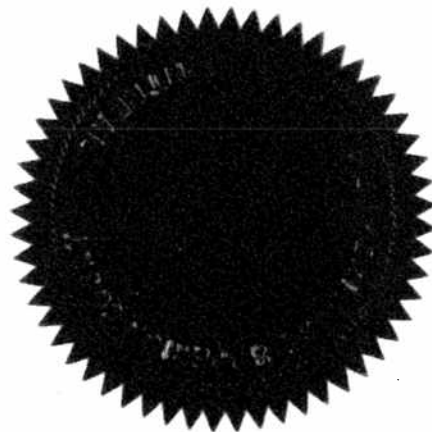


Superior Court



CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

N°: 500-11- 033234-085
DATE : May 5, 2008

PRESIDING: The Honourable ^{ROBERT} MONGEON, J.S.C.

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED:

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

INITIAL ORDER

SEEING Petitioners' Petition for an Initial Order (the "**Petition**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), the exhibits and the affidavit of Josée Girard in support thereof;

SEEING the consent of RSM Richter Inc. to act as Monitor (the "**Monitor**") and the submissions of counsel for the Petitioners and Wachovia Capital Finance of Canada;

GIVEN the provisions of the CCAA;

FOR THESE REASONS, THE COURT:

[1] **GRANTS** the Petition;

[2] **ISSUES** an order pursuant to Sections 4, 5 and 11 of the CCAA (the "**Order**"), divided under the following headings:

- Service
- Application of the CCAA
- Effective Time
- Plan of Arrangement
- Stay of Proceedings against the Petitioners, the Property, the Directors or others
- Possession of Property and Carrying on Business
- Restructuring
- Directors Indemnification and Charge
- Powers of the Monitor
- Priorities and General Provisions Relating to CCAA Charges
- Retention Bonus Plan
- Postponement of Annual Meeting of Shareholders
- General

Service

[3] **EXEMPTS** Shermag Inc., Jaymar Furniture Corp., Scierie Montauban Inc., Mégaboïs (1989) Inc., Shermag Corporation and Jaymar Sales Corporation (the "**Petitioners**") from having to serve the Petition and from any notice of presentation.

Application of the CCAA

[4] **DECLARES** that Petitioners are a debtor company to which the CCAA applies.

Effective time

- [5] **DECLARES** that from immediately after midnight (Montréal time) on the day prior to the Order (the "**Effective Time**") to the time of the granting of the Order, any act or action taken or notice given by any Person in respect of Petitioners, the Directors or the Property (as those terms are defined hereinafter), are deemed not to have been taken or given, as the case may be, to the extent such act, action or notice would otherwise be stayed after the granting of the Order.

Plan of Arrangement

- [6] **ORDERS** that Petitioners file with this Court and submit to its creditors one or more plans of compromise or arrangement under the CCAA (collectively, the "**Plan**") between, among others, Petitioners and one or more classes of its creditors as Petitioners may deem appropriate, on or before the Stay Termination Date (as defined hereinafter) or such other time or times as may be allowed by this Court.

Stay of Proceedings against the Petitioners, the Property, the Directors or others

- [7] **ORDERS** that, until and including June 4, 2008, or such later date as the Court may order (the "**Stay Termination Date**", the period from the date of the Order to the Stay Termination Date being referred to as the "**Stay Period**"), no right, legal or conventional, may be exercised and no proceeding, at law or under a contract, by reason of this Order or otherwise, however and wherever taken (collectively the "**Proceedings**") may be commenced or proceeded with by anyone, whether a person, firm, partnership, corporation, stock exchange, government, administration or entity exercising executive, legislative, judicial, regulatory or administrative functions (collectively, "**Persons**" and, individually, a "**Person**") against or in respect of Petitioners, or any of the present or future property, assets, rights and undertakings of Petitioners, of any nature and in any location, whether held directly or indirectly by Petitioners, in any capacity whatsoever, or held by others for Petitioners (collectively, the "**Property**"), and all Proceedings already commenced against Petitioners or any of the Property, are stayed and suspended until the Court authorizes the continuation thereof, the whole subject to the provisions of the CCAA.

[8] **ORDERS** that, without limiting the generality of the foregoing, during the Stay Period, all Persons having agreements, contracts or arrangements with Petitioners or in connection with any of the Property, whether written or oral, for any subject or purpose:

- (a) are restrained from accelerating, terminating, cancelling, suspending, refusing to modify or extend on reasonable terms such agreements, contracts or arrangements or the rights of Petitioners or any other Person thereunder;
- (b) are restrained from modifying, suspending or otherwise interfering with the supply of any goods, services, or other benefits by or to such Person thereunder (including, without limitation, any directors' and officers' insurance, any telephone numbers, any form of telecommunications service, any oil, gas, electricity or other utility supply);
- (c) are restrained from interfering or retaining in any manner the delivery of any goods by or to the Petitioners, so long as Petitioners pay the prices or charges for the services rendered by such Persons for the services received after the date of the Order as such prices or charges become due in accordance with the law or as may be hereafter negotiated;
- (d) shall continue to perform and observe the terms and conditions contained in such agreements, contracts or arrangements, so long as Petitioners pay the prices or charges for such goods and services received after the date of the Order as such prices or charges become due in accordance with the law or as may be hereafter negotiated (other than deposits whether by way of cash, letter of credit or guarantee, stand-by fees or similar items which Petitioners shall not be required to pay or grant), unless the prior written consent of Petitioners and the Monitor is obtained or the leave of this Court is granted; and
- (e) shall, subject to the rights of Wachovia Capital Finance Corporation (Canada) (the "**Lender**"), continue to operate bank services and accounts currently in place and available to Petitioners at the Bank of Montreal ("**BMO**") (the "**Accounts**") in accordance with existing

banking services agreements, are restrained from stopping, withholding, redirecting or otherwise interfering with any amount in the Accounts or setting off (subject to paragraph [9] hereof) or applying amounts in the Accounts against any indebtedness owing to it by any of Petitioners, or from discontinuing, failing to renew on terms no more onerous than those existing prior to these proceedings, altering, interfering with or terminating existing related banking arrangements, and shall continue to honour debits and cheques (including those already in circulation at the date of the Order) drawn on the Accounts, unless otherwise directed by Petitioners and the Monitor, in each case provided that there are sufficient funds in the relevant Account for such debit items or cheques, or other reasonable assurances of payments are provided to BMO.

- [9] **ORDERS** that, without limiting the generality of the foregoing and subject to the rights of the Lender and Section 18.1 of the CCAA, if applicable, cash or cash equivalents placed on deposit by Petitioners with any Person during the Stay Period, whether in an operating account or otherwise for itself or for another entity, shall not be applied by such Person in reduction or repayment of amounts owing to such Person as of the date of the Order or due on or before the expiry of the Stay Period or in satisfaction of any interest or charges accruing in respect thereof; however, this provision shall not prevent any financial institution from: (i) reimbursing itself for the amount of any cheques drawn by Petitioners and properly honoured by such institution, or (ii) holding the amount of any cheques or other instruments deposited into Petitioners' account until those cheques or other instruments have been honoured by the financial institution on which they have been drawn.
- [10] **ORDERS** that, notwithstanding the foregoing, any Person who provided any kind of letter of credit, bond or guarantee (the "**Issuing Party**") at the request of Petitioners shall be required to continue honouring any and all such letters, bonds and guarantees, issued on or before the date of the Order; however, the Issuing Party shall be entitled, where applicable, to retain the bills of lading or shipping or other documents relating thereto until paid therefore.

- [11] **DECLARES** that, to the extent any rights, obligations, or time or limitation periods, including, without limitation, to file grievances, relating to Petitioners or any of the Property may expire, other than the term of any lease of real property, the term of such rights or obligations, or time or limitation periods shall hereby be deemed to be extended by a period equal to the Stay Period. Without limitation to the foregoing, in the event that Petitioners becomes bankrupt or a receiver within the meaning of paragraph 243(2) of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") is appointed in respect of Petitioners, the period between the date of the Order and the day on which the Stay Period ends shall not be calculated in respect of Petitioners in determining the 30-day periods referred to in Sections 81.1 and 81.2 of the *BIA*.
- [12] **ORDERS** that no Person may commence, proceed with or enforce any Proceedings against any former, present or future director or officer of Petitioners or any person that, by applicable legislation, is treated as a director of Petitioners or that will manage in the future the business and affairs of Petitioners (each, a "**Director**", and collectively the "**Directors**") in respect of any claim against such Director that arose before this Order was issued and that relates to obligations of Petitioners for which such Director is or is alleged to be liable (as provided under Section 5.1 of the *CCAA*) until further order of this Court or until the Plan, if one is filed, is sanctioned by the Court or is refused by the creditors or is not sanctioned by the Court.
- [13] **ORDERS** that no Person shall commence, proceed with or enforce any Proceedings against any of the Directors, officers, employees, legal counsel or financial advisers of Petitioners or the Monitor, for or in respect of the Restructuring (as defined hereinafter) or the formulation and implementation of the Plan without first obtaining leave of this Court, upon seven days written notice to Petitioner's *ad litem* counsel and to all those referred to in this paragraph whom it is proposed be named in such Proceedings.
- [14] **ORDERS** that notwithstanding anything herein contained to the contrary:
- (a) the Lender will not be subject to, or affected by, any stay of proceedings, including, without limitation, those provided for under

paragraphs 7, 8 and 9 of the Order, in favour of the Petitioners under the Order, the CCAA, the filing of any notice of intention to file a proposal under the BIA or a proposal under the BIA;

- (b) any and all claims and rights of the Lender shall not be compromised or arranged pursuant to any Plan or under any proposal to be filed by the Petitioners pursuant to the BIA;
- (c) the Lender shall be treated as an unaffected creditor in any CCAA proceedings or Plan, or any proposal filed by the Petitioners pursuant to the BIA; and
- (d) the Monitor is authorized to disclose directly to the Lender upon reasonable request any and all information obtained by the Monitor in relation to the Petitioners' restructuring process, to answer all reasonable questions and perform any reasonable verification requested from time to time by the Lender and will provide to the Lender a copy of all Monitor's reports to be filed in Court, the whole without the requirement of any further authorization by the Petitioners and at the Petitioners' expense. Petitioners shall be informed by the Monitor, acting reasonably, of any and all information provided to the Lender.

[15] **ORDERS** that, notwithstanding any other provision of the Order, the Petitioners be and are hereby authorized to borrow, repay and reborrow from the Lender such amounts from time to time in accordance with the terms and conditions set forth in the Forbearance Agreement agreed to and accepted by the Petitioners on May 5, 2008, under such security as already exists or may hereinafter be created in favour of the Lender and which will not be affected hereby. All such security will secure all obligations to date or hereafter created in the same manner as if the Order had never been granted.

Possession of Property and Carrying on Business

[16] **ORDERS** that, subject to the terms of the Order, Petitioners shall remain in possession of the Property until further order in these proceedings.

[17] **ORDERS** that Petitioners shall continue to carry on its business and financial affairs in a manner consistent with the commercially reasonable preservation thereof.

Restructuring

[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:

- (a) permanently or temporarily cease, downsize or shut down any of its operations or locations as it deems appropriate and make provision for the consequences thereof in the Plan;
- (b) pursue all avenues to market and sell, subject to subparagraph (c), the Property, in whole or part;
- (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;
- (d) terminate the employment of such of its employees or temporarily or permanently lay off such of its employees already laid-off employees as it deems appropriate and, to the extent any amounts in lieu of notice, termination or severance pay or other amounts in respect thereof are not paid in the ordinary course, make provision for any consequences thereof in the Plan, as Petitioners may determine;
- (e) subject to paragraphs [20] and [21] hereof, vacate or abandon any leased real property or repudiate any lease and ancillary agreements related to any leased premises as it deems appropriate, provided that Petitioners gives the relevant landlord at least seven days prior written notice, on such terms as may be agreed between Petitioners and such landlord, or failing such

agreement, to make provision for any consequences thereof in the Plan; and

- (f) repudiate such of its agreements, contracts or arrangements of any nature whatsoever, whether oral or written, as it deems appropriate, on such terms as may be agreed between Petitioners and the relevant party, or failing such agreement, to make provision for the consequences thereof in the Plan and to negotiate any amended or new agreements or arrangements.

[19] **DECLARES** that, in order to facilitate the Restructuring, Petitioners may, subject to approval of the Monitor:

- (a) settle claims of customers and suppliers that are in dispute; and
- (b) establish a plan for the retention of key employees and the making of retention payments or bonuses in connection therewith.

[20] **DECLARES** that, if leased premises are vacated or abandoned by Petitioners pursuant to subparagraph [18](e), the landlord may take possession of any such leased premises without waiver of, or prejudice to, any claims or rights of the landlord against Petitioners, provided the landlord mitigates its damages, if any, and re-leases any such leased premises to third parties on such terms as any such landlord may determine.

[21] **ORDERS** that Petitioners shall provide to any relevant landlord notice of Petitioner's intention to remove any fixtures or leasehold improvements at least seven days in advance. If Petitioners has already vacated the leased premises, it shall not be considered to be in occupation of such location pending the resolution of any dispute.

[22] **DECLARES** that, pursuant to sub-paragraph 7(3)(c) of the *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c.5, Petitioners are permitted, in the course of these proceedings, to disclose personal information of identifiable individuals in its possession or control to stakeholders or prospective investors, financiers, buyers or strategic partners and to its advisers (individually, a "**Third Party**"), but only to the extent desirable or required to negotiate and complete the Restructuring

or the preparation and implementation of the Plan or a transaction for that purpose, provided that the Persons to whom such personal information is disclosed enter into confidentiality agreements with Petitioners binding them to maintain and protect the privacy of such information and to limit the use of such information to the extent necessary to complete the transaction or Restructuring then under negotiation. Upon the completion of the use of personal information for the limited purpose set out herein, the personal information shall be returned to Petitioners or destroyed. In the event that a Third Party acquires personal information as part of the Restructuring or the preparation and implementation of the Plan or a transaction in furtherance thereof, such Third Party may continue to use the personal information in a manner which is in all respects identical to the prior use thereof by Petitioners.

Directors Indemnification and Charge

[23] **ORDERS** that, in addition to any existing indemnities, Petitioners shall indemnify each of the Directors from and against the following (collectively, "**D&O Claims**"):

- (a) all costs (including, without limitation, full defence costs), charges, expenses, claims, liabilities and obligations, of any nature whatsoever, which may arise on or after the date of the Order relating to acts, omissions or circumstance which occurred after the Effective Time (including, without limitation, an amount paid to settle an action or a judgment in a civil, criminal, administrative or investigative action or proceeding to which a Director may be made a party), provided that any such liability relates to such Director in that capacity, and, provided that such Director (i) acted honestly and in good faith in the best interests of Petitioners and (ii) in the case of a criminal or administrative action or proceeding in which such Director would be liable to a monetary penalty, such Director had reasonable grounds for believing his or her conduct was lawful, except if such Director has actively breached any fiduciary duties or has been grossly negligent or guilty of wilful misconduct; and
- (b) all costs, charges, expenses, claims, liabilities and obligations relating to the failure of Petitioners to make any payments or to pay

amounts in respect of employee or former employee entitlements to wages, vacation pay, termination pay, severance pay, pension or other benefits, in each case accruing and falling due after, or any other amount for services performed on or after the date of the Order and that such Directors sustain, by reason of their association with Petitioners as a Director, except to the extent that they have actively breached any fiduciary duties or have been grossly negligent or guilty of wilful misconduct.

The foregoing shall not constitute a contract of insurance or other valid and collectible insurance, as such term may be used in any existing policy of insurance issued in favour of Petitioners or any of the Directors.

[24] **DECLARES** that, as security for the obligation of Petitioners to indemnify the Directors pursuant to paragraph [23] hereof, the Directors are hereby granted a hypothec on, mortgage of, lien on and security interest in the Property to the extent of the aggregate amount of \$1,500,000 (the "**D&O Charge**"), having the priority established by paragraphs [33] and [34] hereof. Such D&O Charge shall not constitute or form a trust. Such D&O Charge, notwithstanding any language in any applicable policy of insurance to the contrary, shall only apply to the extent that the Directors do not have coverage under any directors' and officers' insurance, which shall not be excess insurance to the D&O Charge. In respect of any D&O Claim against any of the Directors (collectively, the "**Respondent Directors**"), if such Respondent Directors do not receive confirmation from the applicable insurer within 21 days of delivery of notice of the D&O Claim to the applicable insurer, confirming that the applicable insurer will provide coverage for and indemnify the Respondent Directors, then, without prejudice to the subrogation rights hereinafter referred to, Petitioners shall pay the amount of the D&O Claim upon expiry. Failing such payment, the Respondent Directors may enforce the D&O Charge provided that the Respondent Directors shall reimburse Petitioners to the extent that they subsequently receive insurance benefits for the D&O Claim paid by Petitioners, and provided further that Petitioners shall, upon payment, be subrogated to the rights of the Respondent Directors to recover payment from the applicable insurer as if no such payment had been made.

Powers of the Monitor

[25] **ORDERS** that RSM Richter Inc. is hereby appointed to monitor the business and financial affairs of Petitioners as an officer of this Court (the "**Monitor**") and that the Monitor shall, in addition to the duties and functions referred to in Section 11.7 of the CCAA:

- (a) send notice of the Order, within 10 days, to every known creditor of Petitioners having a claim of more than \$250 against it, advising that such creditor may obtain a copy of the Order on the internet at the website of the Monitor (the "**Website**") or, failing that, from the Monitor and the Monitor shall so provide it. Such notice shall be sufficient in accordance with Subsection 11(5) of the CCAA;
- (b) assist Petitioners, to the extent required by Petitioners, in dealing with its creditors and other interested Persons during the Stay Period;
- (c) assist Petitioners, to the extent required by Petitioners, with the preparation of its cash flow projections and any other projections or reports and the development, negotiation and implementation of the Plan;
- (d) advise and assist Petitioners, to the extent required by Petitioners, to review Petitioner's business and assess opportunities for cost reduction, revenue enhancement and operating efficiencies;
- (e) assist Petitioners, to the extent required by Petitioners, with the Restructuring and in its negotiations with its creditors and other interested Persons and with the holding and administering of any meetings held to consider the Plan;
- (f) report to the Court on the state of the business and financial affairs of Petitioners or developments in these proceedings or any related proceedings within the time limits set forth in the CCAA and at such time as considered appropriate by the Monitor or as the Court may order;

- (g) report to this Court and interested parties, including but not limited to creditors affected by the Plan, with respect to the Monitor's assessment of, and recommendations with respect to, the Plan;
- (h) retain and employ such agents, advisers and other assistants as are reasonably necessary for the purpose of carrying out the terms of the Order, including, without limitation, one or more entities related to or affiliated with the Monitor;
- (i) engage legal counsel to the extent the Monitor considers necessary in connection with the exercise of its powers or the discharge of its obligations in these proceedings and any related proceeding, under the Order or under the CCAA;
- (j) may act as a "foreign representative" of Petitioners in any proceedings outside of Canada;
- (k) may give any consent or approval as are contemplated by the Order; and
- (l) perform such other duties as are required by the Order, the CCAA or this Court from time to time.

The Monitor shall not otherwise interfere with the business and financial affairs carried on by Petitioners, and the Monitor is not empowered to take possession of the Property nor to manage any of the business and financial affairs of Petitioners.

[26] **ORDERS** that Petitioners and its directors, officers, employees and agents, accountants, auditors and all other Persons having notice of the Order shall forthwith provide the Monitor with unrestricted access to all of the Property, including, without limitation, the premises, books, records, data, including data in electronic form, and all other documents of Petitioners in connection with the Monitor's duties and responsibilities hereunder.

[27] **DECLARES** that the Monitor may provide creditors and other relevant stakeholders of Petitioners with information in response to requests made by them in writing addressed to the Monitor and copied to Petitioner's counsel. The Monitor shall not have any duties or liabilities in respect of

such information disseminated by it pursuant to the provisions of the Order or the CCAA, other than as provided in paragraph [29] hereof. In the case of information that the Monitor has been advised by Petitioners or the Lender is confidential, proprietary or competitive, the Monitor shall not provide such information to any Person without the consent of Petitioners or the Lender, as the case may be, unless otherwise directed by this Court.

[28] **DECLARES** that the Monitor shall not be, nor be deemed to be, an employer or a successor employer of the employees of Petitioners or a related employer in respect of Petitioners within the meaning of any federal, provincial or municipal legislation governing employment, labour relations, pay equity, employment equity, human rights, health and safety or pensions or any other statute, regulation or rule of law or equity for any similar purpose and, further, that the Monitor shall not be, nor be deemed to be, in occupation, possession, charge, management or control of the Property or business and financial affairs of Petitioners pursuant to any federal, provincial or municipal legislation, statute, regulation or rule of law or equity which imposes liability on the basis of such status, including, without limitation, the *Environment Quality Act* (Québec), the *Canadian Environmental Protection Act, 1999* or the *Act Respecting Occupational Health and Safety* (Québec) or similar other federal or provincial legislation.

[29] **DECLARES** that, in addition to the rights and protections afforded to the Monitor by the CCAA, the Order or its status as an officer of the Court, the Monitor shall not incur any liability or obligation as a result of its appointment and the fulfilment of its duties or the provisions of the Order, save and except any liability or obligation arising from the gross negligence or wilful misconduct, and no action or other proceedings shall be commenced against the Monitor relating to its appointment, its conduct as Monitor or the carrying out the provisions of any order of this Court, except with prior leave of this Court, on at least seven days notice to the Monitor and its counsel. The entities related to or affiliated with the Monitor referred to in subparagraph [25](h) hereof shall also be entitled to the protection, benefits and privileges afforded to the Monitor pursuant to this paragraph.

- [30] **ORDERS** that Petitioners shall pay the fees and disbursements of the Monitor, the Monitor's legal counsel, Petitioner's legal counsel and other advisers, incurred in connection with or with respect to the Restructuring, whether incurred before or after the Order, and shall provide each with a reasonable retainer in advance on account of such fees and disbursements, if so requested.
- [31] **ORDERS** that the Petitioners will make the necessary arrangements for the receipt of the invoices of the above-mentioned professionals on a weekly basis, but no later than every second week, and ORDER Petitioners to pay such invoices within three (3) business days of their receipt.
- [32] **DECLARES** that the Monitor, the Monitor's legal counsel, the Petitioner's legal counsel and other advisers, as security for the professional fees and disbursements incurred both before and after the making of the Order in respect of these proceedings, the Plan and the Restructuring, in addition to the retainers referred to paragraph [30] hereof, be entitled to the benefit of and are hereby granted a hypothec on, mortgage of , lien on, and security interest in the Property to the extent of the aggregate amount of \$500,000 (the "**Administration Charge**"), having the priority established by paragraphs [33] and [34] hereof.

Priorities and General Provisions Relating to CCAA Charges

- [33] **DECLARES** that the priorities of the Administration Charge and D&O Charge (collectively, the "**CCAA Charges**"), as between them with respect to any Property to which they apply, shall be as follows:
- (a) first, the Administration Charge; and
 - (b) second, the D&O Charge;
- [34] **DECLARES** that each of the CCAA Charges shall rank in priority to any and all other hypothecs, mortgages, liens, security interests, priorities, conditional sale agreements, financial leases, charges, encumbrances or security of whatever nature or kind (collectively, "**Encumbrances**") affecting any of the Property.

- [35] **ORDERS** that, except as otherwise expressly provided for herein, Petitioners shall not grant any Encumbrances in or against any Property that rank in priority to, or *pari passu* with, any of the CCAA Charges unless Petitioners obtain the prior written consent of the Monitor and the prior approval of the Court.
- [36] **DECLARES** that each of the CCAA Charges shall attach, as of the Effective Time of the Order, to all present and future Property of Petitioners, notwithstanding any requirement for the consent of any party to any such charge or to comply with any condition precedent.
- [37] **DECLARES** that the CCAA Charges and the rights and remedies of the beneficiaries of such Charges, as applicable, shall be valid and enforceable and shall not otherwise be limited or impaired in any way by: (i) these proceedings and the declaration of insolvency made herein; (ii) any petition for a receiving order filed pursuant to the *BIA* in respect of Petitioners or any receiving order made pursuant to any such petition or any assignment in bankruptcy made or deemed to be made in respect of Petitioners; or (iii) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any agreement, lease, sub-lease, offer to lease or other arrangement which binds Petitioners (a "**Third Party Agreement**"), and notwithstanding any provision to the contrary in any Third Party Agreement:
- (a) the creation of any of the CCAA Charges shall not create or be deemed to constitute a breach by Petitioners of any Third Party Agreement to which it is a party; and
 - (b) any of the beneficiaries of the CCAA Charges shall not have liability to any Person whatsoever as a result of any breach of any Third Party Agreement caused by or resulting from the creation of the CCAA Charges.
- [38] **DECLARES** that notwithstanding: (i) these proceedings and any declaration of insolvency made herein, (ii) any petition for a receiving order filed pursuant to the *BIA* in respect of Petitioners and any receiving order allowing such petition or any assignment in bankruptcy made or deemed to be made in respect of Petitioners, and (iii) the provisions of any

federal or provincial statute, the payments or disposition of Property made by Petitioners pursuant to the Order and the granting of the CCAA Charges, do not and will not constitute settlements, fraudulent preferences, fraudulent conveyances or other challengeable or reviewable transactions or conduct meriting an oppression remedy under any applicable law.

- [39] **DECLARES** that the CCAA Charges shall be valid and enforceable as against all Property of Petitioners and against all Persons, including, without limitation, any trustee in bankruptcy, receiver, receiver and manager or interim receiver of Petitioners, for all purposes.

Retention Bonus Plan

- [40] **APPROVES** the Retention Bonus Plan, Exhibit R-22;
- [41] **AUTHORIZES** Petitioners to perform their obligations thereunder, including the making of any and all payments provided therein in accordance with the terms thereof;
- [42] **AUTHORIZES** Petitioners to execute and deliver any such additional or ancillary documents as may be necessary to give effect to the Retention Bonus Plan;
- [43] **ESTABLISHES** a trust pursuant to which Petitioners will deposit an amount equivalent to the Retention Bonus Plan in trust with the Monitor, acting as trustee of the trust (the "**Trust Funds**"), which amount will be disbursed by the Monitor to the Key Employees pursuant to the Retention Bonus Plan;
- [44] **DECLARES** that the establishment of such a trust, the deposit by Petitioners of amounts therein and the disbursements made by the Monitor in relation thereto or made by Petitioners in relation to the Retention Bonus Plan, shall be binding on any trustee in bankruptcy that may be appointed in respect of Petitioners and shall not be void or voidable and shall not be deemed to be a settlement fraudulent preference, assignment, fraudulent conveyance or other reviewable transaction under the *Bankruptcy and Insolvency Act*, Section 1631 and

following of the *Civil Code of Québec* or any other applicable federal or provincial legislation;

[45] **DECLARES** that, to the extent that one or more Key Employees is no longer at the employ of Petitioners when the payments become due pursuant to the Retention Bonus Plan, any Trust Funds not used for the payment of the Retention Bonus to the Key Employees shall be remitted to Petitioners and remain subject to the security held by Petitioners' secured lenders;

[46] **ORDERS** the sealing of the Retention Bonus Plan, Exhibit R-22;

Postponement of Annual Meeting of Shareholders

[47] **ORDERS** that Shermag be relieved of any obligation (i) to call and hold an annual meeting of shareholders on or before July 31, 2008, and (ii) to prepare any related documents, including the year-end financial statements, the Management's Information Circular and the Annual Information Form, which would otherwise be given or communicated in the context of said annual meeting of shareholders;

[48] **ORDERS** that Shermag be directed to hold its annual meeting of shareholders within three (3) months following the Stay Termination Date, as can be extended from time to time by orders of the Court;

General

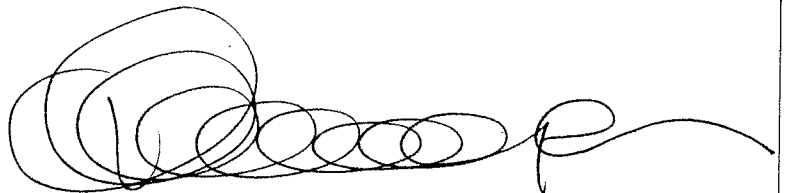
[49] **DECLARES** that the Order and any proceeding or affidavit leading to the Order, shall not, in and of themselves, constitute a default or failure to comply by Petitioners under any statute, regulation, licence, permit, contract, permission, covenant, agreement, undertaking or other written document or requirement.

[50] **DECLARES** that, except as otherwise specified herein, Petitioners are at liberty to serve any notice, proof of claim form, proxy, circular or other document in connection with these proceedings by forwarding copies by prepaid ordinary mail, courier, personal delivery or electronic transmission to Persons or other appropriate parties at their respective given addresses as last shown on the records of Petitioners and that any such service shall be deemed to be received on the date of delivery if by personal delivery or

electronic transmission, on the following business day if delivered by courier, or three business days after mailing if by ordinary mail.

- [51] **DECLARES** that Petitioners and the Lender may serve any court materials in these proceedings on all represented parties electronically, by emailing a PDF or other electronic copy of such materials to counsels' email addresses, provided that Petitioners shall deliver "hard copies" of such materials upon request to any party as soon as practicable thereafter.
- [52] **DECLARES** that any party in these proceedings, other than Petitioners, may serve any court materials electronically, by emailing a PDF or other electronic copy of all materials to counsels' email addresses, provided that such party shall deliver both PDF or other electronic copies and "hard copies" of all materials to counsel to Petitioners (Davies Ward Phillips & Vineberg LLP, c/o Denis Ferland and Christian Lachance) and the Monitor and to any other party requesting same.
- [53] **DECLARES** that, unless otherwise provided herein or ordered by this Court, no document, order or other material need be served on any Person in respect of these proceedings, unless such Person has served a Notice of Appearance on the solicitors for Petitioners (Davies Ward Phillips & Vineberg LLP, c/o Denis Ferland and Christian Lachance), the Monitor and the Lender (McMillan Binch Mendelsohn LLP, c/o Max Mendelsohn and Marc-André Morin) and has filed such notice with this Court.
- [54] **DECLARES** that Petitioners or the Monitor may, from time to time, apply to this Court for directions concerning the exercise of their respective powers, duties and rights hereunder or in respect of the proper execution of the Order on notice only to each other.
- [55] **DECLARES** that any interested Person may apply to this Court to vary or rescind the Order or seek other relief upon seven days notice to Petitioners (Davies Ward Phillips & Vineberg LLP, c/o Denis Ferland and Christian Lachance), the Monitor, the Lender (McMillan Binch Mendelsohn LLP, c/o Max Mendelsohn and Marc-André Morin) and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

- [56] **DECLARES** that the Order and all other orders in these proceedings shall have full force and effect in all provinces and territories in Canada.
- [57] **DECLARES** that the Monitor, with the prior consent of Petitioners, shall be authorized to apply as it may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada, the United States of America or elsewhere, for orders which aid and complement the Order and any subsequent orders of this Court and, without limitation to the foregoing, an order under section 304 of the *U.S. Bankruptcy Code*, for which the Monitor shall be the foreign representative of Petitioners. All courts and administrative bodies of all such jurisdictions are hereby respectively requested to make such orders and to provide such assistance to the Monitor as may be deemed necessary or appropriate for that purpose.
- [58] **REQUESTS** the aid and recognition of any Court or administrative body in any Province of Canada and any Canadian federal court or administrative body and any federal or state court or administrative body in the United States of America and any court or administrative body elsewhere, to act in aid of and to be complementary to this Court in carrying out the terms of the Order.
- [59] **ORDERS** the provisional execution of the Order notwithstanding any appeal and without the necessity of furnishing any security.
- [60] **THE WHOLE** without costs.



The Honourable ROBERT MONGEAU S.C.

COPIE CONFORME

Carole Lefort
Greffier adjoint