

C A N A D A  
PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL  
COURT NO.: 500-11-034874-087  
ESTATE NO.:

S U P E R I O R C O U R T  
Commercial Division  
"In matters of bankruptcy and insolvency"

IN THE MATTER OF THE PROPOSAL OF **DIRECT SOURCE SPECIAL PRODUCTS INC.**, a legal person duly incorporated according to law, having its head office and principal place of business at 2695 Dollard Street, in the City and District of Lasalle, Province of Quebec, H8N 2J8.

DEBTOR

P R O P O S A L

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We, **Direct Source Special Products Inc.** (hereinafter the "**Debtor**" or the "**Company**"), the above-named Debtor, hereby submit the following proposal under the *Bankruptcy and Insolvency Act*:

1. **Definitions:** For all purposes relating to the present proposal proceedings under the *Bankruptcy and Insolvency Act*, the following terms shall have the following meanings:
  - 1.1 **"Act":** *The Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.
  - 1.2 **"Additional Fund":** the sum of one hundred thousand dollars (\$100,000.00) to be deposited by the Debtor with the Trustee, and subsequently deposited by the Trustee in accordance with paragraph 6 of the Proposal.
  - 1.3 **"CDP":** The Caisse de Dépôt et Placement du Québec, a Secured Creditor.
  - 1.4 **"Crown Claims":** For the purposes of this Proposal, Crown Claims shall be limited to the claims of Her Majesty in right of Canada or a province described in section 60(1.1) of the Act, that were outstanding on the Date of the Proposal.
  - 1.5 **"Date of the Proposal":** For all purposes herein, the date of the Proposal shall be deemed to be the date of the filing of the Notice of Intention to Make a Proposal, namely November 21, 2008.
  - 1.6 **"Employee Claims":** The amounts that employees or former employees would be qualified to receive under paragraph 136(1)(d) of the Act, if the Debtor became bankrupt on the Date of the Proposal, as well as wages, salaries, commissions or compensation for services rendered from and after the Date of the Proposal up to and including the date of the Proposal Approval, together with, in the case of traveling salesmen, disbursements properly incurred by those salesmen in and about the Debtor's business during the same period, all as envisaged by Section 60(1.3) of the Act.
  - 1.7 **"Employee Creditors":** all of the Debtor's past and present employees having Employee Claims, and **"Employee Creditor"** means any of them.
  - 1.8 **"Ordinary Unsecured Claims":** The claims other than Secured Claims, Employee Claims, Crown Claims and Preferred Claims. For greater certainty, but without limiting

the generality of the foregoing, the Ordinary Unsecured Claims shall include claims of every nature and kind whatsoever, whether due or not due for payment as of the date of the Proposal, including Restructuring Claims, contingent and unliquidated claims (once quantified) arising out of any transaction entered into by the Debtor prior to the date of the Proposal. Furthermore, the Ordinary Unsecured Claims shall include any claim for a breach of an obligation contracted before the Date of the Proposal, regardless of the date of the breach, to the extent that such breach occurred prior to November 21, 2008.

- 1.9 **“Ordinary Unsecured Creditors”**: All persons having an Ordinary Unsecured Claim.
- 1.10 **“Preferred Claims”**: The claims as described in Section 136(1)(a) through 136(1)(j) of the Act, being such claims directed by the Act to be paid in priority to all other claims in the distribution of the property of a bankrupt, excluding Employee Claims.
- 1.11 **“Preferred Creditors”**: A person having a Preferred Claim.
- 1.12 **“Proposal”**: This proposal or any amendment thereto, which amendments may be made at any time prior to a vote by the creditors on the Proposal or by the Court at the time of ratification of the Proposal.
- 1.13 **“Proposal Approval”**: The situation arising from the Proposal having been accepted by the statutory majority of Creditors as required by the Act and having been approved by the Court in a final and enforceable judgment which has become executory as a result of the delay for appeal having expired without there having been an appeal, or an appeal having been lodged and the judgment having been confirmed or the appeal withdrawn.
- 1.14 **“Proposal Fund”**: the aggregate sum of one hundred and fifty thousand dollars (\$150,000.00) to be deposited by the Debtor with the Trustee, and subsequently deposited by the Trustee in accordance with the terms of this Proposal.
- 1.15 **“Related Person(s)”**: any person(s) who is (are) related to any other person(s) as defined and described in Section 4 of the Act.
- 1.16 **“Restructuring Claim”**: Any right of any person against the Debtor arising after the Date of the Proposal, in connection with any indebtedness, liability or obligation of any kind owed to such person arising out of the restructuring of the Debtor or the repudiation or termination of any contract, lease, employment agreement, collective agreement or other agreement, whether written or oral, including any right of any person who receives a notice of repudiation or termination from the Debtor and any claims from the tax authorities resulting, directly or indirectly, from the acceptance of the Proposal by the Creditors and its approval by the Court, including any claims for Goods and Services Tax and for Sales Tax payable following a reduction and/or a settlement of the Company’s debt.
- 1.17 **“Secured Claims”**: The claims of the Secured Creditors, to the extent of the value of the security held by the Secured Creditors, as assessed by the Secured Creditor and accepted by the Trustee or as determined by the Court.

1.18 **“Secured Creditors”**: As defined in section 2 of the Act, inasmuch as the security would be opposable to a bankruptcy trustee if the Debtor had become bankrupt at the Date of the Proposal.

1.19 **“Trustee”**: RSM Richter Inc., a licensed trustee, having a place of business at 2 Place Alexis Nihon, Suite 2200, in the City of Montreal, Province of Quebec, H3Z 3C2.

2. **Employee Claims**

2.1 The Employee Claims will be paid in full, immediately following Proposal Approval.

2.2 With respect to all of the Employee Creditors who are currently employed by the Debtor, all of their Employee Claims have been or shall have been fully paid by the Debtor to such Employees, in the normal course of the Debtor’s business.

3. **Crown Claims**

3.1 All Crown Claims, to the extent not already paid by the Debtor in the ordinary course of the Debtor’s business, shall be paid in full, within six (6) months after Proposal Approval or as may otherwise be arranged with the Crown.

4. **Proposal Fund**

4.1 Conditionally upon Proposal Approval, the Debtor will deposit the Proposal Fund with the Trustee on the date of Proposal Approval.

5. **Secured Claims**

5.1 Secured Creditors shall be paid in accordance with existing contracts or as may be otherwise arranged with the Secured Creditors. For greater certainty, except as otherwise indicated in the present Proposal, the Proposal is not addressed to the Secured Creditors and they shall not be bound by the Proposal in respect of their Secured Claim, inasmuch as the said Secured Claim has been allowed by the Trustee or determined by the Court in accordance with the provisions of Section 135 of the Act.

5.2 Furthermore, the creditors holding a Secured Claim shall be entitled to value their security, exercise a right to vote and participate in any distribution as an Ordinary Unsecured Creditor, with respect to the amount of their claims which exceeds the value of the security held by the Secured Creditor, as accepted by the Debtor or the Trustee or determined by the Court.

6. **Secured Claim of CDP**

6.1 The Trustee shall pay to CDP the amount of one hundred thousand dollars (\$100,000.00) out of the Additional Fund within thirty (30) days of Proposal Approval, the whole without interest, in full satisfaction of the Secured Claim of CDP, if the following conditions are satisfied:

6.1.1 CDP has valued its Security, and has converted the remaining amount of its Secured Claim into an Ordinary Unsecured Claim for the purpose of exercising a right to vote;

6.1.2 CDP has voted in favour of the Proposal;

6.1.3 CDP waives any rights it may have to participate in any distribution as an Ordinary Unsecured Creditor;

7. **Subsequent Claims**

7.1 The claims arising in respect of goods supplied, services rendered or other consideration given to the Debtor subsequent to the date of the Proposal, including (without limitation) salaries and other compensation of employees, have been or shall be paid in full by the Debtor in the ordinary course of business, and on regular trade terms.

8. **Preferred Claims**

8.1 Preferred Creditors shall be paid in accordance with existing contracts or as may be otherwise arranged with the Preferred Creditors, unless no such contract or arrangement exists, in which case, the Preferred Creditors shall be paid out of the Proposal Fund, within sixty (60) days of Proposal Approval.

9. **Ordinary Unsecured Creditors:** The Trustee will pay to each of the Ordinary Unsecured Creditors, in full and final settlement of its Ordinary Unsecured Claim, without interest or penalty, an amount equal to:

9.1 the lesser of \$500 or the amount of its Ordinary Unsecured Claim, payable out of the Proposal Fund, within sixty (60) days of Proposal Approval;

9.2 with respect to the balance of its Ordinary Unsecured Claim, if any, its pro rata share of the balance of the Proposal Fund, as soon as reasonably possible, as determined by the Trustee, after the final determination of all the known claims of the Ordinary Unsecured Creditors and the Preferred Creditors.

10. **Claims against directors**

10.1 In accordance with section 50(13) of the Act, the Proposal Approval shall be deemed for all purposes whatsoever to constitute the complete release and discharge of all claims against past and present directors in office as at the Date of the Proposal from any and all liability or obligation for which they may be liable by law in their capacity as directors, in respect of any debt of the Debtor which arose before the Date of the Proposal. It is understood however that nothing herein shall be interpreted as an acknowledgment of any liability or obligation on the part of the directors in office as at the Date of the proposal, any such liability or obligation being specifically denied.

11. **Committee**

11.1 A committee (the "Committee") of up to five (5) individuals shall be appointed by the Ordinary Unsecured Creditors at a meeting of the Creditors called to consider the

Proposal. Such Committee shall be thereafter deemed to have been formed and constituted for the purposes hereafter set forth.

11.2 The powers of the Committee shall be limited to the following:

11.2.1 To advise the Trustee in connection with the Trustee's actions under the Proposal, as the Trustee may, from time to time, request;

11.2.2 To advise the Trustee concerning any dispute which may arise as to the validity or valuation of any proofs of claim under the Proposal;

11.2.3 To postpone, suspend or cause the postponement or suspension of Approval, if deemed necessary by the Trustee and the Committee;

11.2.4 To authorize the deferment of any payment of any of the Dividends, in whole or in part, and entirely at the discretion of the Committee;

11.2.5 To receive reports regarding the operations of the Debtor, upon request and only through the Trustee;

11.2.6 To provide approval regarding the professional fees.

**12. General**

12.1 **Reviewable Transactions, Preferential Payments, etc.:** The provisions of sections 91 to 101 of the Act or any provision of provincial legislation having a similar objective, shall not apply to the Proposal.

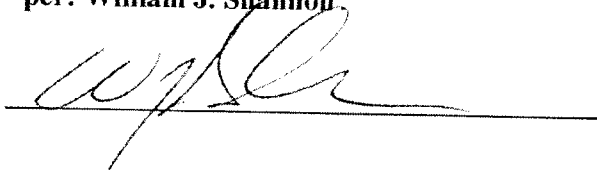
12.2 **Trustee:** All monies payable to the creditors under the Proposal namely the payments addressed in paragraph 8 of the Proposal, shall be paid over to the Trustee who shall make the payments of the dividends, the whole in accordance with the terms of the Proposal.

12.3 **Titles:** The headings or titles herein are provided solely for the convenience of the reader. They do not form part of the Proposal and as such shall have no authoritative meaning in interpreting the Proposal.

**DATED AT DELRAY BEACH, FLORIDA, this 30<sup>th</sup> day of April, 2009.**

**DIRECT SOURCE SPECIAL PRODUCTS      WITNESS:  
INC.**

per: **William J. Shannon**



Per: **Anna Kyrtatas**

