

CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL

**SUPERIOR COURT**  
(Commercial Division, in bankruptcy and  
insolvency)

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N° : 500-11-034874-087

**IN THE MATTER OF THE NOTICE OF  
INTENTION TO MAKE A PROPOSAL OF:**

**DIRECT SOURCE SPECIAL PRODUCTS  
INC.,**

Debtor / Petitioner

and

**RSM RICHTER INC.,**

Trustee

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**MOTION BY THE DEBTOR FOR A THIRD EXTENSION OF  
THE DELAY TO FILE A PROPOSAL**

(S. 50.4(9) of the *Bankruptcy and Insolvency Act*)

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**TO ONE OF THE HONOURABLE JUDGES OF THE SUPERIOR COURT, SITTING IN  
THE COMMERCIAL DIVISION, IN AND FOR DISTRICT OF MONTREAL, OR TO  
THE REGISTRAR THEREOF, THE DEBTOR / PETITIONER RESPECTFULLY  
SUBMITS THE FOLLOWING:**

1. The Debtor / Petitioner Direct Source Special Products Inc. is engaged in the distribution of music CDs, DVDs, videos and other products, the whole as it appears from an extract of the Registraire des entreprises du Québec, a copy of which is attached hereto as exhibit **R-1**;
2. On November 21, 2008, the Debtor filed a Notice of intention to file a proposal pursuant to section 50.4 of the *Bankruptcy and Insolvency Act* (hereinafter the “**Act**”), the whole as it appears from the Court record;
3. The Trustee, RSM Richter Inc., consented to act as the Trustee under the proposal, the whole as it appears from the Court record;

4. The Debtor subsequently filed, within the prescribed delay, a cash flow statement, the Trustee's report on the reasonableness of the cash flow statement, and the Debtor's report relating to the preparation of the cash flow statement, as required by section 50.4(2) of the Act, the whole as it appears from the Court record;
5. The delay to file a Proposal was initially set to expire on December 21, 2008, but was subsequently extended until February 3, 2009, and then again until March 19, 2009;
6. However, it will be impossible for the Debtor to file a viable proposal before that date, but the Debtor believes that it will be able to make a viable proposal if the extension being applied for herein is granted;
7. As a result, the Debtor hereby seeks an Order granting a forty-five (45) day extension of the delay to file its Proposal;
8. Since the Notice of intention was filed, the Debtor has arranged to have its primary lender, BNP Paribas, be replaced by Euro Canadian Corporation, and has since concluded an interim agreement with the latter;
9. Furthermore, the Debtor is presently in discussions with its other secured creditor, Caisse de Dépôt et Placement du Québec (hereinafter "**CDP**"), in order to determine the effect of CDP's claim, namely the value of their security and the establishment of their claim in a proposal;
10. However, it is unlikely that these discussions will be completed before March 19, 2009, and it is imperative that the outcome of these discussions has been determined prior to filing a proposal to its creditors;
11. In addition, the Debtor requires additional time before filing a proposal for the following reasons:
  - i. To maximize the collection of remaining accounts receivable;
  - ii. To finalize its business plan going forward and prepare financial projections to support same;
  - iii. To complete its analysis of its royalty exposure, including the review and validation of its pre-filing and current royalty liabilities in accordance with the reporting requirements;
  - iv. To complete the review of all its creditors in order to be able to better assess the proof of claims which may be filed and formalize the list of creditors;

12. The Debtor has inventory in its possession with a value of approximately ten million dollars (\$10,000,000.00), which it is presently in the midst of attempting to sell, but needs additional time to finalize the sale; Since the Debtor is obviously in the best position to be able to liquidate the inventory, it is imperative for the Debtor to receive the additional time needed in order to complete the sale;
13. Moreover, the Debtor is presently pursuing negotiation efforts in order to recover inventory located in the United States;
14. Considering that the Debtor's primary and most worthwhile asset is intangible, namely its accreditation with various important retailers, the best way for the creditors to maximize their recovery is to allow the Debtor time to continue its reorganization efforts and file a proposal;
15. The Debtor does not believe that any creditor would be materially prejudiced if the extension being applied for is granted;
16. On the contrary, it appears as though the recovery on assets in the case of a Proposal would be more advantageous for the ordinary creditors than in the case of a bankruptcy;
17. In this regard, the Debtor's most important supplier does not object to the contemplated extension;
18. Furthermore, Euro Canadian Corporation and CDP, the secured creditors, support the contemplated extension;
19. The Debtor has always acted, and is acting, in good faith and with due diligence, and has therefore fulfilled the conditions imposed by the Act;
20. If this Honourable Court extends the delay to file the Proposal for an additional period of forty-five (45) days, the Debtor believes it will likely be able to make a viable Proposal to its creditors;
21. The Debtor will be able to meet its current obligations until the filing of a proposal;
22. The Trustee supports the present Motion to Extend the Delay, as appears from the Trustee's Report, prepared in accordance with section 50.4(7) of the Act, a copy of which is attached hereto as exhibit **R-2**;
23. The present Motion is well-founded in fact and in law

**FOR THESE REASONS MAY IT PLEASE THE COURT TO:**

**GRANT** the present Motion;

**REDUCE** the delays for service and presentation of the present Motion;

**EXTEND** the delay to file a Proposal for a period of forty-five (45) days, until May 4, 2009;

**DECLARE** the provisional execution of the judgment to be rendered on the present Motion notwithstanding an appeal;

**THE WHOLE** without costs, unless contested.

Montréal, March 17, 2009

**(S) BCF S.E.N.C.R.L. / LLP**

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**BCF LLP**

Attorneys for the Debtor / Petitioner Direct  
Source Special Products Inc.

**TRUE COPY**

BCF LLP  
**BCF LLP**

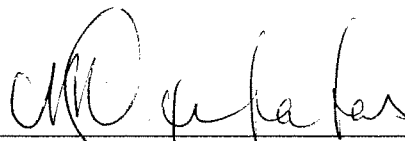
**AFFIDAVIT**

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I, the undersigned, MARIA KYRTATAS, domiciled and residing at 4428 Eliot, in the City of Laval, Province of Quebec, H7W 5L1, solemnly declare the following:

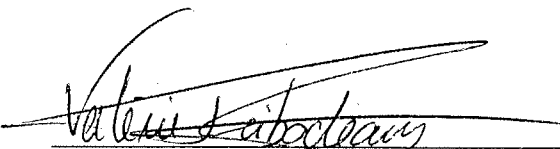
1. I am the Vice President of Administration of the Debtor / Petitioner Direct Source Special Products Inc.;
2. All of the facts alleged in the present Motion are true.

AND I HAVE SIGNED



\_\_\_\_\_  
Maria Kyrtatas

Solemnly declared before me, in Montréal, on  
March 17, 2009



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Commissioner of oaths



**TRUE COPY**

BCF LLP  
BCF LLP

**NOTICE OF PRESENTATION**

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To: Mr. Stephane De Broux  
RSM Richter  
2 Place Alexis Nihon, suite 1820  
Montreal, Quebec H3Z 3C2

To: Caisse de dépôt et placement du Québec  
Centre CDP Capital  
1000 place Jean-Paul-Riopelle  
Montréal, Québec H2Z 2B3

**TAKE NOTICE** that the foregoing Motion shall be presented for adjudication before this Honourable Court of the Court House of Montreal, 1 Notre-Dame Street East, on **March 19, 2009, in room 16.10 at 9:00 a.m.** or as soon as counsel may be heard.

**DO GOVERN YOURSELVES ACCORDINGLY.**

Montréal, March 17, 2009

(S) **BCF S.E.N.C.R.L. / LLP**

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**BCF** LLP

Attorneys for Debtor / Petitioner Direct Source  
Special Products Inc.

**TRUE COPY**

BCF LCP  
**BCF** LLP