

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**

- and -

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

PROPOSAL (Amended August 16, 2007)
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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;

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- (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

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- (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).

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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.

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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 ^{2013 AR} 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~~ ^{SIX} 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

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