

DISTRICT OF ONTARIO  
Division No. 09 - Toronto  
Court and Estate Nos. 31-2295766

**NOTICE OF PROPOSAL TO CREDITORS**

**IN THE MATTER OF THE PROPOSAL OF  
DIGITAL UNDERGROUND MEDIA INC.  
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE PROVINCE OF ONTARIO  
WITH A HEAD OFFICE IN THE CITY VANCOUVER, IN THE PROVINCE OF BRITISH COLUMBIA**

On October 2, 2017, Digital Underground Media Inc. ("DUM" or the "Company") lodged with us a Proposal pursuant to the *Bankruptcy and Insolvency Act* (the "Act"). On the same day the Proposal was filed with the Official Receiver.

Attached to this notice are the following documents.

- A. The Proposal
- B. Statement of Affairs, dated September 29, 2017
- C. Report of the Trustee on the Proposal
- D. Proof of Claim form
- E. Proxy form
- F. Voting letter

A general meeting of the creditors will be held on the 19<sup>th</sup> day of October, 2017 at 10:00 AM at the offices of the Trustee:

MNP Ltd.  
300 - 111 Richmond Street West  
Toronto, ON M5H 2G4

The creditors or any class of creditors qualified to vote at the meeting may by resolution accept the Proposal either as made or as altered or modified at the meeting. If so accepted and if approved by the Court, the proposal is binding on all the creditors or the class of creditors affected.

**Proofs of claim, proxies and voting letters intended to be used at the meeting must be lodged with us prior to the time appointed for the meeting of creditors either via email or via facsimile at (416) 323-5242. Proof of claim forms are to be filed based on the amount owed as of September 21, 2017, the date the Notice of Intention to Make a Proposal was filed.**

Dated at TORONTO, ONTARIO this 6th day of October, 2017.

MNP Ltd.  
*Trustee re: the Proposal of  
Digital Underground Media Inc.*

Per:   
Sheldon Title, CPA, CA, CIRP, LIT

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 92  
Notice of Proposal to Creditors  
(Section 51 of the Act)

In the matter of the proposal of  
Digital Underground Media Inc.  
a Company Incorporated Pursuant to the Laws of the Province of Ontario  
with a Head Office in the City of Vancouver, in the Province of British Columbia

Take notice that Digital Underground Media Inc. of the City of Vancouver in the Province of British Columbia has lodged with us a proposal under the Bankruptcy and Insolvency Act.

A copy of the proposal, a condensed statement of the debtor's assets, and liabilities, and a list of the creditors affected by the proposal and whose claims amount to \$250 or more are enclosed herewith.

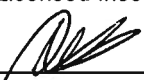
A general meeting of the creditors will be held at 300 - 111 Richmond Street West, Toronto, ON on the 19th day of October 2017 at 10:00 AM.

The creditors or any class of creditors qualified to vote at the meeting may by resolution accept the proposal either as made or as altered or modified at the meeting. If so accepted and if approved by the court the proposal is binding on all the creditors or the class of creditors affected.

Proofs of claim, proxies and voting letters intended to be used at the meeting must be lodged with us prior to the commencement of the meeting.

Dated at the City of Toronto in the Province of Ontario, this 6th day of October 2017.

MNP LTD. - Licensed Insolvency Trustee

  
\_\_\_\_\_  
300 - 111 Richmond Street West  
Toronto ON M5H 2G4  
Phone: (416) 596-1711 Fax: (416) 323-5242

(A form of proof of claim, a form of proxy and a voting letter should be enclosed with each notice.)

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
Ade & Company Inc	2157 Henderson Hwy Winnipeg MB R2G 1P9 CA		584.00
Beacon Securities Limited	66 Wellington Street West   Suite 4050, TD Tower Toronto ON M5K 1H1 CA		157,500.00
Best Best Krieger LLP	3390 University Avenue Riverside CA 92501 USA		380.58
David Chae	102-704 Yeongtong e-Pyeonhangesang Apt 239 Yeongtong-ro, 200 beon-gil, Yeontong-gu, Suwon-si, Gyeonggi-do Korea		250,000.00
Denise Cooper	186 St. George Street, Suite 200 Toronto ON M5R 2N3 CA		14,604.00
DUM Holdings Inc.	Suite 1600, 1 First Canadian Place, 100 King Street West Toronto ON M5X 1G5 CA		528,291.47
EY	700 W Georgia St Vancouver BC V7Y 1C7 CA		42,000.00
Gowlings WLG	Suite 1600, 1 First Canadian Place, 100 King Street West Toronto ON M5X 1G5 CA		31,684.00
Innovex	3,Cheongmyeongnam-ro, Yeongtong-gu Suwon-si, Gyeonggi-do Korea		90,000.00
JD Craig Holdings Inc	4280 Rockridge Road West Vancouver BC V7W 1A5 CA		2,816,031.78
Neil East Sound Broadcasting Ltd. (SBL)	1A - 1455 Waverley Street Winnipeg MB R3T 0P7 CA		15,680.00
Palms Creative Inc	205 - 309 W Cordova St. Vancouver BC V6B 1E5 CA		7,875.00
Piasetzki Nenniger Kvas LLP	120 Adelaide St W Suite 2308 Toronto ON M5H 1T1 CA		423.00
Stambol Studios Inc.	104 - 1309 West 14th Ave Vancouver BC V6H 1R2 CA		7,245.00
Stantec Consulting Ltd.	c/o Lockbox 310260, PO BOX 578, STN M Calgary AB T2P 2J2 CA		10,061.00
Tomik2 inc.	62 Wendover Road Toronto ON M8X 2L3 CA		9,722.00
Villarreal Garcia	Torre Sofia   Ricardo Margáin 440-701 Valle del Campestre, San Pedro Garza García, N.L 66265 Mexico		13,600.77

<b>List of Creditors with claims of \$250 or more.</b>			
<b>Creditor</b>	<b>Address</b>	<b>Account#</b>	<b>Claim Amount</b>
Waterford Partners	350-1 First Canadian Place Toronto Board of Trade Tower Toronto ON M5X 1C1 CA		7,350.00
<b>Total</b>			4,003,032.60

# Exhibit "A"

District of Ontario  
Division No. 09 -Toronto  
Court File No. 31-2295766  
Estate No. 31-2295766

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE PROPOSAL OF  
DIGITAL UNDERGROUND MEDIA INC.,  
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE  
PROVINCE OF ONTARIO,  
WITH A HEAD OFFICE IN THE CITY OF VANCOUVER,  
IN THE PROVINCE OF BRITISH COLUMBIA**

**PROPOSAL**

Digital Underground Media Inc. (the “Company”) hereby submits the following Proposal under the provisions of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.

**Definitions**

1. In this Proposal, capitalized terms have the following meanings:
  - (a) “Act” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.
  - (b) “Administrative Fees and Expenses” means:
    - (i) the proper fees and expenses of the Trustee incidental to the preparation and facilitation of the Proposal and any amendments thereto, including, without limitation, its legal fees and disbursements; and
    - (ii) the legal fees and disbursements of the Company on and incidental to negotiations in connection with the approval of the Proposal, court

proceedings relating to the Proposal and the transactions and agreements contemplated hereby, including, without limitation, advice to the Company.

- (c) “**Approval**” means the approval of the Proposal by the statutory majorities of the creditors under the Act and by the Court by way of the Approval Order pursuant to a final and enforceable order which has become final as a result of the appeal period having expired without there having been an appeal, or an appeal having been lodged and the order approving the Proposal having been confirmed or the appeal withdrawn or dismissed.
- (d) “**Approval Date**” means the date upon which the Approval occurs.
- (e) “**Approval Order**” means the Court order(s) made under this Proposal approving the Proposal and directing the implementation of the Proposal, which orders may, without limitation, authorize the filing by the Company of the articles of reorganization, the cancellation of issued and outstanding shares in the capital of the Company, the issuance of the New Common Shares and the appointment of a new board of directors of the Company.
- (f) “**Business Day**” means a day other than a Saturday or a Sunday on which banks are generally open for business in Toronto, Ontario.
- (g) “**Claim**” means any right of any Person against the Company in connection with any indebtedness, liability or obligation of any kind owed by the Company at the Filing Date, and any interest accrued thereon or costs payable in respect thereof, whether liquidated, unliquidated, fixed, contingent, matured, not matured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including, without limitation, the right or ability of any Person to advance a claim of contribution or indemnity or otherwise with respect to any matter, action, cause or chose in

action, whether existing at present or commenced in the future, and any indebtedness, liability or obligation of any kind arising out of the repudiation, restructuring or termination of any contract, lease, license, equipment lease, employment relationship or other agreement after the Filing Date, or any claims that may arise under any contract, lease, license, equipment lease, employment relationship or other agreement which may arise as a result of the insolvency of the Company, including, without limitation, any other indebtedness, liability or obligation of any kind that, if unsecured, would be a debt provable in bankruptcy within the meaning of the Act, and “**Claims**” means all of them.

- (h) “**Common Shares**” means the existing authorized, issued and outstanding common shares of the Company, including both Class A shares and Class B shares.
- (i) “**Consideration**” means the aggregate of: (i) the Share Consideration; and (ii) the Loan Consideration.
- (j) “**Court**” means the Ontario Superior Court of Justice.
- (k) “**Creditor**” means any Person having a Claim, and “**Creditors**” means all of them.
- (l) “**DIP Lender**” means J.D. Craig Holdings Inc.
- (m) “**DIP Loan Agreement**” means the agreement between the DIP Lender and the Company dated September 22, 2017, pursuant to which the DIP Lender will provide financing to the Company in the maximum amount of \$750,000 in order to finance the Company’s working capital requirements and other general corporate purposes and capital expenditures during the period of its restructuring, which agreement was approved by the Court by way of the Order of the Honourable Justice Hainey dated September 25, 2017.



- (n) **“Distribution Date”** means a date selected by the Trustee in consultation with the Inspectors.
  - (o) **“Filing Date”** means September 21, 2017, being the date upon which the Company filed its Notice of Intention to File a Proposal under the Act.
  - (p) **“Forbearance Agreement”** means the agreement between the DIP Lender, DUM Holdings Inc., and the Company dated September 15, 2017, pursuant to which the DIP Lender and DUM Holdings Inc. have agreed to forbear from enforcement of their security, and to provide continued support to the Company through its restructuring, in accordance with the terms of that agreement.
  - (q) **“Implementation Date”** means immediately following the Approval Date or the date the conditions are met as set out in paragraph 26 hereof.
  - (r) **“Inspectors”** means the Inspectors described in paragraph 35 hereof.
  - (s) **“Investor”** means 7677189 Canada Ltd.
  - (t) **“Loan”** means the loan made by the Investor to the Company in the maximum principal amount of \$76,000, pursuant to the Loan Agreement.
  - (u) **“Loan Agreement”** means the agreement between the Investor and the Company dated as of or before the Meeting of Creditors whereby the Investor agrees to advance the Loan to the Company pursuant to the terms and conditions of the Loan Agreement.
  - (v) **“Loan Consideration”** means proceeds payable to the Company under the Loan Agreement.
  - (w) **“Meeting of Creditors”** means the meeting of Creditors to consider this Proposal prescribed by section 51(1) of the Act.
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- (x) “**New Common Shares**” means all the new common shares to be issued in the share capital of the Company, as described in **Schedule “A”** hereto.
- (y) “**OBCA**” means the *Business Corporations Act*, R.S.O. 1990, c. B.16, as amended.
- (z) “**Performance of the Proposal**” means the payment of all amounts to be paid to the Trustee for the distribution to Creditors in respect of Claims, including, without limitation, the implementation of the provisions of the Proposal as described in paragraph 27 hereof.
- (aa) “**Person**” means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other entity howsoever designated or constituted.
- (bb) “**Post-Filing Claim**” means any Claim resulting from an obligation incurred by the Company in the normal course of business of the Company in respect of goods or services supplied to the Company after the Filing Date and extends to the following:
  - (i) amounts owing to the Trustee and its solicitors and the Company’s solicitors; and
  - (ii) Her Majesty the Queen in right of Canada and in right of Ontario for amounts owed in respect of federal, provincial or state sales or excise taxes collected subsequent to the Filing Date, or amounts owing in respect of source deductions on account of employee income tax, *Canada Pension Plan* contributions and Employment Insurance premiums arising subsequent to the Filing Date,

but does not include Claims under any contract, lease, equipment lease, license, employment arrangement or other agreement which may arise as a result of the insolvency of the Company.

- (cc) **“Preferred Claim”** means any Claim for which Section 136 of the Act prescribes payment in priority to an unsecured Claim, and **“Preferred Claims”** means all of them.
- (dd) **“Preferred Creditor”** means a Creditor of the Company having a Preferred Claim, and **“Preferred Creditors”** means all of them.
- (ee) **“Priority Payment”** has the meaning ascribed to it in paragraph 18 of this Proposal.
- (ff) **“Proposal”** means this proposal dated September 30, 2017, as the whole may be amended from time to time.
- (gg) **“Proposal Fund”** means the aggregate of: (i) the Share Consideration; and (ii) the Loan Consideration, net of any levies payable or due under the Act.
- (hh) **“Proposal Period”** means the period between the Filing Date and the Performance of the Proposal.
- (ii) **“Proven Claim”** means any Claim in respect of which a proof of claim:
  - (i) has been filed with and allowed by the Trustee; or
  - (ii) has been filed with the Trustee and valued or determined in accordance with the provisions of the Act,

provided, however, that a Proven Claim shall not include a Claim:

- (i) by any Person who has received written notification from the Trustee that the Claim has not been filed on a timely basis or has been disallowed; or
  - (ii) in respect of which a proof of claim has not been filed within 30 days of the date on which the Trustee mailed to the Creditor having such Claim a notice pursuant to Section 149 of the Act.
- (jj) **“Reorganization”** means the creation and issuance of the New Common Shares, the cancellation of the Common Shares and the other amendments to the Company’s articles of incorporation described in sections 28 to 33 of this Proposal.
- (kk) **“Secured Creditor”** means any Person holding a mortgage, hypothec, pledge, charge, lien or privilege on or against the property of the Company or any part thereof as security for a Claim, and **“Secured Creditors”** means all of them.
- (ll) **“Secured Creditor Claims”** means all Claims of Secured Creditors.
- (mm) **“Shareholders”** means those Person(s) who are holders of Common Shares, or any other equity of any kind of the Company.
- (nn) **“Share Consideration”** means proceeds payable to the Company under the Subscription Agreements.
- (oo) **“Subscription Agreements”** means:
- (i) the agreement dated as of or before the Meeting of Creditors between the Company and the Investor, as the same may be amended from time to time, regarding the subscription by the Investor for the New Common Shares for the aggregate consideration of \$10.00; and
  - (ii) the agreement dated as of or before the Meeting of Creditors between the Company and the DIP Lender as the same may be amended from time to time, regarding the subscription by the DIP Lender for the New Common Shares for the aggregate consideration of \$10.00.
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- (pp) **“Trustee”** means MNP LTD., in its capacity as trustee under the Proposal, and not in its personal capacity, and without any personal or corporate liability.
- (qq) **“Unsecured Creditor”** means any Creditor other than a Preferred Creditor and a Secured Creditor whose Claim arose:
- (i) by reason of the supply of goods or services to or for the account of the Company prior to the Filing Date;
  - (ii) by reason of loaning of money to the Company on an unsecured basis;
  - (iii) in the case of executory contracts in existence prior to the Filing Date, by reason of the restructuring, repudiation or termination of such contracts subsequent to the Filing Date;
  - (iv) which Claims arose by any other reason prior to the Filing Date; or
  - (v) the unsecured portion of any Claim, the balance of which is secured against all or any of the assets of the Company,
- and **“Unsecured Creditors”** means all of them.
- (rr) **“Unsecured Creditor Claims”** means all Claims of Unsecured Creditors.
- (ss) **“Unsecured Creditor Payment”** has the meaning ascribed to it in section 15 of this Proposal.
- (tt) **“Warrants”** means the existing authorized, issued and outstanding warrants to purchase Common Shares of the Company.
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### **Purpose of Proposal**

2. The purpose of this Proposal is to effect a restructuring of the business and affairs of the Company in the expectation that all Creditors will derive a greater benefit from the continued operation of the business and affairs of the Company than would result from a forced liquidation of its assets. The Company is being supported through this process by the DIP Lender, which has provided financing to the Company through its insolvency prior to the Filing Date, and will continue to provide ongoing financing to the Company through the Proposal proceedings by way of the credit facility provided for in the DIP Loan Agreement. It is also being supported by the Investor, which is advancing to the Company the funds that will form the Proposal Fund to be distributed to creditors in accordance with the provisions of this Proposal.

3. An integral part of the Proposal is the cancellation of the existing and outstanding share capital of the Company, in light of the lack of value of the share capital due to the Company's insolvency. Upon the implementation of the Proposal, and in consideration of their support for the Company through the Proposal proceedings, the DIP Lender and the Investor have agreed to acquire the New Common Shares pursuant to the Subscription Agreements.

4. This Proposal is intended to provide a fair recovery to all Creditors and to provide the Company with the financial stability to continue its business operating from and after the Implementation Date.

### **Effect of Proposal**

5. This Proposal restructures the affairs of the Company and amends the terms of any and all agreements between the Company and the Creditors or the Shareholders existing as at the Implementation Date to the extent affected by this Proposal, and provides the essential terms on which all Claims and the interests of the Shareholders will be fully and finally resolved and settled. During the Proposal Period, the provisions of Sections 65.1 and 69.1 of the Act shall be in effect. Without limiting the generality of the foregoing, during the Proposal Period all

Creditors will be stayed from commencing or continuing any proceeding or remedy against the Company, as further described in paragraph 34 hereof.

**Persons Affected**

6. This Proposal will, as of the Implementation Date, be binding on the Company and all Creditors (except Secured Creditors), Shareholders and other persons named or referred to herein in the manner provided for in this Proposal and the Act.

**Restructuring of the Company**

7. Prior to the Meeting of Creditors, the Company and the Investor will have entered into the Loan Agreement, pursuant to which the Loan Consideration will be advanced by the Investor to the Company following the Approval Date. The Company will, in turn, advance the Loan Consideration to the Trustee.

8. Prior to the Meeting of Creditors, each of the Company and the Investor, and the Company and the DIP Lender, will have entered into the Subscription Agreements, pursuant to which the Subscription Consideration will be fully advanced to the Company following the Approval Date. The Company will, in turn, advance the Subscription Consideration to the Trustee.

9. A condition to each of the Subscription Agreements is that the Company implement this Proposal to its Creditors, including the Reorganization, pursuant to the Act and authorized by the OBCA.

10. Pursuant to the terms of the Subscription Agreements and the Loan Agreement, and upon the successful implementation thereof in accordance with their terms, the Investor and the DIP Lender will pay the Consideration to the Company, and in turn, the Company will pay the Consideration to the Trustee for distribution to the Creditors.

11. Subject to the satisfaction or waiver of the conditions precedent set out in paragraph 26 of this Proposal, the following steps will occur, and be deemed to occur, sequentially in the following order, on the Implementation Date:

- (a) the Company shall be released from all the Claims of Creditors (except Secured Creditors), which shall be fully and finally compromised in accordance with the provisions of the Act and this Proposal;
- (b) articles of reorganization causing the Reorganization, as more fully described in paragraph 28 of this Proposal, will be filed by the Company;
- (c) a certificate of amendment reflecting the amendments to the articles of incorporation of the Company caused by the articles of reorganization shall be issued by the Director under the OBCA;
- (d) the Subscription Agreements will be completed in accordance with their terms, provided that all conditions thereto have been satisfied or (when waivable) waived, whereupon, among other things, the New Common Shares shall be acquired by, and share certificates in respect thereof shall be issued by the Company to, the Investor and the DIP Lender against payment of the Share Consideration to the Trustee; and
- (e) upon Approval and completion of the Loan Agreement and of the Subscription Agreements, the Investor shall remit the Loan Consideration to the Company which will, in turn, remit the Loan Consideration to the Trustee, and the Investor and the DIP Lender shall remit the Share Consideration to the Company which will, in turn, remit the Share Consideration to the Trustee.

**Proposal Affecting Secured Creditors**

12. This Proposal is not being made to the Secured Creditors and accordingly, Secured Creditors shall not be entitled to vote on the Proposal.



13. Claims of Secured Creditors, if any, shall be paid by the Company in accordance with agreements between the Company and the Secured Creditor including, without limitation, the Forbearance Agreement and the DIP Loan Agreement, as those agreements may be amended or supplemented from time to time.

**Proposal for Unsecured Creditors**

14. All Unsecured Creditors shall form part of a single class of Unsecured Creditors for voting and distribution purposes.

15. Each Unsecured Creditor who has a Proven Claim shall receive a payment representing each such Unsecured Creditor's *pro rata* share of the Proposal Fund, less any amounts to be paid as Priority Payments (the "Unsecured Creditor Payment").

16. Unsecured Creditors will accept the payments provided for in this Proposal in complete satisfaction of all their Claims and all liens, certificates of pending litigation, executions, security interests or any other similar charges or actions or proceedings in respect of such Claims will have no effect in law or in equity against the property, assets and undertaking of the Company, all of which shall be released upon payment of the amounts provided for in this Proposal. The Unsecured Creditors shall take such actions and do such other things as are necessary, at their sole cost, to file or record any required discharges of any of the foregoing.

17. Landlords of premises that have been terminated, disclaimed or repudiated shall be entitled to file a proof of claim as Unsecured Creditors for an amount equal to the lesser of: (i) the rent provided for in the lease for the first year of the lease following the date on which the disclaimer becomes effective plus fifteen percent (15%) of the rent for the remainder of the term of the lease after that year; and (ii) three (3) years of rent. Landlords of disclaimed premises shall not be entitled to claim for accelerated rent pursuant to Section 65.2(4)(a) of the Act.

**Crown Claims, Preferred Claims and Employee Claims**

18. Amounts, if any (collectively, the “Priority Payments”):

- (a) owing to Her Majesty in Right of Canada or a Province, as enumerated in Section 60(1.1) of the Act, which shall be paid in full within six (6) months following Approval;
- (b) owing to employees and former employees, that such persons would have been qualified to receive under Section 136(1)(d) of the Act if the Company became bankrupt on the Filing Date, which shall be paid immediately following Approval; and
- (c) any Proven Claim in respect of a Preferred Claim, without interest,

shall be paid in full and in priority to all Unsecured Creditors.

19. For the purpose of voting, the Preferred Creditors shall fall within the class of Unsecured Creditors.

**Funds Payable Under Proposal**

20. The amount to be paid to Creditors on the Distribution Date on account of their Proven Claims shall be paid from the Proposal Fund.

21. The Trustee will remit payments to Creditors in the following order:

- (a) the Priority Payments; and
- (b) the Unsecured Creditor Payment.

22. Any such payments made by the Trustee to Creditors in this Proposal shall be made by the Trustee net of any levies payable or due under the Act.

**Administrative Fees and Expenses**

23. The Administrative Fees and Expenses will be paid by the Company in the ordinary course from cash flow, subject to approval by the Court.

**Payment of Crown Claims**

24. During the period between the Filing Date and Approval, the Company shall pay and keep current:

- (a) all amounts owing to Her Majesty in right of Canada and in right of Ontario of a kind that could be subject to a demand under Section 224(1.2) of the *Income Tax Act* (Canada) or any substantially similar provision of provincial legislation; and
- (b) all amounts collected in respect of sales taxes on behalf of Canada Revenue Agency and any provincial Ministry of Finance.

**Goods or Services Given After Filing Date**

25. Any Post-Filing Claim shall be paid in full in the ordinary course by the Company or as negotiated between the Company and its vendors. The Company shall dispose of no assets other than as contemplated by this Proposal, or other than in the normal and regular course of its ongoing business. The Company agrees that the Trustee shall not in any case be responsible for ensuring that payment is duly made pursuant to paragraph 24 hereof and to all those persons supplying goods or services after the Filing Date. All Creditors hereby release and forever discharge the Trustee from any and all liability relating to the Company's non-payment of any liabilities under this paragraph.

**Conditions of Proposal**

26. The Proposal and its implementation by the Company is conditional upon fulfilment or satisfaction of each of the following conditions:

- (a) the taking of all necessary corporate actions and proceedings to approve the Proposal;
- (b) the granting of the Approval Order;
- (c) the completion of the Loan Agreement prior to the Meeting of Creditors;
- (d) the advancement of the Loan Consideration by the Investor to the Company and, in turn, the Trustee;
- (e) the completion of the Subscription Agreements prior to the Meeting of Creditors;
- (f) the completion of the Reorganization;
- (g) the advancement of the Share Consideration by the Investor and the DIP Lender to the Company and, in turn, the Trustee;
- (h) the payment of the Administrative Fees and Expenses; and
- (i) the performance by each of the Company, the Investor and the DIP Lender of all their respective obligations pursuant to the Proposal and the transactions contemplated herein.

27. Once all of the above conditions have been fulfilled or satisfied, or (where waivable) waived, the Performance of the Proposal shall be deemed to be fully complete and the Trustee will deliver and file with the Court a certificate pursuant to Section 65.3 of the Act.

**Share Capital**

28. On the Implementation Date, the articles of incorporation of the Company shall be amended pursuant to the articles of reorganization in the following sequence:

- (a) to delete and cancel all of the authorized share capital of the Company and to delete and cancel all of the rights, privileges, restrictions and conditions attaching thereto, including, but not limited to, deleting and cancelling all of the Common Shares and all of the Preferred Shares (as defined in the Company's articles of incorporation);
- (b) to create an unlimited number of New Common Shares and to provide that the rights, privileges, restrictions and conditions attaching to the New Common Shares are as set out in Schedule "A" hereto; and
- (c) providing that, after giving effect to the foregoing, the authorized share capital of the Company shall consist only of an unlimited number of New Common Shares.

29. All existing and outstanding Warrants, together with contracts pursuant to which Warrants may be issued in future, shall be cancelled.

30. No Shareholder will be entitled to any payment or other compensation with respect to the cancellation of its/her/his Common Shares, Warrants or otherwise.

31. The aggregate stated capital for the purposes of the OBCA of the New Common Shares issued to the Investor and the DIP Lender under the Subscription Agreements and pursuant to this Proposal shall be as set out in **Schedule "B"**.

32. The Shareholders shall not be entitled to vote on this Proposal.

33. The Shareholders shall not have any rights of dissent pursuant to Section 186(6) of the OBCA in respect of this Proposal.

#### **Stay of Proceedings**

34. During the Proposal Period, and provided the Company is not in default hereunder, each Creditor will be stayed from commencing or continuing any proceeding or remedy against the Company or its property based upon a Claim existing on or before the Filing Date, or whose Claim has arisen after the Filing Date as a result of the termination, repudiation or restructuring of any contract, lease, license, equipment lease, employment relationship or other agreement after the Filing Date, including, without limitation, any proceeding or remedy to recover payment of such Claim, to realize against any security granted in respect of such Claim, to recover or enforce a judgment against the Company in respect of such Claim or to initiate any

proceedings against it under any applicable bankruptcy, insolvency or other laws in respect of such Claim, other than an application or proceeding in connection with this Proposal.

**Inspectors**

35. (a) At the meeting of the Unsecured Creditors to be held to consider the Proposal, the Creditors may appoint one or more but not exceeding five (5) persons to act as Inspectors, whose powers shall be limited to:
- (i) advising the Trustee from time to time with respect to any matter that the Trustee may refer to them;
  - (ii) advising the Trustee concerning any dispute which may arise as to the validity of Claims of Unsecured Creditors; and
  - (iii) authorizing an extension of time for payments due to the Unsecured Creditors pursuant to this Proposal.
- (b) Any decision, direction or act of the Inspectors may be referred to the Court by the Trustee and the Court may confirm, reverse or modify the decision, direction to act and make such order as it thinks just.
- (c) The authority and term of office of the Inspectors will terminate upon the discharge of the Trustee.
- (d) The chairperson may adjourn the meeting of creditors upon an adjournment being required by the creditors by ordinary resolution, pursuant to s. 52 of the Act.

**Release of Directors**

36. Upon the Implementation Date, the Company, each and every present and former director of the Company (collectively, the “Released Parties”) shall be released and discharged

from any and all demands, claims, actions, causes of action, counter claims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, options, liens and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Creditor or Person may be entitled to assert, in the case of the Released Parties as of the Filing Date, including, without limitation, any and all Claims in respect of the potential statutory liabilities of the present or former directors of the Company, and any and all Claims relating to any obligations of the Company where the present or former directors are or may be by law liable in their capacity as directors for the payment of such obligations, and provided that nothing herein shall release or discharge any of the present or former directors of the Company from the exceptions set out in Section 50(14) of the Act.

**Effect of Payment**

37. Creditors will accept the payment of the amounts set out in the applicable provisions of this Proposal in complete satisfaction of all their claims, and all mortgages, charges, security interests, encumbrances, liens, writs of seizure and sale, certificates of pending litigation, executions or any other similar charges, actions or proceedings in respect of such Claims will, as of the Implementation Date, have no effect in law or in equity against the Company and the property, assets or undertakings of the Company and will be discharged, dismissed or vacated, as the case may be, at no expense to the Company, by each holder thereof no later than ten (10) Business Days after the Implementation Date, or failing same, by order of the Court made without notice to such holder.

**Compromise Effective for all Purposes**

38. The payment, compromise or other satisfaction of the Claims and the treatment of Shareholders under this Proposal shall be binding upon the Creditors holding the Claims and upon the Shareholders, their heirs, executors, administrators, successors and assigns, for all purposes and in the case of any Claim shall also be effective to relieve any third party directly or indirectly liable for such Claim, whether as guarantor, indemnitor, tenant, director, joint covenantor, principal or otherwise.

39. The provisions of Sections 95 to 101 of the Act shall not apply to this Proposal.

**Discharge of Trustee**

40. Upon the payment by the Trustee of the amounts prescribed herein, the Trustee shall have discharged its duties as Trustee and the Trustee shall be entitled to apply for its discharge as Trustee. For greater certainty, the Trustee will not be responsible or liable for any obligations of the Company and will be exempt from any personal liability in fulfilling any duties or exercising any powers conferred upon it by this Proposal unless such acts have been carried out in bad faith and constitute a wilful or wrongful act or default.

**Amendment**

41. This Proposal may be amended by the Company with the consent of the Trustee at any time prior to the conclusion of the meeting of Unsecured Creditors called to consider the Proposal, provided that any amendment made pursuant to this paragraph shall not reduce the rights and benefits given to the Creditors under the Proposal before any such amendment, and provided further that any and all amendments shall be deemed to be effective as of the Filing Date of the Proposal.

**Further Actions**

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

**Date for Action**

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



**Time**


44. All times expressed in this Proposal are local time in Toronto, Ontario.

*[The remainder of this page is intentionally left blank.]*

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**DATED AT THE CITY OF VANCOUVER**, in the Province of British Columbia, this 30<sup>th</sup> day of September, 2017.

**DIGITAL UNDERGROUND MEDIA INC.**

By:   
Name: DAVID CRAIG  
Title: DIRECTOR

**Schedule "A"**

Unlimited number of New Common Shares with the following rights, privileges and restrictions:

**1 Voting Rights**

Each holder of Common Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Corporation, and at all such meetings shall be entitled to one vote in respect of each Common Share held by such holder.

**2 Dividends**

Subject to applicable law, the directors may at any time or from time to time declare dividends on the Common Shares in such amounts as the directors at such time or times determine.

**3 Liquidation, Dissolution or Winding-up**

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Common Shares shall be entitled to receive the remaining assets and property of the Corporation.

**Schedule "B"**

New Stated Capital = \$20.00.

30384597.7

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## **Exhibit "B"**

District of: Ontario  
 Division No. 09 - Toronto  
 Court No. 31-2295766  
 Estate No. 31-2295766

Original  Amended

- Form 78 -  
 Statement of Affairs (Business Proposal) made by an entity  
 (Subsection 49(2) and Paragraph 158(d) of the Act / Subsections 50(2) and 62(1) of the Act)

In the matter of the proposal of  
 Digital Underground Media Inc.  
 a Company Incorporated Pursuant to the Laws of the Province of Ontario  
 with a Head Office in the City of Vancouver, in the Province of British Columbia

To the debtor:  
 You are required to carefully and accurately complete this form and the applicable attachments showing the state of your affairs on the date of the filing of your proposal (or notice of intention, if applicable), on the 29th day of September 2017. When completed, this form and the applicable attachments will constitute the Statement of Affairs and must be verified by oath or solemn declaration.

LIABILITIES (as stated and estimated by the officer)		ASSETS (as stated and estimated by the officer)	
1. Unsecured creditors as per list "A" .....	658,867.35	1. Inventory .....	200,000.00
Balance of secured claims as per list "B" .....	3,039,322.25	2. Trade fixtures, etc. ....	0.00
Total unsecured creditors .....	3,698,189.60	3. Accounts receivable and other receivables, as per list "E"	
2. Secured creditors as per list "B" .....	305,001.00	Good .....	0.00
3. Preferred creditors as per list "C" .....	0.00	Doubtful .....	45,764.00
4. Contingent, trust claims or other liabilities as per list "D"	0.00	Bad .....	0.00
estimated to be reclaimable for .....		Estimated to produce .....	0.00
Total liabilities .....	4,003,190.60	4. Bills of exchange, promissory note, etc., as per list "F" .....	0.00
Surplus .....	NIL	5. Deposits in financial institutions .....	0.00
		6. Cash .....	0.00
		7. Livestock .....	0.00
		8. Machinery, equipment and plant .....	0.00
		9. Real property or immovable as per list "G" .....	0.00
		10. Furniture .....	5,000.00
		11. RRSPs, RRIFFs, life insurance, etc. ....	0.00
		12. Securities (shares, bonds, debentures, etc.) .....	1.00
		13. Interests under wills .....	0.00
		14. Vehicles .....	0.00
		15. Other property, as per list "H" .....	100,000.00
		If debtor is a corporation, add:	
		Amount of subscribed capital .....	0.00
		Amount paid on capital .....	0.00
		Balance subscribed and unpaid .....	0.00
		Estimated to produce .....	0.00
		Total assets .....	305,001.00
		Deficiency .....	3,698,189.60

Director

I, John Drew Craig, President of Digital Underground Media Inc., of the City of North Vancouver in the Province of British Columbia, do swear (or solemnly declare) that this statement and the attached lists are to the best of my knowledge, a full, true and complete statement of my affairs on the 29th day of September 2017 and fully disclose all property of every description that is in my possession or that may devolve on me in accordance with the Act.

SWORN (or SOLEMNLY DECLARED) before me at the City of Vancouver in the Province of British Columbia, on this 29th day of September 2017.

**PATTY WOOD, CGA**  
 A Commissioner for taking Affidavits  
 for the Province of British Columbia

*[Signature]*  
 Director  
 John Drew Craig, President of Digital  
 Underground Media Inc.

District of: Ontario  
 Division No. 09 - Toronto  
 Court No. 31-2295766  
 Estate No. 31-2295766

FORM 78 -- Continued


List "A"  
 Unsecured Creditors

Digital Underground Media Inc.

No.	Name of creditor	Address	Unsecured claim	Balance of claim	Total claim
1	Ade & Company Inc	2157 Henderson Hwy Winnipeg MB R2G 1P9 CA	584.00	0.00	584.00
2	Beacon Securities Limited	66 Wellington Street West   Suite 4050, TD Tower Toronto ON M5K 1H1 CA	157,500.00	0.00	157,500.00
3	Best Best Krieger LLP	3390 University Avenue Riverside CA 92501 USA	380.58	0.00	380.58
4	David Chae	102-704 Yeoungtong e-Pyeonhansesang Apt 239 Yeongtong-ro, 200 beon-gil, Yeontong-gu, Suwon-si, Gyeonggi-do Korea	250,000.00	0.00	250,000.00
5	Denise Cooper	186 St. George Street, Suite 200 Toronto ON M5R 2N3 CA	14,604.00	0.00	14,604.00
6	DUM Holdings Inc.	Suite 1600, 1 First Canadian Place, 100 King Street West Toronto ON M5X 1G5 CA	0.00	528,291.47	528,291.47
7	EY	700 W Georgia St Vancouver BC V7Y 1C7 CA	42,000.00	0.00	42,000.00
8	Globalme	310, 1008 Homer St Vancouver BC V6B 2X1 CA	158.00	0.00	158.00
9	Gowlings WLG	Suite 1600, 1 First Canadian Place, 100 King Street West Toronto ON M5X 1G5 CA	31,684.00	0.00	31,684.00
10	Innovex	3,Cheongmyeongnam-ro, Yeongtong-gu Suwon-si, Gyeonggi-do Korea	90,000.00	0.00	90,000.00
11	JD Craig Holdings Inc	4280 Rockridge Road West Vancouver BC V7W 1A5 CA	0.00	2,511,030.78	2,511,030.78
12	Neil East Sound Broadcasting Ltd. (SBL)	1A - 1455 Waverley Street Winnipeg MB R3T 0P7 CA	15,680.00	0.00	15,680.00
13	Palms Creative Inc	205 - 309 W Cordova St. Vancouver BC V6B 1E5 CA	7,875.00	0.00	7,875.00
14	Piasetzki Nenniger Kvas LLP	120 Adelaide St W Suite 2308 Toronto ON M5H 1T1 CA	423.00	0.00	423.00
15	Stambol Studios Inc.	104 - 1309 West 14th Ave Vancouver BC V6H 1R2 CA	7,245.00	0.00	7,245.00
16	Stantec Consulting Ltd.	c/o Lockbox 310260, PO BOX 578, STN M Calgary AB T2P 2J2 CA	10,061.00	0.00	10,061.00
17	Tomik2 inc.	62 Wendover Road Toronto ON M8X 2L3 CA	9,722.00	0.00	9,722.00
18	Villarreal Garcia	Torre Sofia   Ricardo Margán 440-701 Valle del Campestre, San Pedro Garza García, N.L 66265 Mexico	13,600.77	0.00	13,600.77
19	Waterford Partners	350-1 First Canadian Place Toronto Board of Trade Tower Toronto ON M5X 1C1 CA	7,350.00	0.00	7,350.00
<b>Total:</b>			<b>658,867.35</b>	<b>3,039,322.25</b>	<b>3,698,189.60</b>

29-Sep-2017

Date

  
 Director  
 John Drew Craig, President of Digital Underground  
 Media Inc.

District of: Ontario  
 Division No. 09 - Toronto  
 Court No. 31-2295766  
 Estate No. 31-2295766

FORM 78 -- Continued

List "B"  
 Secured Creditors

Digital Underground Media Inc.

No.	Name of creditor	Address	Amount of claim	Particulars of security	When given	Estimated value of security	Estimated surplus from security	Balance of claim
1	DUM Holdings Inc.	Suite 1600, 1 First Canadian Place, 100 King Street West Toronto ON M5X 1G5 CA	528,291.47	Other - Intellectual property - Patents  Business Assets - Stock In Trade - Inventory Business Assets - Stock In Trade - Equipment Inventory Furniture - Furniture & Office Equipment Securities - Investments in subsidiaries Debts Due - Business - TVS Global Amercla	21-Jun-2017  21-Jun-2017 21-Jun-2017 21-Jun-2017 21-Jun-2017 21-Jun-2017	0.00  0.00 0.00 0.00 0.00 0.00		528,291.47
2	JD Craig Holdings Inc	4280 Rockridge Road West Vancouver BC V7W 1A5 CA	2,816,031.78	Other - Intellectual property - Patents  Business Assets - Stock In Trade - Inventory Business Assets - Stock In Trade - Equipment Inventory Furniture - Furniture & Office Equipment Securities - Investments in subsidiaries Debts Due - Business - TVS Global Amercla	29-Oct-2015  29-Oct-2015 29-Oct-2015 29-Oct-2015 29-Oct-2015 29-Oct-2015	100,000.00  150,000.00 50,000.00 5,000.00 1.00 0.00		2,511,030.78
<b>Total:</b>			<b>3,344,323.25</b>			<b>305,001.00</b>	<b>0.00</b>	<b>3,039,322.25</b>

29-Sep-2017

Date



John Drew Craig, President of Digital Underground Media Inc.



District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 78 -- Continued

List "C"  
Preferred Creditors for Wages, Rent, etc.

Digital Underground Media Inc.

No.	Name of creditor	Address and occupation	Nature of claim	Period during which claim accrued	Amount of claim	Amount payable in full	Difference ranking for dividend
Total:					0.00	0.00	0.00

29-Sep-2017

Date



John Drew Craig, President of Digital Underground Media Inc.

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 78 -- Continued

List "D"  
Contingent or Other Liabilities

Digital Underground Media Inc.

No.	Name of creditor or claimant	Address and occupation	Amount of liability or claim	Amount expected to rank for dividend	Date when liability incurred	Nature of liability
			0.00	0.00		
		Total	0.00	0.00		

29-Sep-2017

Date



Director DC

John Drew Craig, President of Digital Underground Media Inc.

District of: Ontario  
 Division No. 09 - Toronto  
 Court No. 31-2295766  
 Estate No. 31-2295766

FORM 78 -- Continued

List "E"  
 Debts Due to the Debtor  
 Digital Underground Media Inc.

No.	Name of debtor	Address and occupation	Nature of debt	Amount of debt (good, doubtful, bad)	Folio of ledgers or other book where particulars to be found	When contracted	Estimated to produce	Particulars of any securities held for debt
1	TVS Global America	321 Water Street, Suite 320 Vancouver BC V8B 1B8	Note Receivable	0.00 45,764.00 0.00		29-Sep-2017	0.00	Unsecured
Total				0.00 45,764.00 0.00			0.00	

29-Sep-2017

Date



John Drew Craig, President of Digital Underground Media Inc.

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 78 -- Continued

List "F"

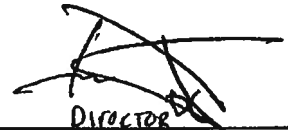
Bills of Exchange, Promissory Notes, Lien Notes, Chattel  
Mortgages, etc., Available as Assets

Digital Underground Media Inc.

No.	Name of all promissory, acceptors, endorsers, mortgagors, and guarantors	Address	Occupation	Amount of bill or note, etc.	Date when due	Estimated to produce	Particulars of any property held as security for payment of bill or note, etc.
Total:				0.00		0.00	

29-Sep-2017

Date



John Drew Craig, President of Digital Underground  
Media Inc.

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 78 - Continued

List "G"  
Real Property or Immovables Owned by Debtor  
Digital Underground Media Inc.

Description of property	Nature of debtor interest	In whose name does title stand	Total value	Particulars of mortgages, hypothecs, or other encumbrances (name, address, amount)	Equity or surplus
Total:			0.00		0.00

29-Sep-2017

Date



John Drew Craig, President of Digital Underground Media Inc.

District of: Ontario  
 Division No. 09 - Toronto  
 Court No. 31-2295766  
 Estate No. 31-2295766

FORM 78 - Concluded

List "H"  
 Property

Digital Underground Media Inc.  
 FULL STATEMENT OF PROPERTY

Nature of property	Location	Details of property	Original cost	Estimated to produce
(a) Stock-in-trade		Inventory	0.00	150,000.00
		Equipment Inventory	0.00	50,000.00
(b) Trade fixtures, etc.			0.00	0.00
(c) Cash in financial institutions			0.00	0.00
(d) Cash on hand			0.00	0.00
(e) Livestock			0.00	0.00
(f) Machinery, equipment and plant			0.00	0.00
(g) Furniture		Furniture & Office Equipment	0.00	5,000.00
(h) Life insurance policies, RRSPs, etc.			0.00	0.00
(i) Securities		Investments in subsidiaries	0.00	1.00
(j) Interests under wills, etc.			0.00	0.00
(k) Vehicles			0.00	0.00
(l) Taxes			0.00	0.00
(m) Other		Intellectual property - Patents	0.00	100,000.00
			<b>Total:</b>	<b>305,001.00</b>

29-Sep-2017

Date



John Drew Craig, President of Digital Underground Media Inc.

# Exhibit "C"

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE PROPOSAL OF  
DIGITAL UNDERGROUND MEDIA INC.,  
A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE  
PROVINCE OF ONTARIO,  
WITH A HEAD OFFICE IN THE CITY OF VANCOUVER  
IN THE PROVINCE OF BRITISH COLUMBIA**

**REPORT OF TRUSTEE TO THE CREDITORS**  
*(Section 50(5) of the Bankruptcy and Insolvency Act)*

Enclosed are the following documents:

- Notice of Proposal to Creditors;
- Digital Underground Media Inc.'s ("**DUM**" or the "**Company**") Proposal, dated September 30, 2017 (the "**Proposal**") under Part III, Division 1, of the *Bankruptcy and Insolvency Act* (the "**BIA**") lodged with MNP Ltd. (the "**Trustee**") by DUM and filed with the Official Receiver on October 2, 2017;
- a statement of the Company's assets and liabilities as at September 29, 2017 ("**SOA**");
- a proof of claim form;
- voting letter if you wish to vote in advance of the meeting; and
- general proxy.

The following is an outline of the background and financial position of the Company, including relevant information that should be of assistance to the creditors in considering their position with respect to the Proposal.

In preparing this Report and making the comments herein, the Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the Company's books and records, discussions with employees and management and information from other third-party sources (collectively, the "**Information**"). Except as described in this Report, the Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the CPA Canada Handbook.



Capitalized terms used in this Report are the same as those referenced in the Proposal. Unless otherwise stated herein, all references to currency are to lawful money of Canada.

## **SECTION A - Background**

The Company was incorporated under the *Ontario Business Corporations Act* on January 19, 2010. The Company has also been registered as an extra provincial company under the *British Columbia Business Corporations Act* on September 24, 2014. The Company develops, and through its subsidiaries, operates subway in-tunnel advertising systems. The Company operates from leased premises located at 320-321 Water St. in Vancouver, British Columbia (the “**Premises**”).

On September 21, 2017 (the “**Filing Date**”), the Company filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Part III, Division I of the BIA.

On September 25, 2017, Justice Hailey ordered the following, *inter alia*:

- a. Approving a charge in favour of the legal advisors retained by the Company, MNP in its capacity as the Proposal Trustee and its legal counsel, in the amount of \$115,000 to secure payment of their reasonable fees and disbursements; and
- b. Approving an interim financing facility and a charge on the Company’s assets, property and undertaking (collectively the “**Assets**”) in favour of J.D. Craig Holdings Inc., the debtor-in-possession lender (the “**DIP Lender**”).

The Company advises that the causes of its financial difficulties are due primarily to agreements that the Company entered into in mid-2015 with a UK based private equity fund, whereby the fund would act as an institutional investor (the “**Agreements**”). The institutional investor committed to support the Company’s business plan to establish the global in-tunnel media industry as a niche market of the Transit Out of Home media industry. The Agreements provided that the institutional investor would provide funding to the Company in accordance with the business plan. In Q2 of 2017, the institutional investor provided notice to the Company that it would not fulfill its funding obligations under the Agreements.

The Company had entered into agreements with and made commitments to suppliers and contractors, based on its belief that it would have the benefit of the full amount of the funding to be provided under the Agreements. Upon the institutional investor ceasing to provide funding, the Company has suffered a shortfall and is not able to meet its obligations. As a result, the Company commenced these NOI proceedings as part of a restructuring of the business.

On October 2, 2017, the Company filed the Proposal with the Official Receiver. The purpose of the Proposal is to effect a restructuring of the business and affairs of the Company in the expectation that all Creditors will derive a greater benefit from the continued operation of the business and affairs of the Company than would result from a forced liquidation of its assets. The Company’s operations are being supported through this process by the DIP Lender, which has provided financing to the Company prior to the filing of the NOI, and will continue to provide ongoing financing to the Company through the Proposal proceedings by way of the credit facility provided for in the DIP Loan Agreement. It is also being supported by 7677189 Canada Ltd., (the “**Investor**”), which is advancing to the Company the funds that will form the Proposal Fund (defined below) to be distributed to creditors in accordance with the provisions of this Proposal.

An integral part of the Proposal is the cancellation of the existing and outstanding share capital of the Company, in light of the lack of value of the share capital due to the Company's insolvency. Upon the implementation of the Proposal, and in consideration of their support for the Company through the Proposal proceedings, the DIP Lender and the Investor have agreed to acquire the new common shares to be issued in the share capital of the Company ("**New Common Shares**") pursuant to the Subscription Agreements.

As at the date of filing the NOI, the Company employed three (3) individuals. The Company's workforce is not unionized. The Company does not sponsor a pension plan.

## **SECTION B - Summary of the Proposal**

This section contains a summary of the Proposal, the implementation of which is conditional on, among other things, the:

- i. acceptance by the Affected Creditors and approval by the Court of this Proposal in accordance with the BIA;
- ii. the taking of all necessary corporate actions and proceedings to approve the Proposal;
- iii. the granting of the Approval Order;
- iv. the completion of the loan agreement between the Investor and the Company (the "**Loan Agreement**") prior to the Meeting of Creditors;
- v. the advancement of the Loan Consideration (defined below) by the Investor to the Company and, in turn, the Trustee;
- vi. the completion of the Subscription Agreements prior to the Meeting of the Creditors;
- vii. the completion of the Reorganization (defined below);
- viii. the advancement of the Share Consideration (defined below) by the Investor and the DIP Lender to the Company and, in turn, the Trustee;
- ix. the payment of the Administrative Fees and Expenses; and
- x. the performance by each of the Company, the Investor and the DIP Lender of all of their respective obligations pursuant to the Proposal and the transactions contemplated herein.

As set out in the Proposal, the Proposal provides for the following:

### **1. Proposal Fund**

Prior to the Meeting of Creditors:

- The Company will have entered into the Loan Agreement, pursuant to which an amount of \$76,000 (the "**Loan Consideration**") will be advanced by the Investor to the Company following the date on which the order approving the Proposal becomes final and no longer appealable to the Court. The Company will, in turn, advance the Loan Consideration to the Trustee;
- Each of the Company and the Investor, and the Company and the DIP Lender, will have entered into the Subscription Agreements, pursuant to which the Share

Consideration, namely \$20, will be fully advanced to the Company following the date on which the order approving the Proposal becomes final and no longer appealable to the Court. The Company will, in turn, advance the Subscription Consideration to the Trustee.

- The Loan Consideration and Share Consideration together are referred to as the “**Proposal Fund**”.

## 2. Share Capital

On the Implementation Date, the articles of incorporation of the Company shall be amended pursuant to the articles of reorganization (the “**Reorganization**”) in the following sequence:

- i. to delete and cancel all of the authorized share capital of the Company and to delete and cancel all of the rights, privileges, restrictions and conditions attaching thereto, including, but not limited to, deleting and cancelling all of the Common Shares and Preferred Shares;
  - ii. to create an unlimited number of New Common Shares and to provide that the rights, privileges, restrictions and conditions attaching to the New Common Shares are as set out in Appendix “A” of the Proposal;
  - iii. providing that, after giving effect to the foregoing, the authorized share capital of the Company shall consist only of an unlimited number of New Common Shares.
- a. all existing and outstanding Warrants, together with contracts pursuant to which Warrants may be issued in the future, shall be cancelled.
  - b. no shareholder will be entitled to any payment or other compensation with respect to the cancellation of its/her/his Common Shares, Warrants or otherwise.
  - c. the shareholders shall not be entitled to vote on this Proposal.
  - d. the shareholders shall not have any rights of dissent pursuant to Section 186(6) of the *Ontario Business Corporations Act* in respect of this Proposal.

## 3. Crown Claims, Preferred Claims and Employee Claims

Amounts, if any (collectively, the “**Priority Payments**”):

- a. owing to Her Majesty in the Right of Canada or a Province, as enumerated in Section 60(1.1) of the BIA, which shall be paid in full within six months following Approval;
- b. owing to employees and former employees, that such persons would have been qualified to receive under Section 136(1)(d) of the BIA if the Company became bankrupt on the Filing Date, which shall be paid immediately following Approval; and
- c. any Proven Claim in respect of a Preferred Claim, without interest,

shall be paid in full and in priority to all Unsecured Creditors.

At this time, the Trustee is unaware of any Priority Payments.

#### 4. General Unsecured Creditors

The General Unsecured Creditors will receive a distribution, before the deduction of the Levy (as defined in paragraph 8 below), as follows:

- a. Proven Claims will receive a payment representing their pro rata share of the Proposal Fund, less any amount to be paid as Priority Payments; and
- b. The Company estimates that the Claims of the General Unsecured Creditors will total approximately \$658,867, none of which is estimated to be unsecured claims of employees.

#### 5. Disclaimer of Commercial Leases

In the case of any lease disclaimed by the Debtors pursuant to section 65.2 of the BIA, the landlord affected by the disclaimer may file an unsecured proof of claim for an amount equal to the lesser of:

- a. The aggregate of:
  - i. The rent provided for in the lease for the first year of the lease following the date on which the disclaimer became effective;
  - ii. Fifteen per cent of the rent for the remainder of the term of the lease after that year; and
- b. Three years' rent.

#### 6. Secured Creditors

Secured Creditors are not included in or in any way affected by the Proposal and will be paid in accordance with existing agreements between the Secured Creditors and the Company.

#### 7. Payment

The Trustee will distribute funds as follows:

- a. the Priority Payments;
- b. the Unsecured Creditor Payment

#### 8. Levy

All distributions pursuant to the Proposal are subject to deduction of the levy payable to the Superintendent of Bankruptcy pursuant to Section 147 and Rule 123(2) of the BIA (the "Levy").

#### 9. Release

Each and every present and former director of the Company, and each and every of their respective successors and assigns shall be released and discharged by all Affected Creditors from all Claims which any Affected Creditor may have or have been entitled to assert against any of the Released Parties for which they would be by law liable in their capacity as directors for the payment of such Claims, provided that this provision shall

not release or discharge any of the Released Parties from any Claims that are set out in section 50(14) of the BIA.

#### 10. Administrative Fees and Expenses

The Administrative Fees and Expenses will be paid by the Company in the ordinary course from cash flow, subject to approval from the Court.

#### 11. Preferences and Transactions at Undervalue

Sections 95 to 101 inclusive of the BIA do not apply to the Proposal

The description of the Proposal is a summary only, and readers are cautioned that if there is inconsistency between this report and the Proposal, the terms of the Proposal shall govern.

### SECTION C - Financial Position and Causes of Difficulties

A summary of the Company's historical financial results is set out below:

Year Ended August 31	F2015	F2016	YTD May 2017
(CAD \$)	Unaudited		
Revenue	446,792	633,338	673,413
% Growth	N/A	42%	6%
Cost of Sales	431,422	768,281	905,766
Gross Margin	15,370 -	134,943 -	232,353
Gross Margin (%)	3%	-21%	-35%
Operating Expenses	1,266,687	2,635,838	2,335,199
Operating Expenses (%)	284%	416%	347%
EBIDTA	- 1,251,317 -	2,770,781 -	2,567,552
EBITDA (%)	-280%	-437%	-381%

The causes of the Company's financial difficulties are detailed in Section A above.

Based on the Company's short-term cash flow projections for the thirteen (13) week period ending December 15, 2017, the Company does not anticipate any revenues and will require all expenditures to be funded by the DIP Facility. Revenues are earned in the individual subsidiaries that are set up to manage projects in their respective jurisdictions. Expenditures during the period primarily include senior management salaries, key consultants, professional costs to support the proposal process and funding of the subsidiaries in Korea and Spain.

Any revenues projected to be received by the subsidiaries during the period of the cash flow have been used to offset the cash required from DUM. The Brazilian subsidiary is expected to be self-funding during the period and the Korean subsidiary is projected to require a minimal cash injection of approximately \$10,000.

Approximately \$190,000 will be required to fund the Spanish subsidiary during the projected period. Part of these funds will be used to engage professionals to allow the Spanish subsidiary to become tax compliant which the Company expects could result in a value-added tax (VAT) refund of approximately 100,000 euros. These funds will not be realized within the projected period covered by the cash flow and will not flow directly to DUM, however they will offset future cash injections required by the Spanish subsidiary.

The Company was facing an imminent liquidity crisis - cash on hand was projected to be depleted by the week ending September 29, 2017. The Company's operations would have ceased and the Company would virtually have had no prospect of making a viable proposal if it had not arranged for the DIP Facility.

The Company is actively seeking buyers for each of the subsidiaries and may require additional funding during these proposal proceedings to conduct a sale process.

As part of its restructuring, the Company has disclaimed certain contracts and its commercial lease in respect of the Premises, pursuant to s.65.11 and 65.2 of the BIA, respectively.

The Company is also carrying out an operational restructuring, wherein it is shifting its focus from owning and selling advertising on its own in-tunnel display/advertising systems to becoming a technology company selling/licensing the in-tunnel advertising technology systems and software it developed and collecting royalties from the use of systems sold.

**SECTION D - Interim Receiver**

Not Applicable.

**SECTION E - Identification and Evaluation of Assets**

Per the SOA, the Company's assets and their estimated realizable value are as listed below. Further details can be found in Section L of this report.

<u>Description</u>	<u>Estimated Realizable Value</u>
Accounts receivable	\$ nil
Cash	nil
Inventory	200,000
Furniture	5,000
Shares in subsidiary company	1
Intellectual property	100,000
	<u>\$ 305,001</u>

Based on the SOA and a *Personal Property Security Act* search conducted against registries maintained in Ontario and British Columbia on September 21, 2017, the following parties (the "Secured Creditors") have a registered secured interest in the Company's assets:

1. The DIP Lender; and
2. DUM Holdings Inc.

\* The Secured Creditors noted above are both related parties to the Company

## **SECTION F - Conduct of the Company**

The conduct of the Company does not appear to be subject to censure.

## **SECTION G - Creditors' Claims**

Per the SOA, the Company's creditors consist of:

<u>Creditor Classification</u>	<u>SOA Amount</u>
Secured	\$ 3,344,323
Preferred	nil
Unsecured	658,867
Contingent or Other Liabilities	nil
	<u>\$4,003,190</u>

The above-noted table does not include the claim for damages to be asserted by those creditors whose agreements were disclaimed pursuant to s.65.11 or 65.2 of the BIA.

## **SECTION H - Previous Business Dealings with the Company**

The Trustee has had no previous dealings with the Company. MNP Ltd.'s parent firm, MNP LLP, previously acted as the Company's auditor and was last involved with auditing the Company's August 31, 2013 year end financial statements.

## **SECTION I - Informal Meeting with Major Creditors**

Not Applicable.

## **SECTION J - Remuneration of Trustee**

The Trustee's fees and expenses related to the administration of the Proposal, including legal fees, will be paid in full by the Company. Prior to consenting to act in this matter, the Trustee received a retainer of \$22,600 from the Company.

## **SECTION K - Other**

Not applicable.

## **SECTION L - Statement of Estimated Realizations**

Set out below is the Trustee's estimate of the distribution to the General Unsecured Creditors if the Proposal is accepted by the creditors and approved by the Court:

General Unsecured Creditors:

Estimated claims:	\$658,867
Estimated value of distribution	76,020
Estimated distribution (%)	11.5%

If the Proposal is rejected by the Creditors, the Company will be deemed bankrupt. In a bankruptcy, the General Unsecured Creditors would collectively form the general pool of

unsecured creditors and would share on a pro-rata basis any estimated distribution. Should this occur, it is estimated that the net realizations will be less than the \$3,344,323 owed to the Secured Creditors, and accordingly (as set-out below) the estimated distribution to the General Unsecured Creditors is expected to be NIL in a bankruptcy scenario.

The anticipated realizations and potential distributions to the unsecured creditors in a bankruptcy scenario is summarized below.

		<b>Book Value (as at September 29, 2017)</b>	<b>Estimated Realization</b>
Accounts receivable	<i>Note 1</i>	45,764	Nil
Inventory	<i>Note 2</i>	968,943	200,000
Furniture	<i>Note 3</i>	279,986	5,000
Shares in subsidiary company,	<i>Note 4</i>	1,271,083	1
Intellectual property	<i>Note 5</i>	Nil	100,000
Prepaid Expense	<i>Note 6</i>	16,809	Nil
<b>Total:</b>		<b>\$ 2,565,776</b>	<b>\$ 305,001</b>
Less:			
Claims of Preferred Creditors	<i>Note 7</i>		Nil
Claim of Secured Creditor	<i>Note 7</i>		<u>(3,344,323)</u>
<b>Available for distribution to unsecured creditors</b>			<b><u>Nil</u></b>

Notes:

1. The Company's accounts receivable consists of a note receivable from TVS Global America, which note was due in August 2015. Management advises that it does not anticipate this note is collectible.
2. Inventory consists primarily of equipment to be transferred to subsidiaries for installation at currently identified locations. The inventory has been purchased specific for these locations and operated on the proprietary platform owned by DUM. A forced liquidation would result in minimal return. The Trustee has not sought an appraisal on the value of this inventory.
3. Equipment consists of office furniture and fixtures, computer hardware and software. The Trustee has not obtained an appraisal in respect of the liquidation value of these assets.
4. DUM owns 100% of the shares of Brodhead Invest Spain, Digital Underground Media Company Korea Ltd., Digital Underground Media Espacos Publicitarios Ltda. and Digital Underground Media Inc. (USA). The subsidiaries own and



operate the advertising systems in the respective countries of incorporation. The Company is actively pursuing buyers for these subsidiaries as a means of reducing or eliminating the ongoing financial burden on the Company arising from its ongoing financial support of the subsidiaries. The intellectual property necessary to operate the systems is owned by DUM and the subsidiaries' value is therefore tied to the continued operation and support from DUM. While the Trustee has not conducted a valuation of these subsidiaries, in the event of DUM's bankruptcy, it is unlikely that the Trustee will realize any value from these shares given these subsidiaries have incurred, and continue to incur losses.

5. DUM's intellectual property largely consists of the patented technology associated with its in-tunnel display advertising business. To date, DUM has not gained traction with its proprietary technology to the extent required to create a commercially viable business. As noted above under *Financial Position and Causes of Financial Difficulty*, the Company's current financial difficulty is attributable to the failure of an institutional investor to provide funding per its agreement with DUM resulting in insufficient working capital to grow DUM's business to a scale where it becomes viable. The Trustee has not arranged to have DUM's patented technology valued. If DUM were to become bankrupt, the forced liquidation value of the intellectual property would be negatively impacted by: (i) the Licensed Insolvency Trustee's limitations in transferring knowledge to a prospective purchaser; and (ii) the sizeable investment that would be required to support the working capital requirements of the business.
6. Prepaid expenses represent a lease deposit for the Company's offices in Vancouver. No realizations are likely from these assets in a bankruptcy.
7. In the event of a bankruptcy, claims of Preferred Creditors and Secured Creditors would rank ahead of unsecured creditors. The Trustee has not obtained an independent legal opinion on the validity or enforceability of the security granted by DUM to its Secured Creditors.
8. The above-noted statement of estimated realizations does not take into consideration the significant professional fees associated with administering DUM's bankruptcy and/or a receivership of the Assets.

#### **Preferences and Transactions at Under Value**

The Proposal provides that sections 95-101 of the BIA are not applicable. To assess the reasonableness of the inclusion of this clause, the Trustee completed a review of the Company's books and records to enable it to report to creditors on potential preferences or transfers at undervalue. The scope of the Trustee's review was limited to:

- examining cheques and transfers greater than \$10,000 in the twelve (12) month period preceding the Proposal filing;
- reviewing the accounts payable sub ledger for the three (3) months preceding the Proposal filing to determine if any creditor's balance was significantly reduced month over month; and
- inquiring with management whether any assets were transferred or disposed for no consideration or conspicuously less than fair market value.

Based on the above review, the Trustee did not identify any transactions in the last 12 months that could be considered preferences or transactions at under value

#### **SECTION M - Recommendations**

The Trustee recommends the acceptance of the Proposal for the following reasons:

- it contemplates a higher and more certain distribution for unsecured creditors, based on the total estimated claims;
- it provides for the continued employment of DUM's current employees; and
- it preserves a customer for trade creditors.

#### **SECTION N - Technical Requirements for a Successful Proposal**

This Proposal will become effective only if, among other things, it is accepted by a resolution of the unsecured creditors and approved by the Court. To obtain creditor approval, a simple majority in the number of unsecured creditors voting, with this majority representing at least 2/3 of the dollar value of the unsecured creditors voting, must vote in favour of the Proposal. If the unsecured creditors do not accept the Proposal, then the Company will be deemed to have made an assignment in bankruptcy and a meeting of creditors in the matter of the bankruptcy will immediately take place.

If the unsecured creditors vote to accept the Proposal, Court approval of the Proposal must then be sought. If the Court does not approve the Proposal, the Company would be deemed to have made an assignment in bankruptcy and the Trustee will then call a meeting of creditors in the matter of the bankruptcy.

When completing the Proof of Claim form submitted herewith, Creditors should include all outstanding amounts as at September 21, 2017, the date of the filing of the NOI. It is expressly noted and should be clearly understood that the Trustee, in its capacity as Trustee, assumes no personal liability for any claims that Creditors may have against DUM either before or after the filing of the Proposal.

Creditors may attend, in person or by proxy, the meeting to consider the Proposal, which will be held in the Office of the Trustee, MNP Ltd., located at 111 Richmond Street West, 3<sup>rd</sup> Floor, Toronto, Ontario on October 19, 2017 at 10 AM (Toronto time).

Creditors who do not wish to attend or be represented at the meeting but who wish to vote, may forward their Proofs of Claim and voting letters by either email to [jessie.hue@mnp.ca](mailto:jessie.hue@mnp.ca) or fax to (416) 323-5242, to the Trustee so as to be received prior to 10 AM on October 19, 2017.

If you should have any questions or comments on the Proposal or this report, please do not hesitate to contact the undersigned.

Dated at Toronto, Ontario, the 6<sup>th</sup> day of October 2017.

**MNP LTD.,**  
**in its capacity as Trustee under the**  
**Notice of Intention to make a Proposal of**  
**Digital Underground Media Inc.,**  
**and not in its personal or corporate capacities**  
Per:



Sheldon Title, CPA, CA, CIRP, LIT

Encl.

## **Exhibit "D, E, F"**

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 31  
Proof of Claim  
(Sections 50.1, 81.5, 81.6, Subsections 65.2(4), 81.2(1), 81.3(8), 81.4(8), 102(2), 124(2), 128(1),  
and Paragraphs 51(1)(e) and 66.14(b) of the Act)

In the matter of the proposal of  
Digital Underground Media Inc.  
a Company Incorporated Pursuant to the Laws of the Province of Ontario  
with a Head Office in the City of Vancouver, in the Province of British Columbia

All notices or correspondence regarding this claim must be forwarded to the following address:

\_\_\_\_\_  
\_\_\_\_\_

In the matter of the proposal of Digital Underground Media Inc. of the City of Vancouver in the Province of British Columbia and the claim of \_\_\_\_\_, creditor.

I, \_\_\_\_\_ (name of creditor or representative of the creditor), of the city of \_\_\_\_\_ in the province of \_\_\_\_\_, do hereby certify:

1. That I am a creditor of the above named debtor (or I am \_\_\_\_\_ (position/title) of \_\_\_\_\_, creditor).

2. That I have knowledge of all the circumstances connected with the claim referred to below.

3. That the debtor was, at the date of proposal, namely the 21st day of September 2017, and still is, indebted to the creditor in the sum of \$ \_\_\_\_\_, as specified in the statement of account (or affidavit) attached and marked Schedule "A", after deducting any counterclaims to which the debtor is entitled. (The attached statement of account or affidavit must specify the vouchers or other evidence in support of the claim.)

4. (Check and complete appropriate category.)

A. UNSECURED CLAIM OF \$ \_\_\_\_\_

(other than as a customer contemplated by Section 262 of the Act)

That in respect of this debt, I do not hold any assets of the debtor as security and  
(Check appropriate description.)

Regarding the amount of \$ \_\_\_\_\_, I claim a right to a priority under section 136 of the Act.

Regarding the amount of \$ \_\_\_\_\_, I do not claim a right to a priority.  
(Set out on an attached sheet details to support priority claim.)

B. CLAIM OF LESSOR FOR DISCLAIMER OF A LEASE \$ \_\_\_\_\_

That I hereby make a claim under subsection 65.2(4) of the Act, particulars of which are as follows:

(Give full particulars of the claim, including the calculations upon which the claim is based.)

C. SECURED CLAIM OF \$ \_\_\_\_\_

That in respect of this debt, I hold assets of the debtor valued at \$ \_\_\_\_\_ as security, particulars of which are as follows:  
(Give full particulars of the security, including the date on which the security was given and the value at which you assess the security, and attach a copy of the security documents.)

D. CLAIM BY FARMER, FISHERMAN OR AQUACULTURIST OF \$ \_\_\_\_\_

That I hereby make a claim under subsection 81.2(1) of the Act for the unpaid amount of \$ \_\_\_\_\_  
(Attach a copy of sales agreement and delivery receipts.)

- E. CLAIM BY WAGE EARNER OF \$ \_\_\_\_\_
- That I hereby make a claim under subsection 81.3(8) of the Act in the amount of \$ \_\_\_\_\_,
- That I hereby make a claim under subsection 81.4(8) of the Act in the amount of \$ \_\_\_\_\_,
- F. CLAIM BY EMPLOYEE FOR UNPAID AMOUNT REGARDING PENSION PLAN OF \$ \_\_\_\_\_
- That I hereby make a claim under subsection 81.5 of the Act in the amount of \$ \_\_\_\_\_,
- That I hereby make a claim under subsection 81.6 of the Act in the amount of \$ \_\_\_\_\_,
- G. CLAIM AGAINST DIRECTOR \$ \_\_\_\_\_

*(To be completed when a proposal provides for the compromise of claims against directors.)*

That I hereby make a claim under subsection 50(13) of the Act, particulars of which are as follows:

*(Give full particulars of the claim, including the calculations upon which the claim is based.)*

- H. CLAIM OF A CUSTOMER OF A BANKRUPT SECURITIES FIRM \$ \_\_\_\_\_

That I hereby make a claim as a customer for net equity as contemplated by section 262 of the Act, particulars of which are as follows:

*(Give full particulars of the claim, including the calculations upon which the claim is based.)*

5. That, to the best of my knowledge, I \_\_\_\_\_ (am/am not) (or the above-named creditor \_\_\_\_\_ (is/is not)) related to the debtor within the meaning of section 4 of the Act, and \_\_\_\_\_ (have/has/have not/has not) dealt with the debtor in a non-arm's-length manner.

6. That the following are the payments that I have received from, and the credits that I have allowed to, and the transfers at undervalue within the meaning of subsection 2(1) of the Act that I have been privy to or a party to with the debtor within the three months (or, if the creditor and the debtor are related within the meaning of section 4 of the Act or were not dealing with each other at arm's length, within the 12 months) immediately before the date of the initial bankruptcy event within the meaning of Section 2 of the Act: (Provide details of payments, credits and transfers at undervalue.)

7. (Applicable only in the case of the bankruptcy of an individual.)

- Whenever the trustee reviews the financial situation of a bankrupt to redetermine whether or not the bankrupt is required to make payments under section 68 of the Act, I request to be informed, pursuant to paragraph 68(4) of the Act, of the new fixed amount or of the fact that there is no longer surplus income.
- I request that a copy of the report filed by the trustee regarding the bankrupt's application for discharge pursuant to subsection 170(1) of the Act be sent to the above address.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Creditor

Phone Number: \_\_\_\_\_  
Fax Number : \_\_\_\_\_  
E-mail Address : \_\_\_\_\_

NOTE: If an affidavit is attached, it must have been made before a person qualified to take affidavits.

WARNINGS: A trustee may, pursuant to subsection 128(3) of the Act, redeem a security on payment to the secured creditor of the debt or the value of the security as assessed, in a proof of security, by the secured creditor.

Subsection 20(1) of the Act provides severe penalties for making any false claim, proof, declaration or statement of account.

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 36  
Proxy  
(Subsection 102(2) and paragraphs 51(1)(e) and 66.15(3)(b) of the Act)

In the matter of the proposal of  
Digital Underground Media Inc.  
a Company Incorporated Pursuant to the Laws of the Province of Ontario  
with a Head Office in the City of Vancouver, in the Province of British Columbia

I, \_\_\_\_\_, of \_\_\_\_\_, a creditor in the above matter, hereby  
appoint \_\_\_\_\_, of \_\_\_\_\_, to be  
my proxyholder in the above matter, except as to the receipt of dividends, \_\_\_\_\_ (with or without)  
power to appoint another proxyholder in his or her place.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Individual Creditor

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Name of Corporate Creditor

Per \_\_\_\_\_  
Name and Title of Signing Officer

Return To:

MNP LTD. - Licensed Insolvency Trustee

\_\_\_\_\_  
300 - 111 Richmond Street West  
Toronto ON M5H 2G4  
Phone: (416) 596-1711 Fax: (416) 323-5242

District of: Ontario  
Division No. 09 - Toronto  
Court No. 31-2295766  
Estate No. 31-2295766

FORM 37

Voting Letter  
(Paragraph 51(1)(f) of the Act)

In the matter of the proposal of  
Digital Underground Media Inc.  
a Company Incorporated Pursuant to the Laws of the Province of Ontario  
with a Head Office in the City of Vancouver, in the Province of British Columbia

I, \_\_\_\_\_, creditor (or I, \_\_\_\_\_, representative  
of \_\_\_\_\_, creditor), of \_\_\_\_\_, a creditor in the above matter  
for the sum of \$ \_\_\_\_\_, hereby request the trustee acting with respect to the proposal of Digital  
Underground Media Inc., to record my vote \_\_\_\_\_ (for or against) the acceptance of the proposal  
as made on the \_\_\_\_\_ day of \_\_\_\_\_.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_.

Witness

Witness

\_\_\_\_\_  
Individual Creditor

\_\_\_\_\_  
Name of Corporate Creditor

Per \_\_\_\_\_

\_\_\_\_\_  
Name and Title of Signing Officer

Return To:  
MNP LTD. - Licensed Insolvency Trustee  
Per:

\_\_\_\_\_  
Sheldon Title - Licensed Insolvency Trustee  
300 - 111 Richmond Street West  
Toronto ON M5H 2G4  
Phone: (416) 596-1711 Fax: (416) 323-5242



## CHECKLIST FOR PROOFS OF CLAIM

This checklist is provided to assist you in preparing the accompanying proof of claim form and, where required, proxy form in a complete and accurate manner. Please specifically check each requirement.

Under Section 109 of the Bankruptcy and Insolvency Act only those creditors who have filed their claims in the proper form with the trustee, before the time appointed for the meeting, are entitled to vote at the meeting.

Section 124 states that every creditor shall prove his claim and the creditor who does not prove his claim is not entitled to share in any distribution that may be made.

### General

- ◆ The signature of a witness is required;
- ◆ The claim must be signed personally by the individual completing this declaration;
- ◆ Give the complete address where all notices or correspondence is to be forwarded
- ◆ The amount of the statement of account must correspond to the amount indicated on the proof of claim.
- ◆ It is permissible to file a proof of claim by fax or by email.

### Paragraph 1

- ◆ Creditor must state full and complete legal name of company or firm;
- ◆ If the individual completing the proof of claim is not the creditor himself, he/she must state his/her position or title.

### Paragraph 3

- ◆ The statement of account must be complete;
- ◆ A detailed statement of account must be attached to the proof of claim and must show the date, the number and the amount of all the invoices or charges, together with the date, the number and the amount of all credits or payments. A statement of account is not complete if it begins with an amount brought forward.

### Paragraph 4

- ◆ Subparagraph 4.A must be completed by an unsecured creditor and must indicate if priority is claimed pursuant to Section 136.
- ◆ Subparagraph 4.B must be completed by a landlord only in a Proposal, for any claim related to disclaimer of lease. The amount of the claim is to be calculated according to the terms of the proposal. Provide details of calculation.
- ◆ Subparagraph 4.C must be completed by a secured creditor. A certified true copy of the security instrument as registered must be provided.
- ◆ Subparagraph 4.D must be completed a farmer, fisherman or aquaculturist creditor. A copy of the sales agreement and delivery documents must be provided.
- ◆ Subparagraph 4.E applies if you are a wage earner (ie, a clerk, servant, travelling salesperson, labourer or worker who is owed wages, salaries, commissions or compensation by a bankrupt (subsection 81.3) or by a "person" that is subject to a receivership (subsection 81.4) for services rendered during the six months immediately before the date of bankruptcy or receivership).
- ◆ Subparagraph 4.F is to be completed only in a Proposal, and only if the proposal provides for the compromise of claims against Directors. Provide full details including calculations.
- ◆ Subparagraph 4.G applies if you are a "customer" of a bankrupt securities firm (as contemplated by Section 262 of the Bankruptcy and Insolvency Act).

### Paragraph 5

- ◆ All claimants must indicate if he or she is related or not to the debtor, as defined in Section 4 of the Bankruptcy and Insolvency Act, by striking out "AM" or "IS" or "AM NOT" or "IS NOT".

**Paragraph 6**

- ◆ All claimants must attach a detailed list of all payments or credits received or granted, as follows:
  - a) Within the three (3) months preceding the bankruptcy or the proposal, in the case where the claimant and the debtor are not related;
  - b) Within the twelve (12) months preceding the bankruptcy or proposal, in the case where the claimant and the debtor are related.

**- APPOINTING PROXY -**

Note: The Bankruptcy and Insolvency Act permits a proof of claim to be made by a duly authorized agent of a creditor but this does not give such a person power to vote at the first meeting of creditors or to act as the proxy of the creditor.

**General**

- ◆ A creditor may vote either in person or by proxy;
- ◆ A debtor may not be appointed as proxy to vote at any meeting of his creditors;
- ◆ The Trustee may be appointed as a proxy for any creditor;
- ◆ In order for a duly authorized person to have a right to vote he must himself be a creditor or be the holder of a properly executed proxy. The name of the creditor must appear in the proxy.