

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE PROPOSAL OF  
BOGDON & GROSS FURNITURE COMPANY LIMITED  
OF THE TOWN OF WALKERTON  
IN THE PROVINCE OF ONTARIO

**PROPOSAL**

Bogdon & Gross Furniture Company Limited, the above-noted Debtor, hereby submits the following Proposal pursuant to the *Bankruptcy and Insolvency Act* (Canada).

The purpose of this Proposal is to restructure the business and affairs of the Debtor with the expectation that all Creditors will derive a greater benefit from the continued operation of the Debtor than would result from a bankruptcy and liquidation of its assets.

**1. DEFINITIONS**

For the purposes of this Proposal, the following terms shall have the following meanings:

- (a) “Act” means the *Bankruptcy and Insolvency Act* R.S.C. 1985, c.B.3, as amended;
- (b) “Administration Charge” means the charge granted pursuant to the DIP and SISP Order over the all of the assets and undertakings of the Debtor to secure payment of the fees and disbursements of the Debtor’s counsel and the Trustee and its legal counsel, to a maximum of \$75,000, such charge ranking priority to all other claims against the Debtor’s assets and undertaking;

- (c) “Administrative Fees and Expenses” means:
  - (i) All proper fees and expenses of the Trustee; and
  - (ii) All reasonable legal fees and disbursements of the Trustee on and incidental to any proceedings relating to or arising out of the Proposal;
- (d) “Approval and Vesting Order” means the Order of Mr. Justice Penny dated May 13, 2014, among other things, approving the Proposed Transaction;
- (e) “Claims” means all claims for any and all debts and liabilities, present and future, including without limitations, contingent and unliquidated claims to which the Debtor is subject at the Filing Date;
- (f) “Court” means the Ontario Superior Court of Justice (In Bankruptcy and Insolvency) or the Ontario Superior Court of Justice (Commercial List), as the case may be;
- (g) “Creditors” means all Persons with Claims against the Debtor, and for greater certainty includes Unsecured Creditors, Preferred Creditors and Secured Creditors;
- (h) “Debtor” means Bogdon & Gross Furniture Company Limited;
- (i) “DIP and SISP Order” means the Order of the Madam Justice Thorburn of the Court dated March 6, 2014, as amended;
- (j) “DIP Lender” means RPG Receivables Purchase Group Inc.;

- (k) “DIP Loan” means the funds advanced to the Debtor by the DIP Lender pursuant to the provisions of the DIP and SISP Order, and the loan and security documents related thereto;
- (l) “Distribution Date” means a date selected by the Trustee, in its sole discretion, which shall not be later than thirty (30) days following the later of:
  - (i) the date on which all disputed claims, if any, have been finally determined;  
or
  - (ii) the Effective Date;
- (m) “Effective Date” shall mean the later of thirty (30) days following:
  - (i) the date on which the Proposal is approved by the Court and is final and non-appealable; or
  - (ii) the date on which all other conditions precedent set out in paragraph 16 have been fulfilled.
- (n) “Employee Claim” means, in respect of any employee or former employee of the Debtor, a Claim in an amount equal to the amount such employee or former employee would be qualified to receive under paragraph 136(1)(d) of the Act if the Debtor became bankrupt on the date of Court approval of the Proposal;
- (o) “Equity Distribution Basket” has the meaning ascribed thereto in paragraph 12(a) hereof;

- (p) “Existing Debtor Equity” means all issued and outstanding equity in the capital of the Debtor as at the Effective Date including any and all issued and outstanding common or preferred shares of the Debtor of every class and series, and all rights attached to them, and any and all warrants, options, conversion rights and any agreement to purchase any of the foregoing;
- (q) “Existing Shareholders” means the holders of Existing Debtor Equity, or, in relation to the New Shares, means Adam Hofmann and Dirk Nielsen;
- (r) “Factoring Charge” means the charge granted pursuant to the DIP and SISP Order over all of the assets and undertaking of the Debtor, to a maximum of \$150,000, securing any shortfall under the factoring facility between the Debtor and the DIP Lender into which the Debtor and DIP Lender were authorized and empowered to enter under the terms of the DIP and SISP Order;
- (s) “Filing Date” means March 4, 2014, being the date upon which a Notice of Intention to Make a Proposal was lodged by the Debtor with the Official Receiver;
- (t) “Inspector” means an Inspector appointed pursuant to paragraph 15 hereof;
- (u) “Meeting of Creditors” means the meeting of creditors scheduled to consider and vote on the Proposal;
- (v) “New Shares” means a new unlimited class of voting Class A common shares in the capital of the Debtor to be created to give effect to the Proposal;

- (w) “Performance of the Proposal” means satisfaction of the conditions prescribed at Section 16 hereof;
- (x) “Person” means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other entity howsoever designated or constituted;
- (y) “Proposal” means this Proposal of the Debtor, as the same may be amended or altered in accordance with the terms hereof;
- (z) “Proposed Transaction” means the transaction contemplated by the Asset Purchase Agreement dated April 14, 2014 between the Debtor and BG Furniture Ltd. for the purchase of substantially all of the Debtor’s assets that arose out of the sale and investment solicitation process undertaken by the Trustee pursuant to the DIP and SISP Order, such transaction being approved by the Approval and Vesting Order;
- (aa) “Preferred Claim” means a Claim, which is not a Secured Claim, or an Employee Claim, the payment of which the Act directs to be paid after payment of Administrative Fees and Expenses but in priority of all unsecured claims on a proposal made by the Debtor including, without limitation, all Section 60(1.1) Claims;
- (bb) “Preferred Creditor” means the holder of a Preferred Claim, in such capacity;
- (cc) “Section 60(1.1) Claim” means a claim of Her Majesty the Queen in Right of Canada or a province described in Section 60(1.1) of the Act;

- (dd) “Secured Claim” means the Claim of a Secured Creditor, in such capacity;
- (ee) “Secured Creditor” means a secured creditor of the Debtor as defined in Section 2 of the Act;
- (ff) “Trustee” means Zeifman Partners Inc. or its duly-appointed successors;
- (gg) “Unsecured Claim” means any Claim, other than a Claim that:
  - (i) has been disallowed by the Trustee or expunged by the Court;
  - (ii) is a Secured Claim;
  - (iii) is a Preferred Claim; or
  - (iv) is an Employee Claim;
- (hh) “Unsecured Creditor” is a Creditor with an Unsecured Claim;

**2. CONDITIONS**

This Proposal shall only be made to Creditors in the event the Proposed Transaction does not close before the date of the Meeting of Creditors or any adjournment thereof. For greater certainty, if the Proposed Transaction closes before the date of the Meeting of Creditors or any adjournment thereof, no Proposal shall be made to Creditors.

**3. CLASSES OF CREDITORS**

The classes of creditors of the Debtor established pursuant to the provisions of the Act for the purposes of voting on the Proposal are as follows:

- (a) Class 1 – Unsecured Creditors and Preferred Creditors. All Unsecured Creditors and all Preferred Creditors of the Debtor to the extent of their Unsecured Claims and Preferred Claims.
- (b) Class 2 – Secured Creditors. All Secured Creditors with proven Secured Claims, to the extent of their Secured Claims:

#### **4. PROPOSAL TO SECURED CREDITORS**

The Proposal shall apply to Secured Creditors as follows:

- (a) Secured Creditors with Secured Claims shall prove the Secured Claims with the Trustee. Where the security interest held by the Secured Creditor is unperfected or invalid for any reason whatsoever and such imperfection or invalidity renders the security interest held by the Secured Creditor subordinate to the security interest held by the Trustee, the Trustee shall disallow the Secured Claim. Where the Secured Claim is disallowed by the Trustee, all property that comprises the security interest held by the Secured Creditor shall vest in the Trustee in priority to the Secured Creditor for the general benefit of the Unsecured Creditors. All proceeds arising from the realization of the aforesaid property by the Trustee shall be distributed pursuant to the Unsecured Creditors pursuant to the provisions herein in addition to any other consideration payable to the Unsecured Creditors as provided within this Proposal.

- (b) Payment of the Secured Claims of the Secured Creditors of the Debtor shall be made in accordance with the terms of their security, or as may be agreed between the Debtor and the holders of the Secured Claims. If the terms and conditions of payment cannot be agreed to then the Debtor will assign itself into bankruptcy.

**5. ADMINISTRATIVE FEES AND EXPENSES**

Payment of the Administrative Fees and Expenses will be made in priority to all other Claims other than Secured Claims and the DIP Loan.

**6. PAYMENT OF ADMINISTRATION CHARGE AND FACTORING CHARGE**

Payment of the Administration Charge will be made in priority to all other claims, including Secured Claims and the DIP Loan. Payment of the Factoring Charge will be made in priority to all other claims other than the Administration Charge and the DIP Loan.

**7. CROWN CLAIMS**

All claims of Her Majesty in right of Canada or a province of a kind that could be subject to a demand under,

- (a) subsection 124(1.2) of the Income Tax Act (Canada);
- (b) any provision of the Canada Pension Plan or of the Employment Insurance Act that refers to subsection 224(1.2) of the Income Tax Act and provides for the collection of a contribution, as defined in the Canada Pension Plan, or an employee's



premium, or employer's premium, as defined in the Employment Insurance Act, and of any related interest, penalties or other amounts; or

- (c) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the Income Tax Act, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:
  - (i) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the Income Tax Act; or
  - (ii) is of the same nature as a contribution under the Canada Pension Plan if the province is a "province providing a comprehensive pension plan" as defined in subsection 3(1) of the Canada Pension Plan and the provincial legislation establishes a "provincial pension plan" as defined in that subsection;

and that were outstanding on the Filing Date shall be paid in full within six (6) months of the date of Court approval of this Proposal.

#### **8. POST-FILING GOODS AND SERVICES**

All persons who advance money or provide goods, services or credit to the Debtor after the Filing Date shall be paid by the Debtor in the ordinary course, but subsequent to Administration Fees. The Debtor shall dispose of no assets other than as contemplated by the Proposed Transaction or, in the event the Proposed Transaction does not close, as contemplated by this Proposal and always

subject to the Debtor's ability to do so in the normal and regular course of its ongoing business. The Debtor agrees that the Trustee shall not be responsible for ensuring that payment is duly made pursuant to this Proposal and to all those persons supplying post filing goods or services.

**9. PREFERRED CLAIMS**

All proven Preferred Claims, if any, without interest from the Filing Date, will be paid in full in priority to all Unsecured Claims. In particular, all proven Section 60(1.1) Claims will be paid in full within six months after Court approval of the Proposal, as is required pursuant to the Act.

**10. EMPLOYEE CLAIMS**

All proven Employee Claims, if any, shall be paid in full immediately following the Effective Date, in accordance with the Act.

**11. PROPOSAL TO UNSECURED CREDITORS**

Unsecured Creditors shall receive the following:

- (a) On the Distribution Date, Unsecured Creditors with proven Claims shall receive their proportionate share of the Equity Distribution Basket; and
- (b) Unsecured Creditors with proven Claims shall accept the New Shares distributed pursuant to paragraph 11(a) hereof in full and complete satisfaction of their Claims, and hereby release the Debtor from any and all Claims therefrom.

**12. CORPORATE REORGANIZATION**

As at the Effective Date, the following will occur:

- (a) New Shares representing in the aggregate a 20% ownership interest in the Debtor shall be issued and shall comprise the Equity Distribution Basket, which shall be available for distribution among the Unsecured Creditors in accordance with Section 11(b) hereof;
- (b) New Shares representing in the aggregate an 80% ownership interest in the Debtor shall be issued to the Existing Shareholders;
- (c) the Debtor will cause certificates to be issued to the Unsecured Creditors and the Existing Shareholders in respect of the New Shares to be issued to each of them pursuant to the terms of the Proposal, as directed by the Trustee;
- (d) Except in respect of the New Shares to be issued pursuant to the terms of this Proposal,
  - (i) all issued and outstanding warrants, options, conversion rights, agreements or other rights to purchase Existing Debtor Equity will be cancelled and holders thereof shall cease to be holders thereof or to have any rights as Existing Shareholders or to acquire any shares of the Debtor;
  - (ii) all Existing Debtor Equity issued and outstanding will be acquired, and will be deemed to be acquired, by the Debtor, without any act or formality on the

part of the Existing Shareholders or the Debtor, all without payment and for no further consideration;

- (iii) all Existing Debtor Equity will be cancelled;
  - (iv) all accrued dividends or other entitlements will be cancelled;
  - (v) the names of the Existing Shareholders will be removed as holders of the Existing Debtor Equity from the share register of the Debtor maintained by or on behalf of the Debtor;
  - (vi) the share registers of the Debtor will be altered to reflect the foregoing and that the Existing Debtor Equity is no longer outstanding;
  - (vii) the Articles of the Debtor will be altered, without any authorization, act or formality from the Existing Shareholders, to eliminate, and cancel all Existing Debtor Equity and the Debtor will file Articles of Reorganization accordingly; and
- (e) Existing Shareholders shall not be entitled to any payment or other compensation with respect to such Existing Debtor Equity and any and all Claims, or other claim, debt, liability or right of any nature whatsoever, that any person may have that are directly or indirectly related to or derived from such Existing Debtor Equity shall be deemed to be released in full without any compensation or indemnity.

**13. INCOME TAX OBLIGATIONS AFTER FILING DATE**

Subject to the provisions of the Proposal, in respect of obligations arising after the Filing Date under the Income Tax Act (Canada), the Debtor covenants and agrees that during the course of the Proposal, if applicable, it will remit current-year installments monthly and file income tax returns as required by the Income Tax Act (Canada);

**14. DISCHARGE OF TRUSTEE**

Upon payment by the Trustee of the amounts contemplated herein, the Trustee shall have discharged its duties as Trustee, the Trustee's obligation under this Proposal shall be fully performed and the Trustee shall be entitled to apply for its discharge as Trustee hereunder.

The Trustee is acting in its capacity as Trustee under this Proposal, and not in its personal capacity and shall not be responsible or liable for any obligations of Debtor.

**15. INSPECTORS**

At the Meeting of Creditors held to consider the Proposal the Creditors may appoint one or more, but not exceeding five, inspectors who shall have all the powers conferred on inspectors by the *Act*.

**16. CONDITIONS FOR IMPLEMENTATION OF THE PROPOSAL**

Implementation of the Proposal shall be subject to the following conditions precedent:

- (a) The conditions more particularly described in section 2 of this Proposal;

- (b) A resolution of the creditors to accept the Proposal (as made or as altered) at the Meeting of Creditors or any adjournment thereof;
- (c) An Order of the Court approving the Proposal;
- (d) The taking of all necessary corporate actions and proceedings to approve the Proposal, including the capital reorganization provided for herein;
- (e) Receipt by the Debtor of a Certificate of Amendment pursuant to which the articles of the Debtor have been amended to give effect to the reorganization provided for in this Proposal;
- (f) The issuance and distribution of the New Shares of the Debtor pursuant to paragraphs 12(a) and 12(b), which will collectively represent one hundred (100) percent of the issued and outstanding shares of the Debtor;
- (g) The obtaining and registration, as required, of any necessary third party consents and releases;
- (h) Confirmation that the terms of the Proposal and its implementation will satisfy all conditions for any license, authorization, certification or permit necessary for the Debtor's ordinary course operations; and
- (i) The performance by the Debtor of all its obligations pursuant to the Proposal;

Once all of the above conditions have been fulfilled or satisfied, when possible, the Proposal shall be deemed to be fully performed and the Trustee will deliver and file with the Court a certificate pursuant to Section 65.3 of the Act.

**17. VALUATION OF CLAIMS, VOTING AND APPLICABLE DATES**

- (a) Claims of all proven creditors shall be valued as at the Filing Date by the Trustee, at or before the Meeting of Creditors or any adjournment thereof.
- (b) Proofs of claim, proxies and voting letters intended to be used at the Meeting of Creditors or any adjournment thereof must be lodged with the Trustee prior to the Meeting of Creditors or any adjournment thereof.
- (c) Creditors must vote their Claims by either returning a properly completed voting letter to the Trustee prior to the Meeting of Creditors or any adjournment thereof, or by attending at the Meeting of Creditors or any adjournment thereof and voting in person or by proxy.

**18. AMENDMENT**

This Proposal may be amended by the Debtor with the consent of the Trustee (i) at the Meeting of Creditors called to consider the same or any adjournment thereof, or (ii) at any time prior to and/or thereafter, including after voting and approval by the Creditors but prior to the granting of an Order of the Court approving the Proposal, provided that any such amendment shall not reduce the rights and benefits given to the Creditors under the Proposal before any such amendment. Any and all amendments made in accordance with the terms hereof shall be deemed to be effective as of the date of the Proposal.

**19. SUPERINTENDENT'S LEVY**

All monies payable under the Proposal in respect of Secured Claims, Preferred Claims, Employee Claims, and Unsecured Claims shall be paid by the Debtor to the Trustee and, notwithstanding any other provision hereof, all payments made by the Trustee in respect of such Claims pursuant to the terms hereof shall be made net of the Superintendent's Levy required to be paid pursuant to Sections 147 and 60(4) of the Act.

Dated at Toronto, Ontario, this 2<sup>nd</sup> day of July, 2014.

**BOGDON & GROSS FURNITURE COMPANY LIMITED**

Per:



**ADAM HOFMANN – PRESIDENT**

I have the authority to bind the Corporation