

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE PROPOSAL OF
TORONTO MACHINE & TOOL INC.,
OF THE CITY OF TORONTO,
IN THE PROVINCE OF ONTARIO**

PROPOSAL

TORONTO MACHINE & TOOL INC. hereby submits the following Proposal under the provisions of the *Bankruptcy and Insolvency Act*.

**PART I
INTERPRETATION**

Definitions

1. In this Proposal:
 - (a) "Act" means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.
 - (b) "Administrative Fees and Expenses" means the fees and expenses of the Trustee incidental to the NOI and the preparation and facilitation of the Proposal and any amendments thereto, including, without limitation, fees incurred by the Trustee in the administration of the Funded Proposal Payments; and, the legal fees and expenses of the Company before and following execution, acceptance and approval of this Proposal and in connection with the NOI and the preparation of this Proposal, as well as advice to the Company in connection therewith;
 - (c) "Affected Creditors" means those Creditors of the Company forming Class 1, as defined in Part III of this Proposal;
 - (d) "Approval Order" means an order of the Court approving this Proposal to be granted pursuant to the provisions of the Act, the appeal period having

expired, and no appeal having been filed or any appeal therefrom having been dismissed and such dismissal having become final;

- (e) "Bankruptcy Reserve" means a reserve amount of \$15,000 to be held by the Trustee as security for the administrative costs of the bankruptcy of the Company, in the event that this Proposal is annulled, and the Company becomes bankrupt;
- (f) "Business Day" means a day, other than a Saturday or Sunday, on which banks are generally open for business in Toronto, Ontario;
- (g) "Claim" means any right of any Person with indebtedness, liability or obligation of any kind against the Company which indebtedness, liability or obligation is in existence at the Date of Filing, whether or not reduced to judgement, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by surety or otherwise and whether or not such a right is executory in nature including, without limitation, the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause, chose in action, whether existing at present or commenced in the future based in whole or in part on facts which exist prior to or at the time of Date of Filing;
- (h) "Company" means Toronto Machine & Tool Inc.;
- (i) "Court" means the Ontario Superior Court of Justice in Bankruptcy and Insolvency;
- (j) "Court Approval Date" means the date on which the Approval Order is issued;
- (k) "Creditors" means any Person having a Claim, but excluding Secured Creditors;
- (l) "Creditors Meeting" means the meeting of the Affected Creditors called for the purpose of considering and voting upon this Proposal;
- (m) "Crown Claims" means Claims of Her Majesty in right of Canada or any province of all amounts of a kind contemplated by Section 60(1.1) of the Act;
- (n) "Date of Filing" means the date on which the Company filed the NOI;
- (o) "Employee Preferred Claim" means a Claim by a current or former employee of the Company, or such portion of such Claim, that would be payable in priority under Subsection 136(1) of the Act;

- (p) "Effective Date" means the date on which the transactions and agreements provided for in this Proposal are to become effective which shall be the date on which the Approval Order is issued;
- (q) "Event of Default" has the meaning given to it in Part VIII of this Proposal;
- (r) "Funded Proposal Payments" shall mean funds which will be advanced to the Trustee for distribution pursuant to Part V of this Proposal;
- (s) "Inspectors" means the inspectors appointed pursuant to Part X of this Proposal;
- (t) "Levy" means the levy imposed by the Superintendent of Bankruptcy under the Act;
- (u) "Maturity Date" means the date on which all payments to the Creditors have been made, provided that no Event of Default has occurred that has not been cured or waived;
- (v) "NOI" means the Notice of Intention to Make a Proposal filed by the Company on December 8, 2017;
- (w) "Person" means any individual, partnership, joint venture, trust corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other entity howsoever designated or constituted;
- (x) "Post-Filing Crown Claims" means all Crown Claims that became due or shall become due on or after the Date of Filing;
- (y) "Post-Filing Goods and Services" means the goods supplied, services rendered and other consideration given or provided to the Company on or after the Date of Filing;
- (z) "Pre-Filing Crown Claims" means all Crown Claims that were outstanding as at the Date of Filing;
- (aa) "Preferred Claim" means any claim that is afforded priority under Section 136(1) of the Act;
- (bb) "Preferred Creditor" means any Unsecured Creditor holding a Preferred Claim, solely in respect to that Preferred Claim;
- (cc) "Proposal" means this proposal dated December 5, 2017, together with any amendments or additions thereto;

- (dd) "Proposal Period" means the period between the Court Approval Date and the Maturity Date;
- (ee) "Proven" as used in relation to any Claim means such Claim as finally accepted or determined by the Trustee in accordance with the provisions of the Act and this Proposal, subject to the Creditor's right of appeal to Court, the Court's determination of that Claim or any applicable appeal periods having expired and no appeal having been made,
- (ff) "Secured Creditor" means a Person holding a mortgage, hypothec, pledge, charge, lien or privilege on or against the property of the Company or any part thereof as security for a Claim;
- (gg) "Trustee" means Dodick Landau Inc., solely in its capacity as proposal trustee of the Company;
- (hh) "Unsecured Claim" means the value of any Proven Claim in respect of which no Security is held; and
- (ii) "Unsecured Creditors" means those Persons with Claims in respect of which no Security is held and which is not afforded priority under Section 136(1) of the Act.

Headings

2. The division of this Proposal into parts, paragraphs and subparagraphs, and the insertion of headings herein, is for convenience of reference only and is not to affect the construction or interpretation of this Proposal.

Number, etc.

3. In this Proposal, where the context requires, a word importing the singular includes the plural and vice versa, and a word importing gender includes the masculine, feminine and neuter genders.

Date for Action

4. In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action will be required to be taken on the next succeeding day that is a Business Day.

Accounting Principles

5. Accounting terms not otherwise defined in this Proposal have the meanings assigned to them in accordance with generally accepted Canadian accounting principles.

**PART II
PURPOSE AND EFFECT OF THIS PROPOSAL**

Purpose of Proposal

6. The purpose of this Proposal is to effect a restructuring of the indebtedness of the Company in the manner contemplated herein and as permitted by the Act in the expectation that all Creditors will derive a greater benefit from the restructuring and the continued operation of the business and affairs of the Company than would result from a bankruptcy of the Company.

Effect of Proposal

7. This Proposal restructures the indebtedness of the Company and provides the essential terms on which all Creditors' Claims will be fully and finally resolved and settled. During the Proposal Period, and provided that an Event of Default has not occurred and is continuing hereunder, all Creditors will be stayed from commencing or continuing any proceeding or remedy against the Corporation or any of its property or assets in respect of a Claim including, without limitation, any proceeding or remedy to recover payment of any monies, to recover or enforce any judgment against the Company in respect of a Claim or to commence any formal proceedings against it other than as provided for under this Proposal.

**PART III
CLASSIFICATION OF CREDITORS**

8. For the purpose of this Proposal, the Creditors of the Company shall be comprised of a single class, consisting of Creditors having Preferred Claims and Unsecured Claims ("Class 1"). For greater certainty, Preferred Creditors entitled to vote pursuant to the Act shall vote in this class, and claims of Her Majesty in right of Canada and any province for all amounts other than Crown Claims shall vote in this class.

**PART IV
SECURED CREDITORS**

9. This Proposal is not made to Secured Creditors and accordingly, Secured Creditors are unaffected by the terms hereof and shall not be entitled to vote on the Proposal.

**PART V
TREATMENT OF VARIOUS CLAIMS,
FUNDING OF PROPOSAL AND DISTRIBUTION**

Crown Claims

10. At the Date of Filing, the Company owed approximately \$375,193 to Canada Revenue Agency ("CRA") for employee source deductions withheld but not remitted, including related penalties and interest calculated up to the Date of Filing. In addition to the Funded Proposal Payments, all Proven Pre-Filing Crown Claims shall be paid out of additional funds to be delivered by the Company to the Trustee and shall be remitted by the Trustee to Her Majesty in the Right of Canada or of any province, as applicable, within six (6) months of the Court Approval Date.

Employee Preferred Claims

11. At the Date of Filing, the Company is not aware of any Employee Preferred Claims or potential Employee Preferred Claims. All Employee Preferred Claims (if any) shall be paid out of additional funds to be delivered by the Company to the Trustee and shall be remitted by the Trustee to the entitled claimants (if any) immediately after the Court Approval Date.

Secured Claims

12. Claims of Secured Creditors shall be unaffected by this Proposal and shall be paid in accordance with the terms of the agreements between the Company and the Secured Creditors.

Preferred Claims (in addition to Employee Preferred Claims)

13. Proven Preferred Claims, other than Employee Preferred Claims (which shall be satisfied pursuant to Paragraph 11 of this Proposal), shall be paid in full, without interest, out of the Funded Proposal Payments, in priority to Proven Unsecured Claims.

Unsecured Claims

14. Proven Unsecured Claims shall be paid out of the Funded Proposal Payments on a *pro rata* basis

Related-Party Creditors

15. The following Creditors have agreed, as evidenced by such Creditors' signed confirmation appended hereto as Schedule "A", not to file Claims in this Proposal and will not participate in distributions to Unsecured Creditors under this Proposal:

- (a) Mattali Group Inc.;
- (b) 2190367 Ontario Associates/Blum & Associates; and
- (c) Bluecap Financial Solutions.

Funding the Proposal

16. Upon the full satisfaction of the Crown Claims and Employee Preferred Claims, the Company will cause to be paid to the Trustee the Funded Proposal Payments in the form of cash instalments in the aggregate amount of \$20,834 every three months (3), for three (3) years, subject to Paragraph 18 of this Proposal.
17. The Company's obligation to commence funding the Funded Proposal Payments shall commence on the earlier of:
 - (i) the last day of the month following the month in which the Crown Claims are paid in full; and
 - (ii) 30-days following the day that is six (6) months after the Court Approval Date.
18. The Funded Proposal Payments will be made until an amount is paid to the Trustee equal to the lesser of:
 - (i) 35% of the value of the Proven Claims; and
 - (ii) \$250,000.

Distribution

19. Interim distributions will be made to Unsecured Creditors by the Trustee when sufficient Funded Proposal Payments have, in the Trustee's discretion, accumulated to warrant an interim distribution.
20. A final distribution will be made to the Unsecured Creditors by the Trustee when the aggregate of all Funded Proposal Payments made to the Trustee is equal to the amount required under Paragraph 18 hereof.
21. The Funded Proposal Payments shall be distributed by the Trustee in the following order of priority:
 - (a) first, to the Administrative Fees and Expenses;
 - (b) second, to establish the Bankruptcy Reserve, to be held in trust by the Trustee, which amount shall be used to fund the administrative costs of the bankruptcy of the Company in the event that this Proposal is annulled, and the Company becomes bankrupt, failing which such amount shall be distributed in accordance with Subparagraphs 19(c) and 19(d) of this Proposal;
 - (c) third, to Proven Claims of Preferred Creditors, other than Employee Preferred Claims which will have been paid, without interest (if any); and

- (d) fourth, the balance of the Funded Proposal Payments shall be distributed *pro rata* among all of the Unsecured Creditors on account of Proven Unsecured Claims.

Amendments to Agreements

22. Notwithstanding the terms and conditions of all agreements or other arrangements with Creditors entered into before the Date of Filing, provided that no Event of Default has occurred and is continuing hereunder, all such agreements or other arrangements will be deemed to be amended to the extent necessary to give effect to all the terms and conditions of this Proposal. In the event of any conflict or inconsistency between the terms of such agreements or arrangements and the terms of this Proposal, the terms of this Proposal will govern. All Creditors will provide such acknowledgements, agreements, discharges or other documentation as may be necessary to give effect to the intent of this Proposal.

Treatment of Claims

23. For purposes of this Proposal, each Creditor holding a Claim will receive the treatment provided for in this Proposal on account of such Claim.

PART VI POST-FILING OBLIGATIONS

Payment of Post-Filing Goods & Services

24. During the Proposal Period, all Post-Filing Goods and Services shall be paid in full in the ordinary course of business by the Company

Post-Filing Crown Claims

25. During the Proposal Period, the Company shall remit all Post-Filing Crown Claims as and when due.

Reporting by the Company

26. During the Proposal Period, the Company shall provide to the Trustee every three months commencing on first day of the month following the month in which the Approval Order is issued, a report containing the information set out below:

- (i) a cash flow statement for the Company's business and affairs for the prior three months; and
- (ii) evidence of Company's filing and remittance of source deductions and HST.

**PART VII
LEVY, MANDATORY PAYMENTS AND PREFERRED CLAIMS**

Levy

27. The Levy, if applicable, shall be deducted by the Trustee from payments to creditors by the Trustee.

Payment of Fees and Expenses

28. The Administrative Fees and Expenses shall be paid in priority to the Crown Claims, the Claims of Preferred Creditors and the Claims of general Unsecured Creditors.

Employee Claims

29. As per Part V of this Proposal, All Employee Preferred Claims will be paid in priority to other Claims immediately after the issuance of the Approval Order.

Preferred Claims

30. As per Part V of this Proposal, Proven Claims of Preferred Creditors, without interest, are to be paid in full priority to all Claims of the Unsecured Creditors including, without limitation, any entitlement of the Unsecured Creditors to the payments to be made under Part V of this Proposal.

**PART VIII
EVENTS OF DEFAULT**

31. The following events will constitute Events of Default for purposes of Section 63 of the Act and otherwise under this Proposal:
- (a) the non-payment by the Company of any of its obligations hereunder within thirty (30) days after written notice has been given by the Trustee that such payment is past due; and
 - (b) the breach or failure by the Company to observe and perform any other covenant and provision of this Proposal, other than payment as provided for in this Paragraph 29(a) which is not remedied within thirty (30) days after written notice thereof has been given to the Company by the Trustee.

**PART IX
TRUSTEE**

32. The Trustee is acting solely in its capacity as proposal trustee under the Act and not in its personal capacity and no officer, director, employee or agent of the

Trustee shall incur any obligations or liabilities in connection with this Proposal or in connection with the business or liabilities of the Company.

33. Any payments made by the Trustee to Creditors hereunder shall be made by the Trustee net of any levies payable or due under the Act.

PART X INSPECTORS

Appointment of Inspectors

34. At the Creditors Meeting, the Affected Creditors will be entitled to appoint one or more, but not exceeding five (5) Inspectors in total.

Powers of Inspectors

35. The inspectors, by way of majority, will have the following powers, but will have no personal liability to the Company or other Creditors:
- (a) the power to extend the dates the Funded Proposal Payments are due under this Proposal;
 - (b) the power to waive any default in the performance of any provision of this Proposal; and
 - (c) the power to advise the Trustee in respect of such matters as may be referred to the Inspectors by the Trustee.

PART XI CONDITIONS PRECEDENT

Creditor Approval

36. The Trustee shall call a meeting of the Affected Creditors of the Company to seek creditor approval for the Proposal in the requisite majority in number and value of the classes, as set out in the Act, of each of the classes of creditors described in this Proposal. The performance of this Proposal by the Company shall be conditional upon approval of the Affected Creditors. If the Affected Creditors do not approve the Proposal, the Trustee shall report on the result of the vote as required under Section 57 of the Act and the Company shall be deemed bankrupt.

Court Approval

37. In the event the Proposal is approved by the Affected Creditors the Proposal Trustee shall, within five (5) days of such approval, apply to the Court for a hearing to seek the Approval Order. The performance of this Proposal by the

Company shall be conditional upon the issuance of the Approval Order. In the event that the Court does not approval the Proposal, the Company shall be deemed bankrupt.

PART XII RELEASE

38. As at 12:01 a.m. the Maturity Date, the Company and each and every present and former officer and director of the Company (collectively, the "Released Parties"), shall be released and discharged from any and all demands, claims, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, liens and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Creditor or person may be entitled to assert as of the Date of Filing, including without limitation, any and all claims in respect of the potential statutory liabilities of the former, present and future directors and officers of the Company, and any and all claims relating to any obligations of the Company where the present, former or future directors or officers are or may be by law liable in their capacity as directors or officers for the payment of such obligations, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Date of Filing relating to, arising out of or in connection with the claims, the business and affairs of the Company, this Proposal, and provided that nothing herein shall release or discharge any director or officer of the Company from any claims coming within the exceptions set out in Subsection 50(14) of the Act. This release shall have no force or effect if the Company goes bankrupt before the terms of the Proposal are performed.

PART XIII MISCELLANEOUS

Preferential Payments

39. Sections 95 to 101 of the Act shall not apply to any dealings by the Company at any time prior to the Date of Filing. The releases contemplated in Paragraph 36 of this Proposal include releases in favour of the Released Parties from all claims, actions, or remedies available to Creditors or others pursuant to Sections 95 to 101 of the Act, provided that nothing herein shall release any director of the Company from any claims coming within the exceptions set out in Section 50(14) of the Act.

Consents, Waivers and Agreements

40. On the Effective Date, all Creditors will be deemed to have consented and agreed to all of the provisions of this Proposal in its entirety. For greater certainty, each

such Creditor will be deemed to have waived any default by the Company in any provision, express or implied, in any agreement existing between the Creditor and the Company that has occurred on or prior to the Date of Filing, and to have agreed that, to the extent that there is any conflict between the provisions of any such agreement and the provisions of this Proposal, the provisions of this Proposal take precedence and priority and the provisions of any such agreement are amended accordingly.

Further Actions

41. The Company and the Creditors will execute and deliver all such documents and instruments and do all such acts and things as may be necessary or desirable to carry out the full intent and meaning of this Proposal and to give effect to the transactions contemplated hereby.

Performance

42. All obligations of the Company under this Proposal will commence as of the Effective Date. All obligations of the Company under this Proposal will be fully performed for the purposes of Section 65.3 of the Act only upon the Company having made the payments to the Trustee provided for herein.

Acceleration of Payments

43. Notwithstanding the payment structure set out in Part V of this Proposal, nothing herein prevents or restricts the Company from accelerating any of the Funded Proposal Payments or from satisfying the full amount of the Funded Proposal Payments in advance of the time period contemplated in Part V of this Proposal.

Binding Effect

44. The provisions of this Proposal will be binding on the Creditors and the Company, and their respective heirs, executors, administrators, successors and assigns, upon issuance of the Approval Order after all appeal periods have expired.

PART XIV ANNULMENT OF PROPOSAL


45. If this Proposal is annulled by an order of the Court, all payments on account of Claims made pursuant to the terms of this Proposal will reduce the Claims of Creditors.

**PART XV
AMENDMENTS**

46. The Company may propose amendments to the Proposal at any time prior to the conclusion of the Creditors Meeting provided that any such amendment does not reduce the rights and benefits given to the Creditors pursuant to the Proposal before such amendment and that any and all amendments shall be deemed to be a part of and incorporated into the Proposal.

DATED at the City of Toronto, in the Province of Ontario, this 5th day of January, 2018.

TORONTO MACHINE & TOOL INC.

Per: 
Name: Dan Blum
Title: President

SCHEDULE "A"

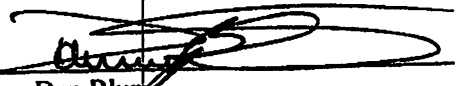
CONFIRMATION OF RELATED-PARTY CREDITORS

Pursuant to this Proposal, the following Creditors hereby confirm, acknowledge and agree that they will not file a Claim in this Proposal and will not participate in any distributions to Unsecured Creditors under this Proposal.

Date: January 5, 2018

Mattali Group Inc.

Witness: _____

per 
Name: Dan Blum
Title: President

Date: January 5, 2018

2190367 Ontario Inc./Blum & Associates


Witness: _____

per 
Name: Dan Blum
Title: President

Date: January 5, 2018

Bluecap Financial Solutions

Witness: _____

per 
Name: Scott Wilson
Title: Authorized Signing Officer