

CANADA
Province of Alberta

District of Alberta
Division of 02 - Calgary
Court No. 25-1589587
Estate No. 25-1589587

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF

THE CONNAUGHT GROUP, ULC

Formerly carrying on business in the City of Calgary in the Province of Alberta

Trustee: Deloitte & Touche Inc.

Introduction

The Connaught Group, ULC ("Connaught" or the "Company") operated as Eccoci and was incorporated under the laws of the Province of Alberta on September 12, 2006. The Company was a women's fashion retailer operating four store locations in Calgary, one in Rocky View, two in Edmonton, and one in Burnaby, British Columbia. Connaught is the Canadian wholly owned subsidiary of WDR Retail Corp., whose parent is The Connaught Group, Ltd. ("Connaught Group") based in New York, New York. Connaught Group sourced and shipped the inventory to the Company from the United States and financed the Company's operations.

Connaught experienced financial difficulty as a result of a decline in sales revenues and the poor performance and financial difficulties of the Connaught Group. As a result of these difficulties, the Company filed a voluntary assignment under the *Bankruptcy and Insolvency Act* ("BIA") on February 9, 2012, and Deloitte & Touche Inc. was appointed as the Trustee (the "Trustee") of the bankrupt estate (the "Estate"). In addition, on February 9, 2012, the Company's US parent, Connaught Group filed for Chapter 11 pursuant to the United States *Bankruptcy Code*. At the time of the bankruptcy, Connaught was only operating in four Eccoci stores in Calgary and one in Edmonton and had \$4.2 million in unsecured inter-corporate debt owing to the Connaught Group.

Class I – Inventory

The Trustee conducted an inventory count at the remaining five retail locations and is in possession of approximately 13,600 units of inventory, with an approximate cost of \$428,000.

Class II – Plant, Machinery and Equipment and Office Equipment

The Trustee took possession of a number of cash registers, desktop computers, furniture and other fixtures that were located at the various five retail store locations. The potential value of these assets is not known as this time.

Class III – Building and Real Estate

The Trustee is not aware of any buildings or real estate that was owned by Connaught. The Company did have leasehold improvements with a remaining net book value of \$295,000; however these do not have any value to the Estate.

Class IV – Books and Records

The Trustee has taken possession of the available books and records of Connaught and is using them to complete its statutory duties. The Trustee has also obtained various Company financial and other information from the Connaught Group.

Class V – Other Assets

The Trustee has collected cash totalling \$49,833 from the Company's Canadian and US bank accounts, as well as the cash floats from the five retail store locations.

The Trustee is aware of ongoing litigation where a previous landlord has filed a claim against the Company for a breach of lease agreement, and Connaught in turn has filed a counter claim. Realization from the legal proceeding is not known at this time, but is contingent upon whether continuing the proceeding will be economical to the Estate.

Based on the Trustee's preliminary review of the estate assets, it has come to the Trustee's attention that the Company may be due a Goods and Service Tax refund ("GST refund"), as the Company made an overpayment of approximately \$8,000. The

Trustee will work with the Canada Revenue Agency in order to realize on the GST refund.

It has come to the Trustee's attention that security deposits totalling \$56,000 had been paid to the various landlords as a condition of the lease agreements. The Trustee is currently reviewing the various lease agreements and lease arrears and as such, the potential realization on the security deposits is not known at this time.

Property Placed Under the Guardianship of Debtor or Third Party

The Trustee is not aware of any property placed under the guardianship of the Company or a third party.

Section B – Current State of Operations

1. Conservatory and Protective Measures

The Receiver took possession of the Company's assets on February 9, 2012 and undertook the necessary conservatory and protective measures. The Trustee has confirmed that insurance is in place on the assets and all of the Company's inventory has been secured.

2. Carrying on Business

The Company's operations ceased on the date of bankruptcy and have not been re-started.

Section C – Legal Proceedings

The Trustee is aware of a pending legal claim against Connaught due to the breach of a lease agreement.

Section D – Provable Claims

At the time of drafting this report, several claims have been filed against Connaught that are close to the amounts listed on the Statement of Affairs.

The Trustee is also aware that the landlords of the malls where the stores were located may have preferred claims although, at the time of drafting this report, no such claims have been filed.

Section E – Secured Creditors

The Trustee performed a Personal Property Registry Search on the Company and no secured creditors holding general security agreements were noted.

The Trustee is working to obtain complete payroll records from ADP, the contract payroll services provider, to determine whether there will be a deemed trust claim against the Estate for unremitted source deductions.

All remaining employees of Connaught were terminated as a result of the bankruptcy proceedings, and as such, the terminated employees are entitled to relief under the *Wage Earner Protection Program Act* ("WEPPA"). The employee claims filed under WEPPA will be subrogated to the Government of Canada who will be entitled to a priority claim pursuant to Section 81.3 of the *BIA*.

Section F – Realization and Projected Distribution

No appraisal of the inventory has been completed to date. However, the Trustee is obtaining offers on the inventory, realizing on the other remaining assets and quantifying any potential preferred or secured claims. Any distributions to the creditors will be dependent on the success of the realization process and the amounts available after the Trustee's fees and any priority claims.

Section G – Reviewable Transactions and Preference Payments

The Trustee has completed a partial review of the Company's books and records for the twelve months prior to bankruptcy, and has not noted any reviewable transactions or preference payments. This work will be completed in due course.

Section H – Other Matters

There are no other reportable matters at this time.

Dated at Calgary, this 22nd day of February, 2012.

DELOITTE & TOUCHE INC.

In its capacity as Trustee in Bankruptcy
of The Connaught Group, ULC and not in
its personal capacity.



Jeff Keeble, CA, CBV, CIRP
Trustee