

CANADA
PROVINCE OF QUÉBEC

DISTRICT OF MONTREAL
No.: 500-11-035903-091

SUPERIOR COURT
(Commercial Division)
The Companies' Creditors Arrangement Act

IN THE MATTER OF THE PLAN OF
ARRANGEMENT AND COMPROMISE
OF:

BLUE MOUNTAIN WALLCOVERINGS
GROUP INC.

-and-

BLUE MOUNTAIN WALLCOVERINGS
INC.

-and-

BLUE MOUNTAIN WALLCOVERINGS
CANADA INC.

-and-

BLUE MOUNTAIN WALLCOVERINGS
USA INC.

Petitioners

-and-

RSM RICHTER INC.

Monitor

<p>PLAN OF ARRANGEMENT UNDER THE COMPANIES' CREDITORS ARRANGEMENT ACT (Sections 4 and 5.1)</p>
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ARTICLE 1
DEFINITIONS AND INTERPRETATION

Section 1.1 Definitions

In the Plan, as hereinafter defined, unless otherwise stated or the context otherwise requires:

"Administration Claim" means any right or claim secured by the Administration Charge as defined in the Initial Order;

"Business Day" means a day other than a Saturday, a Sunday, or a non-judicial day (as defined in article 6 of the Code of Civil Procedure, R.S.Q., c. C-25, as amended);

"CCAA" means the Companies' Creditors Arrangement Act, R.S.C. 1985, C. C-36, as amended;

"CCAA Proceedings" means the proceedings in respect of the Companies under the CCAA;

"Claim" means any right of any Person against the Petitioners in connection with any indebtedness, liability or obligation of any kind of the Petitioners owed to such Person and any interest accrued thereon or costs payable in respect thereof, whether liquidated, unliquidated, fixed, contingent, matured, unmatured, 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 the right or ability of any Person to advance a claim for contribution (including current service cost and special payments to funded pension plans) or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation is based in whole or in part on facts existing prior to the Determination Date, or which would have been claims provable in bankruptcy had the Petitioners become bankrupt on the Determination Date, and, without limitation, shall include any Restructuring Claim;

"Claims Process Order" means the claims and meeting order of the Court dated September 2, 2009;

"Court" means the Superior Court of Quebec and, where circumstances require, the Court of Appeal of Quebec or the Supreme Court of Canada;

"Creditor" means any Person having a Claim and may, where the context requires, include the assignee of a Claim or a trustee, interim receiver, receiver, receiver and manager, or other Person acting on behalf of such Person. A "Creditor" shall not include an Excluded Creditor;

"Creditors' Meeting" means the meeting of the Petitioners' Creditors to be convened for the purposes of voting on the Plan, and any adjournment thereof;

"Crown Claim" means the amounts due to Her Majesty in right of Canada or a province described in subsection 6 (3) of the CCAA;

"Determination Date" means March 20, 2009;

"Effective Date" has the meaning set forth in Section 5.4 of the Plan;

"Excluded Claim" means any right of any Person against the Petitioners in connection with any indebtedness, liability or obligation of any kind which came into existence after the Determination Date and any interest thereon, including any obligation of the Petitioners toward creditors who have supplied or shall supply services, utilities, goods or materials or who have or shall have advanced funds to the Petitioners after the

Determination Date, but only to the extent of their claims in respect of the supply of such services, utilities, goods, materials or funds after the Determination Date and to the extent that such claims are not otherwise affected by the Plan, and, without limitation, shall include an Administration Claim;

"Excluded Creditor" means a Person having a Claim in respect of an Excluded Claim but only in respect of such Excluded Claim;

"Initial Order" means the order of this Court made at the Determination Date under the CCAA;

"Monitor" means RSM Richter Inc., in its capacity as monitor appointed pursuant to the Initial Order;

"Order" means any order of the Court;

"Person" means any individual, corporation, limited or unlimited liability company, general or limited partnership, association, trust, unincorporated organization, joint venture, governmental body or agency, or any other entity;

"Plan" means the consolidated plan to be filed by the Petitioners pursuant to the CCAA, as such plan may be amended or supplemented from time to time;

"Restructuring Claim" means any right of any Person against the Petitioners in connection with any indebtedness, liability or obligation of any kind owed to such Person arising out of the restructuring, repudiation or termination, on or after the Determination Date, of any contract, lease, employment agreement, license or other agreement, whether written or oral, including any right of any Person who received a notice of repudiation or termination from the Petitioners before September 11, 2009;

"Sanction Order" means a final Order pursuant to section 6 of the CCAA sanctioning the Plan, with respect to which all delays to appeal have expired and all appeals have been either discontinued or dismissed;

"Secured Claim" means a Claim (other than an Excluded Claim) secured by Security, as accepted or revised by the Monitor or as adjudicated by the Court, the whole pursuant to the process established in the Claims Process Order;

"Secured Creditor" means a Creditor to the extent that it holds a Secured Claim;

"Security" means a valid and enforceable security interest, lien, charge, pledge, encumbrance, mortgage, hypothec, title retention agreement or trust agreement of any nature or kind (but excluding any statutory deemed trust or lien for any taxes or levies), on any property of a Petitioner, or a right of ownership on any property leased to a Petitioner;

"Unsecured Claim" means any unsecured Claim, as accepted or revised by the Monitor or as adjudicated by the Court, the whole pursuant to the process established in the Claims Process Order. An "Unsecured Claim" shall not include a Crown Claim or an Excluded Claim.

"Unsecured Creditor" means a Creditor to the extent that it holds an Unsecured Claim.

ARTICLE 2 **INTERPRETATION**

For the purposes of the Plan:

- a) any reference in the Plan to a contract, instrument, release, indenture, or other agreement or document as being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions;
- b) any reference in the Plan to an existing document or exhibit filed or to be filed means such document or exhibit as it may have been or may be amended, modified, or supplemented;
- c) unless otherwise specified, all references in the Plan to sections, articles and schedules are references to sections, articles and schedules of or to the Plan;
- d) the words "herein" and "hereto" and words of a similar nature refer to the Plan in its entirety rather than to any particular portion of the Plan;
- e) captions and headings of articles and sections of the Plan are inserted for ease of reference only and are not intended to be a part of nor to affect the interpretation of the Plan; and
- f) where the context requires, a word or words importing the singular shall include the plural and vice versa.

Section 2.1 Dates

In the event that the Plan requires any action to be taken on a day which is not a Business Day, that action shall be required to be taken on the next succeeding day which is a Business Day.

Section 2.2 Time

All times expressed in the Plan refer to the local time in Montreal, Quebec, unless otherwise stipulated.

Section 2.3 Governing Law

The Plan shall be governed by and construed in accordance with the law applicable in the Province of Quebec. All questions as to the interpretation of or application of this Plan and all proceedings taken in connection with this Plan and its provisions shall be subject to the exclusive jurisdiction of the Court and the prescriptions of the Initial Order and any subsequent Order.

Section 2.4 Statutory References

Any reference in the Plan to a statute includes regulations made thereunder and all amendments to such statute and regulations in force from time to time.

Section 2.5 Successors and Assigns

The Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in the Plan.

Section 2.6 Currency

Unless otherwise specifically indicated, all sums of money referred to in this Plan are expressed in Canadian dollars. Where conversion of currency amounts is required, all amounts in other currencies are convertible to Canadian dollars at the nominal noon exchange rate of the Bank of Canada on the Effective Date.

ARTICLE 3 TREATMENT OF CREDITORS

Section 3.1 Excluded Creditors

The Excluded Creditors are entirely unaffected by the Plan.

Section 3.2 Secured Creditors

Each Secured Creditor shall be paid the full amount of its Secured Claim, according to terms agreed to between those creditors and the Petitioners, on or after the Sanction Order.

Section 3.3 Unsecured Creditors and Crown Claims

3.3.1 Crown Claims

In accordance with subsection 6(3) of the CCAA, Crown Claims will be paid in full no later than six (6) months after the date of the Sanction Order.

3.3.2 Class of Creditors

There shall be one class of affected Creditors for the purposes of voting: the class of Unsecured Creditors.

3.3.3 Distributions

The Petitioners will remit to the Monitor a total amount of \$3 million (the "Basket") to be disbursed by way of distributions to Unsecured Creditors and to holders of Crown Claims. Payments shall be for principal amounts only, without interest, fees or penalties of any kind whether prior or subsequent to the Determination Date.

Each Unsecured Creditor shall elect to receive from the Basket:

- **Option 1:** a single and final distribution consisting of the lesser of its Unsecured Claim and \$1,500 (the "Option 1 Distribution"). This distribution shall be made by the Monitor no later than one (1) month after the date of the Sanction Order;

or

- **Option 2:**
 - a) a first distribution consisting of the Unsecured Creditor's prorated share of 50 % of the balance of the Basket (after payment of the Option 1 Distribution). This first distribution shall be made by the Monitor no later than three (3) months after the date of the Sanction Order; and
 - b) a second and final distribution consisting of the Unsecured Creditor's prorated share of the Basket's remaining funds, to be made by the Monitor no later than six (6) months after the date of the Sanction Order.

Any Unsecured Creditor who fails to cast his vote in accordance with the Claims Process Order shall be treated as if he had selected Option 2.

Section 3.4 Other CCAA Requirements

All Claims, if any, referred to in subsections 6(5) and 6(6) of the CCAA shall be paid forthwith after the Sanction Order.

ARTICLE 4 UNCLAIMED DISTRIBUTIONS

Unless directed otherwise by the Court, any portion of a distribution that is unclaimed for a period of six (6) months and that is not otherwise dealt with in the Plan shall be vested in the Petitioners and any entitlement of any other Person to such portion shall be extinguished and forever barred.

**ARTICLE 5
PRIOR CONDITIONS TO THE COMING INTO FORCE OF THE PLAN**

Section 5.1 Creditors' Meeting

The Petitioners will convene a Creditors' Meeting to be held in Montreal, Quebec no earlier than twenty-one (21) days after the date of mailing of this Plan to all Creditors, in order to have the Plan approved by the Unsecured Creditors.

Section 5.2 Application for Sanction Order

If the Plan is approved by a majority in number and two-thirds in value of the class of Unsecured Creditors, the Petitioners intend to apply for the Sanction Order without further notice to Creditors, shortly after the Creditors' Meeting at which the Plan is approved, and upon issuance of the Sanction Order the Petitioners shall thereafter proceed with the implementation of the Plan, subject to any necessary authorization by the Court or the Monitor.

Section 5.3 Content of Sanction Order

The Petitioners shall seek a Sanction Order or additional Order that, in addition to sanctioning this Plan, will:

- a) declare that the payment terms established by the Plan are approved, binding and effective upon all Unsecured Creditors, and that all Claims are irrevocably extinguished save only for the right of Creditors to receive the consideration provided for in this Plan;
- b) release and discharge the Petitioners and their directors and other representatives from any and all indebtedness, obligations and liabilities, to the extent further provided in this Plan;
- c) confirm that all executory contracts to which any Petitioner is a party are in full force and effect notwithstanding the CCAA proceedings or this Plan, and that no Person party to such an executory contract shall be entitled to terminate or repudiate or vary any obligations under such contract by reason of the commencement of the CCAA proceedings, the content of the Plan or any other reason, including the transactions entered into by the Petitioners in the course of their restructuring and reorganization.

Section 5.4 Conditions Precedent to Implementation of Plan

The implementation of this Plan shall be conditional upon the filing into the court record of a certificate to be signed by the Monitor (the "Monitor's Certificate") confirming the granting of the Sanction Order with respect to all of the Petitioners, and the availability of all funds necessary for the Option 1 Distribution. The Monitor's Certificate shall confirm the Effective Date and serve as conclusive evidence thereof. This condition

precedent is for the sole benefit of the Petitioners and may be waived in whole or in part by the Petitioners in writing at any time in their sole and absolute discretion.

ARTICLE 6 ADDITIONAL EFFECTS OF THE PLAN

Section 6.1 Discharge of Claims

Upon the Effective Date, all Claims shall be forever extinguished, for all purposes, save only for the right of the Creditors to receive the consideration provided for in this Plan.

Section 6.2 Discharge of the Petitioners and their Directors

The rights afforded herein and the treatment of all Claims shall be in exchange for and in complete satisfaction, discharge and release of claims of any nature whatsoever, including any interest accrued on such Claims, against the Petitioners and their directors in accordance with section 5.1 of the CCAA, their officers, employees, agents, representatives or any professional employed by any of them, or against any of their assets or properties. Except as otherwise provided in the Plan, on the Effective Date all such claims against the Petitioners and their directors, officers, employees, agents, representatives or any professional employed by any of them, shall be released and discharged in full, and all assets and property of the Petitioners shall be free and clear of all Claims.

Section 6.3 Limitation of Liability

Neither the Petitioners, the Monitor, nor any of their employees, officers, directors, agents, advisors or representatives, or any professional employed by any of them, shall have or incur any liability to any Person whatsoever, including, specifically, any holder of a Claim, under any theory of liability (except for any claim based upon wilful misconduct or gross negligence or, in respect to the Monitor, from its failure to act in good faith and with honesty), provided that nothing in this paragraph shall limit the liability of any Person for breach of any express obligation it has under the terms of the Plan or under any agreement or other document entered into by such Person after the Effective Date or in accordance with the terms of the Plan or for any breach of a duty of care owed to any other Person occurring after the Effective Date. In all respects, the Petitioners, the Monitor, and each of their employees, officers, directors, agents, advisors or representatives, or any professional employed by them shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

Section 6.4 Releases

Except as otherwise provided in the Plan or the Sanction Order, the Petitioners will release unconditionally on the Effective Date, their officers, directors, shareholders, employees, consultants, attorneys, accountants, financial advisors and other representatives, and the Monitor, from any and all claims, direct actions, causes of

action, demands, rights, damages, judgments, debts, obligations, assessments, compensations, costs, deficiencies or other expenses of any nature whatsoever (including, without limitation, attorneys' fees), whether fixed or contingent, liquidated or unliquidated, direct or indirect, known or unknown whether past, present or future, in law, equity or otherwise, relating to any fact, event, circumstance, matter, cause or thing whatsoever taking place on or prior to the Effective Date in any way relating to the Petitioners, the CCAA proceedings or the Plan.

Section 6.5 Bankruptcy and Insolvency Act ("BIA")

Sections 38 and 95 to 101 of the BIA shall not apply in respect of this Plan and the CCAA Proceedings.

**ARTICLE 7
AMENDMENTS TO THE PLAN**

Section 7.1 Amendments to the Plan

The Petitioners reserve the right, at any time and from time to time, to amend, modify and/or supplement this Plan, provided that:

- a) any amendment, modification or supplement may be made unilaterally by the Petitioners at any time prior to or after the Sanction Order, without the approval of the Court, provided that it concerns a matter which, in the opinion of the Petitioners and the Monitor, acting reasonably, is of an administrative nature, is required to give better effect to the implementation of this Plan or is not adverse to the financial or economic interests of the Unsecured Creditors;
- b) any material amendment or modification that is approved by the Monitor and, if made following the Creditors' Meeting, approved by the Court following notice to the creditors affected thereby. The Petitioners may give notice of proposed material amendments to the Plan at the Creditors' Meeting;

and that any supplementary plan or plans of compromise or arrangement incorporating any such amendment or modification will be filed with the Court and shall for all purposes be deemed to be a part of and incorporated in this Plan.

**ARTICLE 8
THE MONITOR**

Section 8.1 Powers and obligations

In addition to what is explicitly provided for in the CCAA, the Orders, and elsewhere in this Plan, the Monitor shall have the power:

- a) to determine any appropriate conservatory measures with respect to the funds to be distributed to the Creditors in accordance with the prescription herein, and to execute said measures; and
- b) to perform any act or institute any proceeding for the protection of the funds to be distributed to the Creditors in accordance with the terms herein, the interests of the Petitioners and their creditors.

ARTICLE 9 MISCELLANEOUS

Section 9.1 Paramountcy

From and after the Effective Date, any conflict between the Plan and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of any contract, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, by-laws of the Petitioners, lease or other agreement, written or oral and any and all amendments or supplements thereto existing between one or more of the Creditors and the Petitioners as at the Effective Date shall be resolved in favour of the terms, conditions and provisions of the Plan and the Sanction Order, which shall take precedence and priority. For greater certainty, all Creditors shall be deemed to consent to all transactions contemplated in the Plan.

Section 9.2 Waiver of Defaults

From and after the Effective Date, each Creditor shall be deemed to have waived any and all defaults then existing or previously committed by the Petitioners in any covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in any contract, agreement, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral and any and all amendments or supplements thereto, existing between any such Creditor and the Petitioners and any and all notices of default and demands for payment under any instrument, including, without limitation any guarantee, shall be deemed to have been rescinded.

Section 9.3 Compromise Effective for all Purposes

The payment, compromise or other satisfaction of any Claim under the Plan shall be binding upon such Creditor, its heirs, executors, administrators, successors and assigns, for all purposes, whether or not the Creditor voted in favour of, against, or at all with respect to the Plan.

Section 9.4 Notices, addresses

Any notices or communication to be made or given hereunder shall be in writing and shall refer to the Plan and may, subject as hereinafter provided, be made or given by

personal delivery, by courier, by prepaid mail, by fax or by email addressed to the respective parties as follows:

Monitor:

RSM Richter Inc.
c/o Mr. Gilles Robillard, CA, CIRP
2 Place Alexis Nihon, suite 2200
Montreal, Quebec H3Z 3C2
Fax: (514) 934-3484
E-mail: grobillard@rsmrichter.com

The Petitioners:

Blue Mountain Wallcoverings Inc.
Attention: Michel Mégélas
1010 Sherbrooke Street West, suite 410
Montreal, Quebec H3A 2R7
Fax: (514) 843-3482
E-mail: michelm@blmtn.com

with copy in either case to:

Stikeman Elliott LLP
c/o Me Jean Fontaine
1155 René-Lévesque Blvd. West, 40th Floor
Montreal, Quebec H3B 3V2
Fax: (514) 397-3487
E-mail: jfontaine@stikeman.com

or to such other address as any of the above may from time to time provide.

Section 9.5 Notices, Delivery

Where any notice or communication is delivered personally or received by fax or email after 4:30 p.m. on a Business Day or at any time on a non-Business Day, receipt thereof is deemed to be on the following Business Day. Where a notice or communication is delivered by prepaid mail, receipt shall be deemed on the fourth Business Day following the date on which such notice or communication is mailed.

The unintentional failure by the Petitioners to give notice contemplated hereunder to any particular Creditor shall not invalidate the Plan or any action taken by any Person pursuant to the Plan.

Section 9.6 Severability of Plan Provisions

If, prior to the Effective Date, any term or provision of the Plan is held by the Court to be invalid, void or unenforceable, the Court, at the request of the Petitioners, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall

then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation.

Section 9.7 Revocation, Withdrawal, or Non-Consummation

The Petitioners reserve the right to revoke or withdraw the Plan at any time prior to the granting of the Sanction Order and to file subsequent plans of reorganization or of compromise or arrangement. If the Petitioners revoke or withdraw the Plan, or if the Sanction Order is not issued, (i) the Plan shall be null and void in all respects, (ii) any settlement or compromise embodied in the Plan shall be deemed null and void, and (iii) nothing contained in the Plan, and no acts taken in preparation for consummation of the Plan, shall prejudice in any manner the rights of the Petitioners or any Person in any further proceedings involving the Petitioners.

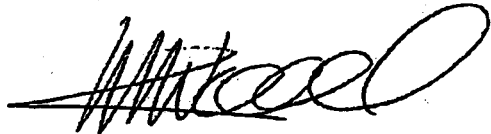
Signed in Montreal, this 10th day of November 2009

Blue Mountain Wallcoverings Group Inc.,

Blue Mountain Wallcoverings Inc.,

Blue Mountain Wallcoverings Canada Inc. and

Blue Mountain Wallcoverings USA Inc.



per: Christopher M. Wood