

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)

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**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

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**MOTION FOR AN ORDER APPROVING VARIOUS AGREEMENTS**  
(Sections 9,10 and 11 of the *Companies' Creditors Arrangement Act*, R.S.C. (1985),  
c. C-36 (hereinafter "*CAA*")

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**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 Motion for an Order Approving Various Agreements, Shermag Inc. (“**Shermag**”), Jaymar Furniture Corp. (“**Jaymar**”), Scierie Montauban Inc. (“**Scierie**”), Mégabois (1989) Inc., Shermag Corporation and Jaymar Sales Corporation (collectively the “**Petitioners**”) hereby request this Court to approve a transaction whereby Geosam Investments Limited (“**Geosam**”) will become the new lender of Petitioners and, more particularly, approval is sought of:

- (i) an Assignment Agreement between Wachovia Capital Finance Corporation (Canada) (“**Wachovia**”) and Geosam pursuant to which Wachovia will assign all its rights, titles, interests and recourses under the Credit Facility (as defined at paragraph 7 herein), as amended, to Geosam, the whole as appears from a draft of said agreement communicated herewith as **Exhibit R-1**; and
- (ii) a Forbearance Agreement between Geosam and Petitioners, the whole as appears from a draft of said agreement communicated herewith as **Exhibit R-2**;

Exhibits R-1 and R-2 are hereinafter defined as the “**Agreements**”.

2. **PROCEDURAL BACKGROUND**

- 2. On May 5, 2008, an initial order was rendered by this Court pursuant to the *Companies' Creditors Arrangement Act* (the “**CCAA**”) in relation to Petitioners (the “**Initial Order**”).
- 3. A detailed description of the circumstances and the reasons for requesting the Initial Order are set out in the Petition for an Initial Order pursuant to Sections 4, 5 and 11 of the *CCAA* dated May 5, 2008 (the “**Petition for Initial Order**”) filed in the Court record.
- 4. On May 30, 2008, Petitioners presented a Motion for an Order Extending the Stay Period and Other Requested Relief which extended the Stay Period (as defined in the Initial Order) to September 8, 2008.
- 5. On July 18, 2008, Petitioners presented a Petition to Establish a Claims and Meeting Process which was granted according to its conclusions by this Court the same day, the whole as appears from the Court Record.

3. **RELATIONSHIP BETWEEN THE PARTIES TO THE AGREEMENTS**

3.1 **WACHOVIA**

6. As previously mentioned to this Court at paragraph 54 of the Petition for Initial Order, Wachovia is the principal secured creditor of Petitioners.

7. Under the credit facility currently in place with Wachovia (the “**Credit Facility**”), Shermag, Jaymar and Scierie are co-borrowers (the “**Co-Borrowers**”) and are solidarily liable in respect of all amounts owed under the Credit Facility. A copy of the Credit Facility has already been produced in this Court record as Exhibit R-5 in support of the Petition for Initial Order.

3.2 **CLARKE**

8. As previously mentioned to this Court at paragraph 41 of the Petition for Initial Order, Clarke, Inc. (“**Clarke**”), a Nova Scotia based company, is currently Shermag’s largest shareholder.

9. As of the day of the present Motion, Clarke hold approximately 20% of the common shares of Shermag.

10. Three (3) of the five (5) members of Shermag's board of directors are also executives of Clarke (“**Clarke's Representatives**”). One of Clarke's Representatives, George Armoyan, is the President and Chief Executive Officer of Clarke as well as one of the most significant shareholder of Clarke.

11. George Armoyan, his family, and an entity controlled by the latter hold approximately 30% of the common shares of Clarke.

3.3 **GEOSAM**

12. Geosam is an entity controlled by George Armoyan who is also the sole director thereof.

13. In addition to George Armoyan, another Clarke's Representatives is also an officer of Geosam, namely Melinda Lee.

4. **APPROVAL OF THE COURT**

14. Wachovia has expressed its desire to discontinue its financing of the Co-Borrowers and, as a result, the Petitioners had to make alternative financing arrangements.
15. Geosam has agreed to replace Wachovia as Petitioners' lender under essentially the same terms and conditions presently governing the Credit Facility which was negotiated in June 2006. This constitutes a considerable advantage for Petitioners given that should they have to seek new credit facilities at this time, they would likely be unable to obtain financing on terms and conditions as favorable as the ones governing the Credit Facility in view of Petitioners' insolvency and the *CCAA* proceedings.
16. The principle amendment to the Credit Facility is the increase of the interest rate to 12%. This increase to the interest rate should be offset in part by the fact that Geosam will not request the same level of monitoring in respect of Petitioners by RSM Richter Inc. that Wachovia was requesting, the whole as appears, *inter alia*, from Exhibit R-2.
17. Petitioners hereby seek the approval of this Court for the following reasons:
  - (i) During the meeting of Shermag board of directors where the approval of the Agreements was sought, Clarke's Representatives requested that the Agreements be approved by this Court given the close relationship between Clarke's Representatives, Clarke and Geosam so as to be as transparent as possible;
  - (ii) the members of Shermag's board of directors who are not Clarke's Representatives also requested the approval of the Court for reasons of transparency; and
  - (iii) although the Agreements are not "related party transactions" within the meaning of *Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions* since Geosam and Clarke are not "affiliated entities" within the meaning of said Multilateral Instrument, Petitioners thought it would be more appropriate to seek the approval of this Court given the close relationship between Clarke and Geosam.
18. The present Motion is well founded both in fact and in law.

**WHEREFORE, MAY IT PLEASE THIS COURT TO:**

1. **GRANT** the present motion;
2. **DECLARE** sufficient the service of the present petition and prior notice of its presentation;
3. **APPROVE** the Assignment Agreement to be entered into among Wachovia Capital Finance Corporation Canada (Canada) Geosam Investments Limited and the Petitioners substantially in the form of the agreement communicated as Exhibit R-1 (the "**Assignment Agreement**");
4. **APPROVE** the Forbearance Agreement between Geosam Investments Limited and the Petitioners substantially in the form of the agreement communicated as Exhibit R-2 (the "**Forbearance Agreement**");
5. **AUTHORIZE** the Petitioners to sign and execute the Assignment Agreement, the Forbearance Agreement and any other document ancillary or related to the Forbearance Agreement and the Assignment Agreement which could be required or useful to give full and complete effect thereto;
6. **ORDER** the provisional execution of this Order notwithstanding appeal;
7. **THE WHOLE** without costs.

**MONTREAL**, July 30, 2008

*Davies Ward Phillips & Vineberg LLP*

**DAVIES WARD PHILLIPS & VINEBERG LLP**  
Attorneys for Petitioners Shermag Inc., Jaymar Furniture Corp., Scierie Montauban Inc., Mégaboïs (1989) Inc., Shermag Corporation and Jaymar Sales Corporation

**NOTICE OF PRESENTATION**

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**TAKE NOTICE** that the attached “Motion for an Order Approving Various Agreements” 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 July 31, 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 ACCORDINGLY**

MONTREAL, July 30, 2008

*Davies Ward Phillips & Vineberg LLP*

**DAVIES WARD PHILLIPS & VINEBERG LLP**

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