

Court File No. CV-12-9545-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF VALLE FOAM INDUSTRIES (1995) INC.,
DOMFOAM INTERNATIONAL INC. and A-Z SPONGE & FOAM
PRODUCTS LTD.

(the "Applicants")

AFFIDAVIT OF TONY VALLECOCCIA
(sworn January 25, 2012)

I, **TONY VALLECOCCIA**, of the City of Brampton, Province of Ontario,

MAKE OATH AND SAY:

1. I am the President of Valle Foam Industries (1995) Inc. and the Chief Executive Officer of Domfoam International Inc. and a director of each of the Applicants and as such have knowledge of the matters to which I hereinafter depose, except where otherwise stated. Where my evidence is based on information and belief, I have stated the source of that information and believe it to be true.

2. This affidavit is sworn in support of an motion by Valle Foam Industries (1995) Inc. (“**Valle Foam**”), and its affiliated companies, Domfoam International Inc. (“**Domfoam**”) and A-Z Sponge & Foam Products Ltd. (“**A-Z**”) (collectively, the “**Applicants**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) to approve a sale process to market the assets of the Applicants for sale.

3. The Applicants collectively operate as one of Canada’s largest manufacturers and distributors of flexible polyurethane foam products from facilities located in Ontario, Quebec and British Columbia.

4. As described in greater detail in my affidavit of January 11, 2012 in these proceedings, a copy of which is attached hereto as **Exhibit “A”** without exhibits (the “**First Affidavit**”), as a result of declining sales, fines imposed by the Competition Bureau of Canada, and class action lawsuits commenced against the Applicants in Canada and the United States, the Applicants required protection under the CCAA.

5. On January 12, 2012, the Applicants sought and were granted protection under the CCAA pursuant to the Order of Justice Newbould (the “**Initial Order**”).

6. As anticipated in the First Affidavit, I have determined, with the assistance of Deloitte & Touche Inc. (the "Monitor") that an immediate sale of the applicants businesses, particularly of Domfoam, is required.

7. As set out in the Cash Flow Forecast filed with my First Affidavit, I believe that the Applicants may have the cash resources to be able to operate for many more weeks. However, I am concerned that the Applicants will not be able to sustain their market position without quickly announcing a sale of the business or some other injection of capital to assure the market that the Applicants will be able to continue to supply its customers. Without these customers, the Applicants' business will not be able to find a going concern purchaser, resulting in a liquidation and ultimately the loss of all of the jobs at the Applicants.

8. I believe, for the reasons set out herein, the sale process described below with respect to each of the Applicants will generate the greatest benefit to the largest number of stakeholders.

Activities Since CCAA Filing

9. I understand that Deloitte & Touche Inc., the court appointed Monitor, is preparing a report which will, among other things, outline the state of the business since the filing.

10. All three of the Applicants continue to operate their business in the ordinary course, subject to the restrictions imposed by the Initial Order, and subject to the following, with respect to Valle Foam.

11. It was assumed at the time of swearing my First Affidavit that Valle Foam would cease operations in the near future while Domfoam and A-Z continued to operate on a business as usual basis, subject to the terms of the Initial Order. However, we have now determined that Valle Foam will operate in the short term while undertaking a sale process.

12. Although Valle Foam is continuing to operate, it has engaged in some immediate downsizing. It has mainly closed one of its locations, being the one on Orenda Road. The staff from the Finley has been moved to West Drive. It has shut down the night shift at Orenda. It has suspended manufacturing of its underlay products.

Proposed Sale Process

13. In consultation with the Monitor, and having regard to the informal process undertaken by the Applicants prior to filing, the Applicants propose that a short period of marketing be undertaken following which a sale or sales be approved or, depending on the cash flows and future prospects at that time, that the businesses be wound down.

14. The proposed marketing process will be as set out in **Exhibit "B"** to this affidavit. This process has been designed in consultation with the Monitor. I am advised by the Monitor and by our counsel that this process is similar to the process usually followed in insolvency restructurings, although I am advised by the Monitor and the Applicants counsel that the proposed time periods in the sale process are shorter than some.

15. Under this sale process an ad will be placed in the Globe and Mail and a flyer will be sent to likely purchasers as identified by the Applicants and the Monitor. The process will also be advertised on the Monitor's website.

16. Interested parties will be expected to execute the Applicants' form of Non Disclosure Agreement, and submit an "as is, where is" purchase offer.

17. Offers will be due on February 22, 2012, effectively a four week process.

18. I am of the view that shorter time period are necessary and appropriate, especially for Domfoam, for the reasons which follow. Therefore, notwithstanding that offers shall be formally sought to be submitted on February 22, 2012, it may be reasonable to return to Court prior to that date to seek the approval of an offer which may be made known to us prior to February 22, 2012 in the event that the applicants, along with the Monitor, determine it is necessary to do so. The Applicants intend to advise all prospective purchasers of this possibility.

Previous Marketing

Domfoam

19. Since November, when it became likely that the weight of the Competition Bureau fines and related class action lawsuits would require the Applicants to file for protection under the CCAA, Domfoam has been conducting an informal process to contact interested parties about a possible acquisition of Domfoam.

20. I was also advised that one major customer of the Applicants was considering acquiring certain of the assets of the Applicants. These discussions are at a very preliminary stage, but are considered promising.

21. The Applicants have also had conversations with two competitors who might possibly express an interest in purchasing the businesses of all the Applicants as a whole. One of those competitors discontinued negotiations quickly after they were commenced. The second party has not yet determined its interest.

22. Out of this informal process, as mentioned in my First Affidavit, Domfoam was contacted by an entity familiar with its business who is proposing to purchase the business of Domfoam on a going concern basis subject to Domfoam entering into a restructuring scenario which properly manages the creditors of Domfoam and allows for the acquisition of Domfoam on a free and clear basis.

23. On December 22, 2011, this entity submitted a form of offer. The parties have been negotiating this offer since that date.

24. That party is the landlord of the principal Domfoam premises. This entity was formerly an owner of the Domfoam business before my involvement with the

business. Certain current employees and officers of Domfoam were formerly employees of this entity. I am aware that this entity is therefore familiar with the business and has an interest in seeing the business continue in that premises.

25. Although I believe that this potential purchaser could ultimately be the purchaser of the business of Domfoam, I believe and have been advised by the Monitor that it is appropriate to advertise and provide a deadline to allow such other parties as may be interested to submit comparable offers.

Valle Foam

26. The marketing efforts of Valle Foam are not as advanced as are the efforts with respect to Domfoam. However, following the filing of the CCAA, several parties have contacted me and indicated an interest in acquiring Valle Foam.. For this reason, I feel it is appropriate to continue to operate Valle Foam, notwithstanding it is operating at a loss.

27. Given this recent interest, I do believe that there may be other parties who might express further interest in Valle Foam if it continues to operate until a purchaser can be identified.

A-Z

28. With respect to A-Z, as noted in my First Affidavit, but for its exposure as a contingent creditor under the Class Actions, A-Z otherwise operates at effectively a break even level. I am of the view that as a stand alone entity the business of A-Z could be marketed and sold to a purchaser on a going concern basis

29. Prior to the CCAA filing, A-Z was contacted by one potentially interested purchaser who made an informal offer prior to the CCAA filing. That entity executed the form of Non Disclosure Agreement. That entity has advised that it would consider making a further offer. I am also aware of at least one other entity in who has expressed an interest in A-Z

30. Given this recent interest, I do believe that there may be other parties who might express further interest in A-Z if it became publically known that A-Z was prepared to operate until a purchaser could be determined.

Suppliers Restless

31. The Applicants purchase their principal supplies separately, but often from the same suppliers.

32. Chemicals and other production inputs are delivered to the Applicants through different methods. Valle Foam takes delivery by way of tank truck whereas Domfoam and A-Z take the majority of their delivery by way of railcar directly into their facility.

33. As a result, Valle Foam is unable to accumulate much inventory of some products, and at any point in time never has more than 8 to 10 days worth of certain key chemicals. Currently, the inventory levels are even lower than that given that the company is not buying the same level of supply given its possible shut down.

34. Domfoam, on the other hand, can have as much as 6 to 8 weeks worth of supply of certain products at certain points in time by being able to take larger volume deliveries. However, as with Valle Foam, leading up to and since the filing, Domfoam has been more limited in its inventory purchases and currently has less than one week worth of certain inventory, including TDI.

35. A-Z typically has as much as six or more weeks of inventory.
36. Many suppliers, most notably Bayer, the Applicants' largest supplier of Polyol, have contacted the Applicants in order to determine the status of their outstanding accounts.
37. Since December 1, 2011, we have been paying suppliers, including Bayer, on a COD basis. Although the Applicants have sufficient cash flow to order supply on a COD basis, the Applicants' cash flow is insufficient to pay the accrued arrears owing to these suppliers along with paying COD for new supply.
38. Notwithstanding the COD arrangements, I am concerned these suppliers will cease supply, even on a COD basis. None of the principal chemicals required for production are produced in Canada and I am concerned that they will not continue to supply the Applicants without the payment of their arrears, notwithstanding that I understand that the Initial Order or further orders may require them to do so.
39. Several of these suppliers expressed grave concerns to me prior to the filing and I am advised by John Howard, the manager at Domfoam that he has had similar conversations.

Customers will leave –reducing sale value

40. For each of the Applicants, over 40% of their business is done with their key customers. The Applicants cannot afford the loss of any of these customers if they are to be sold on a going concern basis.

41. The Applicants each have substantial receivables owing to them. In the case of Valle Foam and Domfoam, the total amount owing as of January 20, 2011 was in excess of \$13 million. I believe there will be great difficulty collecting these receivables if the business is not stabilized or sold to someone who will continue to supply these customers.

42. In the case of Domfoam, these key customers account for receivables currently owing to the company in excess of \$2 million.

43. In the case of Valle Foam, these 25 key customers account for 60% of the receivables.

44. In the case of A-Z, these key customers account for 80%.

45. A large number of these customers, for example in the case of Domfoam over 30%, buy 100% of their needs of foam directly from Domfoam. In the event

there is any cessation of supply to these customers, these customers will need to seek alternative arrangements immediately. It would be similar for the other Applicants.

46. As set out in my First Affidavit, there is nothing unique about the products provided by the Applicants which could not be replaced by one of the Applicants' competitors should such customers seek to source their supply from those competitors and would be unlikely to return to the Applicants even if supply was later restored.

47. As detailed in the First Affidavit, prior to the filing of the Initial Application in these proceedings, several customers have contacted the Applicants to express concerns about their future supply from the Applicants and have indicated their intent to seek supply elsewhere. Several customers have not placed orders of their usual size this week and I believe they have already begun to seek new sources of supply as a result of their concerns.

48. Other customers have contacted the Applicants seeking confirmation that rebates which they assert are owed to them pursuant to volume purchasing arrangements they have with the Applicants will be paid to them when due on January 15, 2012. We are unable to pay these rebates as they constitute pre filing

debts and I am advised by our counsel that the payment of such debts is prohibited by the Initial Order. I expect these customers will begin to set off these amounts against the amounts due from them to the Applicants.

49. Since the filing this sensitivity in the customer base has only increased, I am spending the majority of my time in the office fielding calls from these clients in order to maintain them as customers and assure them that we will try to continue to supply them as long as we are able to do so.

Environmental Issues avoided by going concern sale

50. As detailed in the First Affidavit, the business of the Applicants involves the use of chemicals in the course of manufacturing its products. Some of these products are hazardous and all of these products have to be carefully managed. The premises of each of the Applicants have been specifically designed or modified to allow for the use of these chemical agents.

51. In order to properly dispose of these chemicals in the event the business of the Applicants, or any of them were to cease, the Applicants would require a detailed disposal plan to be implemented under supervision and in keeping with

environmental guidelines. The premises cannot be safely abandoned or rendered inoperative without such efforts

52. In a going concern sale, there would be no need to remove the chemicals and they could be safely processed in the ordinary course.

Employees

53. Currently, the Applicants collectively employ between 525 and 550 people.

54. Valle Foam is the largest employer, employs 278 full time employees plus between 15 and 20 temporary employees at four locations in and around Brampton, Ontario.

55. Domfoam employs 172 full time employees and between 15 and 45 temporary employees at three locations in and around Montreal, Quebec.

56. A-Z employs 34 employees in Annacis Island, Delta, British Columbia.

57. All of these jobs would be lost in the absence of a going concern sale.

58. The union which represents the factory workers at Domfoam have advised John Howard, the manager at Domfoam of their support for the proposed sale process.

Market of Possible investors limited

59. In my opinion, the Applicants competitors and suppliers are the most likely purchasers given their familiarity with the industry and its challenges (as were described in the First Affidavit).

60. Given this limited market, I believe the likely purchasers can be contacted quickly (in much the same way as Domfoam informally canvassed the market prior to the CCAA filing) and their interest can be ascertained. I do not believe that a longer process than what is being proposed is likely to produce a better result.

No Opposition

61. I am not aware of any party who objects to the proposed sale of the assets or the proposed sale process. I understand that the Monitor will be providing a report in connection with the proposed sale process in which it will support same.

Valuation of the Assets

62. While the year end financials for the Applicants filed with the First Affidavit set out the book value of the Applicants' assets, I am of the view that

these book values, while reasonable for accounting purposes, are not likely to be realized in the event of a forced or even orderly sale of the business as a result of its insolvency.

63. Therefore, in order to get a more accurate appraisal of the assets of the business, I have arranged to have appraisals of the equipment and inventory of the assets to be conducted.

64. In each case the entity who has conducted or are conducting the appraisal was recommended to the Applicants by the Monitor. Any purchase price offered by any potential purchaser discovered through the sale process will be considered in light of these appraisals, which appraisals will be made available to the Court at the time of approval of any sale.

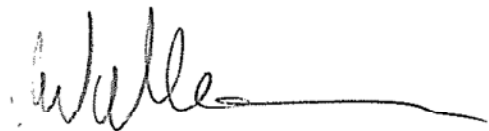
Plan of Arrangement

65. The Applicants intend to work with the Monitor to put forward a plan of arrangement in order to distribute the proceeds from the restructuring to the creditors of the Applicants. Given the absence of any material secured creditor debt, it is anticipated that there will be funds available to the unsecured creditors which could then be dealt with through a plan, which could address the various

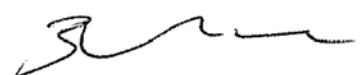
categories of creditors. The Applicants are operating in good faith and with due diligence in order to complete this process.

66. This affidavit is sworn in support of the Applicants application for approval of a sale or sale process as set out above pursuant to the CCAA and for no improper purpose.

SWORN before me at the City)
)
of Toronto, in the Province of)
)
Ontario, this 25th day of)
)
January, 2012.)



TONY VALLECOCCIA




Commissioner For Taking Affidavits

#1843201 | 4079509

Benjamin Young Bloom, a
Commissioner etc., Province of Ontario,
while a Student-at-Law.
Expires August 18, 2014.

TAB A

This is Exhibit "A" referred to
in the Affidavit of Tony Vallecoccia
Sworn this 25th
day of January, 2012.



.....
A Commissioner for Taking Affidavits

Court File No. CV-12-9545-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF VALLE FOAM INDUSTRIES (1995) INC.,
DOMFOAM INTERNATIONAL INC. and A-Z SPONGE & FOAM
PRODUCTS LTD.

(the "Applicants")

**AFFIDAVIT OF TONY VALLECOCCIA
(sworn January 11, 2012)**

I, **TONY VALLECOCCIA**, of the City of Brampton, Province of Ontario,

MAKE OATH AND SAY:

1. I am the President and CEO of Valle Foam Industries (1995) Inc. and of Domfoam International Inc. and a director of each of the Applicants, and as such have knowledge of the matters to which I hereinafter depose, except where otherwise stated. Where my evidence is based on information and belief, I have stated the source of that information and believe it to be true.

I. INTRODUCTION

2. This affidavit is sworn in support of an application by Valle Foam Industries (1995) Inc. (“**Valle Foam**”), and its affiliated companies, Domfoam International Inc. (“**Domfoam**”) and A-Z Sponge & Foam Products Ltd. (“**A-Z**”) (collectively, the “**Applicants**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”).

3. The Applicants collectively operate as one of Canada’s largest manufacturers and distributors of flexible polyurethane foam products from facilities located in Ontario, Quebec and British Columbia. As described in greater detail below, as a result of declining sales, fines imposed by the Competition Bureau of Canada, and class action lawsuits commenced against the Applicants in Canada and the United States, the Applicants are both not able to meet their liabilities as they come due and their liabilities exceed the value of their assets, and are therefore insolvent.

4. This application has been authorized by the Board of Directors of each of the Applicants.

II. APPLICANTS

Corporate Structure

5. At all material times, the business and affairs of Valle Foam and Domfoam have been operated under my control as CEO, a shareholder and director. I was a principal shareholder and CEO of Valle Foam from the period of 1986 to and until 1994. In 1994, the major shareholders of Domfoam, including a CIBC Wood Gundy Capital Fund ("**Wood Gundy**"), entered into an agreement whereby Domfoam would purchase Valle Foam. I, and other Valle Foam shareholders, would become shareholders in Domfoam, and I would become its President and CEO. In this way, Valle Foam and Domfoam became affiliated. In 1997, Wood Gundy was bought out as were others with interests in Domfoam. In 1999, A-Z Foam was acquired by Domfoam.

6. The head office for Valle Foam is located in Brampton, Ontario. The head office for Domfoam was located in the Valle Foam office until May 22, 2007 when it was transferred from the Valle Foam office to the St. Leonard office of Domfoam. The transfer of the head office was done on the advice of Valle Foam's corporate counsel, but did not impact the fact that I remained in control of the

Applicants from my office in Brampton. The head office for A-Z is located in Annacis Island, Delta, British Columbia.

7. All major decisions for the Applicants have always been made principally by me, or with the Board of Directors and by the officers for all three companies. The board members and substantially all the shareholders are located in the Greater Toronto Area.

Overview of Business

8. The foam used in the Applicants' business is manufactured by the reaction resulting from the combination of two main chemicals: an isocyanate, such as Methylene Diphenyl Di-isocyanate ("MDI") or Toluene Di-isocyanate ("TDI"), and a polyurethane polymer called Polyol. The resultant foam can be made into a variety of densities and hardness, from flexible foam to rigid foam, depending on the mixing ratio of the chemicals.

9. Due to the versatility of foam, the foam manufactured by the Applicants is used in a variety of industries and applications, including, but not limited to:

- Furniture Manufacturing: used in cushions, upholstered furniture, office chairs, stadium seating and auditorium seating;

- Carpet Cushion (or underlay): used to improve the comfort and lifespan of carpets;
- Bedding: used as the primary material for adding support and comfort to padded bedding products;
- Packaging: provides protection and cushioning to packaged products. Polyurethane foams are often used to package highly sensitive equipment such as electronics, printed circuit boards, jewellery and delicate foods; and
- Textiles and Fibres: used as insulation for fabric products including clothing. It provides thermal insulation, tear resistance, fire resistance and light weight to a variety of textiles and fibres including leather products, shoe uppers, tents, life rafts, labels, hand bags and insulation liners.

Employees

10. Currently, the Applicants collectively employ between 525 to 550 people.
11. Valle Foam is the largest employer, employs 278 full time employees plus between 15 and 20 temporary employees at four locations in and around Brampton, Ontario. The Valle Foam employees are not unionized.

12. Domfoam employs 172 full time employees and between 15 and 45 temporary employees at three locations in and around Montreal, Quebec. The 127 factory floor employees of Domfoam are members of Teamsters Local 973 (the “**Domfoam Union**”).

13. A-Z employs 34 employees in Annacis Island, Delta, British Columbia. Certain of the employees of A-Z are members of Pulp and Paper Workers Local #5 (the “**A-Z Union**”).

Premises

14. Each of the Applicants lease their respective business premises at the following locations:

a) Valle Foam:

- 4 West Drive, Brampton, Ontario;
- 170 Glidden Road, Brampton, Ontario;
- 317 Orenda Road, Brampton, Ontario;
- 11 Finley Road, Brampton, Ontario;

b) Domfoam:

- 8785 Langelier Boulevard, (Saint-Leonard) Montreal, Québec;
- 6675 Bombardier Avenue, (Saint-Leonard) Montreal, Québec;
- 7525 Henri Bourassa East, Montreal, Québec;

c) A-Z:

- 811 Cundy Avenue, Annacis Island, Delta, British Columbia.

15. The Applicants are in arrears of their rental obligations at several locations, including the principal Valle Foam and Domfoam location where rent is two months in arrears.

16. The business of the Applicants involves the use of chemicals in the course of manufacturing its products. Some of these products are hazardous and all of these products have to be carefully managed. The premises of each of the Applicants have been specifically designed or modified to allow for the use of these chemical agents.

17. The facilities operated by the Applicants include special exhaust gas activated charcoal scrubbers to deal with waste products from the manufacturing

process. Hazardous chemicals are also stored on site or are picked up and disposed of by companies under license who have agreements with the Applicants.

18. In order to properly dispose of these chemicals in the event the business of the Applicants, or any of them were to cease, the Applicants would require a detailed disposal plan to be implemented under supervision and in keeping with environmental guidelines. The premises cannot be safely abandoned or rendered inoperative without such efforts.

Supply Chain and Customers

19. The Applicants purchase their principal supplies separately, but often from the same suppliers.

20. Chemicals and other production inputs are delivered to the Applicants through different methods. Valle Foam takes delivery by way of tank truck whereas Domfoam and A-Z take the majority of their delivery by way of railcar directly into their facility.

21. As a result, Valle Foam is unable to accumulate much inventory of some products, and at any point in time never has more than 8 to 10 days worth of certain key chemicals.

22. Domfoam, on the other hand, can have as much as 6 to 8 weeks worth of supply of certain products at certain points in time by being able to take larger volume deliveries.

23. A-Z typically has as much as six or more weeks of inventory.

24. Many suppliers, most notably Bayer, the Applicants' largest supplier of Polyol, have contacted the Applicants in order to determine the status of their outstanding accounts. Bayer in particular is owed in excess of approximately \$2.7 million from the Applicants collectively. Since December 1, 2011, we have been paying suppliers, including Bayer, on a COD basis. Although the Applicants have sufficient cash flow to order supply on a COD basis, the Applicants' cash flow is insufficient to pay the accrued arrears owing to these suppliers along with paying COD for new supply.

25. For each of the Applicants, over 40% of their business is done with their key customers. In the case of Domfoam, these key customers account for receivables currently owing to the company in excess of \$2 million. In the case of Valle Foam, these 25 key customers account for 60% of the receivables. In the case of A-Z, these key customers account for 80%.

26. A large number of these customers, for example in the case of Domfoam over 30%, buy 100% of their needs of foam directly from Domfoam. In the event there is any cessation of supply to these customers, these customers will need to seek alternative arrangements immediately. It would be similar for the other Applicants.

27. Other than those customers who purchase the Applicants' proprietary visco-elastic foam product, there is nothing unique about the products provided by the Applicants which could not be replaced by one of the Applicants' competitors should such customers seek to source their supply from those competitors and would be unlikely to return to the Applicants even if supply was later restored

28. In the last several days since the Competition Act plea discussed below became public, several customers have contacted the Applicants to express concerns about their future supply from the Applicants and have indicated their intent to seek supply elsewhere. Several customers have not placed orders of their usual size this week and I believe they have already begun to seek new sources of supply as a result of their concerns.

29. Other customers have contacted the Applicants seeking confirmation that rebates which they assert are owed to them pursuant to volume purchasing

arrangements they have with the Applicants will be paid to them when due on January 15, 2012.

Assets

30. Attached hereto and marked as **Exhibits "A"** and **"B"** are the Audited Financial Statements for the year ending April 30, 2011 for Valle Foam and Domfoam. The April 30, 2011 Financial Statements of A-Z which are on a review engagement basis are attached as **Exhibit "C"**.

31. While the financials demonstrate the book value of the Applicants, I am of the view that these book values, while reasonable for accounting purposes, are not likely to be realized in the event of a forced or even orderly sale of the business as a result of its insolvency.

32. When added to the ordinary liabilities to trades, which are substantial and are increasing, as detailed below, the out of the ordinary course liabilities to the Competition Bureau described below and possible exposure to class action liability greatly exceeds the realizable value of the assets.

III. FINANCIAL DIFFICULTIES AND THE NEED FOR CCAA PROTECTION

Causes of Financial Difficulties

33. The Applicants are involved in an industry that is in transition. Certain products which were formerly the backbone of the Applicants' sales are no longer widely consumed. In particular, the demand for carpet under-padding has been eroded by a move in construction and consumers away from carpeting in favour of hardwood flooring and tile.

34. The industry is also experiencing significant pressures from overseas production sources, most notably China, which are able to produce the foam at greater margins due to lower labour costs or other geographic advantages. That Chinese manufactured foam is supplied to the Chinese manufacturing industry who then manufacture finished product which includes this foam, which products used to be finished or manufactured in Canada using Canadian produced foam.

35. These systemic factors have led to a decline in the Applicants' financial performance over the past several years.

36. Each of Valle Foam and Domfoam suffered a loss in excess of \$5 million in fiscal 2011. A-Z Foam also suffered a loss in excess of \$57,000.00. The following

is a chart setting out the operating results for the fiscal years ended April 30, 2009 to 2011 for each of the Applicants:

Valle Foam Industries (1995) Inc.
Operating Results for the Fiscal Years Ended April 30, 2009 to 2011
(in \$000's)

	30-Apr-09 (audited)		30-Apr-10 (audited)		30-Apr-11 (audited)	
	\$	%	\$	%	\$	%
Sales	48,612	100.0%	43,651	100.0%	40,466	100%
Costs of sales	44,078	90.7%	39,331	90.1%	38,141	94.3%
Gross profit	4,534	9.3%	4,321	9.9%	2,324	5.7%
Expenses						
Administrative and General	2,289	4.7%	2,171	5.0%	3,035	6.8%
Selling and Delivery	2,829	5.8%	2,681	6.1%	2,710	6.7%
	5,118	10.5%	4,852	11.1%	5,474	13.5%
Income (loss) from operations	(584)	-1.2%	(531)	-1.2%	(3,350)	-7.8%
Other income (expenses)						
Gain (loss) on disposal of assets	(6)	0.0%	(6)	0.0%	3	0.0%
Investment tax credits earned	-	0.0%	14	0.0%	-	0.0%
Government grant	-	0.0%	197	0.5%	-	0.0%
Impairment loss to goodwill	-	0.0%	-	0.0%	(2,702)	-6.7%
Income (before income taxes)	(590)	-1.2%	(325)	-0.7%	(5,849)	14.5%
Income taxes (recovered)	(57)	-0.1%	(40)	-0.1%	(314)	-0.8%
	(533)	-1.1%	(285)	-0.7%	(5,535)	13.7%

Domfoam International Inc.
Operating Results for the Fiscal Years Ended April 30, 2009 to 2011
(in \$000's)

	30-Apr-09 (audited)		30-Apr-10 (audited)		30-Apr-11 (audited)	
	\$	%	\$	%	\$	%
Sales	45,182	100.0%	39,665	100.0%	37,153	100%
Cost of Sales	39,144	86.6%	34,311	86.5%	33,875	91.2%
Gross profit	6,038	13.4%	5,354	13.5%	3,278	8.8%
Expenses						
Administrative and General	908	2.0%	2,092	5.3%	2,889	7.8%
Selling and Delivery	3,643	8.1%	3,704	9.3%	3,821	10.3%

	30-Apr-09 (audited)		30-Apr-10 (audited)		30-Apr-11 (audited)	
	\$	%	\$	%	\$	%
	4,551	10.1%	5,796	14.6%	6,711	18.1%
Income (loss) from operations	1,487	3.3%	(442)	-1.1%	(3,432)	-9.2%
Other income (expenses)						
Dividend Income	-	0.0%	-	0.0%	-	0.0%
Gain (loss) on disposal of assets	-	0.0%	-	0.0%	-	0.0%
Interest Income	143	0.3%	10	0.0%	4	0.0%
Investment tax credits earned	55	0.1%	23	0.1%	-	0.0%
Legal settlement	-	0.0%	-	0.0%	560	1.5%
Impairment to goodwill	-	0.0%	-	0.0%	(3,605)	-9.7%
Income (before income taxes)	1,684	3.7%	(410)	-1.0%	(6,473)	17.4%
Income taxes (recovered)	648	1.4%	91	0.2%	(693)	-1.9%
Net income for the year	1,036	2.3%	(500)	-1.3%	(5,781)	15.6%

A-Z Sponge & Foam Products Ltd.
Operating Results for the Fiscal Years Ended April 30, 2009 to 2011
(in \$000's)

	30-Apr-09 (unaudited)		30-Apr-10 (unaudited)		30-Apr-11 (unaudited)	
	\$	%	\$	%	\$	%
Sales	6,453	100.0%	5,419	100.0%	5,285	100%
Cost of Sales	5,132	79.5%	4,525	83.5%	4,524	85.6%
Gross profit	1,321	20.5%	894	16.5%	761	14.4%
Expenses						
Administrative and General	499	7.7%	555	10.2%	478	9.0%
Selling and Delivery	351	5.4%	360	6.6%	368	7.0%
	850	13.1%	915	16.8%	846	16.0%
Income (loss) from operations	471	7.3%	(21)	-0.3%	(85)	-1.6%
Other income (expenses)						
Dividend Income	-	0.0%	-	0.0%	-	0.0%
Gain (loss) on disposal of assets	-	0.0%	-	0.0%	-	0.0%
Interest Income	-	0.3%	-	0.0%	-	0.0%
Investment tax credits earned	28	0.4%	18	0.3%	19	0.4%
Legal settlement	-	0.0%	-	0.0%	-	0.0%
Impairment to goodwill	-	0.0%	-	0.0%	-	0.0%
Income (before income taxes)	499	7.7%	(3)	-0.1%	(65)	-1.3%
Income taxes (recovered)	139	2.2%	16	0.3%	(8)	-0.2%
Net income for the year	360	5.5%	(19)	-0.4%	(57)	-1.1%

37. The Applicants, excluding A-Z, are forecast to suffer an aggregate \$8.4 million net loss before taxes in fiscal 2012, without accounting for any payment of Competition Bureau fines or costs of any of the outstanding litigation. The operating loss, prior to interest, taxes, depreciation and amortization and professional fees, is forecast to total \$4.5 million. Fiscal 2012 net sales are forecast to be \$71.5 million, which is a decrease of approximately \$6.1 million or 7.9% compared to fiscal 2011.

38. For the Applicants, other than A-Z, the fiscal 2012 net cash outflow is forecast to be \$8.4 million, which includes payment of legal fees of \$2.4 million associated with the matter regarding the Competition Bureau (Canada) and the class action lawsuits in the United States and Canada (discussed in greater detail below).

39. Based on the current cost structure of the Applicants, excluding A-Z, in order to break even, the aggregate net sales for Domfoam and Valle Foam for fiscal 2012 would have to be approximately \$81.4 million or \$9.9 million greater than the current level of forecast sales, again, without accounting for the payment of any fines or settlement amounts. I do not believe the Applicants can reach this

threshold. There is also full impact of the fines and significant costs and other exposure to class action litigation discussed below without restructuring.

Valle Foam

40. Valle Foam's annual sales decreased by approximately \$37 million from fiscal 2007 to 2011. The decrease in or elimination of sales related to two customers, Spin Master and DHU, accounted for approximately 52% of the decrease and Valle Foam has not been able to replace these sales.

41. Valle Foam's sales of carpet underlay have decreased by 62% (\$13.1 million to \$5 million) from fiscal 2007 to 2011. Valle Foam internally generates all the scrap it requires to manufacture carpet underlay. Gross margins generated on the sale of carpet underlay are significantly higher than on foam products and as such, the loss of a large portion of the carpet underlay business has considerably decreased Valle Foam's gross margins. Due to competition and changes in the market place, the price for foam scrap upon which Valle Foam relied for profit has dropped by nearly 50% against historic levels. The overall market for underlay as reported by an industry group in which we are a member has declined by 50%. Although Domfoam also profited from the sale of scrap, it was not to the same

degree as Valle Foam, and therefore they are not impacted as severely by this market change.

42. Valle Foam is projected to lose approximately \$100,000.00 per week if it continues to operate in keeping with its current circumstances and market trends.

43. Attached hereto and marked as **Exhibit "D"** is a copy of an internal Statement of Income for the 6 month period ending October 31, 2011 for Valle Foam.

Domfoam

44. Since fiscal 2007, Domfoam's sales for carpet underlay and the other slab foam products have decreased from \$13.5 million to \$4.1 million and \$44.3 million to \$33 million, respectively, and the selling price per board foot ("BF"), a standard measure in the industry, for carpet underlay has decreased by 32% resulting in a substantial deterioration Domfoam's gross margin.

45. Domfoam continues to lose money on a monthly basis, although I believe it could operate at a break even basis if properly restructured and ultimately return to profitability in the future. Attached hereto and marked as **Exhibit "E"** is a copy of

an internal Statement of Income for the six month period ending October 31, 2011 for Domfoam.

A-Z

46. For similar reasons to those suffered by the other Applicants, A-Z is also declining. Since fiscal 2009, A-Z's income from operations has dropped from \$471,000.00 to a loss of \$21,000.00 in 2010 to a loss of \$85,000.00 in 2011. Over that same period the gross profit margin of their products have declined from 20.5% to 16.5% to 14.4%.

47. Attached hereto and marked as **Exhibit "F"** is a copy of an internal Statement of Income for the six month period ending October 31, 2011 for A-Z.

Competition Bureau Fines

48. Both Domfoam and Valle Foam were recently charged with, and on January 5, 2012, pled guilty to certain offences under the *Competition Act*, R.S.C. 1985, c C-34 (the "*Competition Act*"). Although not charged, A-Z also participated, to a lesser extent in the underlying events. Through agreement with the Director of Public Prosecutions, the resolution of the charges under the *Competition Act* included A-Z.

49. From January 1, 1999 to March 11, 2010, Domfoam and Valle Foam committed an indictable offence contrary to s. 45(1)(c) of the *Competition Act* by conspiring, combining, agreeing or arranging to prevent or lessen, unduly, competition in the sale or supply of slab foam and carpet cushion (underlay) foam products within Canada. From March 12, 2010 to July 27, 2010, Domfoam and Valle Foam also engaged in conduct contrary to ss. 45(1) (a) of the *Competition Act*, R.S.C. 2009, Chap C-2. s. 410 by conspiring, agreeing or arranging to fix, maintain, increase or control the price for the supply of slab foam and carpet cushion (underlay) foam products within Canada, thereby committing an indictable offence contrary to s.45(2) of the *Competition Act*, R.S.C. Chap C-2, s.410.

50. This conduct by Domfoam and Valle Foam, in collusion with other major manufacturers in their industry, enabled the manufacturers to coordinate and implement price increases to their respective customers (i.e. customers received price increase letters on or near the same day, with similar or identical percentage increases and effective implementation dates).

51. In July, 2010, search warrants were executed by the Competition Bureau at the business premises of Domfoam and Valle Foam. Consequently, Domfoam and Valle Foam learned that the Competition Bureau was in possession of wiretap and

documentary evidence detailing the alleged conspiracy. Additionally, it became known that the Competition Bureau had secured the cooperation of one of the alleged co-conspirators, in building its case against the others, including Domfoam and Valle Foam.

52. Domfoam and Valle Foam engaged counsel to review the matter. As a consequence of that review, Domfoam and Valle Foam undertook to participate in the Competition Bureau's Leniency Programme. In doing so, Domfoam and Valle Foam agreed to cooperate fully in the investigation; plead guilty; and, continue to provide cooperation on a going forward basis. In return, no current or future directors, officers, agents, independent contractors or employees would be charged; the fines to be imposed on the companies would be 50% of what they would otherwise have been; and, all matters under the *Competition Act* involving the conduct of Domfoam and Valle Foam, as well as A-Z and other affiliates, subsidiaries and predecessors, would be deemed to have been resolved. Domfoam and Valle Foam provided the expected pre-charge cooperation and then negotiated the details of their guilty pleas. This entire process took over 17 months to complete. I strongly believe that this plea was reasonable and am satisfied that Domfoam and Valle Foam were culpable of the alleged violations under the *Competition Act*.

53. As such, on the advice of counsel and as authorized by a specific resolution of the Board of Directors of each of Domfoam and Valle Foam, on January 5, 2012, the companies entered pleas of guilty before the Ontario Superior Court to the above-noted offences under s.45(1) (c) of the *Competition Act* for the period of January 1999 to March 2010, and ss.45(1) (a) and 45(2) of the amended *Competition Act* (as enacted by S.C. 2009, Chap. C- 2, s. 410), for the period of March 2010 to July 2010. Attached hereto and marked as **Exhibit "G"** is a copy of the Statement of Admissions and Indictment.

54. As noted previously, A-Z was released from all possible liability in conjunction with this matter as a result of the plea arrangement.

55. Domfoam was fined a total of \$6 million and Valle Foam was fined a total of \$6.5 million. No fine was assessed against A-Z as no charges were laid against A-Z. In accordance with the terms of the sentence imposed, on the day of the guilty pleas, Valle Foam paid \$500,000.00 in partial payment of the fines imposed against it.

56. As a result of the foregoing, Valle Foam has an outstanding liability of \$6 million in outstanding fines, and Domfoam has an outstanding liability of \$6

million. Attached hereto and marked as **Exhibit "H"** is a copy of the Competition Bureau Press Release dated January 6, 2012.

57. These liabilities are to be paid in accordance with the terms of the sentences imposed. Specifically, Domfoam and Valle Foam are to each pay \$1 million on the 1st of January of each year, commencing 2013 and ending in 2018.

58. Full disclosure of the Applicants' financial difficulties was made to the Crown prior to finalizing the Statement of Admissions and entry of the pleas. The Crown was specifically advised of the Applicants' precarious financial condition, and were advised of the Applicants' intention to file for protection under the provisions of a Canadian insolvency regime.

59. The Applicants cannot make the fine payments from their cash flow and remain solvent given the forecasted losses and pressures on their industry. They will also be unable to secure new or additional financing in the circumstances.

Class Actions

60. The existence of the search warrants came to the attention of various classes of customers of the Applicants in 2010. In addition, certain of the wiretap evidence became available to the proposed class action counsel. As a result of

these disclosures, class counsel in the US and Canada initiated a number of proposed class proceedings against the Applicants in the US and in Canada in 2010, and afterwards on behalf of purchasers of polyurethane foam and products containing polyurethane foam products for lengthy class period. Some or all of the Applicants have been named as a defendant in at least five class action lawsuits in Canada, and over two dozen class action lawsuits in the United States (together, the “**Class Actions**”). Although not named in these actions, it is likely that A-Z could be added to such actions as a defendant given that A-Z was to some extent complicit or involved in the prohibited acts.

US Class Action Litigation

61. Our lawyers in New York, Skadden Arps, have successfully negotiated, on behalf of the Applicants, a settlement with the three different groups of plaintiffs in the United States which are part of a multi-district litigation proceeding styled *In re Polyurethane Foam Antitrust Litigation* in the United States District Court for the Northern District of Ohio. The settlement agreements are to be executed during the week of January 9, 2012.

62. The Applicants have reached agreement with the Direct Class and Indirect Class plaintiffs. The settlements have been signed by all relevant parties, and

pursuant to those agreements, both classes agreed to file with the United States District Court for the Northern District of Ohio on January 11, 2012, a notice that provides for the suspension of their cases as against Domfoam and Valle Foam. In both cases, the settlements are conditional upon Domfoam, Valle Foam and A-Z filing for some form of bankruptcy, restructuring or creditor protection by January 31, 2012. Attached hereto and marked as **Exhibit "I"** is a copy of the Direct Class Agreement and the Indirect Class Agreement.

63. In exchange for cooperation by certain current and former Domfoam, Valle Foam and A-Z employees (in the form of interviews, depositions, and testimony), and the production of certain available documents by the companies (to the extent practicable), these plaintiffs have agreed, subject to Court approval, to voluntarily dismiss their complaints as against the companies and to fully and forever release any of the companies' current or former employees, shareholders, or owners from any and all liability in this and potentially related matters. Pursuant to these settlement agreements, neither the companies nor any related individuals are required to pay any sum of money whatsoever to these plaintiffs or their counsel.

64. In each of these actions, the proposed plaintiff classes allege that Domfoam and Valle Foam are jointly and severally liable with other foam manufacturers.

Although they have not specified potential damage amounts (they are not required to do so at this point), such alleged damages may be in the hundreds of millions of dollars. These claims, if left outstanding, represent massive exposure for the companies, an exposure they could not possibly hope to cover in part or in full given their current financial situation. The settlement agreements described herein contemplate the dismissal of such claims without any payment whatsoever by the Applicants.

65. Pursuant to *United States Federal Rules of Civil Procedure*, these agreements are subject to both preliminary and final approval by the US court. While preliminary approval may occur within 30-60 days of filing of these agreements with that Court, final approval can take substantially longer. In any and all events, the suspension of the actions as to Domfoam and Valle Foam will remain in effect while such motions are pending.

66. Domfoam and Valle Foam have also reached settlement agreements with certain "opt-out" plaintiffs in the United States. In each case, a foam purchaser or group of purchasers filed an individual lawsuit against Domfoam, Valle Foam and other foam manufacturers alleging certain antitrust violations. The settlements have been signed by all relevant parties, and pursuant to those agreements, each

plaintiff must file with the Court a notice that provides for the suspension of their cases as against Domfoam and Valle Foam by January 11, 2012.

67. Attached hereto and marked as **Exhibit "J"** is a copy of the Opt-Out Agreement entered into with Sealy Corporation and others; it is identical in form to the other four Opt-Out Agreements.

68. In all cases, the settlements are contingent upon Domfoam, Valle Foam and A-Z filing for some form of bankruptcy, restructuring or creditor protection by January 31, 2012.

69. A CCAA order would also prove beneficial to address any new claims that may be issued as the Applicants intend to seek recognition of the order, if granted, in the United States to provide for a stay of proceedings. We have recently learned of a new claim issued on December 19, 2011, out of the United States District Court for the Northern District of Mississippi, which has not been served, but names Valle Foam and Domfoam as defendants.

70. The suspension and/or dismissal of the actions are without prejudice to the class action claimants asserting their claims as creditors within the proposed CCAA proceedings in amounts to be determined.

Canadian Class Action Litigation

71. To the knowledge of the Applicants, there are currently five class action proceedings in Canada that are pending before the courts in Ontario, Quebec and British Columbia in connection with the Competition Bureau's investigation of price-fixing allegations in the polyurethane foam industry. The Applicants have been named (or one or more of the Applicants have been named) in four of these class proceedings. These proceedings have been brought by a coordinated group of plaintiffs (the "**Class Plaintiffs**") against a number of manufacturers of polyurethane foam in Canada and elsewhere, as well as certain individuals, and the Class Plaintiffs collectively seek to represent a broad class consisting of all purchasers of polyurethane foam and products containing polyurethane foam during a period generally ranging from 1999 to the present. The Class Plaintiffs allege that the Applicants and the other manufacturers, along with certain individuals, are jointly and severally liable for damages to the proposed class members under the *Competition Act*, at common and under civil law, and they seek millions of dollars of damages along with other relief.

72. After extended negotiations, our lawyers at Oslers LLP have reached a proposed national class settlement on behalf of the Applicants with the Class

Plaintiffs in respect of all of the Canadian Class Proceedings. The settlement agreement was executed by the Applicants and the Class Plaintiffs on January 11, 2012. Attached hereto and marked as **Exhibit "K"** is a redacted copy of the Canadian Polyurethane Foam Class Actions National Settlement Agreement. The schedule to the agreement provides the detail of the actions.

73. Under the terms of this proposed national settlement, in exchange for cooperation from certain current and former Domfoam, Valle Foam and A-Z officers, employees and agents (in the form of interviews, depositions, and testimony), and the production of certain available documents by the companies (to the extent practicable), the Class Plaintiffs have agreed, subject to separate court approvals by the Ontario Superior Court, the B.C. Supreme Court and the Quebec Superior Court, to discontinue their proceedings as against the companies and to fully and forever release any of the companies' current or former officers, employees, agents, shareholders, or owners from any and all liability in this and potentially related matters. The proposed settlement also provides for certain "bar order" protection in favour of such releasees in the event of future contribution claims by other defendants or other third parties that have been involved in this matter. The Class Plaintiffs in Canada have also agreed to dismiss proceedings

against one employee of Valle Foam that was individually named in the class proceedings in Ontario.

74. Pursuant to this proposed settlement, the companies are not required to make a contribution of cash to a settlement fund. However, the proposed settlement does provide for an assignment of certain proceeds of an unrelated class action proceeding known as the *U.S. Urethane Antitrust Litigation* up to \$200,000.00. The assignment is made expressly subject to any order of this Honourable Court. Under the terms of the settlement, the Class Plaintiffs have agreed to bear any risk relating to the validity or enforceability of the assignment. In addition, the proposed settlement also provides for the payment of \$1.2 million by certain individuals who are parties to the settlement agreement.

75. The proposed settlement specifically contemplates that the Applicants may file for protection under the CCAA, and under the terms of the proposed settlement, the discontinuance of the Canadian Class Proceedings against the companies is without prejudice to the ability of the Class Plaintiffs and putative class members to asserting their claims as creditors within the proposed CCAA proceedings in amounts to be determined. It is a condition of the proposed

settlement that the Applicants make an application under the CCAA or other insolvency legislation within 30 days of execution of the proposed settlement.

76. This proposed settlement is without any admission of liability by the Applicants, and it is subject to independent court approval under the Ontario *Class Proceedings Act, 1992* and related legislation in Quebec and B.C. The process for obtaining court approval in three provinces may take a number of months. During this period, the Class Plaintiffs have agreed to suspend the active pursuit of proceedings as against the Applicants while the motions for court approval are pending.

77. As noted above, the proposed settlement does contemplate that the Applicants will be actively seeking court approval while a potential restructuring is being pursued under CCAA protection. In addition, the proposed settlement contemplates that the Applicants and certain current officers of the Applicants will be providing ongoing cooperation to the Class Plaintiffs while a potential restructuring is being pursued under CCAA protection.

78. In each of these Canadian Class Proceedings where the Applicants have been named, the class plaintiffs allege that the Applicants are jointly and severally liable with other foam manufacturers for damage to Class Members. In the Ontario

class proceedings alone, the Class Plaintiffs are seeking damages as against Dom Foam and Valle Foam and other manufacturers in the amount of \$100 million or more. These claims, if left outstanding, represent massive exposure for the companies, an exposure they could not possibly hope to cover in part or in full given their current financial situation. The proposed settlement described herein contemplates the discontinuance of these contested proceeding as against the Applicants, subject to future rights of the Class Plaintiffs and putative class members to be pursued in the restructuring process under the CCAA.

79. I have been informed by Christopher Naudie at Oslers, lead counsel for the Applicants in the Canadian Class Proceedings, regarding the potential risks and exposures for the Applicants in the Canadian Class Proceedings if liability is established at trial. Without waiving any applicable privilege and without admitting any liability or waiving any defences that the Applicants may have in the event that the settlement is terminated, I am advised by Christopher Naudie at Oslers as follows:

- Certain of these civil actions seek full joint and several liability, and if they are successful, the Applicants will be exposed to a

potentially massive liability arising from all sales of all defendants.

- While the Applicants have a number defences to the civil claims, the Applicants have admitted the underlying offence in the plea and as a result, face a significant risk of civil liability.
- During the class period, the Applicants had approximately \$975 million in sales in Canada.
- In the Competition Bureau process, the Applicants agreed to a fine of \$12.5 million based on a number of factors, including the Bureau's practice of assuming a 20% overcharge, the statutory maximum fine and a significant 50% leniency reduction.
- In the absence of settlement or restructuring, civil plaintiffs will likely seek significantly higher damages at trial – since there is no statutory maximum on damages or leniency reduction in civil cases.

- If this matter proceeds to trial in the absence of settlement or restructuring, even if the Applicants are only exposed to several liability and the Court calculates damages based on a modest 5% overcharge, the Applicants could be exposed to damages of \$48.75 million. If the Applicants are exposed to joint and several liability, their damages would be substantially higher.
- In short, while the Applicants deny civil liability and have a number of defences, they still face a significant risk of exposure that greatly exceeds their available assets.
- The discontinuance of the Canadian Class Proceedings are without prejudice to the Class Plaintiffs and putative class members asserting their claims as creditors within the proposed CCAA proceedings.

80. As noted above, the Applicants have expended in excess of \$2.4 million in professional fees for the year ending April, 2011, both in Canada and in the United States to deal with both the Competition Bureau and Class Action claims. Since April, a further \$1.1 million has been expended. These professional costs have had a significant impact on the financial performance of the Applicants and are not

sustainable. By filing for protection from their creditors and bringing to an end these actions, the Applicants will be able to minimize this burden and be able to focus instead on restructuring.

Liabilities

Secured Creditors

81. The only material unrelated secured creditor of the Applicants was Royal Bank of Canada ("RBC").

82. Attached hereto and marked as **Exhibit "L"** are *Personal Property Security Act* searches conducted against each of the Applicants, conducted in each of British Columbia, Ontario and Quebec. RBC has registered financing statements against Domfoam, A-Z and Valle Foam in Ontario, Quebec and British Columbia.

83. The only other creditors with registered security interests under the relevant *Personal Property Security Act* legislation against the Applicants are, Domfoam with respect to A-Z Foam, and various leasing companies for various equipment used in the Applicants' operations.

84. The Applicants are reviewing their leases with these entities to determine the status of those leases and also to ascertain whether or not they require any of the equipment subject to lease in their ongoing restructuring.

85. RBC had provided the Applicants with an operating loan in the amount of \$4.5 million. In the ordinary course, the Applicants provided their year end financial statements to RBC when they became available from the Applicants' auditors at the end of September 2011. The company met with RBC on November 25, 2011 to review these financial statements. In light of the financial condition of the Applicants, they were advised at that meeting that RBC was immediately terminating its lending arrangement with the Applicants, and that no further overdrafts or use of the revolving loan would be tolerated by RBC.

86. The Applicants repaid the entire amount in respect of their facility to RBC at the end of November, 2011. To my knowledge, there is no further amount owing to RBC at this time. The Applicants continue to do regular banking at RBC and maintain a positive cash balance.

87. The absence of a revolving facility is putting a strain on the Applicants' cash flow and their ability to meet their day-to-day obligations.

Other Liabilities

88. In addition to the foregoing, as at December 1, 2011, the Applicants have, in the aggregate, approximately \$9,018,000.00 of accrued and unpaid liabilities, including:

Liability	Valle Foam	Domfoam	A-Z
Trade Payables	\$3,100,000.00	\$2,778,000.00	\$92,000.00
Accrued Payroll (including statutory liabilities) and Accrued Vacation Pay	\$725,000.00	\$400,000.00	\$143,000.00
Accrued Sales Taxes	\$164,000.00	\$33,000.00	\$21,000.00
Other Payables and Accrued Liabilities	\$40,000.00	\$1,516,000.00	\$6,000.00
Total	\$4,029,000.00	\$4,727,000.00	\$262,000.00

The Applicants are Insolvent

89. In summary, for the reasons described above, the Applicants are insolvent and have debts which are in excess of \$5 million. The Applicants require the protection of the CCAA in order to restructure, complete the Sales Process described below and to have the orderly shut down of its non-core business.

Restructuring Plan

90. Although the Applicants have suffered a variety of setbacks as set out in this Affidavit, it is my view that the business carried on by the Applicants can be salvaged.

91. The business of Valle Foam experiences different market conditions than does Domfoam. In particular, it is a characteristic of the products produced by the Applicants that the products must be produced relatively close to its marketplace. The Toronto marketplace in which Valle Foam operates has several competitors, the main previous competitor in Quebec, being Foamex International Inc. filed for creditor protection in 2009 and has not recommenced operation at their previous levels. It is no longer a competitor of Domfoam and it no longer manufactures

foam. As such, Domfoam has a geographic advantage in its current marketplace. A-Z has a similar advantage out west.

92. There is a predatory pricing environment being experienced by Valle Foam in Ontario which is not being experienced to the same extent by Domfoam in Quebec or by A-Z in British Columbia.

93. Domfoam has recently been contacted by an entity familiar with its business who is proposing to purchase the business of Domfoam on a going concern basis subject to Domfoam entering into a restructuring scenario which properly manages the creditors of Domfoam and allows for the acquisition of Domfoam on a free and clear basis. The Company and this party have not been able to reach an agreement on this offer at this time, although I believe we will be able to do so.

94. The entity referred to in paragraph 93 is the landlord of the principal Domfoam premises. This entity was formerly an owner of the Domfoam business before my involvement with the business. I am aware that this entity is therefore familiar with the business and has an interest in seeing the business continue in that premises.

95. The Applicants are of the view that a period of protection from its creditors and a period of stability to allow for the marketing and sale of its businesses, either to this entity or another, is the best available scenario for all stakeholders.

96. There have been a number of other preliminary expressions of interest to purchase various parts of the Applicants. The uncertainty surrounding the Competition charges and the class action proceedings have made it difficult to move any of those discussions forward. Now that they have been resolved, and subject to any order of this Honourable Court, I am hopeful that the Applicants will be in a position to explore various alternatives to restructure, sell or wind down operations.

97. In the event that an Initial Order is granted, the Applicants will, with assistance from the proposed Monitor, undertake a review of the various options available in light of the stabilization of the business. It is anticipated the Applicants will report back to Court to make any proposed sale or sale process available to the Court for consideration and approval.

98. However, I am also aware that it may be that the Applicants, particularly Domfoam, may not be able to sustain their market position without quickly announcing a sale of the business or some other injection of capital to assure the

market that Domfoam will be able to continue to supply its customers. Domfoam may have to quickly return to Court to seek the approval of the best available sale in order to preserve the maximum number of jobs and capitalize on the enterprise value of its business.

99. A principal goal of the restructuring is to protect as many of the temporary and full time jobs and to secure the greatest possible value to be realized from the assets.

100. The Applicants will work with the Monitor to put forward a plan of arrangement in order to distribute the proceeds from the restructuring to the creditors of the Applicants. Given the absence of any material secured creditor debt, it is anticipated that there will be funds available to the unsecured creditors which could then be dealt with through a plan, which could address the various categories of creditors.

101. As at November 30, 2011, mindful of the possible restructuring, the Applicants began paying their major suppliers on a cash on delivery ("COD") basis and have been making payments as such. The Applicants intend to pay the COD amount owing in respect of the most recent deliveries or any deliveries in transit that are outstanding as of the date of this filing.

IV. PROPOSED INITIAL ORDER

Directors' and Officers' Charge

102. The Applicants require the continued participation of their officers and other executives who manage the business, commercial activities and internal affairs of the Applicants. These individuals are essential to the ongoing stability of the Applicants business while these proceedings are underway.

103. As of January 6, 2012, the Applicants are liable for unpaid accrued wages, vacation pay, statutory employee deductions and unpaid sales and services taxes of approximately:

Valle Foam	\$700,000.00
Domfoam	\$351,000.00
A-Z	\$135,000.00

104. The Applicants maintain directors' and officers' liability insurance (the "D&O Insurance") for the directors and officers of the Applicants. The current D&O Insurance policy provides a total of \$5 million in coverage. The deductible for certain claims is \$50,000.00 and the presence of a large number of exclusions

creates a degree of uncertainty, especially in light of the possible environmental issues which may be director or officers liabilities.

105. The proposed Initial Order contemplates the establishment of a charge (the “**Directors’ Charge**”) on the Property in the amount of \$1 million to protect the directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of the CCAA proceedings, except to the extent that the obligation or liability was incurred as a result of the individual’s gross negligence or wilful misconduct.

106. It is expected that the D&O Insurance will provide sufficient coverage to protect the directors and officers from all of the above costs and expenses, and the proposed Initial Order provides that the charge shall only apply to the extent that the D&O Insurance is not adequate.

107. The continued involvement of the directors and officers is required in order to implement the restructuring plan.

Administration Charge

108. The Applicants are also seeking a first-ranking charge on the Property (the “**Administration Charge**”) to rank ahead of all other charges and ahead of all

other existing security interests of any persons, except for any person who is a “secured creditor”, as defined in the CCAA, as of the date of the Initial Order and who has not received notice of this application, in the maximum amount of \$500,000.00 to secure the fees and disbursements incurred in connection with services rendered to the Applicants both before and after the commencement of the CCAA proceedings by counsel to the Applicants, the Monitor, and the Monitor’s counsel.

109. The Applicants believe it to be reasonable and appropriate in view of the complexities of the Applicants’ CCAA proceedings and the services to be provided by the beneficiaries of the Administration Charge.

Summary of the Proposed Rankings of the Court-Ordered Charges

110. The effect of the proposed Court-ordered charges in relation to each other:

a) First – the Administration Charge; and,

b) Second – the Directors’ Charge.

111. It is proposed that the Court-ordered charges will rank ahead of all other existing security interests of any persons, except for any person who is a “secured creditor”, as defined in the CCAA, as of the date of the Initial Order and who has

not received notice of this application. As stated above, the only secured creditors of the Applicants are the equipment lessors and related parties.

V. OVERVIEW OF THE 13-WEEK CASH FLOW FORECAST

112. As at January 7, 2012, the Applicants' cash balance was as follows on a company by company basis:

Valle Foam	\$2,661,720.00
Domfoam	\$1,616,213.00
A-Z	\$449,285.00

113. The Applicants have prepared a company by company Cash Flow Forecast for the period of January 7, 2012 to March 31, 2012 (the "**Cash Flow Forecast**") which each forecasts the Applicants' receipts and disbursements and cash position.

114. The cash flows have been prepared by the Chief Financial Officers of the Applicants, in consultation with me, the management of the Applicants and with some input from Deloitte & Touche LLP., and in accordance with generally accepted accounting methods and principles.

115. Copies of the Cash Flow Forecasts are attached as **Exhibit "M"**.

116. The principal assumptions used in determining the Cash Flow Forecast were as follows:

- a) That the Applicants will be granted the order being sought herein on January 12, 2011;
- b) That Valle Foam will cease operations in the near future while Domfoam and A-Z continue to operate on a business as usual basis, subject to the terms of the order being sought or as set out below;
- c) That the business being conducted by Domfoam after January 12, 2012 will service certain underlay customers of Valle Foam;
- d) That there will be no disbursements of accrued liabilities post filing other than those authorized by the order being sought;
- e) That customers continue to pay as usual with respect to Domfoam and A-Z but that there will be greater difficulty in collecting the receivables of Valle Foam if it ceases operating;
- f) That Valle Foam will continue to pay any outstanding pre filing debts owing to Domfoam as and when due; and,

g) That certain customers will set off their accrued customer rebates against receivables owing to the Applicants from those customers. (Many customers accrued rebates under arrangements with the company throughout 2011 which rebates would, in the ordinary course be paid as credit notes against future purchases by those customers. It is anticipated many customers will set off those anticipated rebates against receivables owing to the Applicants. The Applicants have not determined whether or not this is a valid set off.

117. As set out in the cash flows, each of the Applicants anticipate being cash positive for the entire period forecast by the cash flow.

118. In addition, Valle Foam has advised Domfoam that it is prepared to provide a loan to Domfoam, on a secured basis, of up to \$1 million, to provide additional stability to the cash position of Domfoam, if requested by Domfoam. A condition of any such loan will be that the security for such a loan will be a first priority charge on the assets of Domfoam, subject only to such then existing court ordered charges. As set out in the cash flow, Valle Foam has the available cash in hand now in order to be able to do this now or at any time during the cash flow period.

As set out above, there are no material secured creditors of Domfoam who would be prejudiced by such security being granted to Valle Foam.

VI. MONITOR

119. On or about June 15, 2011, Deloitte & Touche Inc. was retained by the Applicants to provide advice on their issues with the Competition Bureau, which assignment also involved the discussion of the restructuring options available to the Applicants.

120. Those discussions included the proposal that Deloitte & Touche Inc. ("Deloitte") would act as Monitor in CCAA proceedings should such proceedings be necessary and if appointed by the Court.

121. In the course of fulfilling its mandate, Deloitte has become intimately familiar with the Applicants' business and their current financial difficulties. Deloitte is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

122. Deloitte has consented to act as the Court-appointed Monitor of the Applicants, subject to Court approval.

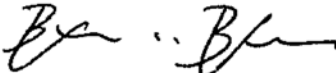
VII. PURPOSE OF AFFIDAVIT

123. This affidavit is sworn in support of the Applicants' application for protection pursuant to the CCAA and for no improper purpose.

SWORN before me at the City)
)
of Toronto, in the Province of)
)
Ontario, this 11th day of)
)
January, 2012.)



TONY VALLECOCCIA




Commissioner For Taking Affidavits

#1829678 | 4079509

**Benjamin Young Bloom, a
Commissioner etc., Province of Ontario,
while a Student-at-Law.
Expires August 18, 2014.**

TAB B

This is Exhibit "B" referred to
in the Affidavit of Tony Vallecoccia
Sworn this 25th
day of January, 2012.


A Commissioner for Taking Affidavits

SALE PROCESS

Valle Foam Industries (1995) Inc. (“**Valle Foam**”), Domfoam International Inc. (“**Domfoam**”) and A-Z Sponge & Foam Products Ltd. (“**A-Z**”) (each a “**Vendor**” and collectively, the “**Vendors**”) propose to invite offers to purchase all of their assets, properties and undertakings (collectively, the “**Property**”), utilizing the following process (the “**Sale Process**”):

1. Immediately following Court approval of the Sale Process, the Vendors will distribute a flyer identifying the opportunity (the “**Flyer**”) to prospective purchasers identified by the Vendors, in consultation with the Monitor. The Flyer will contain the following:
 - (a) an overview of the Property and the business conducted by each of the Vendors;
 - (b) a description of the transaction opportunity;
 - (c) an invitation for offers to purchase all or any part of the Property by the Offer Date (as defined below);
 - (d) a link to the terms and conditions of sale (“**Terms of Sale**”) posted on the Monitor’s website;
 - (e) a link to a confidentiality agreement (“**CA**”) posted on the Monitor’s website; and
 - (f) confirmation that interested parties who sign the CA will be provided access to a data room to be assembled and maintained by the Vendors in consultation with the Monitor which will include, among other things, information regarding the Property and the Vendors’ businesses.
2. The Monitor will place on its website a notice setting out the terms of the Sale Process including copies of the Flyer, the CA and the Terms of Sale.
3. The Vendors will place an advertisement in the national edition of The Globe and Mail within one week following Court approval of the Sale Process outlining the opportunity to purchase the Property.
4. The Monitor will facilitate due diligence by prospective purchasers who sign the CA and will assist the Vendors in maintaining the data room and coordinate site visits to the Vendors’ business premises. The Monitor will be available as required to answer questions regarding the Sale Process from prospective purchasers.
5. All prospective purchasers who execute the CA will be provided with the Vendors’ template form of asset purchase agreement (“**Template Sale Agreement**”). Prospective purchasers will be encouraged to submit their offers in this form, or as close to this form as possible.
6. The deadline for submitting offers will be 4:00 p.m. (EDT) on February 22, 2012 (the “**Offer Date**”).

7. The Terms of Sale will stipulate, among other things, that:
- (a) the transaction will be on an “as is, where is” basis with no representations or warranties. Each offeror will be solely responsible for inspecting the Property subject to its offer and satisfying itself as to title to any of the Property it is offering to purchase;
 - (b) the Vendors may not necessarily accept the highest offer or any offer and reserve the right to terminate their invitation to submit offers to purchase any of the Property at any time or to accept an offer or offers for some or all of the Property at any time, including prior to the Offer Date;
 - (c) the Vendors shall consider all offers but, if deemed appropriate, the Vendors may deal with one or more offers to purchase some or all of the Property to the exclusion of others, both prior to or after the Offer Date;
 - (d) the Vendors may extend the Offer Date without further order of the Court but subject to approval of the Monitor;
 - (e) a Vendor’s acceptance of any offer will be subject to the Court issuing an order (the “**Approval and Vesting Order**”) approving the offer and vesting in the offeror (hereafter, the “**Purchaser**”) title to that part of the Property subject to such offer free and clear of all claims and encumbrances upon closing of that transaction;
 - (f) each offeror shall, with its offer, deliver to the Monitor the following:
 - (i) an amount equal to 10% of the purchase price specified in the offer which shall be held in a non-interest bearing account by the Monitor. If the offer is accepted by the applicable Vendor, said cheque shall be deemed to be a cash deposit (the “**Deposit**”) against the aggregate offered purchase price (the “**Purchase Price**”) and, subject to the Approval and Vesting Order being issued by the Court, the Purchaser shall pay the balance of the Purchase Price to the Monitor, by wire transfer or by certified cheque, on the closing date of the subject transaction;
 - (ii) an executed copy of the Template Sale Agreement, amended to reflect that part of the Property subject to the offer (the Template Sale Agreement as amended, the “**Offeror Sale Agreement**”) and any other matters specific to the offer, which shall be binding and irrevocable until March 6, 2012;
 - (iii) a comparison of the Template Sale Agreement to the executed and amended Offeror Sale Agreement;
 - (iv) a representation of the offeror and written evidence of available cash and/or a commitment for financing to evidence the offeror’s ability to close the proposed transaction as the applicable Vendor may reasonably request;

- (v) a copy of a board resolution or similar document demonstrating authority to make an irrevocable offer and to execute the transaction contemplated by the Offeror Sale Agreement; and
- (vi) disclosure of the identity of each entity (including its ultimate shareholders) that has submitted the offer.

CONDITIONS OF SALE

1. The vendors are Valle Foam Industries (1995) Inc. ("**Valle Foam**"), Domfoam International Inc. ("**Domfoam**") and A-Z Sponge & Foam Products Ltd. ("**A-Z**") (each a "**Vendor**" and collectively, the "**Vendors**"). In connection with the sale process (the "**Sale Process**") undertaken by the Vendors with respect to the Property (as defined below) and with any and all matters arising under or in connection with these Conditions of Sale, Deloitte & Touche Inc. acts solely in its capacity as the Court-appointed Monitor (the "**Monitor**") in the *Companies' Creditors Arrangement Act* (Canada) proceeding involving the Vendors bearing Court File No. CV-12-9545-00CL.
2. Pursuant to these Conditions of Sale, the Vendors are inviting offers to purchase all of the assets, properties and undertakings of each of Valle Foam (the "**Valle Foam Property**"), Domfoam (the "**Domfoam Property**") and A-Z (the "**A-Z Property**"). Each of the Valle Foam Property, Domfoam Property and A-Z Property (collectively, the "**Property**") comprises a separate parcel (each, a "**Parcel**") of the Property.
3. The Vendors with the assistance of the Monitor have prepared a flyer identifying the opportunity to purchase the Property (the "**Flyer**"). All information contained in the Flyer, including without limitation, any description of the Property, has been prepared solely for the convenience of the party submitting an offer (each, an "**Offer**") to purchase some or all of the Property (each, an "**Offeror**") and is not warranted to be complete or accurate and does not form part of these Conditions of Sale.
4. Each of the Vendors may carry on its business prior to closing and the quantity of inventory included in each Parcel may be reduced during such period. The inventory

included in each Parcel will be that on hand and available on the Closing Date (as defined below) of any Approved Sale Agreement (as defined below).

5. Offers may be submitted for individual Parcels or en bloc, provided that en bloc Offers must stipulate a separate price for each Parcel. Offers submitted for more than one Parcel will be considered as a separate Offer for each Parcel unless the Offeror specifically states that the acceptance of one Parcel is conditional upon the acceptance of one or more other Parcels.
6. Sealed Offer marked "Offer – [**name of Vendor as applicable: Valle Foam Industries (1995) Inc./Domfoam International Inc./A-Z Sponge & Foam Products Ltd.**]" shall be delivered or mailed postage prepaid to Deloitte & Touche Inc., 181 Bay Street, Brookfield Place, Suite 1400, Toronto, Ontario, M5J 2V1, to the attention of Catherine Hristow. All Offers must be received by Deloitte & Touche Inc. by 12:00 p.m. Eastern Standard Time on February 22, 2012 (the "**Offer Date**"). The Vendors reserve the right to extend the Offer Date with respect to same or all of the Property at any time for any reason.
7. Every Offer submitted should be in the Form of Offer attached hereto. Offers received by the Vendors which are not in such form may be rejected. Offers shall be opened by the Vendors in the presence of, and reviewed with, representatives of the Monitor. No Offeror or creditor of the Vendors shall be entitled to be present for the opening of Offers.
8. The Vendors shall have no obligation, at law or in equity or otherwise, to any Offeror or any other person or party, to:

- (a) consider any Offer which:
 - (i) specifies a purchase price as an amount or percentage in excess of any other Offer or otherwise as a function of the purchase price offered by any other Offeror;
 - (ii) has not been fully completed and duly executed;
 - (iii) is not accompanied by the Deposit (as defined below) required hereunder;
 - (iv) has not been delivered to and received at the offices of the Monitor as required hereunder; or
- (b) negotiate with any Offeror after the Offer Date with respect to any provision of the Offer or request or agree to any changes therein,

but nothing in these Conditions of Sale shall preclude any of the Vendors from taking any of the foregoing steps if, in its sole and unfettered discretion but with the consent of the Monitor, the applicable Vendor believes that it is in its best interests to do so; however the taking of any such step shall not constitute a waiver by that Vendor of the provisions of this paragraph or an obligation on the part of that Vendor or any of the other Vendors to take any further or other steps referred to above with the same or any other Offeror. The Vendors will be under no obligation to negotiate identical terms with, or extend identical terms to, each Offeror.

9. Each Offeror shall, with its Offer, deliver to the Vendor of that part of the Property subject to the Offer the following:

- (a) an amount equal to 10% of the purchase price specified in the Offer which shall be held in a non-interest bearing account by the Monitor. If the Offer is accepted by the Vendor said cheque shall be deemed to be a cash deposit (the "**Deposit**") against the aggregate offered purchase price (the "**Purchase Price**") and, subject to Court approval of the Offer, the Offeror (hereinafter called the "**Purchaser**") under an Approved Sale Agreement (as defined below) shall pay the balance of the Purchase Price to the Monitor, in cash, wire transfer or by bank draft issued by a schedule 1 Canadian chartered bank on the closing date of the transaction under the Approved Sale Agreement;
- (b) an executed copy of the template agreement of purchase and sale prepared by the Vendor ("**Template Sale Agreement**"), amended to reflect that part of the Property subject to the Offer (the Template Sale Agreement as amended, the "**Offeror Sale Agreement**") and any other matters specific to the Offer, which shall be binding and irrevocable until March 6, 2012. The Vendors require each Offeror to include in its Offeror Sale Agreement transitional provisions regarding the proposed transfer of the Purchased Assets (defined below) to the Offeror including, without limitation, any employees of the Vendors to be hired by the Offeror, assumption of existing contracts and prepaid expenses;
- (c) a comparison of the Template Sale Agreement to the executed and amended Offeror Sale Agreement;
- (d) a representation of the Offeror and written evidence of available cash and/or a commitment for financing to evidence the Offeror's ability to close the proposed transaction as the Vendor may reasonably request;

- (e) a copy of a board resolution or similar document demonstrating authority to make an irrevocable Offer and to execute the transaction contemplated by the Offeror Sale Agreement; and
 - (f) disclosure of the identity of each entity (including its ultimate shareholders) that has submitted the Offer.
10. Following the Offer Date, each of the Vendors specifically reserves its right to negotiate with any Offeror with respect to any provision of its Offer or to request or agree to any changes in any such Offer. The Vendors may choose to take such steps with respect to one or more Offers but the Vendors shall have no obligation to negotiate identical terms with, or extend identical terms to, each Offeror. Each of the Vendors reserves its right to request some, but not all, Offerors to submit a revised Offer reflecting improved terms or other amendments requested by the Vendor. Each of the Vendors will be under no obligation to provide to each Offeror the opportunity to improve the terms of any Offer submitted to the Vendor following the Offer Date.
11. If a Vendor accepts an Offer and the subject Offeror Sale Agreement, the Vendor shall seek an order of the Court (the “**Approval and Vesting Order**”) approving such Offeror Sale Agreement and vesting title to the Purchased Assets (as defined below) in and to the Purchaser upon closing of the transaction under the Offeror Sale Agreement free and clear of all claims, liabilities and encumbrances. Any Offeror Sale Agreement accepted by the Vendor and approved by the Court is referred to hereafter as an “**Approved Sale Agreement**”.

12. If a Vendor accepts an Offer but the terms of that Offer or the Offeror Sale Agreement are not approved by the Court or if the Court declines to issue the Approval and Vesting Order, then the Vendor may, in its sole and unfettered discretion, terminate the proposed transaction and any Offeror Sale Agreement accepted by the Vendor, whereupon the Deposit shall forthwith be returned to the Offeror without credit for any accrued interest thereon and the Vendor may then accept any other Offer to purchase that part of the Property subject to the terminated Offeror Sale Agreement.
13. Notwithstanding any other provision contained in these Conditions of Sale, nothing herein shall constitute an assignment or attempted assignment of any of the Property subject to an Approved Sale Agreement ("**Purchased Assets**") which is not assignable without the consent of any person if such consent is not obtained by the Purchaser. It shall be the Purchaser's sole responsibility to obtain, at its own expense, any consents, approvals or any further documentation or assurances which may be required to carry out the terms of the sale of the Purchased Assets, including, without limitation, any approvals with respect to the assignment of any of the Purchased Assets not assignable without the consent or action of a third party or parties. Specifically, and without limiting the generality of the foregoing, by submitting an Offer, an Offeror acknowledges that it has conducted its own investigations with respect to any licences, approvals or third party consents which are necessary to purchase any of the Property or to carry on any business or any other activity utilizing or in connection with any of the Property.
14. Bank drafts accompanying Offers that are not accepted will be returned to the Offeror by registered mail addressed to the Offeror at the address set out in its Offer or made

available for pick up not later than fourteen days following the opening of Offers unless otherwise arranged with the Offeror.

15. The closing of each Approved Sale Agreement shall take place at the office of the Vendors' solicitors Minden Gross LLP, 145 King Street West, Suite 2200, Toronto, Ontario, M5H 4G2, at 11:00 a.m. on or before the 45th day after approval by the Court of the Approved Sale Agreement accepted by the Vendor (the "**Closing Date**") or such other date as the Vendor and the Purchaser may agree.
16. Upon closing of the sale of the Purchased Assets contemplated by the Approved Sale Agreement, (the "**Closing**"), the Purchaser shall be entitled, upon receipt by the Monitor of the Purchase Price, to possession of the Purchased Assets and to such bills of sale or assignments as may be considered necessary by the Vendor to convey the Purchased Assets to the Purchaser provided that the Purchaser shall remain liable under the Approved Sale Agreement. Any such deeds, bills of sale or assignments shall contain only a release of the Vendor's interest in the Purchased Assets and shall not contain any covenants.
17. The Purchaser shall pay on closing in addition to the Purchase Price:
 - (a) all applicable federal and provincial taxes;
 - (b) costs, if any, of dismantling or removing the Purchased Assets from their present location and restoring such location to a neat and clean condition;
 - (c) the cost of repairing any damage caused by dismantling or removal of the Purchased Assets from their present location; and

- (d) the costs of obtaining mechanical fitness certificates, if necessary, for any motor vehicle(s).
18. The Purchaser shall assume at the Purchaser's cost complete responsibility for compliance with all laws, municipal, provincial or federal in so far as same apply to the Purchased Assets and the use thereof by the Purchaser.
19. The Vendors shall not be required to produce any abstract of title, title deed, or documents or copies thereof or any evidence as to title, other than those in their possession.
20. Prior to the Closing, the Purchased Assets shall be and remain in the possession of and at the risk of the applicable Vendor and each Vendor will hold all policies of insurance effected thereon and the proceeds thereof in trust for the Vendor and the Purchaser as their respective interests may appear. After Closing, the Purchased Assets shall be at the risk of the Purchaser. In the event of "substantial damage" to the Purchased Assets occurring on or before Closing, the Purchaser may either have the proceeds of the insurance and complete the Approved Sale Agreement or may cancel such Approved Sale Agreement and have all monies paid thereunder, returned without interest, costs or compensation of any kind whatsoever. Where any damage is not substantial, the Purchaser shall be obliged to complete the purchase and shall be entitled to the proceeds of insurance referable to such damage, but not to any other costs or compensation whatsoever. For the purpose of this paragraph, "substantial damage" to the Purchased Assets means damage which renders unusable at least 50% by value of the Purchased Assets.

21. All adjustments of such taxes and other items as are specified herein will be made as of Closing under the Approved Sale Agreement. The Purchaser shall arrange its own insurance and there shall be no adjustment of insurance.
22. No adjustments will be allowed by either the applicable Vendor or the Purchaser for changes in the condition or quantity of any of the Property comprising the Purchased Assets. The applicable Vendor shall remain in possession of the Purchased Assets until the Purchase Price therefor has been paid in full. The Purchaser will take possession of the Purchased Assets at Closing.
23. If the Purchaser fails to comply with the Approved Sale Agreement, the Purchaser's Deposit shall be forfeited to the applicable Vendor and the Purchased Assets may be resold by the Vendor and the Purchaser shall pay to the Vendor (i) an amount equal to the amount, if any, by which the Purchase Price under the Approved Sale Agreement exceeds the net purchase price received by the Vendor pursuant to such resale, and (ii) an amount equal to all costs and expenses incurred by the Vendor in respect of or occasioned by the Purchaser's failure to comply with the Approved Sale Agreement.
24. By submitting an Offer, a Purchaser acknowledges that it has inspected the Purchased Assets and that the Purchased Assets are sold on an "as is, where is" basis at the time of Closing and that no representation, warranty or condition is expressed or implied as to existence, title, description, fitness for purpose, merchantability, quantity, conditions or quality thereof or in respect of any other matter or thing whatsoever. Each Purchaser acknowledges that the Vendor is not required to inspect or count, or provide any inspection or counting, of the Purchased Assets or any part thereof and each Purchaser

shall be deemed, at its own expense, to have relied entirely on its own inspection and investigation. It shall be the Purchaser's sole responsibility to obtain, at its own expense, any consents to such transfer and any further documents or assurances which are necessary or desirable in the circumstances. Without limiting the generality of the foregoing, any and all conditions, warranties and representations expressed or implied pursuant to the *Sale of Goods Act* (Ontario) do not apply to the sale of the Purchased Assets and have been waived by the Purchaser.

25. Deloitte & Touche Inc. acts solely in its capacity as the Court-appointed Monitor of the Vendors in the proceeding bearing Court file no. CV-12-9545-00CL and shall have no personal or corporate liability hereunder, under the Sale Process or under any Offer, Offeror Sale Agreement or Approved Sale Agreement.
26. The highest or any Offer will not necessarily be accepted.
27. The acceptance of any Offer and any Offeror Sale Agreement entered into by the applicable Vendor shall be subject to the condition that the sale and the terms thereof be approved by the Court.
28. No Offeror shall be at liberty to withdraw, vary or countermand an Offer once received by the Vendor. Each Offer shall be irrevocable until March 6, 2012
29. Each of the Vendors, at its sole discretion, may waive or vary any or all of the terms and conditions hereof as such relates to its Property. The terms and conditions contained herein shall not merge on the Closing of the transaction contemplated by any Approved

Sale Agreement but shall survive such closing and remain in full force and effect and be binding on the Purchaser thereafter.

30. These Conditions of Sale and the validity and interpretation of any Offer, Offeror Sale Agreement or Approved Sale Agreement shall be governed by the laws of Ontario, and such agreement shall enure to the benefit of and be binding upon the parties thereto, and their respective heirs, executors, administrators, successors or assigns as the case may be.
31. The submission of an Offer by a resident of the province of Quebec shall be deemed to constitute the declaration and acknowledgement by the Offeror that it has requested the Conditions of Sale, the form of the Offer referred to herein, any Offeror Sale Agreement and all other documentation relating to its Offer and to the acceptance thereof to be drawn up in the English language only.
32. All stipulations as to time are strictly of the essence.
33. Any offer of documents or money hereunder may be made upon the Vendor, the Monitor or the Purchaser, or their respective solicitors. Money may be paid by wire transfer or bank draft issued by a schedule 1 Canadian chartered bank or trust company.
34. The obligations of the applicable Vendor to complete an Approved Sale Agreement shall be relieved if, on or before the Closing of such sale, the Order of the Court approving the subject Approved Sale Agreement is subject to appeal or if any of the Purchased Assets subject to the sale have been removed from the control of the Vendor by any means or process, whereupon the only obligation of the Vendor shall be to return the applicable Deposit, without interest, costs or compensation.

35. The Vendors shall not be bound to sell any of the Property until the applicable Vendor is authorized by the Court to accept and enter into an Approved Sale Agreement. The Vendors reserve the right to enter into one or more agreements to sell any or all of the Property at any time prior to the Offer Date or an arrangement to the contrary and to withdraw any or all of the Property from the invitation for offers to purchase such Property. If a Vendor enters into an agreement to sell any of the Property prior to the Offer Date, then the Monitor shall promptly advise any party which has received a Flyer with respect to the Property subject to such agreement that such Property is no longer available to be purchased.

FORM OF OFFER

To: **Valle Foam Industries (1995) Inc.**
 Domfoam International Inc.
 A-Z Sponge & Foam Products Ltd.
 [check applicable box]

1. _____
 (Name of Offeror)

2. _____
 (Address of Offeror)

3. _____
 (Telephone Number) (Facsimile Number) (email address)

4. I/We hereby submit this offer for the purchase of the parcels indicated below for the total purchase price of \$ _____, excluding applicable taxes:

Parcel 1 Valle Foam Industries (1995) Inc.
 \$ _____ (CDN)

Parcel 2 Domfoam International Inc.
 \$ _____ (CDN)

Parcel 3 A-Z Sponge & Foam Products Ltd.
 \$ _____ (CDN)

4. This Offer is an "en bloc" offer to purchase the following listed parcels (i.e. Vendor can accept all, but not less than all, of the offer for the following parcels):

_____	_____
_____	_____
_____	_____

5. We/I agree, that in the event this offer is accepted, to be bound by the Conditions of Sale dated January 1, 2012 which shall form part of this offer.
6. This Offer is irrevocable and shall remain open for the consideration of the Vendor until 12:00 o'clock noon Eastern Time on March 6, 2012.
7. Warranty - We/I represent and warrant to the Vendor that we/I am/are not a non-eligible person as defined by the *Investment Canada Act*.
8. Enclosed is our/my certified cheque payable to Deloitte & Touche Inc., as a deposit in the amount of \$ _____, representing 10% of the total amount of our/my Offer submitted herein.

DATED at _____ this _____ day of _____, 2012.

By: _____

Name: ●

Title: ●

By: _____

Name: ●

Title: ●

I/We have authority to bind the Corporation.

CONFIDENTIAL

Valle Foam Industries (1995) Inc.
4 West Drive
Brampton, ON L6T 2H7

Attention Tony Vallecoccia

Re: Valle Foam Industries (1995) Inc. (the "Corporation") – Proposed Sale of
Assets ("**Proposed Transactions**")

We have requested that the Corporation provide us (the "Interested Party") with the Confidential Information (defined below) to assist in determining for ourselves the desirability and feasibility of proceeding with the Proposed Transactions pursuant and subject to the terms and conditions set by the Corporation (the "Permitted Purpose").

It is acknowledged that but for delivery of this letter the Corporation would not provide the Interested Party such Confidential Information.

Upon acceptance of this letter by the Corporation and subject to the provisions thereof, the Corporation shall provide or cause to be provided to the Interested Party such Confidential Information as the Corporation in the exercise of its unfettered discretion may determine.

"Confidential Information" means all financial statements and information and all data, compilations, analysis, documentation, and other information and every part thereof, whether in electronic form or otherwise, which now or hereafter comes into the possession or under the control of the Interested Party or its Representatives (defined below) including, without limitation, that relating to the Corporation's business organization, business operations and systems, Know-how, business plans, Research Information, Customer Information, suppliers, financial structure, Financial Information, Supplied Information, Marketing Information, assets, employees, employee relationships, Software and other information of any kind relating to any of the foregoing and includes all data, compilations, analysis and other documents and information prepared by or on behalf of the Interested Party or by any of the Representatives based, in whole or in part, on any of the foregoing, but expressly excluding any reports or analysis of the Corporation conducted by any professionals retained by or with respect to the Corporation, including, without limitation, Deloitte LLP, in connection with the current financial state of the Corporation, any restructuring scenarios available to the Corporation, and any analysis of the value of the Corporation or its assets.

For the purposes of this letter:

- (a) **“Corporation”** shall include and extend to each subsidiary of the Corporation, except for Domfoam International Inc. and A-Z Sponge & Foam Products Ltd., each partnership controlled by the Corporation or their respective subsidiaries, each of whom shall be entitled to directly enforce the provisions of this letter against the Interested Party notwithstanding that this letter is not directly addressed to or required to be accepted by any one or more of such subsidiaries and partnerships;
- (b) **“Customer Information”** includes any information pertaining to the Corporation’s customers, prospective customers, customer base and markets, prospective customer base and markets, including customer or prospective customer names and addresses and the names of employees of customers or prospective customers with whom the Corporation is in contact in its business, or proposes to contact, customer or prospective customer requirements and the Corporation’s contracts with its customers or prospective customers, including details as to pricing, supply of services, and royalty and/or commission rates;
- (c) **“Financial Information”** includes any and all information pertaining to the Corporation’s actual or anticipated sales, income, projections, profit, profitability, pricing, salaries and wages;
- (d) **“Know-how”** includes the accumulated skills, experience, knowledge, patents, intellectual property, information, data, patterns, designs, engineering specifications, schematics and other information with respect to the design, production and provision of the products and/or services offered by the Corporation’s business or proposed business and of the Software related thereto;
- (e) **“Marketing Information”** includes information including but not limited to the Corporation’s marketing programs, plans, strategies and proposed future products, services, advertising and promotions.
- (f) **“person”** shall be broadly interpreted to include, without limitation, any individual, corporation, limited liability corporation, company, group, partnership, limited liability partnership or other entity.
- (g) **“Representatives”** means, collectively, each of the directors, officers, employees, agents and other representatives of the Interested Party and the Corporation including, without limitation, their respective lawyers, accountants, consultants and financial advisors;

- (h) **“Research Information”** includes information pertaining to any research, development, investigation, study analysis, experiment or test carried on or proposed to be carried on by the Corporation;
- (i) **“Software”** includes all methods, programs, techniques and other information and materials relating to the handling or treatment of data by computers and all other necessary information utilized in order to provide the services offered by the Corporation’s business or proposed business and all documentation thereto, and includes all computer programs, including HTML, JAVA, UNIX, LINUX, GNU, C++, and other internet oriented computer programs, systems software and application programs, and all related manuals, documentation and materials relating to the systems software and application programs;
- (j) **“Supplied Information”** includes all business information, computer software and technology which is proprietary to any other person doing business with the Corporation and which is made available to the Corporation under conditions of confidentiality.

At the request of the Corporation and for other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged) the Interested Party covenants and agrees with the Corporation as follows:

1. **Deemed Confidential Property:** As between the Corporation and the Interested Party, the Confidential Information, and every part thereof, is and shall at all times be deemed to be the confidential property and constitute valuable trade secrets of the Corporation, whether or not, but for this paragraph, the same would otherwise be considered confidential and/or trade secrets and whether or not it is marked or otherwise expressed on its face to be confidential.
2. **Ownership:** The Confidential Information is and shall be deemed to be owned solely by the Corporation and the right to maintain confidential the Confidential Information constitutes an exclusive proprietary right of the Corporation which it is entitled to protect. The Interested Party does not and shall be deemed not to have any right to or proprietary interest in the Confidential Information. All of the Confidential Information which is disclosed to or otherwise comes into the possession or under the control of the Interested Party shall, subject to paragraph 5 below, be received and held by the Interested Party in trust solely for the Corporation notwithstanding the Interested Party’s right to use it for the Permitted Purpose.
3. **Permitted Use:** The Confidential Information shall only be used directly by the Interested Party and its Representatives for the Permitted Purpose. Except as otherwise provided for herein, the Confidential Information will be kept strictly

confidential by the Interested Party, whether or not such Confidential Information is marked or otherwise expressed on its face to be confidential. Other than as permitted herein, the Interested Party will not, directly or indirectly, without the prior written consent of the Corporation (which consent may be arbitrarily withheld) disclose, publish, reproduce or otherwise disseminate or communicate the Confidential Information, nor will it permit, cause or acquiesce in such disclosure of other dissemination or communication of the Confidential Information by the Representatives of the Interested Party or by any other person, all in any manner whatsoever, in whole or in part.

The Interested Party agrees to restrict the disclosure, dissemination or other communication of the Confidential Information solely to such of the Interested Party's Representatives who need to know the Confidential Information for the Permitted Purpose and who are informed in writing by the Interested Party of the ownership and strict confidential nature of the Confidential Information and who agree in writing with the Interested Party to be bound by the terms of this letter.

4. Disclosure List & Responsibility for Representatives: The Interested Party shall maintain a current listing of each of its Representatives to whom any of the Confidential Information has been disclosed or otherwise disseminated or communicated and on each and every request of the Corporation, the Interested Party shall without delay deliver to the Corporation a complete and accurate copy of such list. The Interested Party shall similarly deliver on request, the business address and telephone number of any or all persons set out on the said list.

The Interested Party shall be responsible and liable to the Corporation for any and all acts or omissions of each of its Representatives which if done or omitted directly by the Interested Party would be a breach of the provisions of this letter.

The Interested Party shall safeguard the Confidential Information from disclosure or other dissemination or communication to any person other than as expressly permitted herein.

5. Exceptions to Prohibited Use: The obligations and limitations imposed on the Interested Party and its Representatives hereunder shall not apply to any Confidential Information:
 - (a) which is or becomes generally available to the public other than as a result of its disclosure or other dissemination or communication by the Interested Party or its Representatives; or
 - (b) which becomes available to the Interested Party or its Representatives on a non-confidential basis from a source other than the Corporation or its representatives, provided that such source is not then bound by a

confidentiality agreement with the Corporation or otherwise prohibited from transmitting the Confidential Information to the Interested Party or its Representatives by contractual, legal or fiduciary obligation.

In addition, the obligations and restrictions imposed on the Interested Party and its Representatives hereunder shall not extend to prohibit the Interested Party from discussing the Proposed Transactions with and disclosing any of the Confidential Information to:

- (i) any other person who has signed a confidentiality agreement with the Corporation in substantially the form of the agreement constituted by this letter regarding any of the Proposed Transactions; and
- (ii) any governmental or regulatory body in Canada having jurisdiction over the operations of the Corporation or any part thereof or over the Interested Party in connection with its participation in any of the Proposed Transactions, provided that the disclosure, dissemination or other communication of any of the Confidential Information to such governmental or regulatory body is made on a confidential basis and such confidential basis is either provided for by applicable law or recognized in writing by the relevant body.

Notwithstanding the foregoing provisions of this paragraph 5, in the event that the Interested Party or its Representatives are required by law or governmental action to disclose any of the Confidential Information, the Interested Party and/or its Representatives will deliver to the Corporation prompt prior notification of such requirement(s) so that the Corporation may seek an appropriate protective order and/or waive compliance by the Interested Party or its Representatives with the provisions of this letter. If, failing the obtaining of a protective order or the delivery of such a waiver, the Interested Party is, in the written opinion of its legal counsel, compelled to disclose, disseminate or otherwise communicate the Confidential Information, the Interested Party may disclose, disseminate, or otherwise communicate the Confidential Information, but only to the extent so compelled, without liability hereunder.

- 6. **Return of Information:** The Interested Party shall, on receipt of the written request of the Corporation, promptly deliver to the Corporation all of the Confidential Information which is in recorded form (whether such form be in writing or in electronically retrievable form or electronically stored data or otherwise) and each of the Interested Party and its Representatives shall not retain any copies thereof.
- 7. **No Liability for Information:** At the time(s) any of the Confidential Information is delivered to the Interested Party, the Corporation will attempt to include in such

Confidential Information such materials which the Corporation considers to be reliable and relevant for the Permitted Purpose; however, the Corporation shall not have or incur any, and the Interested Party hereby waives any right to claim any, liability to the Interested Party or its Representatives in connection with or arising from the Confidential Information and the use thereof by the Interested Party or its Representatives.

The Interested Party acknowledges and agrees for itself and its Representatives that neither the Corporation nor any of its Representatives in providing the Confidential Information has or will be taken to have made either expressly or impliedly any representations or warranties as to the accuracy or completeness of the Confidential Information and the Interested Party confirms that it is not relying on any representations or warranties of the Corporation or its Representatives in making use of the Confidential Information.

8. **Indemnity:** The Interested Party hereby unconditionally indemnifies and shall forever save harmless the Corporation from and against any and all losses, damages, liabilities (whether actual, contingent or otherwise), proceedings, costs and expenses including, without limitation, legal fees (on a scale as between a solicitor and his own client), which the Corporation or its Representatives may suffer, incur or sustain in connection with or as a result of a breach by the Interested Party or any of its Representatives of any of the provisions contained in this letter.

All of the provisions contained herein are reasonable in the circumstances and valid and the Interested Party hereby waives all defences, rights of set off, equities and rights to and against the strict enforcement thereof by the Corporation and its Representatives.

9. **Continuity of Agreement:** The prohibitions, limitations and obligations of the Interested Party herein contained shall continue in full force and effect notwithstanding the Interested Party ceasing to proceed with any of the Proposed Transactions and will survive any termination or cancellation of its involvement, if any, in the Proposed Transactions.
10. **Use of Information Post Involvement:** The Interested Party shall not, at any time after it ceases to proceed with or be involved in the Proposed Transactions and except as otherwise expressly provided for herein: (i) use any of the Confidential Information in furtherance of the business of the Interested Party or the business of any other person; (ii) interfere in any way with any contractual or other business relationship of the Corporation; (iii) disclose, disseminate or otherwise communicate the Confidential Information or any part thereof to any person or utilize the Confidential Information in any way which is adverse to the Corporation; or (iv) directly or indirectly solicit for employment any person who is

now employed by the Corporation, unless the Corporation otherwise agrees in writing prior to such solicitation for employment.

11. **Right to Enjoin:** It is acknowledged that the provisions of this letter are essential for the protection of the Corporation and, in the event of the non-performance of any provisions hereof in strict accordance with their specific terms or any breach of any provisions of this letter, the same would cause immediate and irreparable harm and damage to the Corporation for which monetary relief would be inadequate or impossible to ascertain. The Interested Party agrees that upon any breach or threatened breach of the provisions hereof, the Corporation shall be entitled to obtain from any court of competent jurisdiction, interim and permanent injunctive relief or other appropriate form of equitable relief to effectively enforce the provisions hereof, and an accounting of all profits and benefits which may have been or which may be derived both directly or indirectly, as a direct or indirect result of such breach by the Interested Party or any of its Representatives who have committed or who have threatened to commit such breach, which rights and remedies shall be cumulative and in addition to any other rights or remedies to which the Corporation may be entitled.

No failure or delay by the Corporation in exercising or taking steps to enforce any of its rights or entitlements under the provisions of this letter shall operate as a waiver thereof, unless such waiver is in writing and signed by the Corporation, nor shall any single or partial exercise thereof preclude any other or future exercise of any other right or entitlement of the Corporation hereunder.

12. **Notices:** Any notice desired, contemplated or required by this letter to be given shall be delivered by hand or facsimile to:

- (a) the Corporation at:

4 West Drive
Brampton, ON L6T 2H7
Attention: Tony Vallecoccia
Telephone No. (905) 453-8054
Facsimile No. (905) 453-6348

- (b) with courtesy copy to:

145 King Street West
Suite 2200
Toronto, ON M5H 4G2
Attention: Raymond M. Slattery
Telephone No. (416) 369-4149
Facsimile No. (416) 864-9223

(c) the Interested Party at:

- 13. **Applicable Law:** The provisions of this letter shall be governed by and construed and enforced exclusively in accordance with the laws of Ontario and the federal laws of Canada applicable therein.

The Corporation is requested to evidence its agreement and acceptance of the provisions of the letter by signing and returning the enclosed copy thereof which has been signed by the Interested Party, whereupon this letter will constitute the binding agreement between the Interested Party and the Corporation with respect to the subject matter thereof.

Yours very truly,

Per: _____

Per: _____

TO:

Accepted and agreed to with effect as of the date set out above.

VALLE FOAM INDUSTRIES (1995) INC.

Per: _____

Per: _____