

CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-033234-085

S U P E R I O R C O U R T
(Commercial Division)
(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act,
R.S.C. 1985, c. C-36)

**IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF:**

SHERMAG INC.

and

JAYMAR FURNITURE CORP.

and

SCIERIE MONTAUBAN INC.

and

MÉGABOIS (1989) INC.

and

SHERMAG CORPORATION

and

JAYMAR SALES CORPORATION

Petitioners

and

RSM RICHTER INC.

Monitor

**SECOND MOTION FOR AN ORDER EXTENDING THE STAY PERIOD AND OTHERS
REQUESTED RELIEFS**

(Sections 9 and 11 of the *Companies' Creditors Arrangement Act*, R.S.C. (1985), c. C-36)

**TO ONE OF THE HONOURABLE JUDGES OF THE SUPERIOR COURT SITTING IN
COMMERCIAL DIVISION IN AND FOR THE DISTRICT OF MONTRÉAL, THE
PETITIONERS RESPECTFULLY SUBMIT:**

1. **INTRODUCTION**

1. By the present Second Motion for an Order Extending the Stay Period and Others Requested Reliefs (the “**Motion**”), Shermag Inc., Jaymar Furniture Corp., Scieries Montauban Inc., Mégaboïs (1989) Inc., Shermag Corporation and Jaymar Sales Corporation (collectively the “**Petitioners**”) hereby seek the extension of the Stay Period (as defined in the Initial Order referred to hereinafter) until December 10, 2008, and others relief, the whole as more fully described below.
2. Petitioners will file, in support of this Motion, the third report of the Monitor RSM Richter Inc. (the “**Monitor's Third Report**”) which contains a more detailed overview of the various issues mentioned in this Motion.
3. On May 5, 2008, an initial order was rendered by this Court pursuant to the *Companies' Creditors Arrangement Act* in relation to Petitioners (the “**Initial Order**”), the whole as it appears from the Court Record.
4. The Initial Order established June 4, 2008 as the Stay Termination Date of the Stay Period (both as defined in the Initial Order).
5. On June 4, 2008, this Court extended the Stay Termination Date of the Stay Period to September 8, 2008, the whole as it appears from the Court Record.

2. **EVENTS SINCE THE ISSUANCE OF THE INITIAL ORDER AND RESTRUCTURING EFFORTS TO DATE**

6. Following the extension of the Stay Period to September 8, 2008, Petitioners, together with the assistance of the Monitor, have reviewed the business, operations and assets of Petitioners. In addition, the Petitioners prepared a business plan.
7. On July, 2008, in accordance with said business plan, Petitioners have, *inter alia*, terminated:
 - (i) the leases agreements for the distribution center they operate at Lasalle and the show rooms they have at High Point (North Carolina) and Mississauga (Ontario);

- (ii) the employment agreements of more than 53 employees whose services were not required pursuant to the new business plan; and
 - (iii) various license, service, consulting, and equipment lease agreements which are not anymore necessary or useful to Petitioners.
8. On July 16, 2008, Petitioners filed a Petition to Establish a Claims and Meetings Process (the “**Claims Process Petition**”) which was granted by this Court according to its conclusions, the whole as it appears from the Court Record.
 9. Said petition provides, *inter alia*, that the bar date for the filing of a Proof of Claim or a Notice of Dispute (as defined in the Claims Process Petition) with the Monitor was September 5, 2008.
 10. Petitioners, in collaboration with the Monitor and their advisors, are currently in the process of reviewing the various Proofs of Claims and Notices of Dispute received to date.
 11. Moreover, on July 30, 2008, Petitioners filed a Motion for an Order Approving Various Agreement (in respect of the assignment of the Loan Agreement and the amendment of some of its terms through the Amendment to the Forbearance Agreement) which was granted by this Court according to its conclusions, the whole as it appears from the Court Record.
 12. As a result of such Court Order, Geosam Investments Limited (“**Geosam**”) has become the new lender of Petitioners. An Assignment Agreement was signed between Wachovia Capital Finance Corporation (Canada) (“**Wachovia**”), Petitioners’ principal secured creditor, and Geosam pursuant to which Wachovia has assigned all its rights, titles, interests and recourses under the Credit Facility it had with Petitioners.
 13. Such assignment has been beneficial to Petitioners since Geosam has not and continues not to request the same level of monitoring that Wachovia was previously requesting which allows Petitioners to spend more time to focus on their restructuring.
 14. In addition to the foregoing, Petitioners have also undertaken:

- (i) a sale process to dispose of their surplus equipment;
- (ii) a liquidation process of some of the non-core surplus inventory currently estimated at wholesale value of approximately \$16,900,000.00;
- (iii) a sale process of their surplus facilities. Fourteen (14) facilities have been listed for sale. In this regard, Petitioners recently executed an offer to sell their head office located at 2171 King Street West at Sherbrooke so as to allow them to move into smaller premises, as more fully detailed below.

the whole as more fully explained in the Monitor's Third Report.

- 15. Lastly, Petitioners, with the assistance of their attorneys and the Monitor, have begun the work required to formulate a plan of arrangement.
- 16. Petitioners have been and continue to be in communication with its secured lender, Geosam.
- 17. Very few creditors have communicated with the Petitioners or the Monitor, but all questions have been answered diligently.

3. EXTENSION OF THE STAY PERIOD

- 18. Since the issuance of the Initial Order, Petitioners have acted, and continue to act, in good faith and with due diligence.
- 19. The extension of the Stay Period is necessary in order to provide stability to Petitioners' businesses while Petitioners, with the assistance of their advisors and the Monitor, are taking further steps in furtherance of their goal of filing a plan of arrangement for the benefit of all stakeholders.
- 20. No creditor will be materially prejudiced by the extension of the Stay Period.
- 21. The need for an extension of the Stay Period is supported by the Monitor, the whole as it appears from the Monitor's Third Report.

22. In addition, discussions with Geosam are advanced for the extension of the forbearance agreement previously entered into with Wachovia. Petitioners are confident that an agreement will be executed before the hearing of the Motion, which will assure that Petitioners have the funds available to pursue their operations throughout the extension.
23. Geosam supports the request for extension and the present Motion.
24. Therefore, the circumstances are such that extending the Stay period is more than appropriate.
25. Based on the foregoing, Petitioners pray this Court to extend the Stay Period up to and including December 10, 2008, which date shall then be the new Stay Termination Date, the whole subject to all the other terms of the Initial Order.
26. Petitioners file in support hereto their cash flow projections, which were prepared in conjunction with the Monitor and are included in the Monitor's Third Report.

4. OTHER RELIEF SOUGHT

27. Pursuant to subparagraph 18 (c) of the Initial Order, Petitioners are required to obtain this Court's approval so as to sale Property (as defined in the Initial Order) if same is to exceed \$900,000 or \$5,000,000 in the aggregate. Said subparagraph 18 (c) reads as follows:

18. DECLARES that, to facilitate the orderly restructuring of its business and financial affairs (the "Restructuring"), Petitioners shall have the right, subject to approval of the Monitor or further order of the Court, to:

[...]

(c) convey, transfer, assign, lease, or in any other manner dispose of the Property, in whole or in part, provided that the price in each case does not exceed \$900,000 or \$5,000,000 in the aggregate with the specific exclusion of (i) the liquidation of the inventory located in the Montreal distribution center and (ii) the sale of the sawmill located in Notre-Dame-de-Montauban which shall not require any authorization;

28. Petitioners hereby seek the approval of this Court to sell :
- (i) their head office for \$1,600,000, the whole in accordance with the terms and conditions of the offer to purchase between Shermag Inc. and Michel Verrier communicated herewith as Exhibit **R-1**;
 - (ii) the non-core surplus inventory currently estimated at a wholesale value of approximately \$16,900,000.00, by way of the Petitioners selling same to the general public from its warehouse facilities and to larger customers at reduced prices; and
 - (iii) the surplus equipment either directly to various end-users or by engaging an auctioneer(s) to assist in the process.
29. The Monitor, as more fully appears from the Monitor's Third Report, and Geosam, the sole creditor who have security on such property, approve the process relating to the contemplated sales.
30. Furthermore, Petitioners, with the support of the Monitor and Geosam, hereby seek to amend the Initial Order so as to subparagraph 18 (c) of the Initial Order as follows:
- (c) convey, transfer, assign, lease, or in any other manner dispose of the Property, in whole or in part, provided that the price in each case does not exceed \$900,000 or \$5,000,000 in the aggregate, except in such a case, with the prior written consent of the Monitor and the Lender and without the necessity of a further Court Order, However, (i) the liquidation of the inventory located in the Montreal distribution center, (ii) the sale of the sawmill located in Notre-Dame-de-Montauban which shall not require any authorization and (iii) any sale or transaction previously authorized including per this Order, will need no further authorization from the Court;
31. Such amendment to subparagraph 18 (c) of the Initial Order will render Petitioners' restructuring process more efficient and less expensive and the interest of Petitioners' creditors will be protected since the written approval of the Monitor and Geosam will be needed if the Property (as defined in the Initial Order) disposed of exceed \$900,000 or

\$5,000,000 in the aggregate. Moreover, Petitioners add that the current wording of subparagraph 18 (c) was a request of Wachovia who is no longer a creditor of Petitioners.

5. **GENERAL**

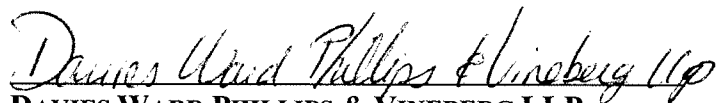
32. Petitioners respectfully submit that the notices given of the presentation of this Motion are proper and sufficient.
33. The Motion is well founded both in fact and in law.

WHEREFORE, MAY IT PLEASE THIS COURT TO:

- [1] **GRANT** the present Motion;
- [2] **DECLARE** that all capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Initial Order issued on May 5, 2008 as subsequently amended or extended;
- [3] **EXTEND** the Stay Period and the Stay Termination Date to December 10, 2008, the whole subject to all other terms and conditions of the Initial Order;
- [4] **APPROVE** the sale of Petitioners' head office located at 2171 King Street West at Sherbrooke in accordance with the terms and condition of the offer to purchase concluded between Shermag Inc. and Michel Verrier communicated as Exhibit R-1 (the "**Head Office's Sale**");
- [5] **APPROVE** the sale of Petitioners' non-core surplus inventory currently estimated at a wholesale value of approximately \$16,900,000.00 (the "**Inventory Sale**"), by way of the Petitioners selling same to the general public from its warehouse facilities and to larger customers at reduced prices;
- [6] **APPROVE** the sale of the Surplus Equipment ("**Surplus Equipment**") either directly to various end-users or by engaging an auctioneer(s) to assist in the process;

- [7] **AUTHORIZE** the Petitioners to sign and execute any document which could be required or useful to give full and complete effect to the Head Office's Sale, the Inventory Sale or the Surplus Equipment Sale;
- [8] **DECLARE** that the Head Office Sale, the Inventory Sale and the sale of the Surplus Equipment cannot be attacked or voided as a reviewable transaction or for any other reason whatsoever and that it shall be deemed valid for all intents and purposes;
- [9] **AMEND and MODIFY** subparagraph 18 (c) of the Initial Order as follows:
- (c) convey, transfer, assign, lease, or in any other manner dispose of the Property, in whole or in part, provided that the price in each case does not exceed \$900,000 or \$5,000,000 in the aggregate, except in such a case, with the prior written consent of the Monitor and the Lender and without the necessity of a further Court Order, However, (i) the liquidation of the inventory located in the Montreal distribution center, (ii) the sale of the sawmill located in Notre-Dame-de-Montauban which shall not require any authorization and (iii) any sale or transaction previously authorized including per this Order, will need no further authorization from the Court;
- [10] **DECLARE** that notices given of the presentation of this Motion are proper and sufficient;
- [11] **ORDER** the provisional execution of the Order to be rendered notwithstanding any appeal and without the necessity of furnishing any security.
- [12] **THE WHOLE** without costs, except if contested, and then with costs against each opposing party.

MONTREAL, September 4, 2008


DAVIES WARD PHILLIPS & VINEBERG LLP
Attorneys for Petitioners Shermag Inc., Jaymar

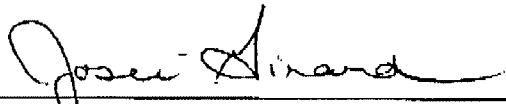
Furniture Corp., Scierie Montauban Inc., Mégabois
(1989) Inc., Shermag Corporation and Jaymar Sales
Corporation

AFFIDAVIT

I, the undersigned, JOSÉE GIRARD, Vice-President Finance of Shermag Inc., having my place of business at 2171 King Street West, in the City of Sherbrooke, Province of Québec, solemnly declare as follows:

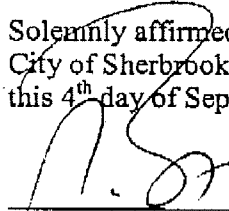
1. I am the duly authorized representative of the Petitioners;
2. All the facts contained in the present "Second Motion for an Order Extending the Stay Period and Other Requested Relief" are true;
3. All the facts contained in this Affidavit are true.

AND I HAVE SIGNED:



 JOSÉE GIRARD

Solemnly affirmed before me, in the City of Sherbrooke, Province of Québec, this 4th day of September, 2008



 Commission for Oaths

Marie-Claire Bastien
 COMMISSAIRE À L'ASSERMENTATION
 177991

TRUE COPY



 DAVIES WARD PHILLIPS & VINEBERG LLP

CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-033234-085

S U P E R I O R C O U R T
(Commercial Division)
(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act,
R.S.C. 1985, c. C-36)

**IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF:**

SHERMAG INC.

and

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SCIERIE MONTAUBAN INC.

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MÉGABOIS (1989) INC.

and

SHERMAG CORPORATION

and

JAYMAR SALES CORPORATION

Petitioners

and

RSM RICHTER INC.

Monitor

ATTESTATION OF AUTHENTICITY

I, the undersigned, Denis Ferland, attorney, practising my profession with the law firm of Davies Ward Phillips & Vineberg LLP, having its principal place of business at 1501 McGill College Avenue, 26th Floor, in the City and District of Montréal, Province of Québec, solemnly affirm that:

1. On September 4, 2008, at 1:30 p.m., Davies Ward Phillips & Vineberg LLP received by fax an Affidavit signed by Josée Girard dated September 4, 2008, a copy of such Affidavit is attached to this Attestation of Authenticity.

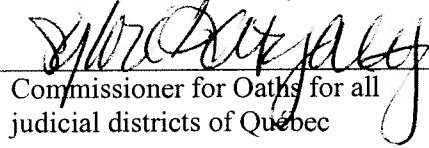
2. All the facts alleged herein are true.

AND I HAVE SIGNED:


DENIS FERLAND

SOLEMNLY AFFIRMED BEFORE ME

Montréal, on this 4th day of September, 2008


Commissioner for Oaths for all
judicial districts of Québec



NOTICE OF PRESENTATION

TO: Me Martin Desrosiers
Osler, Hoskin & Harcourt LLP
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Attorneys for Geosam Investment Limited

AND TO: Me Louis Gouin
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1981 McGill College Avenue, Suite 1100
Montréal (Québec) Canada H3A 3C1
Attorneys for the Monitor

AND TO: Mr. Phil Manel, CA
RSM Richter Inc.
2 Place Alexis Nihon, Suite 2200
Montréal, (Québec) Canada H3Z 3C2
Monitor

AND TO: Me Claude Gravel
Gowling Lafleur Henderson LLP
1, Place Ville Marie
Montréal (Québec) Canada H3B 3P4
Attorneys for Godbout, Plante associés enr.

AND TO : Me François Viau
Gowling Lafleur Henderson LLP
1, Place Ville Marie
Montréal (Québec) Canada H3B 3P4
Attorneys for Industries Wajax

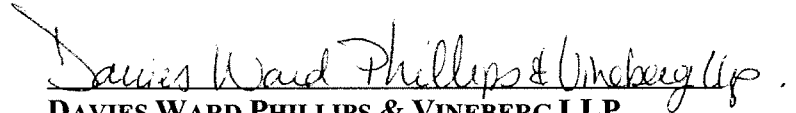
AND TO : Me Annie Claude Beauchemin
BCF LLP
1100 René-Lévesque Blvd. West, 25th Floor
Montréal (Québec) Canada H3B 5C9
Attorneys for Hachette Filipacchi Media U.S. Inc.

TAKE NOTICE that the present “Second Motion for an Order Extending the Stay Period and Other Requested Relief” will be presented for adjudication before one of the judges of the Superior Court, sitting in the Commercial Division, in and for the judicial district of Montréal, on

September 8, 2008, at 9:15 a.m., in room 16.12 of the Montréal Courthouse, located at 1 Notre-Dame Street East, in the City of Montréal, Province of Québec, or so soon thereafter as counsel may be heard.

DO GOVERN YOURSELVES ACCORDING.

MONTREAL, September 4, 2008



DAVIES WARD PHILLIPS & VINEBERG LLP

Attorneys for Petitioners Shermag Inc., Jaymar Furniture Corp., Scierie Montauban Inc., Mégabois (1989) Inc., Shermag Corporation and Jaymar Sales Corporation

No. 500-11-033234-085

S U P E R I O R C O U R T
(Commercial Division)
District of Montréal

**IN THE MATTER OF THE PLAN OF
COMPROMISE OR ARRANGEMENT OF:
SHERMAG INC. ET ALS.**

Petitioners

and

RSM RICHTER INC.

Monitor

**MOTION FOR AN ORDER EXTENDING
THE STAY PERIOD
AND OTHER REQUESTED RELIEF**
(Sections 9 and 11 CCA/4 and Section 133 CBCA)

ORIGINAL

Attorneys for Petitioners
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Me Christian Laclance
Dir 514 841 6423
O/F 223966

DAVIES

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