

RSM Richter Inc.

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**CANADA**  
**PROVINCE OF QUÉBEC**  
**DISTRICT OF QUÉBEC**  
**DIVISION NO.: 01-MONTRÉAL**  
**COURT NOS.: 500-11-031907-070**  
**500-11-031906-072**  
**ESTATE NOS.: 41-1015330**  
**41-1015325**

**SUPERIOR COURT**  
**(Commercial Division)**

**IN THE MATTER OF THE PROPOSAL OF:**

**Mademoiselle Charmante Inc.**

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:

9475 Meilleur Street  
Suite 600  
Montréal QC H2N 2E1

- and -

**3017320 Canada Inc.**

a body politic and corporate, duly incorporated according to law and having its head office and its principal place of business at:

9475 Meilleur Street  
Suite 600  
Montréal QC H2N 2E1

**Debtors**

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**REPORT OF THE TRUSTEE ON THE FINANCIAL SITUATION  
OF THE DEBTORS AND ON THE PROPOSAL**  
**(Sections 50(5) and 50(10)b) of the *Bankruptcy and Insolvency Act* (the "Act"))**

On the 1<sup>st</sup> day of February 2008, Mademoiselle Charmante Inc. and 3017320 Canada Inc. (hereinafter referred to as the "Companies") filed a Proposal to their creditors. We have enclosed herewith the Proposal of the Companies to their creditors as well as a Notice of the time and place of the meeting of creditors ("First Meeting of Creditors") to consider the Proposal. The highlights of the Proposal can be summarized as follows:

*(français – au recto)*

- Secured claims shall be paid in accordance with arrangements existing between the Companies and holders of the secured claims (**there are no known amounts due to secured creditors**);
- Amounts owing to Her Majesty in right of Canada or a Province that could be subject to a priority will be paid in full within six (6) months after the ratification of the Proposal (**there are no known amounts due to creditors in this category**);
- Amounts owing to employees and former employees, that they would have been entitled to receive under paragraph 136(1)(d) of the Act, if the employer became bankrupt on the date of Approval, will be paid in full immediately after the ratification of the Proposal (**there are no known amounts due in this category**);
- Proposal and Interim Receiver expenses are to be paid in priority to all preferred claims and ordinary claims of creditors;
- Preferred claims without interest, will be paid in full in priority to all claims of ordinary creditors, sixty (60) days after Court approval (**there are no known amounts due to preferred creditors**);
- The Companies will, in full and final satisfaction of all amounts due to the ordinary creditors, pay dividends sixty (60) days after Court approval, as follows:
  - (a) An amount of \$1,500,000 to be allocated as follows:
    - i. firstly to an amount, if any, equal to the preferred claims, and
    - ii. the balance in proportion to the Companies' ordinary creditors;
  - (b) An amount of \$50,000 to be allocated in proportion to those creditors with thirty day good claims;
- The creditors of any intercorporate indebtedness and the Bank of Nova Scotia agree to subordinate payment of their respective claims until the Ordinary and Thirty Day Goods Creditors receive payment of their dividends under the terms of the Proposal;

- There will be the formation of a committee of five (5) individuals to be named by the creditors to authorize and advise the Trustee on matters relating to the Proposal ("Committee").

**The creditors are advised to review the more detailed and legal version of the Proposal as well as associated definitions.**

Pursuant to Sections 50(5) and 50(10)b of the Act and to assist the creditors in considering the Proposal, the Trustee is submitting its report on the financial situation of the Companies. The creditors may, in person at the forthcoming meeting of creditors, or by Voting Letter on or before the First Meeting of Creditors, accept or reject the Proposal.

**We would caution the reader that we have not conducted an audit nor an investigation of the books and records of the Companies and, consequently, we cannot render an opinion with respect to the accuracy of the information contained herein. The information discussed herein emanates from the books and records made available to us, as well as from discussions with the Management of the Companies.**

## **1. INTRODUCTION**

On November 20, 2007, the Companies filed a Notice of Intention to Make a Proposal ("NOI") to their creditors pursuant to subsection 50.4(6) of the Act. RSM Richter Inc. ("RSM") was named as Trustee under the NOI. On November 23, 2007, RSM was appointed by the Court as Interim Receiver with the power to control the receipts and disbursements of the Companies. On December 18, 2007, a Motion to Extend the time for filing the Proposal was granted by the Court, thus extending the delay for filing the Proposal to February 1, 2008 (on January 29, 2008, a Court Order was obtained whereby, for ease of administration, the Estates of Mademoiselle Charmante Inc. and its wholly-owned subsidiary, 3017320 Canada Inc., were consolidated and considered as one Estate). **On February 1, 2008, the Companies filed the present Proposal to their creditors.**

## 2. BACKGROUND AND HISTORICAL FINANCIAL RESULTS OF THE COMPANIES

The Companies have been in business for over 40 years and operate approximately 47 retail stores of women's ready-to-wear fashions and accessories in the Province of Quebec and in the Ottawa Valley. In the last six years the Companies encountered poor business conditions which resulted in losses of approximately \$11 million (excluding losses for the balance of Fiscal 2008);

The Companies have provided the Trustee with the following historical consolidated financial information:

<b>Mademoiselle Charmante Inc.</b>							
<b>Summary of Historical Results</b>							
<b>(in 000's)</b>							
	Sept 30/07 <u>(7 months)</u>	Feb. 28 <u>2007</u>	Feb. 28 <u>2006</u>	Feb. 28 <u>2005</u>	Feb. 28 <u>2004</u>	Feb. 28 <u>2003</u>	<u>Total</u>
Sales	\$ 11,121	\$ 20,166	\$ 21,036	\$ 23,077	\$ 22,113	\$ 25,527	\$ 123,040
Cost of sales	3,654	7,561	7,528	8,486	8,407	10,261	45,896
Gross margin	7,467	12,606	13,508	14,591	13,706	15,266	77,144
SG&A and financial exp.	8,640	15,366	16,074	16,176	16,001	15,550	87,805
Operating loss	\$ (1,173)	\$ (2,760)	\$ (2,566)	\$ (1,585)	\$ (2,294)	\$ (283)	\$ (10,662)
Estimated net loss Oct. 1/07 to Feb. 1/08							(2,039)
Total							\$ (12,701)

In addition, prior to filing for protection, significant efforts were made by Management to sell the Companies on a going concern basis, which were not successful.

## 3. EVENTS SUBSEQUENT TO THE FILING OF THE NOTICE OF INTENTION

Subsequent to the filing of the NOI, the Companies expeditiously requested offers for the sale of their business including its retail locations and inventory. After careful consideration of the various offers received, the Companies entered into an Agency Agreement with Asset Engineering Corporation ("AEC") to act as the Companies' agent in conducting the sale ("Sale") of all of the Companies' assets (other than leases and leasehold rights).

#### 4. AGENCY AGREEMENT AND THE LIQUIDATION PROCESS

Pursuant to the Agency Agreement, AEC provided a minimum guaranteed amount and undertook to pay the operating expenses and to share the proceeds of the Sale over and above the minimum guarantee, but only after taking into consideration the above-noted expenses and certain commissions. The sale of the Companies' assets was completed during the week ended January 24, 2008.

#### 5. ESTIMATED CURRENT FINANCIAL POSITION

The financial information relating to the affairs of the Companies as at February 1, 2008 is submitted solely for discussion purposes and to assist the reader in assessing the present financial position of the Companies based on their available books and records. The Trustee makes no representations or warranty as to the accuracy of said financial information.

<b>Mademoiselle Charmante Inc. and 3017320 Canada Inc.</b> <b>Estimated Consolidated Balance Sheet</b> <b>As of February 1, 2008</b>		
<b><u>Assets</u></b>		
Estimated net cash held in Interim Receiver's Trust Account (Note 1)		<u>\$2,029,000</u>
<b><u>Liabilities</u></b>		
Estimated secured creditors	--	
Estimated preferred creditors	--	
Estimated ordinary creditors	<u>\$12,780,310</u>	<u>12,780,310</u>
Deficiency		<u>\$(10,751,310)</u>
Note 1: Net of estimated post filing obligations		

**A. ASSETS**

Pursuant to the Agency Agreement between AEC and the Companies, RSM, as Interim Receiver, controls the receipt of funds from the sale of the Companies' assets:

**i) Interim Receiver's Trust Account**

The Interim Receiver maintains a trust bank account ("Trust Account") to fund the operating costs and collect the receipts from the Sale. There is approximately \$2,029,000 in the Trust Account, which is net of the accrued post filing obligations and which represents the net liquidation proceeds.

**B. LIABILITIES**

The allocation of the Companies' indebtedness as at February 1, 2008 between secured, preferred and ordinary creditors is estimated as follows:

**i. Secured Creditors**

There are no known amounts due to secured creditors.

**ii. Preferred Creditors**

As at February 1, 2008, the Companies are unaware of any amounts owing to governmental authorities which would be considered a priority. The Companies are unaware of any other known preferred claims. The ultimate amount of this category of claims, if any, will only be subsequently determined.

**iii. Ordinary Creditors**

The Companies have provided us with a listing of their ordinary creditors. Notices have been forwarded, concurrently with this report, to the aforementioned creditors and, as at the present date, we are unable to comment on whether the Companies' records agree with those of the ordinary creditors. As Proofs of Claim are received, we shall enter the amounts claimed by the Companies' creditors and, prior to paying any dividend distributions, we shall reconcile any differences. In order to be entitled to receive a dividend, creditors are required to file a Proof of Claim with the Trustee.

## 6. PAYMENTS TO CREDITORS AND REVIEWABLE TRANSACTIONS

The Trustee to the Proposal has not performed a review of payments to creditors and related parties for the periods preceding the filing of the Notice of Intention. The Trustee wishes to point out that, under paragraph 12 of the Proposal, preferential payments and reviewable transactions, if any, would not be considered. In the event of an ensuing bankruptcy, should the Inspectors of the Estates so request, an analysis may be performed to determine whether any of the payments made are to be considered preferential or reviewable.

## 7. ESTIMATED DIVIDENDS

The following illustrates the estimated dividends available to unsecured creditors under both a Proposal and Bankruptcy scenario:

	Proposal Scenario	Bankruptcy Scenario
Net proceeds available for distribution from assets	\$1,550,000 (Note 1)	\$1,850,000 (Note 2)
Unsecured creditors	\$6,100,000 (Notes 3/4)	\$12,800,000 (Notes 3/4)
Estimated % dividend	25.4%	14.4%

Note 1: This amount represents the "basket of funds" made available, including the \$50,000 "basket" for thirty day goods creditors.

Note 2: This amount represents the estimated liquidation proceeds of approximately \$2,030,000 net of additional professional fees and costs in the event of a bankruptcy.

Note 3: The estimate of unsecured creditors is based on current available information, prior to receipt of the requisite proofs of claim, and includes \$2,500,000 of estimated landlord claims.

Note 4: Included in the total unsecured claims are amounts owing to the Bank of Nova Scotia of approximately \$5,500,000 and to a related company of approximately \$1,200,000. In the Proposal, these claims have been subordinated in favour of the creditors until all dividends due under the Proposal have been paid.

## **8. INFORMAL CREDITORS' MEETING**

On January 17, 2008, an informal creditors' meeting was held at the offices of the Trustee between the major trade creditors (amounts owing in excess of \$100,000) and the Companies. The purpose of the meeting was to review the current financial situation of the Companies, the Proposal as well as a comparison of the dividends available under both a Proposal and Bankruptcy scenario, based on the current available information (prior to the receipt of the requisite proofs of claim).

After reviewing the Proposal and Bankruptcy alternatives with the major trade creditors, an informal vote was held and virtually all creditors present (representing approximately \$2,100,000 of trade creditors claims) indicated they would vote in favour of the Proposal. The Trustee awaits the final votes which must be submitted in writing or in person at the upcoming formal meeting of creditors scheduled for February 21, 2008.

## **9. CONCLUSION AND RECOMMENDATION**

As noted in this Report, the Companies, in conjunction with AEC, have completed the liquidation of their assets, the whole under the purview of the Trustee and Interim Receiver. The net liquidation proceeds of approximately \$2,030,000 are presently being held in trust by RSM in its capacity as Interim Receiver. The Proposal contemplates that the Companies will arrange that from the total net liquidation proceeds of approximately \$2,030,000, \$1,500,000 will be made available to the benefit of the creditors providing the Proposal is accepted, and subsequently ratified by the Court. Furthermore, an additional \$50,000 will be set aside for those creditors which have a proven thirty day goods claim.

In addition, subject to the aforementioned approvals, any claim by any related company (estimated at \$1.2MM) and the Bank of Nova Scotia (estimated at \$5.5MM) will be subordinated in favour of the creditors until all dividends due under the Proposal have been paid. As noted in section 7 of this Report, it is estimated that the unsecured creditors will receive a dividend of approximately twenty-five cents on the dollar (\$0.25) through the Proposal while receiving an estimated fourteen cents on the dollar (\$0.14) in a Bankruptcy.

We therefore recommend that the creditors accept the Proposal as there will be greater funds available to the ordinary creditors than in a bankruptcy scenario.



As previously noted, creditors may remit their voting letters to the Trustee in advance of the forthcoming Meeting of Creditors or, alternatively, may attend at said Meeting of Creditors to make such further inquiries as they deem necessary and to vote at the meeting.

DATED AT MONTRÉAL, this 8<sup>th</sup> day of February 2008.

**RSM Richter Inc.**

Trustee

A handwritten signature in cursive script, appearing to read "Eric Rodier".

Eric Rodier, MBA, CA, CIRP  
Administrator