.6MM and $5.9MM for Les Ailes and BSF, respectively.

Prepaid and Others

120. Included in prepaid and others are the following:

(In thousands of dollars)	Consolidated
Merchandise in transit	$400
Taxes, insurance and other	569
	$969

121. Under a liquidation scenario, no value would be realized from the prepaid taxes insurance and others as these amounts would likely be applied against unbilled services rendered to date.

Capital Assets

122. Capital assets are comprised mainly of leaseholds, store fixtures and computer equipment, in addition to the head office building, which has a net book value of $2.5MM.

123. The Petitioners' management estimates that the fair market value of the building is in the range of $3MM to $3.5MM. The corresponding mortgage on the building is approximately $1.6MM as at May 1, 2004.

Liabilities

124. The exact amount of liabilities as at the date of the filing of the Plan will only be determined once the proofs of claim submitted by the creditors have been compiled, analyzed and accepted by the Monitor. At this time, we have not yet received a sufficient number of proofs of claim to assess the accuracy of the liabilities disclosed by the Petitioners' management.

125. All information pertaining to liabilities is therefore unverified and subject to variations.

126. Accounts payable and accrued liabilities reflected in the Petitioners' books and records as at May 1, 2004, are as follows:

(In thousands of dollars)	**Consolidated**
Employees	$ 2,442
Gift certificates and credit notes	3,136
Other payables	4,743
	$10,321

Long term debt and debentures

127. Long term debt and debentures are as following;

(In thousands of dollars)	**Consolidated**
Secured	
Bank syndicate term debt	$ 8,846
Mortgage on head office building	1,562
Term loan Cadillac Fairview	185
Ivanhoe term debt	5,000
	15,593
Unsecured debentures	16,982
	$32,575

128. The Monitor has retained the services of Davies Ward Phillips & Vineberg, which in the course of their mandate have confirmed the validity of the securities held by the Bank syndicate as guarantee for the term loan.

IX. Events Subsequent to the Initial Order of December 17, 2003

129. In accordance with the terms of the CCAA, we have monitored the business and financial affairs of the Petitioners since December 17, 2003. The relevant facts can be summarized as follows:

A) Operations

130. Since December 17, 2003, all efforts have been deployed in order to re-establish the Petitioners' profitability. Important budgetary concessions have been implemented and underperforming divisions have been sold.

131. The Les Ailes Montreal downtown store has been reduced to 75,000 sq. ft. on two floors and the repositioning of the Les Ailes stores has been realized, based on the previously prepared marketing study, which recommended that the stores focus on departments and merchandise categories having the highest contribution margins.

132. The underperforming banners have been sold.

133. Accordingly, management forecasts that the business will be profitable for the fiscal year ending January 31, 2006.

134. Unfortunately, given the Petitioners' substantial indebtedness, they cannot support the full debt burden and remain in operation. It is for this reason that the Plan has been submitted to the Petitioners' creditors.

135. In order to ensure that management and employees work together towards a common goal, a management committee was formed. This committee meets regularly so that its members are updated as to the business measures taken, or to be taken, as well as the results obtained.

136. Store employees receive a regular newsletter keeping them up to date on the restructuring results and the corrective measures taken.

137. The communication program, whose aim was to keep employees abreast of the progress achieved in the restructuring, helped reassure employees, improve morale and promoted employee retention.

138. Pursuant to the Initial Order and the Amended Initial Order, the Petitioners, at times accompanied by the Monitor, have continued to hold meetings with representatives of the Banking syndicate, the landlords, the debenture holders and other creditors and suppliers.

139. More specifically, since the issuance of the Amended Initial Order and notwithstanding the fact that many purchasing-related positions were eliminated, the Petitioners' employees have worked diligently to re-establish supplier relations in order to ensure an adequate flow of merchandise to the stores.

140. The Petitioners have maintained their client service levels and have continued to honour all customer loyalty programs, as well as credit notes and gift certificates redemptions.

141. It should be noted that since December 17, 2003, all suppliers have been paid on a COD basis and all restructuring costs have been paid.

142. Furthermore, the Bank syndicate term loan has been reduced by $9.5MM.

143. The Petitioners currently employ approximately 1,500 people.

B) Cash Flow

144. The Monitor has received the Petitioners' full cooperation and has had complete access to the Petitioners' place of business as well as to its books and records. The Monitor has put in place the necessary procedures to monitor the weekly cash receipts and disbursements, as provided for under the CCAA, and the Petitioners have submitted a weekly comparison of actual results versus the cash flow submitted in Court pursuant to the CCAA proceedings.

145. The Petitioners' unaudited statement of receipts and disbursements for the period December 17, 2003 to May 29, 2004 is as follows:

Les Boutiques San Francisco Incorporées
Les Ailes de la Mode Incorporées
and Les Editions San Francisco Incorporées [1]

Unaudited Statement of Receipts and Disbursements
From December 17, 2003 to June 5, 2004

(In thousands of dollars)	BSF	Les Ailes	Total
Sales receipts	$26,742	$49,643	$76,385
Sale of non-core business units and redundant assets	5,772	120	5,892
Reimbursement of expenses and management fees	2,405	--	2,405
Credit card reward program reimbursements and others	--	3,987	3,987
	34,919	53,750	88,669
Disbursements			
Purchases	8,687	20,767	29,454
Salaries, including employer costs	7,063	10,926	17,989
Selling, general and administration	11,984	9,524	21,508
Financial, incl. principal repayments on term loan	3,710	4,344	8,054
Sales taxes	2,141	3,331	5,472
Reimbursement of expenses and management fees	--	2,405	2,405
	33,585	51,297	84,882
Net receipts prior to under noted	1,334	2,453	3,787
Payment of letters of credit	(900)	(1,050)	(1,950)
Security deposits	(410)	(10)	(420)
Net receipts	24	1,393	1,417
Bank balance opening	732	1,438	2,170
Bank balance closing	**$ 756**	**$ 2,831**	**$ 3,587**

(1) Les Éditions has had no receipts or disbursements.

X. Plan of Compromise and Arrangement

146. The creditors have received a copy of the Plan of Compromise and Arrangement (attached to this report). As such, the creditors should refer to the official document for a complete legal description of the terms of the Plan. In the case of any discrepancy between the Plan and this summary, the Plan shall take precedence. For the purpose of this Report, we have employed the same terminology as defined and used in the Plan.

147. The Plan that is presented to the creditors, jointly by the Petitioners, is broken down into the following categories:

a) The secured creditors of one or the other of the Petitioners;
b) The unsecured creditors of BSF;
c) The unsecured creditors of Les Ailes;
d) The unsecured creditors of Les Éditions.

148. The Plan compromises only the claims of the unsecured creditors and excludes intercompany debt. It provides for the distribution of a fixed amount to the unsecured creditors of BSF and Les Ailes as full and final payment of their claims. The amounts to be distributed are the following:

Fixed Distributions	
(In thousands of dollars)	
BSF	$11,900
Les Ailes	$ 3,700

149. In regards to the creditors of Les Éditions, the Plan provides that all amounts received by Les Éditions on account of its claim towards BSF, and to the extent necessary to settle the claims of Les Éditions, be remitted to the Monitor for distribution to the creditors of Les Éditions, prorata of their Proven Claims, to a maximum of their Proven Claims.

150. The Plan contemplates that BSF and Les Ailes will remit to the Monitor the above mentioned amounts in three instalments as follows:

Fixed Distributions

(In thousands of dollars)

Instalments	Date	BSF	Les Ailes
First Instalment	30 days from Court Ratification	$ 5,950	$1,850
Second Instalment	Dec. 30, 2004	2,975	925
Third Instalment	July 29, 2005	2,975	925
		$11,900	$3,700

151. The Plan contemplates that the Monitor will distribute to creditors the fixed amounts to each category of creditors in the following manner, as soon as possible upon receipt of each instalment:

(a) First, in full payment of Claims of the Crown pursuant to paragraph 18.2(1) of the CCAA, as the case may be;

(b) Then, in payment of each Proven Claim up to $500, all Claims of a given Person on the Filing Date being deemed to constitute a single Proven Claim for such purpose;

(c) As for the outstanding sum remitted to the Monitor, it will be distributed pro rata of the outstanding Proven Claims of the Creditors of the class, the whole of which shall result in a full and final release of their claims exceeding $500, already having been received in accordance with paragraph (b) above;

152. Pursuant to a comprehensive agreement between BSF, Les Ailes and Ivanhoe Cambridge, concerning the lease of the Les Ailes Montreal downtown store, including a leasing agreement, reconfiguration and resizing of the space, Ivanhoe has agreed that, notwithstanding the quantum of its claims against BSF and Les Ailes, the aggregate dividend payable to Ivanhoe in the context of the proposed Plan will be limited to $4MM.

XI. Voting on the Plan

153. In order for the Plan to be approved by a class of creditors, a majority vote of the number of creditors, representing more than two thirds of the value of that class of creditors present and voting in person, or by way of proxy, is required.

154. It is important to note that none of the Petitioners are required to give effect to the Plan should the Plan not be accepted by all of the classes of creditors, the creditors of the other Petitioners and approved by the Court.

155. The Petitioners will have the option, but no the obligation, to apply to the Court for the Sanction Order of the Arrangement with regard to the classes of creditors which will have voted favourably thereon.

XII. Application for Sanction Order

156. In the event that the Plan is approved by the Creditors, the Petitioners will apply to the Court on July 9, 2004 at 9:30 am in Room 16.12 of the Palais de Justice de Montréal, located at 1 Notre Dame Street West, Montréal, to obtain the Sanction Order.

XIII. Analysis of the Plan

157. The creditors must decide to either accept or reject the Plan submitted by the Petitioners.

158. The acceptance of the Plan by the affected creditors will permit the Petitioners to restructure its debts and its capital structure in order to continue its operations.

159. In the event that the Plan is rejected by the affected creditors, the Petitioners will have no other alternative than to proceed to the sale of its assets.

160. The sale of assets in an insolvency situation involves the forced liquidation of assets or, alternatively, the sale of business units as going-concerns, if possible.

161. The creditors should take into account the following factors in their decision:

- The settlement amount proposed in the Plan compared to any recoveries that could be realized upon a forced liquidation or, if possible, in an orderly liquidation;
- A fair and equitable treatment of the affected creditors (in relation to each other);
- Future business benefits.

162. Our opinion as Monitor appointed by the Court, with regard to the above-noted factors is as follows:

A) Plan versus Sale of Assets

163. It is important for the creditors to evaluate the Petitioners' Plan as compared to the alternative of a possible sale of assets should the Plan of Arrangement be rejected by the creditors.

164. As previously mentioned in this Report, the creation of an Independent Committee of the Board of Directors of the Petitioners, in order to supervise the recapitalization of the Petitioners and to analyze any offers received allowed a control of the recapitalization process including offers pertaining to the acquisition of the assets of the Petitioners.

165. The process was established in order to reach a maximum number of potential purchasers.

166. In view of the search performed to identify potential purchasers as well as the publicity generated from media coverage, the Monitor is satisfied that the process reached the potential purchasers likely to be interested in acquiring the assets of BSF or Les Ailes.

167. The Monitor is satisfied that the potential purchasers having the capacity to complete a transaction within a reasonable time-frame were identified and had the opportunity to submit an offer.

168. Consequently, in the event that the Plan was rejected by the creditors, the likely alternative would involve contacting the parties that had previously submitted offers to purchase the assets and, assuming that they would still be interested, to attempt to conclude one or several transactions within a short time-frame.

169. The Monitor believes that the necessity to conclude a transaction in a short time-frame, if the Plan is rejected, will likely negatively impact the price that a purchaser would be prepared to pay.

170. The Monitor believes that, under the circumstances, any new offers would, in all likelihood, be significantly lower than those received during the previously referred to search process. Potential purchasers would be negatively impacted by the following factors:

- The Petitioners are presently operating without a credit facility and on a COD basis. In the weeks and months following the meeting of creditors, Les Ailes will be required to purchase a significant amount of merchandise in preparation for the fall season which is the period where Les Ailes generates the majority of its sales and, as a result, is a determining factor in its overall profitability. Les Ailes would therefore require significant funds in August and September 2004 in order to be able to purchase the required volume of merchandise. Alternatively, in a sale of the business, the purchases would have to be reduced significantly;
- The offers received for the purchase of the assets of BSF (the swimwear business) were based on an early June closing, immediately prior to the start of the profitable summer season. Offers to purchase after the summer season would likely be substantially lower.
- The inventory levels would be lower and would be comprised of a significant portion of out-of-season inventory.

171. Furthermore, the risks inherent in attempting to close such a transaction include notably the following:

- The offers received were subject to due diligence which could result in downward adjustments to the purchase price;
- The offers received were conditional on obtaining the landlords' consents for the transfers of leases. There is a potential reduction of the purchase price in the event that certain leases could not be transferred;
- One of the highest offers received was subject to financing;
- Adjustments on closing could occur if there are variances in the physical inventory count, a material adverse change in operations, etc.;
- No reasonable offers were received for the assets of both BSF and Les Ailes, and, accordingly, two separate transactions for the sale of the Petitioners' assets would likely be required;
- The highest offers received provided for access to the head office for a transition period. In addition to the logistical issues caused by two or more asset purchases, the potential acquirers' intentions with regard to the head office staff are unknown. In the event that the head office employees were not retained, severance as well as other employee obligations would increase the liabilities of the Petitioners (and could negatively influence the purchase price) and reduce any distribution to creditors.

172. The Plan provides a fixed amount to the creditors based on a firm offer, for which funds have already been placed in trust, as opposed to a potential sale of assets, which would be subject to numerous uncertainties, including, among others, the purchase price, transaction costs, priority claims, etc.

173. We have therefore estimated the funds that would be available to the unsecured creditors of each of BSF and Les Ailes in an orderly liquidation scenario, taking into account certain assumptions, including the closing of transactions at a discount of 15 % to 35 % of the highest offers received during the previous search for potential acquirers. We also estimated the related transaction costs and the priority claims that would have to be paid from any proceeds from the sale of each Petitioner's assets.

174. Based on our experience and our estimates, the Monitor believes that it is likely that the offers that could be received would fall in the lower end of the range of values described above. Based on our analysis, the funds available for distribution to unsecured creditors, as compared to the amounts offered in the Plan, would be as follows:

Les Boutiques San Francisco Incorporées
Estimated Distribution

(In thousands of dollars)	**Plan**	**Orderly Liquidation**
Estimated distribution:		
Unsecured creditors	$ 9,700	$ 6,689
Ivanhoe	2,200	3,211
	$11,900	$ 9,900
Estimated claims:		
Unsecured creditors (1)	$25,800	$30,200
Ivanhoe	14,500	14,500
	$40,300	$44,700
Estimated %		
Unsecured creditors (excl. Ivanhoe)	**37.6%**	**22.1%**
Ivanhoe	**15.2%**	**22.1%**

(1) Includes claims from Les Éditions arising from a liquidation.

Les Ailes de la Mode Incorporées
Estimated Distribution

(In thousands of dollars)	**Plan**	**Orderly Liquidation**
Estimated distribution	$ 3,700	$ 0
Estimated claims(1)	$37,000	$37,000
Estimated %	10.0%	0%

(1) Excludes intercompany payable to BSF.

175. Further, the Plan contemplates a distribution of $11.9MM to the unsecured creditors of BSF representing a potential payout of approximately 37% for unsecured creditors of BSF other than Ivanhoe (based on BSF's books and records) whereas in the case of an orderly liquidation of the assets, it is estimated that the unsecured creditors would receive a potential payout of approximately 22% of their claims. In the case of a forced liquidation, the amount available for distribution would likely be significantly lower.

176. With regard to Les Ailes, the Plan contemplates a distribution of \$3.7MM to the unsecured creditors, representing a potential payout of 10% for unsecured creditors of Les Ailes (based on the Les Ailes books and records), whereas in the event of an orderly liquidation of the assets, it is estimated that that there would be no funds available to the unsecured creditors.

177. The Plan provides the full payment of Proven Claims for creditors of Les Éditions up to a maximum of the amount of the intercompany claim.

B) Reasonableness of the Plan

178. We believe that the Plan is fair and equitable to the creditors in general and as well as in relation to each other.

179. The Monitor is of the opinion that the Plan was prepared in a serious and diligent manner, taking into account the financial capacity of the Petitioners to meet their restructured obligations under the terms of the Plan following its acceptance by the creditors.

180. The Monitor, having participated in numerous work sessions addressing the future prospects of the Petitioners and having reviewed the financial models prepared by management, concludes that the offer to the creditors is reasonable in the present circumstances.

C) Future Business Benefits

181. Since December 17, 2003, a significant portion of the Petitioners' suppliers have maintained ongoing business relations and have had the opportunity to assess firsthand the measures taken to restore the Petitioners to profitability and allow for the continuation of operations.

182. The continuity of the Petitioners' operations would allow the majority of the creditors to maintain these business relations. This is made even more attractive given the capital injection pursuant to the acceptance of the Plan by the creditors.

XIV. Conclusion

183. The Monitor is of the opinion that if the Plan is not approved by the creditors, the Petitioners would have no alternative than to proceed with the immediate sale of its assets. Notwithstanding the risks and uncertainties inherent in a going concern sale, it is estimated that the affected creditors would receive less than what is being offered in the Plan.

184. Consequently, the Monitor is of the view that the acceptance of the Plan would be more advantageous for the creditors than the liquidation of the Petitioners' assets. The Monitor therefore recommends to all classes of creditors to vote in favour of the Plan.

185. The creditors may remit their Voting Letter as well as their Proxy to the Monitor prior to the Meeting of Creditors or, alternatively, they may attend the Meeting of Creditors to obtain any additional clarification they may deem necessary and vote thereat.

DATED AT MONTRÉAL, this 11th day of June, 2004.

RSM RICHTER INC.
Monitor

Benoit Gingues, CA