

CANADA

SUPERIOR COURT

PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
DIVISION NO.: 01-MONTRÉAL  
COURT NO. 500-11-026657-052  
ESTATE NO.: 41-332420

(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF FLY AMERICA FURNITURE INC., a corporation, duly incorporated according to law and having its principal place of business at 7225 route Transcanadienne, St-Laurent, Quebec H4T 1A2  
DEBTOR

## TRANSLATION

### PROPOSAL

We, **FLY AMERICA FURNITURE INC.**, hereby submit the following proposal under the *Bankruptcy and Insolvency Act*:

1. For purposes hereof:

“ACT” means the *Bankruptcy and Insolvency Act*;

“COMMITTEE” means the committee comprising up to three (3) individuals to be named by the creditors at the PROPOSAL MEETING;

“CORPORATION” means Fly America Furniture Inc.;

“COURT” means the Superior Court of Quebec, Judicial District of Montreal (Commercial Division);

“INVESTMENT” means a transaction pursuant to which funds shall be generated by the issuance or sale of shares of the CORPORATION;

“NET AMOUNT DERIVED FROM THE INVESTMENT OR THE TRANSACTION” means the amount generated by the INVESTMENT or the TRANSACTION, after deduction of all amounts which shall be disbursed to carry out the INVESTMENT or the TRANSACTION including, without limitation, any amount disbursed in the context of a reorganization or arrangement initiated pursuant to the provisions of the *Canada Business Corporations Act*;

“NET PROCEED” means the balance of the NET AMOUNT DERIVED FROM THE INVESTMENT or THE TRANSACTION after payment of all (i) PROPOSAL EXPENSES, (ii) POST-FILING OBLIGATIONS, (iii) applicable SECURED CLAIMS, (iv) PREFERRED CLAIMS and any other amount to be paid in priority to ORDINARY CREDITORS;

“NOTICE OF INTENTION” means the Notice of Intention to make a proposal under the ACT filed on October 11, 2005;

“ORDINARY CLAIMS” means claims of the ORDINARY CREDITORS including claims of any nature whatsoever, whether owing or not as at the date of filing of the NOTICE OF INTENTION of the CORPORATION, including contingent or unliquidated claims arising out of any transaction entered into by the CORPORATION prior to the date of filing of the NOTICE OF INTENTION and, as the case may be, any damage and any other amount that a creditor or an employee of the CORPORATION would be able to claim pursuant to the carrying out of the INVESTMENT or the TRANSACTION;

“ORDINARY CREDITORS” means a person having an unsecured claim against the CORPORATION, provable as a claim under the ACT;

“POST-FILING OBLIGATIONS” means any and all obligations incurred by the CORPORATION in the course of its activities, accrued and unpaid from the date of filing of the NOTICE OF INTENTION, or those which the CORPORATION anticipates having to incur thereafter until the PROPOSAL has been satisfied, excluding any damage and any other amount that a creditor or an employee of the CORPORATION would be able to claim pursuant to the carrying out of the INVESTMENT or the TRANSACTION;

“PREFERRED CLAIMS” means all claims directed by the ACT to be paid in priority to all other claims in the distribution of the property of an insolvent debtor;

“PROPOSAL” means this Proposal;

“PROPOSAL APPROVAL” means collectively the approval of the PROPOSAL by the creditors of the CORPORATION and its approval by the COURT pursuant to a judgment which has become executory as a result of all and any delay for appeal having expired;

“PROPOSAL EXPENSES” means all fees, expenses, liabilities and obligations of the TRUSTEE, and all legal fees of the TRUSTEE or CORPORATION’s counsel and accounting fees on and incidental to the proceedings arising out of the NOTICE OF INTENTION and of the PROPOSAL or the INVESTMENT or the TRANSACTION;

“PROPOSAL MEETING” means the meeting of the creditors of the CORPORATION called for the purpose of considering the PROPOSAL;

“SECURED CLAIMS” means claims of secured creditors within the meaning of the ACT;

“TRANSACTION” means one or several transactions pursuant to which funds shall be generated by the sale of the assets of the CORPORATION, in whole or in part;

“TRUSTEE” means RSM Richter Inc.;

2. The SECURED CLAIMS shall be paid in accordance with arrangements existing between the CORPORATION and the holders of SECURED CLAIMS or as may be arranged between the CORPORATION and the holders of SECURED CLAIMS. For greater certainty, the CORPORATION agrees that nothing herein contained will in any way affect the rights of the holders of the SECURED CLAIMS;

3. Amounts:
  - (a) owing to Her Majesty in right of Canada or a Province that could be subject to a demand under Section 224 (1.2) of the *Income Tax Act*, or under 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 under any substantially similar provision of provincial legislation, outstanding at the time of the filing of the NOTICE OF INTENTION, will be paid, without interest, in full within six (6) months after PROPOSAL APPROVAL;
  - (b) owing to employees and former employees, that they would have been entitled to receive under Section 136(1)(d) of the ACT if the employer became bankrupt on the date of PROPOSAL APPROVAL, will be paid in full immediately after PROPOSAL APPROVAL;
4. The PROPOSAL EXPENSES will be paid in priority to all PREFERRED CLAIMS and claims of ORDINARY CLAIMS;
5. The PREFERRED CLAIMS, without interest, will be paid in full in priority to ORDINARY CLAIMS, within sixty (60) days of PROPOSAL APPROVAL;
6. POST-FILING OBLIGATIONS will be paid in full in the ordinary course of business;
7. Each of the ORDINARY CREDITORS will receive, in full and final settlement of its ORDINARY CLAIM, without interest, an amount equal to its pro-rata share of the NET PROCEED, payable after the completion of the INVESTMENT or the TRANSACTION as soon as the amount of the ORDINARY CLAIMS has been determined. Interim dividends may be paid from time to time. The amount and timing of interim dividends, if any, and the reserves to be retained, shall be determined by the TRUSTEE, in consultation with the COMMITTEE;
8. The CORPORATION agrees to the formation of a committee of up to three (3) individuals ("COMMITTEE") to be named by the creditors at the PROPOSAL MEETING. The COMMITTEE will have the power to:
  - (a) advise the TRUSTEE on matters relating to the administration of the PROPOSAL;
  - (b) waive any default in the performance of any provision in the PROPOSAL;
  - (c) confirm that the CORPORATION has complied with the terms and conditions of the PROPOSAL; and
  - (d) postpone the payment of any dividends to ORDINARY CREDITORS herein provided;
9. The PROPOSAL herein made will constitute a compromise of claims against the present and past directors of the CORPORATION that arose before the filing of the NOTICE OF INTENTION and that relate to the obligations of the CORPORATION where the directors are by law liable in their capacity as directors. PROPOSAL APPROVAL will operate a discharge in favour of such present and past directors with respect to such obligations;

10. RSM Richter Inc., Licensed Trustee, will be the TRUSTEE under the PROPOSAL and all monies payable under the PROPOSAL will be paid over to the TRUSTEE which will remit dividends in accordance with the terms of the PROPOSAL.

IN THE EVENT OF ANY DISCREPANCY BETWEEN THE ENGLISH AND THE FRENCH VERSION OF THIS PROPOSAL, THE FRENCH VERSION WILL TAKE PRECEDENCE.

DATED AT MONTREAL, QUEBEC, THIS 28<sup>TH</sup> DAY OF OCTOBER, 2005.

**FLY AMERICA FURNITURE INC.**

*(signed) Benoit Gingues*

Per: *(signed) Claude Chagnon*

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Witness

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CLAUDE CHAGNON  
Duly Authorized