

**SUPERIOR COURT OF QUEBEC
(COMMERCIAL DIVISION)
DISTRICT OF MONTREAL**

COURT FILE No. 500-11-033239-085

PLAN OF ARRANGEMENT

OF

**SHERMAG INC., JAYMAR FURNITURE CORP.,
SCIERIE MONTAUBAN INC.,
MÉGABOIS (1989) INC.,
SHERMAG CORPORATION,
JAYMAR SALES CORPORATION**

PURSUANT TO THE

***COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985 C. C-36**

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**SECTION 1
INTERPRETATION**

1.1 DEFINITIONS

Unless specified otherwise, the following words and terms are defined as follows:

- (a) “**Administration Charge**” means the hypothec or other surety in favour of the Monitor, the Monitor’s attorneys and the Companies’ attorneys granted pursuant to paragraph 33 of the Initial Order;
- (b) “**Arrangement**” or “**Plan**” means this plan of arrangement, as may be amended from time to time, in accordance with the terms hereof;
- (c) “**Bermex**” means Groupe Bermex Inc.
- (d) “**Business Day**” means a day, other than a Saturday, a Sunday, or a non-judicial day (as defined in Article 6 of the *Code of Civil Procedure*, R.S.Q., c. C-25, as amended);
- (e) “**Canadian Bar Date**” means
 - i) with respect to any Claim other than a Restructuring Claim , 5:00 p.m. (Eastern Standard Time) on September 5, 2008; or
 - ii) with respect to a Restructuring Claim, the later of (A) 5:00 p.m. (Eastern Standard Time) on September 5, 2008 or (B) twenty (20) days after the date of receipt by the Creditor of a notice advising the Creditor to file a Proof of Claim as a result of the restructuring, repudiation or termination of the contract, lease, employment agreement or other agreement.

- (f) **“Canadian Process Order”** means the order rendered by the Court on July 18, 2008 as amended on July 24, 2008 establishing the process for the filing and adjudication of Claims and establishing the Canadian Bar Date, as may be amended from time to time, as the case may be;
- (g) **“CCAA”** means the *Companies’ Creditors Arrangement Act*, R.S.C. (1985), c. C-36, as amended from time to time;
- (h) **“CCAA Proceedings”** means the proceedings in respect of the Companies under the CCAA commenced pursuant to the Initial Order;
- (i) **“Cities”** or **“City”** means any city, municipality, town, village or any other similar public body duly constituted;
- (j) **“Cities Secured Claims”** means the Claim(s) held by any City, which holds a hypothec, a pledge, a lien or any other security or charge on all or part of the property of the Companies as security for such a Claim, with the specific exclusion of any Unsecured Claim held by any such City;
- (k) **“Claims Bar Date”** means the Canadian Bar Date or the US Bar Date as the case may be;
- (l) **“Claim”** means any right or claim of any Person against the Companies, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind of the Companies owed to such person and any interest accrued thereon or costs payable in respect thereof, whether liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including 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, which indebtedness, liability or obligation is based in whole or in part on facts existing prior to the Determination Date, or which would have been claims provable in bankruptcy had the Companies become bankrupt on the Determination Date, and, without limitation, shall include (i) any Unaffected Claim, or (ii) any Restructuring Claim, provided however, that in no case shall a Claim include an Excluded Claim;
- (m) **“Common Shares”** means the common shares of Shermag;
- (n) **“Company”** or **“Companies”** means Shermag Inc., Jaymar Furniture Corp., Scierie Montauban Inc., Megabois Inc., Shermag Corporation as well as Jaymar Sales Corporation.
- (o) **“Contract of Successive Performance”** means a contract pursuant to which the Creditor performs its obligations successively or continuously;

- (p) “**Court**” means the Superior Court of Quebec, sitting in the Commercial Division, in the District of Montreal, the Court of Appeal of Quebec and, as the case may be, the Supreme Court of Canada;
- (q) “**Creditor**” means any Person having a Claim and may, where the context requires, include the assignee of a Claim or a trustee, interim receiver, receiver, receiver and manager, or other Person acting on behalf of such Person. A Creditor shall not include an Excluded Creditor in respect of that Person’s claim resulting from an Excluded Claim;
- (r) “**Creditors’ Meeting**” means the meeting of the Creditors called to consider and vote on the Plan in accordance with the CCAA as well as any adjournment, postponement or continuation thereof;
- (s) “**Crown**” means Her Majesty in Right of Canada or of a province, as well as any federal, provincial or municipal organization, public authority or para-public authority;
- (t) “**D&O Charge**” means the hypothec or other surety in favour of the directors and officers granted pursuant to paragraph 24 of the Initial Order;
- (u) “**Designated Secured Creditors**” means (i) the Lender, (ii) the Interim Lender with respect to the Interim Financing and (iii) a beneficiary of the D&O Charge and the Administration Charge;
- (v) “**Determination Date**” means May 5, 2008;
- (w) “**Distribution**” means a payment made in accordance with the Plan;
- (x) “**Distribution Fund**” means the New Funds;
- (y) “**Effective Date**” means the later of the following dates:
 - i) the first business day following the day on which the Sanction Order became final and acquired the authority of *res judicata*;
 - ii) the day following the date on which all of the conditions to implement the Plan, as described in Section 8 hereof, were duly met or were waived in writing by the Companies;
- (z) “**Employee**” means a Person who, after the Claims Bar Date, was still employed by one or more of the Companies or whose services were still retained as an employee at the request of one or more of the Companies at the date of this Plan and that his employment is not a Resiliated Contract at the Effective Date;
- (aa) “**Excluded Claim**” means any right of any Person against the Companies in connection with any indebtedness, liability or obligation of any kind which came into existence after the Determination Date and any interest thereon, including

any obligation of the Companies toward creditors who have supplied or shall supply services, utilities, goods or materials or who have or shall have advanced funds to the Companies after the Determination Date, but only to the extent of their claims in respect of the supply of such services, utilities, goods, materials or funds after the Determination Date and to the extent that such Claims are not otherwise affected by the Plan;

- (bb) “**Excluded Creditor**” means any Person, other than a Designated Secured Creditor, holding an Excluded Claim;
- (cc) “**Geosam**” means Geosam Investments Limited;
- (dd) “**Initial Order**” means the order of the Court made on May 5, 2008 under the CCAA as extended, amended or restated as the case may be;
- (ee) “**Inter-Company Claim**” means any debt, liability or obligation whatsoever the Companies may have toward one another existing before the Determination Date;
- (ff) “**Interim Financing**” means the interim financing provided to the Companies pursuant to the order rendered by the Court on August 12, 2009;
- (gg) “**Interim Lender**” means Bermex in relation to the Interim Financing;
- (hh) “**Lender**” means Geosam;
- (ii) “**Monitor**” means RSM Richter Inc. in its capacity as monitor pursuant to the Initial Order;
- (jj) “**New Common Shares**” means the 41 666 667 Common Shares which will be issued in accordance with this Plan to the Plan Sponsor in consideration for the New Funds;
- (kk) “**New Funds**” means the new funds of \$1,250,000 which will be injected by the Plan Sponsor to fund the Plan and pay a dividend to the Unsecured Creditors and the Secured Creditors as a compromise and settlement of their Claims;
- (ll) “**Notice of Scheduled Employee’s Claim**” means the notice of scheduled employee’s claim sent by the Monitor to the Scheduled Employees using the notice of scheduled employee’s claim form in accordance with the Process Order;
- (mm) “**Notice of Dispute**” means a notice of dispute filed by a Scheduled Employee using the notice of dispute form in accordance with the Process Order;
- (nn) “**Notice to Creditors**” means the notice of the Creditors’ Meeting sent to all the Creditors having filed a Proof of Claim, to which a copy of the Plan, a voting form, the Monitor’s report on the Plan and any other document deemed necessary by the Monitor, will be attached;

- (oo) **“Person”** means any individual, corporation, limited or unlimited liability company, general or limited partnership, association, trust, unincorporated organization, joint venture, governmental body or agency, the Crown or any other entity;
- (pp) **“Plan”** or **“Arrangement”** means this plan of arrangement, as same may be amended from time to time, in accordance with the terms hereof;
- (qq) **“Plan Sponsor”** means Bermex;
- (rr) **“Process Order”** means the Canadian Process Order including, when applicable, the US Order;
- (ss) **“Proof of Claim”** means a proof of claim filed by a Creditor using the proof of claim form in accordance with the Process Order describing the Claim, duly supported by a statement of account, invoice or affidavit;
- (tt) **“Proven Claim”** means the amount of a Claim which has been finally determined for voting and distribution purposes in accordance with the Process Order, the CCAA and any other order rendered by the Court;
- (uu) **“Released Party”** means any Person benefiting from the release provided in subsection 6.6 hereof;
- (vv) **“Resiliated Contract”** means any written or verbal contract, agreement or undertaking, including any employment or similar agreement to which one or more of the Companies are party or pursuant to which their property is concerned or encumbered and (i) which was repudiated, resiliated or rescinded by one or the other of the Companies in accordance with the terms and conditions of the Initial Order or (ii) was the subject matter of a notice of repudiation, resolution or resiliation by one or the other of the Companies after the Determination Date;
- (ww) **“Restructuring Claim”** means any right of any Person against the Companies in connection with any indebtedness, liability or obligation of any kind owed to such Person arising out of the restructuring, repudiation, or termination of any contract, lease, employment agreement, collective agreement or other agreement, whether written or oral, after the Determination Date, including any right of any Person who receives a notice of repudiation or termination from the Companies, provided however, that a Restructuring Claim shall not include an Excluded Claim, but shall include any and all Claims from any and all tax authorities resulting, directly or indirectly, from the acceptance of the Plan by the Creditors and its approval by the Court, including any and all Claims for Goods and Services Tax and for Sales Tax payable following a reduction and/or a settlement of the Companies' debt or liabilities;
- (xx) **“Sanction Order”** means the Order sought from the Court in order to sanction the Plan once it has been accepted by the Creditors and to allow and authorize any

and all steps, actions, shares issuance and any other matter provided for and contemplated by the Plan;

- (yy) “**Secured Creditor**” means any Person, other than a Designated Secured Creditor, or a City, holding a hypothec, a pledge, a lien or any other security or charge on all or part of the property of the Companies as security for a Claim;
- (zz) “**Scheduled Employees**” means those Creditors who were employed by the Companies prior to the Claims Bar Date or later and whose employment was terminated by the Companies prior to the Claims Bar Date or later and who received a Notice of Scheduled Employee’s Claim given the termination of their employments;
- (aaa) “**Shermag**” means Shermag Inc.;
- (bbb) “**TSX**” means the Toronto Stock Exchange;
- (ccc) “**Unaffected Claim**” means (i) a Claim resulting from the Companies’ obligations toward the Employees with regard to overtime, statutory holidays, sick days, deferred leave and vacation time, (ii) an Inter-Company Claim, (iii) all Claims of the Lender, (iv) a Claim secured by the Administration Charge, (v) a Claim of the Interim Lender in relation to the Interim Financing and (vi) any Claim of the Designated Secured Creditors;
- (ddd) “**Unaffected Creditor**” means a Person having an Unaffected Claim but only in respect of such Unaffected Claim;
- (eee) “**Unsecured Creditor**” means a Creditor other than a Secured Creditor or a Designated Secured Creditor;
- (fff) “**US Bar Date**” means 5:00 p.m. (Eastern Standard Time) on February 27, 2009 for Claims of US Creditors not bound by the Canadian Process Order;
- (ggg) “**US Court**” means the United States Bankruptcy Court for the Middle District of North Carolina, Greensboro Division.
- (hhh) “**US Order**” means the order rendered on January 14, 2009 by the US Court regarding the Companies which (i) recognized the Canadian proceedings as foreign main proceedings, (ii) enforced the CCAA Proceedings of the Court in the Unites States of America and (iii) established the US Bar Date;
- (iii) “**Voting Claim**” of a Creditor means the Proven Claim of the Creditor unless the Proven Claim of the Creditor is not finally determined at the time of the Creditors’ Meeting, in which case it means the Claim of the Creditor which is accepted for voting purposes in accordance with the provisions of the Process Order, the Plan and the CCAA;

1.2 CERTAIN RULES OF INTERPRETATION

In this Plan,

- (a) all accounting terms not otherwise defined herein shall have the meanings ascribed to them from time to time in accordance with Canadian generally accepted accounting principles, as set by the Canadian Institute of Chartered Accountants;
- (b) any presumption in this Arrangement is irrebuttable, final and irrevocable;
- (c) the division of this Plan into sections and subsections and the insertion of a table of contents are for convenience of reference and do not affect the interpretation of this Plan, nor are the descriptive headings of the sections and subsections intended as complete or accurate descriptions of the content thereof;
- (d) the use of words in singular or plural, or with a particular gender, shall not limit the scope or exclude the application of any provision of this Plan to any Person or Persons or circumstances as the context otherwise permits;
- (e) unless otherwise specified, all references to time made herein and in any document issued or delivered pursuant hereto shall mean local time in Montreal, Province of Quebec, and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. on such Business Day;
- (f) the words “hereunder”, “hereof” and similar expressions refer to this Plan and not to any particular section or subsection and references to “sections” and “subsection” are to sections and subsections of this Plan, as the case may be;
- (g) unless otherwise specified, time periods within or following which any payment is to be made, or any act is to be done, shall be calculated by excluding the day on which the period commences and including the day on which the period ends; and
- (h) whenever any payment to be made or action to be taken pursuant to this Plan is required to be made or to be taken on a day other than a Business Day, such payment shall be made or action taken on the following Business Day.

1.3 GOVERNING LAW

This Plan shall be governed by and construed in accordance with the laws of the Province of Quebec and the laws of Canada applicable therein. All questions related to the application and implementation of this Plan, and its consequences, related to the application of any federal or provincial statute and, any proceedings taken in connection with this Plan, its provisions and its effects shall be subject to the exclusive jurisdiction of the Court.

SECTION 2 **PURPOSE OF THE PLAN**

2.1 PURPOSE

The purpose of the Plan is to provide for the settlement of the Claims in the manner hereinafter provided, such that the Companies shall be released therefrom upon performance of their obligations pursuant to the terms hereof. The Plan is financed by the Plan Sponsor through the New Funds. In consideration for the New Funds, Shermag will issue the New Common Shares to the Plan Sponsor.

This Arrangement is proposed by the Companies and is presented to all the Unsecured Creditors, the Secured Creditors and the Cities for their Cities Secured Claims.

SECTION 3 **CLASSIFICATION OF CREDITORS**

3.1 CLASSIFICATION OF CREDITORS

For the purposes of considering and voting on the Arrangement proposed pursuant to the terms hereof, the Claims of the Creditors shall be grouped into three (3) classes: the Unsecured Creditors and the Secured Creditors and the Cities Secured Claims. Each Creditor in a designated class shall, to the extent herein provided, be entitled to vote upon the Plan as part of that class.

3.2 CLAIMS NOT AFFECTED

Unaffected Claims are not affected by this Arrangement and shall be paid in accordance with the terms of any existing arrangements between the holders of such Unaffected Claims and the Companies.

3.3 CONTRACTS OF SUCCESSIVE PERFORMANCE

With the exception of the Resiliated Contracts, the Companies shall perform their obligations pursuant to Contracts of Successive Performance subsequent to the Determination Date in the ordinary course of business and in accordance with existing arrangements between one or more of the Companies and the co-contracting party. Creditors with a Claim pursuant to a Contract of Successive Performance will participate as Unsecured Creditors and are affected by the Arrangement for any sums due and outstanding as at the Determination Date.

3.4 RESILIATED CONTRACTS

Creditors pursuant to a Resiliated Contract have a Claim as Unsecured Creditor for sums due and outstanding as at the Determination Date as well as for any sum that would be payable to them as a result of the resiliation of such contract, as the case may be. Owners of goods used in the operation of the business of one or more of the Companies pursuant to a Resiliated Contract can retake possession of such goods on request at any time following the notice of resiliation.

3.5 SOLIDARY CREDITORS

A Creditor with a Claim against more than one of the Companies solidarily is only entitled to participate once in the distribution of the sum remitted to the Monitor for distribution to the Unsecured Creditors in respect of such solidary Claim. Creditors who, solidarily, hold a Claim owed by one or more Companies are only entitled to one vote and to participate only once, jointly amongst themselves, in any distribution.

SECTION 4 **CLAIMS PROCEDURE**

4.1 CLAIMS OF PROCEDURE

The procedure for determining the admissibility and amount of the Claims for voting and distribution purposes shall be governed by the Process Order.

4.2 FAILURE TO FILE A PROOF OF CLAIM

If a Creditor failed to file its Proof of Claim by the Claims Bar Date, such Creditor shall not be entitled to vote or to participate in any distribution and the Companies shall be released from such Creditor's Claims. The provisions of this Arrangement, other than those relating to the right to vote and to participate in distributions, shall apply to such Claims in any event.

4.3 FAILURE TO FILE A NOTICE OF DISPUTE

If a Scheduled Employee failed to file a Notice of Dispute by the Claims Bar Date, such Schedule Employee shall be entitled to vote or participate in any distribution only in accordance with the Notice of Scheduled Employee's Claim he or she received.

4.4 VALUATION OF FUTURE, UNLIQUIDATED AND LITIGIOUS CLAIMS

The Companies and the Monitor shall use their best efforts to finally settle all disputes relating to the admissibility and amount of Claims prior to the distribution to the Unsecured Creditors, the Secured Creditors or the Cities for the Cities Secured Claims;

Where the admissibility or the amount of all Claims is not finally settled on the date of the distribution, the Monitor will proceed with an interim distribution as if the unresolved Claims were admissible and the amount settled was that claimed by the Unsecured Creditor or the Secured Creditor, but will withhold the amount payable on account of any such unresolved Claim. Should any unresolved Claim become a Proven Claim, the Monitor will take this Claim into account in determining the amount payable to the Unsecured Creditors in connection with a further distribution, as the case may be, and will pay to the Unsecured Creditors, in addition to the amount which they already received pursuant to the interim distribution, any additional amount withheld in the interim distribution and made available as a result of the settlement of the unresolved Claims, and the Monitor will also pay to the holders of the unresolved Claims which have become Proven Claims, the sums to which they are entitled pursuant to any distribution prior to the settlement of their Claim.

4.5 INTEREST

No interest or indemnity is to be added to the Claims on the basis of the period elapsed or remaining to run from the Determination Date for any purposes whatsoever.

4.6 CURRENCY

All Claims must be stated in Canadian Dollars for the purposes of the vote and the distribution. Any Claim payable in a currency other than the Canadian dollar must be converted into Canadian dollars at the exchange rate published by the Bank of Canada effective at noon on the Determination Date (\$1.00 CDN = 0.9877 \$ USD).

SECTION 5 **TREATMENT OF UNSECURED CREDITORS AND SECURED CREDITORS**

5.1 UNSECURED CREDITORS

Pursuant to this Arrangement, the Claims of the Unsecured Creditors will be provided for by means of the payment by the Plan Sponsor of \$1,200,000 of the Distribution Fund to the Monitor, which funds shall be distributed by the Monitor within thirty (30) days of the receipt thereof, but in accordance with subsection 4.4 above, in the following manner and order of priority:

- (a) first, to the full payment of the Proven Claims up to the amount of \$1,500 per Unsecured Creditor;
- (b) the balance thereof, to the payment, on a *pro rata* basis, of the portion of the Proven Claims exceeding \$1,500 per Unsecured Creditor;

5.2 SECURED CREDITORS

Pursuant to this Arrangement, the Claims of the Secured Creditors will be provided for by means of the payment by the Plan Sponsor of \$50,000 of the Distribution Fund to the Monitor, which funds shall be distributed by the Monitor within twenty (20) days of the receipt thereof, but in accordance with subsection 4.4 above, to the Secured Creditors on a *pro rata* basis of their Proven Claims.

If no Secured Creditors vote on this Plan, the Secured Creditors will be deemed to have voted in favour of the Plan. Shall there be no Secured Creditors at the time of the payment, the sums of \$50,000 shall be distributed to the Unsecured Creditors in accordance with subsection 5.1 above.

In addition, any unused portion of the said sum of \$50,000, after the payment to the Secured Creditors, shall be distributed to the Unsecured Creditors in accordance with subsection 5.1 above.

For greater certainty, the payment of the Claims secured by the Administration Charge constitute Unaffected Claims and will therefore not be paid from the Distribution Fund.

5.3 CITIES SECURED CLAIMS

Pursuant to this Arrangement, the Cities Secured Claims of the Cities, as accepted by the Companies and the Monitor or pursuant to any settlement reached or any order rendered by the Court, will be paid by the Companies at the later of : (i) thirty (30) days after any settlement reached (ii) when a Court order becomes final and executory (iii) within sixty (60) days of the Effective Date, unless proceedings are pending.

If no Cities vote on this Plan, in relation to the Cities Secured Claims, then such Cities will be deemed to have voted in favour of the Plan.

SECTION 6 **APPROVAL OF PLAN AND EFFECT**

6.1 MEETING

In accordance with the Notice to Creditors, the Monitor shall call, and the Companies shall hold, the Creditors' Meeting in accordance with the Process Order and the CCAA for the purpose of considering and voting on the Arrangement.

6.2 CREDITOR APPROVAL

Only Unsecured Creditors, Secured Creditors or Cities holding a Claim for Voting Purposes may vote on the Plan. In order for this Arrangement to be executory in accordance with the CCAA, it must first be accepted by at least a majority in number of the Unsecured Creditors, Secured Creditors or Cities, for the Cities Secured Claims, holding at least two thirds in value of the Claims for Voting Purposes present and voting in person or by proxy at the Creditors' Meeting.

6.3 ACCUMULATION OF CLAIMS

Where a Creditor has more than one Claim for Voting Purposes, the said Claims cumulatively shall entitle such Creditor to only one vote on the Arrangement valued at the cumulative amount of its Claims for Voting Purposes;

6.4 SCOPE OF ARRANGEMENT

As of the Effective Date, and subject to the issuance of the certificate of performance contemplated in subsection 8.4 hereof, the settlement of the Claims in accordance with this Arrangement shall become final and binding on the Companies and all the Unsecured Creditors, the Secured Creditors and the Cities for their Cities Secured Claims and their respective successors and assigns, and this Arrangement shall result in the full and final settlement of all Claims and any indebtedness or undertakings which the Companies may subsequently become subject to as a result of an obligation incurred or an event that occurred before the Determination Date, as well as any indebtedness or any undertaking that the Companies may become subject to as a result of any obligation arising on any date whatsoever as a result of the Arrangement, the approval thereof by the Court or the implementation thereof, including any tax obligation owed to the Crown arising from the consequences and effects of the implementation of the Arrangement.

6.5 WAIVER OF DEFAULTS AND COURT ORDER

From and subsequent to the Effective Date:

- 6.5.1 All Creditors and other Persons (including Unaffected Creditors other than Geosam) shall be deemed to have waived any and all defaults of any of the Companies, as well as any failure to comply with any provision, guarantee, covenant, warranty, representation, term, condition, obligation, whether expressed or implied, in any contract of instantaneous or successive performance, whether written or oral, including any cross default, and any notice of default and acceleration of payment pursuant to such contracts shall be deemed to have been cancelled;
- 6.5.2 Pursuant to the Sanction Order, the Companies will seek from the Court the issuance of an order in relation to all Creditors and other Persons (including Unaffected Creditors) who have a business relationship with any of the Companies, extinguishing the enforcement of any right or remedy contained in the instruments evidencing such business relationship, and any right which might otherwise be generally available in law to such Creditors or other Persons as a result of the fact that the Companies have sought protection under the CCAA, or as a result of the content of this Arrangement, the implementation of this Arrangement, any action taken by the Companies or any third party pursuant to the Arrangement or the Sanction Order, whether before or after the Effective Date, or any other matter whatsoever relating to the CCAA proceedings, the Arrangement or the transactions contemplated by the Arrangement; and
- 6.5.3 The Companies may, in all respects, carry on their businesses as if the defaults, rights and remedies referred to in this subsection 6.5 had not occurred or had never existed.

6.6 RELEASED PARTIES

On the Effective Date, the following persons, namely:

- (a) the Companies, their legal counsel and financial advisors in relation to the CCAA proceedings;
- (b) the Monitor and its legal counsel in relation to the CCAA proceedings; and
- (c) the present and former Directors, Officers, Employees and Scheduled Employees of any of the Companies in such capacities, but not in any other capacity;

shall be released and discharged from any and all demands, claims, actions, law suits, debts, obligations to do any thing, damages, judgments, judgment enforcement proceedings arising from any liability, obligation, demand or cause of action of any nature whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, that any Person would otherwise be entitled to assert based, in whole or in part, on any act or omission, contract, duty, responsibility, or obligation of any nature having arisen on the Determination Date or previously thereto relating to the Claims, including the Restructuring Claims, the conduct of the business of the Companies, this Arrangement or the CCAA proceedings, to the fullest extent permissible in law, and any such right resulting from any such act or omission, shall be forever waived and released (other than the right to enforce any of

the Companies' obligations under this Arrangement or any related agreement), provided that nothing herein:

- (d) shall release a Released Party from an Unaffected Claim or an Excluded Claim;
- (e) shall affect the right of any Person:
 - i) to recover any insurance proceeds or benefits under any contract pursuant to which such Person is an insured; or
 - ii) to recover a Claim against a Released Party from an insurer pursuant to an insurance policy by which such Released Party is insured; however, for greater certainty, any Claim to which an insurer is or would otherwise be subrogated is released hereunder and the recovery to which such Person is entitled shall be limited to the insurance proceeds or benefits actually paid by the insurer with respect to the Claim.

6.7 DIRECTORS' STATUTORY LIABILITIES

Without limiting the generality of the foregoing subsection and for greater certainty, this Arrangement constitutes a settlement of all Claims against present and past directors of the Companies which predate the Determination Date in respect of which such directors may, in their capacity as directors, be liable in law, and in respect of which they will be forever released and discharged on the Effective Date, with the exception of any claims detailed in subsection 5.1(2) of the CCAA.

6.8 EXTINCTION OF CERTAIN CHARGES

The "D&O Charge" shall be terminated and released and no Person shall be entitled to exercise any hypothecary right against any of the Companies on the basis of the "D&O Charge", upon the filing in the Court record of the certificate of performance referred to in subsection 8.4 of this Arrangement, or on any prior date set by the Court, as the case may be.

6.9 PARAMOUNTCY

As of the Effective Date, any conflict between this Arrangement and the agreements, guarantees, representations, terms and conditions, and obligations, whether express or implied, of any contract, credit document, security agreement, agreement of sale, bylaws of the Companies, lease or other agreement, whether written or oral, and any amendments or supplements thereto, existing between any of the Creditors and any of the Companies as at the Effective Date, will be deemed to be governed by the terms, conditions and provisions of this Arrangement and the Sanction Order, which shall take precedence and priority.

6.10 SUCCESSORS AND ASSIGNS

This Arrangement shall be binding on and enure to the benefit of the heirs, liquidators, administrators and other legal representatives, successors and assigns of any Person named or affected by this Arrangement.

6.11 CONSENT, WAIVER AND AGREEMENT

As of the Effective Date, each Creditor (including Unaffected Creditors) shall be deemed to have consented to all the provisions of this Arrangement considered in its entirety. Without limiting the generality of the foregoing, each Creditor shall be deemed:

- (a) to have executed and delivered to the Companies all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Plan in its entirety;
- (b) to have waived, in accordance with Subsection 6.5 of the Plan, any default by any of the Companies under any provision of any agreement existing between such Creditor and any of the Companies that occurred prior or subsequent to the Determination Date; and
- (c) to have agreed that, if there is any conflict between the provisions, whether expressed or implied, of any agreement or other compromise, whether written or oral, existing between such Creditor and any of the Companies on the Effective Date, and the provisions of this Arrangement, the provisions of this Arrangement shall take precedence and priority and the provisions of any other agreement or compromise shall be deemed to be amended accordingly.

SECTION 7 ISSUANCE OF SHARES TO THE PLAN SPONSOR

Following the approval of the Plan by the required majority of the Creditors eligible to vote, its approval by the Court and in order to allow for the implementation of the Plan, Shermag will issue the New Common Shares to the Plan Sponsor in consideration for the New Funds.

SECTION 8 CONDITIONS PRECEDENT TO THE IMPLEMENTATION OF THE ARRANGEMENT

8.1 APPLICATION FOR SANCTION ORDER

If this Arrangement is approved by the Unsecured Creditors, the Secured Creditors and the Cities, for their Cities Secured Claims, the Companies will apply forthwith to the Court to obtain the Court's sanction thereof. In this regard, the Notice to Creditors includes a notice of presentation of the Sanction Motion by the Court and also constitutes the notice to the Creditors of the Sanction Motion. In addition to the sanction of the Arrangement, the Companies will seek, as part of the Sanction Order, any orders that are useful to give effect to the provisions of this Arrangement.

8.2 CONDITIONS PRECEDENT TO THE IMPLEMENTATION OF THE ARRANGEMENT

The implementation of this Arrangement shall be conditional upon the fulfilment of all of the conditions set forth below by no later than October 16, 2009, except to the extent that the Companies waive said conditions or extend the time period for the fulfilment thereof:

8.2.1 Creditor Approval

Approval of this Arrangement by the Unsecured Creditors, the Secured Creditors and the Cities for their Cities Secured Claims in accordance with this Arrangement and the CCAA.

8.2.2 Court Approval

The issuance of the Sanction Order for this Arrangement by the Court, and an order confirming all of the provisions of this Arrangement, which order shall have acquired the authority of a final and definitive judgment (*res judicata*).

8.2.3 Other Approval or Exemption

Any approval or exemption required, if any, by the TSX or any other authority for the issuance of the New Common Shares to the Plan Sponsor.

8.2.4 D&O Charge and Administration Charge

The payment in full of any and all Claim secured by the D&O Charge or the Administration Charge.

8.2.5 Financing

The financing sought by Bermex, as described in its offer dated July 31, 2009, as accepted by the Court, on August 12, 2009, shall be available.

8.2.6 No waiver

The Companies shall not have waived the right to continue their proceedings under the CCAA or to seek the sanction of the Arrangement in respect of all the Creditors or any class thereof.

If the above stipulated conditions are not met within the specified time period and the Companies have not waived them, the Effective Date shall not occur and the Arrangement as well as the Sanction Order shall cease to have any effect.

8.3 MONITOR'S CERTIFICATE

Upon satisfaction of all the conditions set out in subsection 8.2 (or waiver thereof, as the case may be), the Monitor shall file a certificate with the Court stating that all the said conditions have been met (or have been waived, as the case may be), and setting the Effective Date accordingly. In so certifying, the Monitor shall be entitled to rely upon the certificates, representations and confirmations received from the Companies, or any of them, and their respective counsel.

8.4 CERTIFICATE OF PERFORMANCE

Upon receipt of all of the amounts that are required to be remitted to it by the Companies pursuant to this Arrangement, the Monitor shall issue and file in the Court record a certificate of performance of the Arrangement in favour of the Companies.

SECTION 9 AMENDMENT OF THE ARRANGEMENT

9.1 AMENDMENT OF THE ARRANGEMENT

The Companies reserve the right at any time, and from time to time, to amend, modify and/or supplement this Arrangement, including, to remove one or more of the Companies from the application of the Arrangement, provided that:

- (a) any such amendment, modification or supplement is set out in a written document filed with the Court and disclosed to the Creditors before or during the Creditors' Meeting; and
- (b) in the case of any amendment, modification or supplement made by the Companies following the Sanction Order, but prior to the Effective Date, that concerns a matter which, in the opinion of the Monitor, acting reasonably, is purely administrative in nature and useful for the implementation of the Plan and the Sanction Order and is not adverse to the financial and economic interests of the Creditors.

Any supplementary provision to the Arrangement filed with the Court shall be deemed to form an integral part of the Arrangement for all purposes.

9.2 PROXIES

All holders of a proxy authorizing them to vote in favour of the Arrangement as initially submitted to the Creditors may exercise this proxy in favour of any amended Arrangement provided that, in the opinion of the Monitor, acting reasonably, such amendment does not render the Arrangement less advantageous to the Creditors affected by such amendment.

9.3 SEVERABILITY OF CERTAIN PROVISIONS

Unless the Companies decide otherwise, in the event that any provision of this Arrangement is ruled to be unenforceable, the unenforceability of such provision shall in no way affect the enforceability of the remainder of this Arrangement.

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SIGNED in Sherbrooke, province of Quebec, this 20th day of August, 2009.

SHERMAG INC.

Per: (S) Josée Girard
Josée Girard

JAYMAR FURNITURE CORP.

Per: (S) Josée Girard
Josée Girard

SCIERIE MONTAUBAN INC.

Per: (S) Josée Girard
Josée Girard

MÉGABOIS (1989) INC.

Per: (S) Josée Girard
Josée Girard

SHERMAG CORPORATION

Per: (S) Josée Girard
Josée Girard

JAYMAR SALES CORPORATION

Per: (S) Josée Girard
Josée Girard