

Court File No.:

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF *THE BANKRUPTCY AND INSOLVENCY ACT*,
R.S.C. 1985, c. B-3, as amended**

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**IN THE MATTER OF THE PROPOSAL OF
DISTINCTIVE DESIGNS FURNITURE INC.**

PROPOSAL

The Debtor hereby submits the following Proposal to all of its Unsecured Creditors pursuant to Part III of the BIA.

ARTICLE I

DEFINITIONS

1.1 Definitions

In this Proposal save and except as otherwise defined the following defined terms have the following meaning:

- (a) "Administrative Fees and Expenses" means the fees and expenses, including legal fees and disbursements, of the Trustee and the Debtor for and incidental to the negotiation, preparation, presentation, consideration and implementation of the Proposal, and all proceedings and matters relating to or arising out of the Proposal that remain outstanding and unpaid as at the Implementation Date;
- (b) "Approval Order" means an Order of the Court approving the Proposal;
- (c) "BIA" means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended and in force as at the Proposal Date;

- (d) "Business Day" means a day, other than a Saturday or Sunday, on which banks are generally open for business in Toronto, Ontario;
- (e) "Canada Pension Plan" means the *Canada Pension Plan*, R.S.C. 1985, c. C-8, as amended;
- (f) "Claim" means any right or claim of any Person against the Debtor that may be made in whole or in part against the Debtor or any property or assets of the Debtor, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind, which indebtedness, liability or obligation is in existence at the Proposal Date or which is based on an event, act or omission which occurred in whole or in part prior to the Proposal Date, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and whether or not such a right is executory in nature, including, without limitation, the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future based in whole or in part on facts which exist prior to or at the time of the Proposal Date;
- (g) "Court" means the Ontario Superior Court of Justice (in Bankruptcy and Insolvency);
- (h) "Creditor" means any Person having a Claim and may, if the context requires, mean a trustee, receiver, receiver-manager or other Person acting on behalf or in the name of such Person;
- (i) "Creditors' Meeting" means the meeting of the Unsecured Creditors called for the purpose of considering and voting upon the Proposal;
- (j) "Creditors' Meeting Date" means such date and time as may be called by the Trustee, but in any event shall be no later than twenty-one (21) days following the filing of this Proposal with the Official Receiver;
- (k) "Debtor" means Distinctive Designs Furniture Inc.;
- (l) "Election to Reduce Claim" means the form of election attached as Appendix I to this Proposal;
- (m) "Employment Insurance Act" means the *Employment Insurance Act*, S.C. 1996 c. 23, as amended;
- (n) "Implementation Date" means the date upon which the conditions set forth in Article 7.4 have been satisfied;
- (o) "Income Tax Act" means the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp), as amended;



- (p) "Inspectors" means one or more inspectors appointed pursuant to the BIA as provided for in the Proposal;
- (q) "Official Receiver" shall have the meaning ascribed thereto in the BIA;
- (r) "Ordinary Creditors" means Creditors with Proven Unsecured Claims, except for those that are :
 - (i) Preferred Creditors; or
 - (ii) Unaffected Creditors;
- (s) "Payment Certificate" means a certificate issued in accordance with Article VI hereof;
- (t) "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;
- (u) "Preferred Creditors" means Creditors with Proven Unsecured Claims which are required by the BIA to be paid in priority to all other Claims under a proposal made by a debtor (but only in respect and to the extent of such Proven Unsecured Claims) and including, without limitation:
 - (i) employees and former employees of the Debtor, not to include independent commissioned sales agents or contractors, for amounts equal to the amounts that they would be qualified to receive under paragraph 136(1)(d) of the BIA if the Debtor became bankrupt on the Proposal Date, as well as wages, salaries, commissions or compensation for services rendered after that date and before the Court approval of the Proposal, together with, in the case of travelling salesmen, disbursements properly incurred by those salesmen in and about the Debtor's business during the same period. For greater certainty, amounts due or which may become due pursuant to this paragraph do not include claims for severance or termination pay or any compensation in lieu of notice of termination; and
 - (ii) Her Majesty in Right of Canada or a Province for all amounts that were outstanding at the Proposal Date and are of a kind that could be subject to a demand under,
 - (A) subsection 224(1.2) of the *Income Tax Act*;
 - (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

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- (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;
 - (1) 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
 - (2) 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;
- (v) "Proof of Claim" shall mean the proof of claim required by the BIA to be mailed to each known Creditor prior to the Creditors' Meeting;
- (w) "Proposal" means this proposal together with any amendments or additions thereto;
- (x) "Proposal Date" means July 27, 2007;
- (y) "Proven Unsecured Claim" of a Creditor means the amount of the Claim of such Creditor (other than Unaffected Claims) finally determined in accordance with the provisions of the BIA;
- (z) "Secured Creditor" specifically includes Asset Engineering LP and Return on Innovation Advisors Ltd., as agent, and, with respect to the other Creditors, means a Creditor, the claim of which is secured by valid and perfected security against assets of the Debtor, but only to the extent of the amount of such secured Claim as agreed by the Debtor or as finally determined to be a secured Claim by the Court if challenged by the Debtor;
- (aa) "Trustee" means Mintz & Partners Limited or its duly appointed successor or successors;
- (bb) "Unaffected Claims" means the secured Claims of Unaffected Creditors;
- (cc) "Unaffected Creditors" means Secured Creditors in that capacity;
- (dd) "Unsecured Creditors" means, collectively, the Preferred Creditors and the Ordinary Creditors; and

- (ee) "Voting Letter" shall mean the voting letter required by section 51(1) of the BIA to be mailed to each known Creditor prior to the Creditors' Meeting.

1.2 Articles of Reference

The terms "hereof", "hereunder", "herein" and similar expressions refer to the Proposal and not to any particular article, section, subsection, clause or paragraph of the Proposal and include any agreements supplemental hereto. In the Proposal, a reference to an article, section, subsection, clause or paragraph will, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Proposal.

1.3 Interpretation Not Affected by Headings

The division of the Proposal into articles, sections, subsections, clauses or paragraphs and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this Proposal.

1.4 Date for Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action will be required to be taken on the next succeeding day that is a Business Day.

1.5 Time

All times expressed herein are local time in Toronto, Ontario, Canada unless otherwise stipulated. Where the time for anything pursuant to the Proposal on a particular date is unspecified herein, the time shall be deemed to be 5:00 p.m. local time in Toronto, Ontario, Canada.

1.6 Numbers

In the Proposal, where the context requires, a word importing the singular number will include the plural and *vice versa* and a word or words importing gender will include all genders.

1.7 Currency

Unless otherwise stated herein, all references to currency in the Proposal are to lawful money of Canada.

1.8 Statutory References

Except as otherwise provided herein, any reference in the Proposal to a statute includes all regulations made thereunder, all amendments to such statute or regulation(s) in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation(s).

1.9 Successors and Assigns

The Proposal will be binding upon and will enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in the Proposal.

ARTICLE II

GENERAL INTENT

2.1 Effect of Proposal

This Proposal provides for the restructuring of the liabilities of the Debtor through the distribution to Unsecured Creditors of either a monetary payment or a Payment Certificate (as more fully described in Article VI of this Proposal) that will be provided to the Trustee by the Debtor and distributed by the Trustee in accordance with the terms of this Proposal, in full and final satisfaction of all Claims (other than Unaffected Claims) against the Debtor.

2.2 Persons Affected

This Proposal will, as of the Implementation Date, be binding on the Debtor and all Creditors.

2.3 Post-Proposal Goods and Services

All goods supplied and services rendered to the Debtor subsequent to the Proposal Date shall be paid for in full in the ordinary course of business by the Debtor on terms agreed to between the Debtor and the relevant creditors.

2.4 Assets Remain Vested in Debtor

The assets of the Debtor shall not vest in the Trustee, but shall remain vested in the Debtor, and the Trustee shall have no liability whatsoever for the claims of creditors arising before, on or after the Proposal Date.

ARTICLE III

CLASSIFICATION AND TREATMENT OF CREDITORS

3.1 Unaffected Creditors

This Proposal is not being made to Unaffected Creditors and does not impact Unaffected Claims. Unaffected Claims shall be dealt with in accordance with the agreements between the relevant Unaffected Creditor and the Debtor or as otherwise agreed between the relevant Unaffected Creditor and the Debtor.

3.2 Classes of Creditors

For the purposes of voting on the Proposal, the Creditors of the Debtor shall be comprised of one class, as follows:

Unsecured Creditors.

3.3 Preferred Creditors

The Proven Unsecured Claims of the Preferred Creditors are to be paid by the Trustee in full in priority to all Proven Unsecured Claims of Ordinary Creditors in accordance with the scheme of distribution set forth in the BIA. For greater certainty, the amounts referred to in Article 1.1(u)(i) shall be paid immediately after the making of the Approval Order and the amount referred to in Article 1.1(u)(ii) shall be paid within six (6) months of the Approval Order or as otherwise agreed.

3.4 Ordinary Creditors

The Proven Unsecured Claims of Ordinary Creditors will be satisfied in accordance with Article VI.

3.5 Different Capacities

Persons who are affected by this Proposal may be affected in more than one capacity. Unless expressly provided herein to the contrary, a Person is entitled to participate hereunder in each such capacity. Any action taken by a Person in one capacity will not affect such Person in any other capacity, unless expressly agreed by the Person in writing or unless its Claims overlap or are otherwise duplicative.

ARTICLE IV

PROCEDURE FOR VALIDATION OF CLAIMS

4.1 Filing of Proofs of Claim

Each Unsecured Creditor must file a Proof of Claim to vote on, or to receive a distribution under, the Proposal.

4.2 Allowance or Disallowance of Claims by the Trustee

Upon receipt of a completed Proof of Claim, the Trustee shall examine the Proof of Claim and shall deal with each claim in accordance with the provisions of the BIA. The procedure for valuing Claims of Unsecured Creditors and resolving disputes with respect to such Claims will be as set forth in the BIA. The Debtor and/or the Trustee reserve the right to seek the assistance of the Court in valuing the Claim of any Unsecured Creditor, if required, to ascertain the result of any vote on the Proposal or the amount payable or to be distributed to such Unsecured Creditor under the Proposal, as the case may be.



ARTICLE V

MEETING OF CREDITORS

5.1 Unsecured Creditors' Meeting

On the Creditors' Meeting Date, the Debtor shall hold the Creditors' Meeting in order for the Unsecured Creditors to consider and vote upon the Proposal.

5.2 Time and Place of Meeting

Unless otherwise ordered by the Court, the Creditors' Meeting shall be held at a time and place to be established by the Official Receiver, or the nominee thereof, and confirmed in the Trustee's notice of meeting to be mailed pursuant to the BIA.

5.3 Conduct of Meetings

The Official Receiver, or the nominee thereof, shall preside as the chair of the Creditors' Meeting and will decide all matters relating to the conduct of the Creditors' Meeting. The only Persons entitled to attend the Creditors' Meeting are those Persons, including the holders of proxies, entitled to vote at the Creditors' Meeting, the Secured Creditors and their respective legal counsel, if any, and the officers, directors, auditors and legal counsel of the Debtor, together with such representatives of the Trustee as the Trustee may appoint in its discretion, and such scrutineers as may be duly appointed by the chair of such meeting. Any other Person may be admitted on invitation of the chair of the Creditors' Meeting or with the consent of the Unsecured Creditors.

5.4 Adjournment of Meetings

The Creditors' Meeting may be adjourned in accordance with Section 52 of the BIA.

5.5 Voting by Unsecured Creditors

To the extent provided for herein, each Unsecured Creditor will be entitled to vote to the extent of the amount that is equal to that Creditor's Proven Unsecured Claim.

5.6 Approval by Creditors

In order that the Proposal be binding on all of the Unsecured Creditors of the Debtor in accordance with the BIA, it must first be accepted by the Unsecured Creditors by a majority in number of the Unsecured Creditors who actually vote upon the Proposal (in person or by proxy) at the Creditors' Meeting or by a Voting Letter, representing two-thirds in value of the Proven Unsecured Claims of the Unsecured Creditors who actually vote upon the Proposal (whether in person or by proxy) at the Creditors' Meeting or by a Voting Letter.

5.7 Appointment of Inspectors

At the Meeting of Creditors the Unsecured Creditors may appoint up to five (5) Inspectors whose powers will be limited to:



- (a) advising the Trustee concerning any dispute which may arise as to the validity of Claims; and
- (b) advising the Trustee from time to time with respect to any other matter that the Trustee may refer to them.

Any decision, direction or act of the Inspectors may be referred to the Court by the Trustee and the Court may confirm, reverse or modify the decision, direction or act and make such order as it thinks just.

The authority and term of office of the Inspectors will terminate upon the discharge of the Trustee.

ARTICLE VI

DISTRIBUTION

6.1 Implementation of Proposal

- (a) On the Implementation Date, the Debtor shall pay to the Trustee an amount sufficient to pay the Administrative Fees and Expenses and the Proven Unsecured Claims of the Preferred Creditors in accordance with Article 3.3 (the "Initial Proceeds"). The Administrative Fees and Expenses and the Proven Unsecured Claims of the Preferred Creditors shall be paid by the Trustee out of the Initial Proceeds in accordance with Article 3.3;
- (b) Each Ordinary Creditor which, on the Proposal Date, (x) holds Proven Unsecured Claims in an aggregate amount of \$1,500 or less or, (y) holds Proven Unsecured Claims in an aggregate amount in excess of \$1,500 and, by providing an Election to Reduce Claim to the Trustee prior to the date which is two Business Days following the making of the Approval Order, reduces the aggregate amount of all such Ordinary Creditor's Proven Unsecured Claims to \$1,500, in either case, will receive in respect of its Proven Unsecured Claims, within 60 days after the Implementation Date or as soon thereafter as is practicable, in full and final satisfaction of those Proven Unsecured Claims, a dividend equal to the lesser of:
 - (i) \$1,500; and
 - (ii) the aggregate amount of such Creditor's Proven Unsecured Claims;

in all cases, subject to deduction of the Superintendent's Levy payable in respect thereof.

A Person who receives a payment in accordance with this Article 6.1(b) shall not be entitled to any other payment or consideration with respect to such Person's Proven Unsecured Claims and such Person's Proven Unsecured Claims shall be discharged and extinguished upon such Person's receipt of payment hereunder;

- (c) each Ordinary Creditor who, on the Proposal Date, holds Proven Unsecured Claims in an aggregate amount in excess of \$1,500 and who has not provided to the Trustee an Election to Reduce Claim on or before the date which is two Business Days following the making of the Approval Order (which Approval Order is currently intended to be sought on or about September 11, 2007) shall, within 90 Days following the Implementation Date or as soon thereafter as is practicable, receive a certificate (a "Payment Certificate") in an amount equal to 75% of the aggregate of all its Proven Unsecured Claims, minus a *pro rata* portion of the total amount of the Superintendent's Levy required by the BIA to be paid in respect of all such distributions, in full and final satisfaction of its Proven Unsecured Claims. The Payment Certificate will provide that the holder of the Payment Certificate is entitled to a *pro rata* share of the amount to be distributed by the Debtor in accordance with paragraph (e) below;
- (d) The Trustee shall pay the Superintendent's Levy with respect to the cash dividends paid and distribute to the Superintendent of Bankruptcy a single Payment Certificate for the remaining amount of the Superintendent's Levy required by the BIA, calculated on the assumption that there will be dividends paid in an amount equal to the face amounts of the Payment Certificates;
- (e) Within 180 days of the end of the calendar year for each year commencing 2008 and ending 2012, the Debtor shall distribute to holders of Payment Certificates, on a *pro rata* basis based upon the face amount of the Payment Certificates, an amount equal to their *pro rata* share of a percentage of the Debtor's income after tax ("Profits") (calculated as set out below) which will be payable without interest, as follows:

Profits for the year	Percent to Certificate Holders	Maximum Cumulative Payment to Holders
\$0 to \$1.5 Million	20%	\$300,000
\$1.5 Million to \$2.0 Million	30%	\$450,000
\$2.0 Million to \$2.5 Million	40%	\$650,000
Greater than \$2.5 Million	50%	Balance of outstanding Payment Certificates

Profits shall be calculated in accordance with generally accepted accounting principles on the basis of the Debtor's income after tax. The term of the Payment Certificates shall be five years commencing with the 2008 calendar year. The Debtor will make such distributions until the earlier of: (i) the distribution required hereby for the year ended December 31, 2012, or (ii) such time as the amount of the distributions made by the Debtor equals the total face amount of the Payment Certificates issued pursuant hereto. Provided that the Debtor makes all distributions that it is required to make pursuant to this Article 6.1(e), then, even if

holders of the Payment Certificates have still not received aggregate payments equal to the total face amount of their Payment Certificates once the payments required to be made hereunder in respect of the 2012 calendar year are made, the Payment Certificates shall be of no further force and effect and the Debtor shall have no further obligation to the holders of the Payment Certificates and the holders of the Payment Certificates shall have no further right or recourse against the Debtor in respect thereof; and

- (f) The Debtor shall include with the distributions hereunder a report from a senior officer stating that, in his or her opinion, the computation of the Profits has been made in accordance with paragraph (e).

6.2 Discharge of Trustee

Upon distribution of the amounts payable under Article 6.1(b), the Payment Certificates under Article 6.1(c), and payment of the Administrative Fees and Expenses and the Proven Unsecured Claims of the Preferred Creditors, the Trustee shall have discharged its duties as Trustee and the Trustee shall be entitled to apply for its discharge as Trustee hereunder. For greater certainty, the Trustee will not be responsible or liable for any obligations of the Debtor before, on or after the Proposal Date and will be exempt from any personal liability in fulfilling any duties or exercising any powers conferred upon it by this Proposal unless such acts have been carried out in bad faith and constitute a wilful or wrongful act or default.

6.3 Certificate of Full Performance

Upon distribution of the amounts payable under Article 6.1(b) and the Payment Certificates, and payment of the Administrative Fees and Expenses and the Proven Unsecured Claims of the Preferred Creditors, this Proposal shall have been fully performed and the Trustee shall issue to the Debtor the certificate referred to in section 65.3 of the BIA.

ARTICLE VII

MISCELLANEOUS

7.1 Compromise Effective for all Purposes

Upon the implementation of this Proposal on the Implementation Date, all Claims other than Unaffected Claims shall be forever discharged and released, excepting only the obligations of the Debtor to make distributions in respect of the Payment Certificates in the manner and to the extent provided for in this Proposal. The compromises contemplated hereunder will be binding upon each Creditor, its heirs, executors, administrators, successors and assigns, for all purposes.

7.2 Modification of Proposal

The Debtor or any Unsecured Creditor may propose an alteration or modification to the Proposal prior to the vote taking place on the Proposal.



7.3 Consents, Waivers and Agreements

As at 12:01 a.m. on the Implementation Date, each Creditor (other than Unaffected Creditors in respect of Unaffected Claims) shall be deemed:

- (a) to have executed and delivered to the Debtor all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Proposal in its entirety;
- (b) to have waived any default by the Debtor in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor that has occurred on or prior to the Proposal Date;
- (c) to have agreed, in the event that there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor as at the Proposal Date (other than those entered into by the Debtor on, or with effect from, the Proposal Date) and the provisions of this Proposal, that the provisions of this Proposal shall take precedence and priority and the provisions of such agreement or other arrangement shall be amended accordingly; and
- (d) to have released and discharged the Debtor, the Trustee and all of their respective affiliates, employees, agents, directors, former directors, officers, shareholders, advisors, consultants and solicitors from any and all demands, claims, actions, causes of action, counter-claims, suits, debts, sums of money, accounts, covenants, damages, judgements, expenses, executions, liens, set-off rights and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Proposal Date, relating to or arising out of or in connection with Claims, the business and affairs of the Debtor, the Proposal or any of the matters herein.

7.4 Conditions to Proposal Implementation

The implementation of the Proposal by the Debtor will be conditional upon the fulfilment or satisfaction of the following conditions:

- (a) acceptance of the Proposal by the Unsecured Creditors;
- (b) obtaining of the Approval Order and the expiry of all appeal periods.

7.5 Effect of Proposal Generally

As at 12:01 a.m. on the Implementation Date, the treatment of all Claims under the Proposal shall be final and binding on the Debtor and all Creditors (along with their respective heirs, executors, administrators, legal personal representatives, successors and assigns) and the Proposal shall

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constitute (a) a full, final and absolute settlement of all rights of Creditors (other than in respect of Unaffected Claims); and (b) an absolute release and discharge of all indebtedness, liabilities and obligations of the Debtor of or in respect of all Claims (other than Unaffected Claims).

7.6 Section 91 to 101 of the BIA

Sections 91 to 101 of the BIA shall not apply.

7.7 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall refer to this Proposal and may, subject as hereinafter provided, be made or given by personal delivery, or by fax addressed to the respective parties as follows:

- (a) if to the Debtor:

Distinctive Designs Furniture Inc.
600 Clayson Road
Toronto, Ontario
M9M 2H2
Attention: Jim McAloney
Fax: (416) 740-7776

with a copy to:

Bennett Jones LLP
Suite 3400, One First Canadian Place
Toronto, Ontario
M5X 1A4
Attention: S. Richard Orzy
Fax: (416) 863-1716

- (b) if to an Unsecured Creditor, to the address or fax number for such Unsecured Creditor specified in the Proof of Claim filed by such Unsecured Creditor or, if no Proof of Claim has been filed, to such other address or telecopier number at which the notifying party may reasonably believe that the Unsecured Creditor may be contacted; and

- (c) if to the Trustee:

Mintz & Partners Limited
200 – 1 Concorde Gate
Toronto, Ontario
M3C 4G4
Attention: Daniel R. Weisz
Fax: (416) 644-4303

or to such other address or fax number as any party may from time to time notify the others in accordance with this section. All such notices and communications will be deemed to have been received, in the case of notice by fax or by delivery prior to 5:00 p.m. (local time) on a Business Day, when received or if received after 5:00 p.m. (local time) on a Business Day or at any time on a non-Business Day, on the next following Business Day. The unintentional failure to give a notice contemplated hereunder to any particular Creditor will not invalidate this Proposal or any action taken by any Person pursuant to this Proposal.

7.8 Foreign Currency Obligations

For purposes of this Proposal, Claims denominated in a currency other than Canadian funds will be converted to Canadian Dollars at the closing spot rate of exchange of the Bank of Canada on the Proposal Date.

7.9 Applicable Law

This Proposal shall be construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

7.10 Severability of Proposal Provisions

If, prior to the making of the Approval Order, any term or provision of this Proposal is held by the Court to be invalid, void or unenforceable, the Debtor reserves the right to apply to the Court to either (i) sever such term or provision from the balance of this Proposal and provide the Debtor with the option to proceed with implementation of the balance of this Proposal as of and with effect from the Implementation Date, or (ii) alter or interpret such term or provision to make it valid and enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such severing, voiding, alteration or interpretation, and provided that the Debtor proceeds with the implementation of this Proposal, the remainder of the terms and provisions of this Proposal shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such severing, voiding, alteration or interpretation.

7.11 Deeming Provisions

In this Proposal the deeming provisions are not rebuttable and are conclusive and irrevocable.

7.12 Further Assurances

Notwithstanding that the transactions and events set out in this Proposal shall occur without any additional act or formality, each of the Persons affected hereby shall make, do and execute, or cause to be made, done or executed at the cost of the requesting party, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may be reasonably required by the Debtor in order to better implement this Proposal.



DATED at the City of Toronto, in the Province of Ontario, this 27th day of July, 2007.

**DISTINCTIVE DESIGNS FURNITURE
INC.**

Per:



Name: ALAN KORNBLUM

Title: PRESIDENT

I have authority to bind the corporation.

SCHEDULE I

ELECTION TO REDUCE CLAIM

TO: MINTZ & PARTNERS LIMITED ("Mintz"), in its capacity as Trustee in re The Proposal of Distinctive Designs Furniture Inc. ("Distinctive Designs")

RE: THE PROPOSAL OF DISTINCTIVE DESIGNS FURNITURE INC. (the "Distinctive Designs Proposal")

For Use by Unsecured Creditors of Distinctive Designs with aggregate Proven Unsecured Claims in excess of \$1,500 who wish to reduce their total Proven Unsecured Claims to \$1,500 and receive a cash payment.

THE UNDERSIGNED CREDITOR with Proven Unsecured Claims against Distinctive Designs acknowledges that the total amount of its Proven Unsecured Claims exceeds \$1,500 and hereby:

- (a) reduces the aggregate of the undersigned's Proven Unsecured Claims to \$1,500;
- (b) releases all other Unsecured Claims of the undersigned; and
- (c) elects to receive payment in accordance with Section 6.1(b) rather than Section 6.1(c) of the Distinctive Designs Proposal.

Dated this ____ day of August, 2007.

Print Name of Unsecured Creditor

Signature of Unsecured Creditor or, if the Unsecured Creditor is a corporation, signature of an authorized signing officer of the corporation

Title of Authorized Signing Officer

THIS ELECTION MUST BE PROVIDED TO THE TRUSTEE SO THAT IT IS RECEIVED BY THE TRUSTEE AT THE FOLLOWING ADDRESS ON OR BEFORE THE DATE WHICH IS TWO BUSINESS DAYS FOLLOWING THE MAKING OF THE APPROVAL ORDER (WHICH APPROVAL ORDER IS CURRENTLY INTENDED TO BE SOUGHT ON OR ABOUT SEPTEMBER 11, 2007).

Mintz & Partners Limited
(In its capacity as Trustee in re The Proposal of
Distinctive Designs Furniture Inc.)
200 - 1 Concorde Gate
Toronto, ON M3C 4G4

Attention: Daniel R. Weisz
Telephone: (416) 644-4386
Fax: (416) 644-4303



IN THE MATTER OF THE PROPOSAL OF DISTINCTIVE DESIGNS FURNITURE INC. OF THE CITY OF TORONTO IN THE PROVINCE OF ONTARIO

Court File No.

**SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY**

PROPOSAL

**MINTZ & PARTNERS LIMITED
TRUSTEE IN RE THE PROPOSAL OF
DISTINCTIVE DESIGNS FURNITURE INC.**

1 Concorde Gate
Suite 200
Toronto, ON M3C 4G4

DANIEL R. WEISZ

Telephone: (416) 644-4386
Facsimile: (416) 644-4303