

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

IN THE MATTER OF THE PROPOSAL OF
BG FURNITURE LTD.
OF THE TOWN OF WALKERTON
IN THE PROVINCE OF ONTARIO

RESPONDING AFFIDAVIT OF DONNACHA RAHILL

I, Donnacha Rahill, of the City of Burlington, in the Province of Ontario, MAKE OATH
AND SAY:

1. I am the Chief Financial Officer of Grenville Strategic Royalty Corp., (“Grenville”) and as such have knowledge of the matters hereinafter deposed to, either through my own knowledge or by informing myself with respect thereto, in which case I have indicated the source of my information and belief.
2. I swear this Affidavit in response to the motion brought by BG Furniture Ltd. (“BG”) seeking an Order for, among other things, several priority charges over BG’s property, which charges would, if granted, take priority over the security held by Grenville. It is Grenville’s position that this relief should not be granted.

Grenville’s Position

3. Grenville is owed \$2,789,689.44 as of November 31, 2016. Grenville holds a General Security Agreement over the assets of BG, and, as the PPSA search attached to the Affidavit of Adam Hofmann filed in support of this Motion (the “Hofmann Affidavit”) indicates, Grenville is the senior, non-lease, secured creditor over the equipment owned

by BG (the "Equipment"). Grenville holds over 47% of the total debt of the company, as shown on the creditors list attached to BG's Notice of Intention to enforce Security, and nearly 50% of the total secured debt owed by the company. Grenville is in a veto position with respect to any proposal that BG could put forward. The relevant loan and security documents, as well as a PPSA search, are all attached to the Hofmann Affidavit and are thus not attached hereto as Exhibits.

4. I have read the Responding Affidavit of Stuart des Vignes, administrative Coordinator of Platinum Investment Group Inc. ("Platinum"), and verily believe that Platinum holds the first-ranking mortgage security against title to the Ridout Street real property described in the Hofmann Affidavit. Platinum is owed approximately \$622,000. Grenville does not hold mortgage security over the land and buildings described in the Hofman Affidavit.
5. Based on Mr. des Vignes' Affidavit, I believe that Grenville and Platinum, the two senior-ranking secured creditors, who collectively hold over 60 of the entire indebtedness of the company, and an even-greater portion of the secured debt of the company, are in agreement: both are opposed to the proposed DIP loan, stalking horse and SISP processes, which are unjustifiable in the circumstances.

Lack of Prior Communication with Secured Creditors

6. I am one of the contact individuals with carriage of this matter for Grenville and I have been involved in a dialogue, both verbal and by email, with BG and its management over the course of the past several months regarding its restructuring efforts. The currently-proposed DIP/stalking horse/SISP process was never discussed during any of these discussions.
7. Grenville was "served" with this motion by way of an email sent to me aafter 5 P.M. on Monday, December 19, 2016. The Report of the Proposal Trustee arrived by email

during the evening of December 20, less than 48 hours prior to the return time of the Motion.

The Proposed Restructuring is Part of a Clear “Loan to Own” Strategy

8. The Motion record served on December 19, 2016 represents the first time I became aware that this particular restructuring plan was being proposed by BG. This Motion is not a result of a process of negotiations with the company’s secured creditors. To the contrary, this motion comes as a surprise to us, in the midst of previously-ongoing discussions.
9. In or about November 2016, Grenville was prepared to agree to assign its debt and mortgages to 2544311 Ontario Limited. That agreement was never consummated. Instead, it appears that 2544311 Ontario Limited has agreed to become the Stalking Horse bidder referenced in Hofmann’s Affidavit in what appears to be a clear “loan to own” strategy.
10. I note that the principal of the purchaser company, Mr. Rong, has business interests in China. Hofmann has indicated to me in an email copied to Mr. Rong (the principal of the purchaser entity), that “Mr. Rong intends to confirm a plan for supply of products to China and import of products from China for BG’s benefit.” I attach a copy of the relevant email as **Exhibit “A”** hereto. Although I cannot make any definitive statement in this regard, based on the evidence, there is certainly a reasonable basis to suspect that the intention of the purported purchaser of this business may be to simply move the Equipment to China and integrate what remains of the BG business into existing Chinese production facilities.

Specific Issues with the Proposed Relief

11. There are numerous problems with the proposed restructuring. As a result of the fact that we have been given so little time to respond to the Motion, which came as a complete

surprise to Grenville, I summarize herein some, but not all, and not exhaustively, of the major problems we have with the Order requested by BG.

12. Grenville has lost all confidence in current management. It will not vote in favour of any proposal put forward by current management, or by any other new management team that foresees the continuation of the business from its current location, in its current form. Although Grenville clearly believed in this business at one time (as evidenced by the fact that it was prepared to lend approximately \$2.2 million to BG), Grenville no longer believes that this business is viable.
13. As part of a proposed attempt at restructuring, BG is seeking court approval for a \$300,000.00 DIP Charge (as defined in the Hofmann Affidavit) a \$150,000.00 Administration Charge (as defined in the Hofmann Affidavit) and a \$25,000.00 D & O charge (as defined in the Hofmann Affidavit). In total, BG is seeking \$475,000.00 in charges ranking ahead of Grenville's security. It appears to be common ground between Grenville and BG that the realizable value of the equipment subject to Grenville's first-ranking security is somewhere between \$450,000 and \$500,000 if sold at auction, net of selling costs.
14. The proposed DIP, stalking horse and SISP process will not in any way benefit Grenville, and, in fact, would lead to a deterioration of Grenville's security position. The restructuring contemplated by BG will most likely significantly reduce Grenville's recovery, and its secured position will become eroded and at least partially unsecured for the benefit of other creditors who are currently unsecured.
15. The Hofmann Affidavit makes it clear that this business has been shuttered for more than two months. Yet, there still exists approximately \$470,000 worth of purchase orders that apparently can be filled by a company that has not been in operation for two months. Leaving aside the doubtful proposition that the business could simply be switched back on immediately, there is no evidence in the record with respect to the purported \$470,000 worth of purchase orders: are these customers still willing to pay these amounts? Are

they still waiting for their high-quality, wood furniture? Have these customers gone elsewhere? The idea that the full \$470,000 of purchase orders is still collectible sounds wholly implausible to me. Notably, the Proposal Trustee's Report does not assist the creditors in assessing the plausibility of this restructuring proposal. The veracity of Hofmann's claims in this regard has not been tested and is not commented on in any meaningful way. I wish to make it clear that we do not fault the Proposal Trustee for not being in a position to assist the creditors in this regard, as all of the parties are clearly working under extreme time pressures.

16. These issues are significant: if less than the full amount of the \$470,000 is collected once the company goes back into operation, the entire cash flow produced by the company will no longer have any validity and erosion of creditors' security would clearly result. Even if the entire \$470,000 is collectible and collected, that ENTIRE amount would go to retiring the DIP Loan, the proposed administration and directors' charges (which, coincidentally, add up to almost exactly \$470,000) to no obvious benefit whatsoever to the secured creditors.
17. Close scrutiny of the cash flow produced by the company reveals that the entire amount of the \$300,000 DIP Loan, and any and all accounts receivable collected during the proposed time period that the company will be in operation, including the \$470,000 in purchase orders, will be spent by the company over that period, without making a single loan payment to any secured creditors. Specifically, the cash flow indicates that the closing cash balance at the end of the period will be only \$46,000 (approx.). In other words, the secured creditors will end up being primed to the tune of \$475,000 with no benefit whatsoever to them.

Elevating the Union to the Status of Secured Creditor

18. I note the agreement between the union and BG attached to the Hofman Affidavit, which essentially elevates the union's claim to \$250,000 of unsecured unpaid wages to the level of a secured creditor, in priority to Grenville and other secured creditors. Grenville fully

recognizes the super-priority security afforded by s. 81.1 of the BIA to unpaid workers for wages earned and not paid during the six months preceding bankruptcy. That being said, the evidence does not suggest that the s. 81.1 unpaid workers' claim against the current assets of BG, with a workforce of 31 workers, will total anything close to \$250,000.

19. The proposed DIP Loan, SISP and Stalking Horse proceedings appear to benefit only the proposed purchaser and Mr. Hofmann, allowing it to invest funds now in order to ramp up operations, in the almost certain knowledge that it would eventually end up acquiring a controlling interest in BG or its assets for a price that is significantly less than what the existing secured creditors would receive in a PPSA/real property mortgage realization process.
20. In the event that the Stalking Horse process is approved, it is entirely possible that 2544311 Ontario Limited will end up paying \$800,000.00 for all of BG's property, including the equipment. In the event that BG's relief is granted as requested at this time, somewhere between \$300,000.00 and \$475,000.00 will make up priority payments, with no proposed breakdown of the investment amount between amounts allocated to real estate and equipment. It does not appear to me that there is a commercial basis for such an Order resulting in massive prejudice to the secured creditors.
21. I agree with the following statement made by Mr. des Vignes in his Responding Affidavit: "What BG is requesting is extraordinarily prejudicial to [all of] the secured creditors." I also agree with Mr. des Vignes' observation that the statements made in the Hofmann Affidavit to the effect that the proposed restructuring would not materially adversely affect the secured creditors are not credible.

The Proposed Stalking Horse Agreement Prejudicially and Inappropriately Ties the Hands of a Future Trustee in Bankruptcy

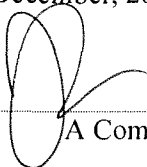
22. In addition, BG's material appears to contemplate that in the event that BG's proposal is not accepted, the Stalking Horse bidder would be entitled to purchase all of BG's assets, including the real estate from the Trustee in Bankruptcy. There is no allocation as to value of real estate versus other assets nor is there any contemplation of the priority of payments. Again, secured creditors will more than likely be extremely prejudiced.

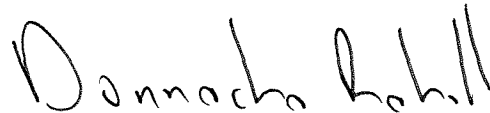
The Intention of the Senior Secured Creditors to Enforce Their Security

23. I understand that Platinum is, at this time, proceeding with power of sale proceedings under its first mortgage. Grenville wishes to pursue the same path with respect to the equipment. It is Grenville's intention to realize on its security against the equipment in question at the earliest possible opportunity, either pursuant to Part. V of the PPSA, or under the auspices of a receiver.
24. Grenville will, if necessary, move for an order terminating the proposal process in order to remove the stay of proceedings resulting from the filing of the NOI. I hope that this will not be necessary and that BG will cooperate with its secured creditors in the inevitable liquidation of its assets. To my mind, the only issue for the creditors is whether Platinum and Grenville will independently pursue their recovery remedies at law or whether some level of cooperation, perhaps in the form of a Receiver, is desirable.

25. I make this Affidavit in opposition to the Motion brought by BG Furniture Ltd. for various relief and for no other or improper purpose.

SWORN or AFFIRMED before me at the City of Toronto in the Province of Ontario, this 21st day of December, 2016.


A Commissioner etc.
Jeffrey J. Simpson


DONNACHA RAHILL

Jeffrey Simpson

From: Adam Hofmann <ahofmann@bgfurniture.ca>
Sent: November-30-16 2:17 PM
To: Donnacha Rahill
Cc: Jianjun Rong (rong_jianjun@hotmail.com); De Caria, Stephanie; Greg Azeff (gazeff@foglers.com); Steve Parry
Subject: RE: Foreclosure plan -
Attachments: Foreclosure Plan Nov 30 2016.pdf

Hi Donnacha (Grenville),

As per your request, I have prepared the document you requested that shows the total funds required to complete the foreclosure, startup and remaining amounts to be paid within 1 to 3 months.

Rong has arranged for \$700,000 to cover the foreclosure and fund the startup of the operations. Additional funds are coming within 1 to 3 months from private investor and bank (RBC/BDC). One of the Chinese manufacturers owner, will be coming to Canada, by end of December to make arrangements for further investment and confirm the plan for supply of products to Chinese market and import of products from China for BG benefit.

Foreclosure plan as follows:

New Timing: by December 9

Manorhouse

- Pay off entire amount owing – approx. \$41,000

Grenville

- Pay \$160,000 at time of foreclosure
- Remaining \$240,000 to be paid no later than 3 months from financing being arranged with BDC/RBC
- New security PPSA from NewCo for Grenville on equipment – 1st position. This security would remain until the remaining payment is made
- No interest

Platinum/MD Financial

- Pay \$300,000 at time of foreclosure
- Remaining approx. \$320,000 to be paid no later than 3 months from financing being arranged with BDC/RBC
- New MTG security from NewCo for Platinum on land and buildings – 1st position. This security would remain until the remaining payment is made
- Interest would be earned on remaining Mtg owing amount and paid to Platinum until such time as the remaining amount owing is paid.

SEDC/BRUCE

- No payment at time of foreclosure
- New MTG security from NewCo for SEDC/BRUCE on land and buildings – 2nd position behind Platinum. This security would remain until the payment is made
- Payment Of \$100K EACCH to SEDC/BRUCE would be made within 3 to 4 months
- No interest

EHT – Ontario Government

- Pay \$20K at time of foreclosure

CRA

- Pay \$45K after foreclosure

Legal Fees to Fogler Rubinoff

- Rong will drop off cheque to your office tomorrow so you can continue

The key benefit that each secured party will receive is a clean security from the NewCo and final payout within a few months vs. a receiver being appointed and taking at least 3 months to sell assets and in the case of the land and building from 6 months to 12 months to find a buyer.

Rong has paid electricity costs and will continue to ensure building is heated to prevent freezing pipes for before we start operating again after foreclosure process is completed.

Thanks,

Adam Hofmann

Phone: 519-881-0600 ext. 2

Fax: 519-881-1068

Cell: 519-881-6465