

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

PETITION TO SANCTION A PLAN OF ARRANGEMENT
(Section 6 of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36
("CCAA"))

TO ONE OF THE HONOURABLE JUDGES OF THE SUPERIOR COURT,
SITTING IN THE COMMERCIAL CHAMBER, IN AND FOR THE JUDICIAL
DISTRICT OF MONTREAL, PETITIONERS RESPECTFULLY SUBMIT THE
FOLLOWING:

INTRODUCTION¹

1. By the present "*Petition to Sanction a Plan of Arrangement*" (the "**Petition**"), Blue Mountain Wallcoverings Group Inc., Blue Mountain Wallcoverings Inc., Blue Mountain Wallcoverings Canada Inc. and Blue Mountain Wallcoverings USA Inc. (collectively, the "**Petitioners**") request this Honourable Court to issue an order with a view of, *inter alia*:
 - (i) sanctioning the Petitioners' Plan of Arrangement dated November 10, 2009 (the "**Plan**");
 - (ii) declaring that the payment terms established by the Plan are approved, binding and effective upon all Unsecured Creditors, and declaring that all Claims are irrevocably extinguished save only for the right of Creditors to receive the consideration provided for in the Plan;
 - (iii) releasing and discharging the Petitioners, their directors and other representatives from any and all indebtedness, obligations and liabilities, to the extent further provided in the Plan;
 - (iv) confirming that all executory contracts to which any Petitioner is a party are in full force and effect notwithstanding the CCAA proceedings or the Plan, and that no Person party to such an executory contract shall be entitled to terminate, 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;
 - (v) extending the Stay Period and the Stay Termination Date (as defined in the Initial Order referred to below); and
 - (vi) renewing the order rendered by the Honourable Jean-François Buffoni, S.C.J., on March 20, 2009 under the CCAA (the "**Initial Order**");

SUMMARY OF THE CCAA PROCEEDINGS

2. On March 20, 2009, the Honourable Jean-François Buffoni, S.C.J., rendered the Initial Order declaring and/or ordering, *inter alia*:

¹ In this section of the Petition, unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the Plan.

- (a) that Petitioners were companies to which the CCAA applies;
- (b) a stay of proceedings in respect of the Petitioners up to April 20, 2009; and
- (c) that RSM Richter Inc. be appointed to act as monitor (the “**Monitor**”);

the whole as more fully appears from Court record;

3. The protection of the Initial Order has been successively extended by this Honourable Court until December 18, 2009, as appears from the Court record;
4. On or about March 26, 2009, the Monitor sent a notice to all Known Creditors of Petitioners informing them of the issuance of the Initial Order and the stay of proceedings, the whole in accordance with the Initial Order. A copy of the Initial Order, along with the list of creditors, have also been posted on the Monitor’s website so that creditors may have access to it;
5. On August 28, 2009, Petitioners filed a “*Petition to establish a claims process and for setting the procedures with respect to a meeting of creditors*”, as appears from the Court record;
6. On September 2, 2009, the Honourable Clément Gascon, S.C.J., granted said petition and issued an order (the “**Claims Process Order**”) which provides for, *inter alia*, the setting of the Claim Bar Date to October 5, 2009, the filing of a Plan anytime thereafter and a Creditors’ Meeting to be held at least twenty-one (21) days after the mailing of the Meeting Materials to the Creditors (as these terms are defined in the Claims Process Order);
7. In accordance with the terms of the Claims Process Order, all Known Creditors received Creditors’ Instructions including a notice of deadline to file proofs of claim, a Proof of Claim, instructions to complete the proof of claim and a copy of said Claims Process Order. The Monitor also published Newspaper Notices in La Presse (Montreal) and the Gazette (Montreal), to advise any potential creditors of the Claims Bar Date and Creditor’s Instructions. Creditors were also advised to notify the Monitor of any claims by no later than the Claims Bar Date of October 5, 2009 at 5:00 p.m.;
8. On November 10, 2009, the Petitioners approved and authorized the filing of the Plan;

9. On or about November 17, 2009 all Unsecured Creditors with allowed Claims received the Meeting Materials, including Notice of Creditor's Meeting, Voting and Election Form, Proxy form, report of the Monitor on the state of the Petitioners financial affaires and the Plan. Creditors were also notified that the deadline for submitting their votes and proxies was December 9, 2009 at 5:00 p.m. and that the Creditors' Meeting would be held on December 10, 2009 at 10:00 a.m.

THE PLAN

10. On December 10, 2009, the Petitioners have presented the Plan to their Creditors;
11. The Plan provides for the payment in full of the Crown Claims and the claims of the Secured Creditors;
12. Also, pursuant to the Plan, Unsecured Creditors have the option to receive payment in the amount of the lesser of their Unsecured Claim and CDN \$1,500, in full and final settlement of all of their Claims ("**Option 1 Distribution**"), provided they have completed and returned the Election and Voting Form (with the Proxy form) by the deadline of December 9, 2009.
13. Alternatively, Unsecured Creditors who do not elect for the Option 1 Distribution on the Election and Voting Form will receive their pro rata share of the balance of a \$3 million basket after payment of Crown Claims and distributions to the Unsecured Creditors who elected for the Option 1 Distribution;
14. Pursuant to the Plan and to the extent that the arrangement is implemented by the Petitioners in accordance with same, Petitioners will be released from any and all claims, whether or not subject to a Proof of Claim (as defined in the Claims Process Order) submitted to the Monitor;

THE MINUTES OF THE MEETING

15. The Petitioners file in support of this Petition, as **Exhibit R-1**, the "*Minutes of the First Meeting of Creditors of the Petitioners*" (the "**Minutes**");
16. The Minutes deal specifically with the Plan, the Creditors' Meeting, the outcome of the Creditors voting on the Plan and the recommendations of the Monitor;
17. The Monitor recommended that the Creditors vote in favour of the Plan since, among others, the only alternative to the Plan is the bankruptcy of

the Petitioners, which would result in a significant shortfall to the Secured Creditors and no recovery to the Unsecured Creditors, as appears from the Minutes;

THE CREDITORS' S MEETING

18. On December 10, 2009, the Creditors' Meeting was held in accordance with the Claims Process Order;
19. The Monitor recommended the acceptance of the Plan by the creditors;
20. The Plan was then submitted to a vote of the Unsecured Creditors that were either present or represented by proxy, and 135 of 231 Unsecured Creditors voted, representing \$12,529,627 of the \$30,066,002 in value claims, as appears from the Minutes;
21. At the outcome of the vote, the Plan was approved by the following majorities:

| <u>Number of votes</u> | <u>Number of votes in favor of the Plan</u> | <u>Percentage of votes in favor of the Plan</u> |
|------------------------------|---|---|
| 135 | 126 | 93% |
| <u>Dollar value of votes</u> | <u>Dollar value of votes in favor of the Plan</u> | <u>Percentage of votes in favor of the Plan</u> |
| \$12,529,626.67 | \$11,982,626.59 | 96% |

as appears from the Minutes;

SANCTION OF THE PLAN

11. Nothing in the Plan violates the provisions of the CCAA or any order of this Court;
12. The Petitioners have fully complied with the provisions of the CCAA and with the orders of this Court, including *inter alia* the requirements of the Claims Process Order. Petitioners have also acted at all times in good faith and in the best interest of the parties involved in the proposed arrangement;
13. Considering that the Plan was duly approved by a numerical majority of the Unsecured Creditors (voting either in person or by proxy) representing two thirds in value of claims for voting purposes, the

Petitioners request this Honorable Court to Sanction the Plan pursuant to Section 6 of the CCAA;

REQUEST FOR AN EXTENSION OF THE STAY PERIOD

22. The Petitioners also request that this Honorable Court extend the Stay Termination Date, the Stay Period and the Initial Order (as amended), up until the date of the filing with this Court of the Monitor's Certificate (as defined in the Plan), in order to allow the Petitioners and the Monitor to complete the implementation of the Plan;

WHEREFORE, MAY IT PLEASE THIS COURT TO:

- [1] **GRANT** Blue Mountain Wallcoverings Group Inc., Blue Mountain Wallcoverings Inc., Blue Mountain Wallcoverings Canada Inc. and Blue Mountain Wallcoverings USA Inc.'s (collectively, the "**Petitioners**") "*Petition to Sanction a Plan of Arrangement*" (the "**Petition**") pursuant to Section 6 of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 ("**CCAA**");

DEFINITIONS

- [2] **ORDER** that any capitalized terms not otherwise defined in this Order shall have the meaning ascribed thereto in the Petitioners' Plan of Arrangement dated November 10, 2009 (the "**Plan**") or the order rendered by the Honourable Clément Gascon, S.C.J., on September 2, 2009 (the "**Claims and Meeting Order**"), as the case may be;

SERVICE AND MEETING

- [3] **DECLARE** that the notices of presentation of the Petition and Sanction Hearing are proper and sufficient, and that they were sent in accordance with the Claims and Meeting Order;
- [4] **DECLARE** that there has been proper and sufficient service and notice to all Known Creditors of the Meeting Materials, and that the Creditors' Meeting was duly called, held and conducted in conformity with the CCAA and the orders of the Court;

PLAN SANCTION

- [5] **DECLARE** that:
- (a) the Plan has been approved by the required majorities of Creditors of the Petitioners in conformity with the CCAA;

- (b) the Petitioners has complied with the provisions of the CCAA and Orders of the Court;
- (c) the Court is satisfied that the Petitioners has neither done nor purported to do anything that is not authorized by the CCAA;
- (d) the Plan is fair and reasonable, and in the best interests of the Petitioners, the Creditors and the other stakeholders of the Petitioners;

[6] **ORDER** that the Plan and the payment terms established by the Plan are sanctioned and approved pursuant to Section 6 of the CCAA and binding upon all Unsecured Creditors and, as at the Effective Date, will be effective and will enure to the benefit of and be binding upon the Petitioners, the Creditors and all other Persons stipulated in the Plan;

[7] **ORDER** that the Petitioners and the Monitor are authorized and directed to take all steps and actions necessary or appropriate, as determined by the Petitioners to implement the Plan, and such steps and actions are approved;

[8] **ORDER** that, as at the Effective Date, all Claims of any nature against the Petitioners or the Property (as defined in the Initial Order) are hereby forever discharged, released and irrevocably extinguished and all proceedings with respect thereto or in connection therewith are permanently stayed, subject only to the right of the Creditors to receive the distributions in respect of such Claims in accordance with the Plan and the Claims Process Order;

[9] **DECLARE** that all Proven Claims determined in accordance with the Claims Process Order and the Plan are final and binding on the Petitioners and all Creditors;

[10] **ORDER** that as at the Effective Date and subject to the provisions of Subsection 5.1(2) of the CCAA, all Persons shall release, waive and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing in any way relating to the Petitioners, the subject matter of, or the transactions or events giving rise to, any claims or interests that could be asserted against: (i) present or former directors, officers and employees of the Petitioners, in each case, in their respective capacities as at the Determination Date; (ii) the

agents, legal counsel, financial advisors and other professionals of the Petitioners; and (iii) the Monitor and its employees, officers and directors;

- [11] **ORDER** that, from and after the Effective Date, all Persons shall be deemed to have waived any and all defaults of the Petitioners then existing or previously committed by the Petitioners or caused by the Petitioners, directly or indirectly, or non-compliance with any covenant, positive or negative pledge, warranty, representation, term, provision, condition or obligation, express or implied, in any contract, credit document, agreement for sale, lease or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Person and the Petitioners arising from the filing by the Petitioners under the CCAA or the transactions contemplated by the Plan, and any and all notices of default and demands for payment under any instrument, including any guarantee arising from such default, shall be deemed to have been rescinded;
- [12] **DECLARE** that, subject to the performance by the Petitioners of their obligations under the Plan, all contracts, leases, agreements and other arrangements to which the Petitioners are a party and that have not been terminated or repudiated pursuant to the Initial Order will be and remain in full force and effect, unamended, as at the Effective Date, and no Person who is a party to any such contract, lease, agreement or other arrangement may accelerate, terminate, rescind, refuse to perform or otherwise repudiate its obligations thereunder, or enforce or exercise any right (including any right of dilution or other remedy) or make any demand under or in respect of any such contract, lease, agreement or other arrangement and no automatic termination will have any validity or effect, by reason of:
- (a) any event that occurred on or prior to the Effective Date and is not continuing that would have entitled such Person to enforce those rights or remedies;
 - (b) the insolvency of the Petitioners or the fact that the Petitioners sought or obtained relief under the CCAA; or
 - (c) any compromises or arrangements effected pursuant to the Plan or any action taken or transaction effected pursuant to the Plan;

STAY EXTENSION

- [13] **DECLARE** that the stay of proceedings under the Initial Order continues until the filing with this Court of the Monitor's Certificate (the date of such filing to be the Stay Termination Date (as such term is defined in the Initial Order));
- [14] **ORDER** that all other Orders made in the CCAA Proceedings shall continue in full force and effect in accordance with their respective terms, except to the extent that such Orders are varied by, or inconsistent with this Order;

MONITOR

- [15] **APPROVE** the conduct and activity of the Monitor as described in the "*Minutes of the First Meeting of Creditors of the Petitioners*" (the "**Minutes**");
- [16] **ORDER** that, until its discharge as provided in this Order, the appointment of RSM Richter Inc. as Monitor and as an officer of this Court pursuant to the terms of the Initial Order, and the protections afforded to it pursuant to Orders made in the CCAA Proceedings, shall not expire or terminate on the Effective Date and shall be effective and in full force and effect until the completion by the Monitor of all of its duties in relation to the claims procedure and all matters relating thereto as set out in the Claims Process Order and the completion by the Monitor of all other matters for which it is responsible under the Plan or pursuant to the Orders of this Court made in the CCAA Proceedings;
- [17] **ORDER** that the Monitor shall be discharged of its duties and obligations pursuant to the Plan, this Order and all other Orders made in the CCAA Proceedings, upon the filing with this Court of a certificate of the Monitor certifying that the matters set out in the immediately preceding paragraph are completed to the best of the Monitor's knowledge;

PROVISIONAL EXECUTION

- [18] **ORDER** the provisional execution of this Order notwithstanding any appeal and without the necessity of furnishing any security.
- [19] **THE WHOLE** without costs.

MONTREAL, this 14th day of
December, 2009

Stikeman Elliott LLP

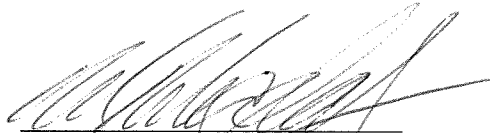
STIKEMAN ELLIOTT LLP
Attorneys for the Petitioners

AFFIDAVIT

I, the undersigned, **MICHEL MEGELAS**, Vice-President, General Counsel and Corporate Secretary of Blue Mountain Wallcoverings Group Inc., doing business at 1010 Sherbrooke Street West, in the city and district of Montreal, Province of Québec, do solemnly declare as follows:

1. I am duly authorized by the Petitioners to sign the present affidavit;
2. All the facts contained in the attached *Petition to sanction a Plan of arrangement* dated December 14, 2009, are true.

AND I HAVE SIGNED:

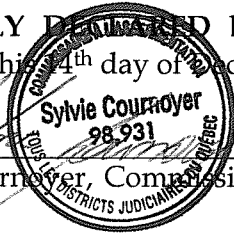


MICHEL MEGELAS

SOLEMNLY DEPOSED before me at
Montreal, this 14th day of December, 2009



Sylvie Cournoyer, Commissioner of oaths
#98,931



NOTICE OF PRESENTATION

- TO: Mtre Bertrand Giroux
BCF LLP
1100 René-Lévesque Blvd. West, 25th Floor
Montreal, Quebec, H3B 5C9
- TO: Mtres Pierre Grenier et Martin Poulin
FRASER MILNER CASGRAIN LLP
1 Place Ville Marie, suite 3900
Montreal, Quebec, H3B 4M7
- TO: Mtre Martin R. Kaplan
FOGLER RUBINOFF LLP
95 Wellington Street West
Suite 1200, Toronto-Dominion Centre
Toronto, Ontario, M5P 2Z9
- TO: Mr. Robert M. Zedaker, CFO
GRAFIKA COMMERCIAL PRINTING INC.
710 Johnston Street
Sinking Spring, PA 19608
- TO: Mtre Edward J. Druker
DRUKER, NAVEY, GREEN, SCHWARTZ
1255 Phillips Square, Suite 605
Montreal, Quebec, H3B 3G5
- TO: Mtre Xavier Lafontaine
DE GRANDPRÉ CHAÏT LLP
1000 de la Gauchetière Street West, Suite 2900
Montreal, Quebec, H3B 4W5
- TO: Mtre Laurent Themens
FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC
545 Crémazie Blvd East, Suite 200
Montreal, Quebec, H2M 2W4

TAKE NOTICE that the foregoing *Motion to sanction a Plan of Arrangement* shall be presented before one of the Honorable judges of the Superior Court, sitting in Commercial Division, in and for the District of Montreal, **at a time and place to be determined by the Court.**

DO GOVERN YOURSELVES ACCORDINGLY.

Montreal, this 14th day of December 2009

Stikeman Elliott LLP

STIKEMAN ELLIOTT LLP
Attorneys for Petitioners

CANADA
PROVINCE OF QUÉBEC

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

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

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

LIST OF EXHIBITS

Exhibit R-1

Minutes of the First Meeting of Creditors of the
Petitioners.

Montreal, this 14th day of December, 2009

Stikeman Elliott LLP

STIKEMAN ELLIOTT LLP
Attorneys for Petitioners

RSM Richter Inc.

RSM Richter Inc.

2, Place Alexis Nihon, Suite 1820
Montréal (Québec) H3Z 3C2
Téléphone / Telephone : 514.934.3497
Télécopieur / Facsimile : 514.934.3504
www.rsmrichter.com

**CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
COURT NO 500-11-035903-091**

**SUPERIOR COURT
(Commercial Division)**
(Sitting as a Court designated pursuant to the
Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36)

IN THE MATTER OF THE PLAN OF ARRANGEMENT OF:

Blue Mountain Wallcoverings Group Inc.

- and -

Blue Mountain Wallcoverings Inc.

- and -

Blue Mountain Wallcoverings Canada Inc.

- and -

Blue Mountain Wallcoverings USA Inc.

Petitioners

RSM Richter Inc.

Monitor

Minutes of the First Meeting of Creditors of the Petitioners:

On December 10, 2009 at 10:00 a.m.
at the Marriott Chateau Champlain, 1050 de la Gauchetière Street West, Montreal, Quebec
(Salon Viger AB)
Chairman:
Gilles Robillard, CA, Court-Appointed Monitor to the Petitioner

Minutes of the meeting of creditors to consider and approve the Plan of Arrangement (the "Plan") of Blue Mountain Wallcoverings Group Inc. et al held on Thursday, December 10, 2009, at 10:00 a.m., at the Marriott Chateau Champlain Inn, located at 1050 de la Gauchetière Street West, (Salon Viger AB), Montréal.

ATTENDANCE

Were Present:

Mr. Gilles Robillard, CA, RSM Richter Inc., Court-Appointed Monitor;
Ms. Ariella Yedid, CA, RSM Richter Inc. Court-Appointed Monitor;
Me Jean Fontaine, of the law firm Stikeman Elliott, acting as legal counsel for the Petitioners;
Me Frederic Pare, of the law firm Stikeman Elliott, acting as legal counsel for the Petitioners;
Mr. Michel Megelas, as legal counsel of the Petitioners;
Mrs. Danielle Beaudoin, CFO, representative of the Petitioners;
Mr. Sebastien Ghantous, representative of FSTQ;
Mr. Charles Cote-Lepine, representative of Manulife;
Me Xavier Lafontaine, representative of Ferrari S.P.A.

CHAIRMAN OF THE MEETING

Mr. Gilles Robillard presides over the meeting of creditors.

INTRODUCTION

The Chairman confirmed that on November 17, 2009, the Monitor sent the following documents, herein after referred to as the Information Package, by regular mail, to all Unsecured Creditors with Allowed Claims:

- Letter to Creditors from Blue Mountain Wallcoverings Group Inc. et al;
- Notice of Creditor's Meeting;
- Election and Voting form;
- Proxy form;
- The Report of the Monitor on the State of the Petitioner's Financial Affairs and Plan of Compromise and Reorganization dated November 12, 2009.
- Plan of Arrangement under the Companies' Creditors Arrangement Act;

Copies of the mailing affidavits for the mailings to creditors for the Claims Process and the Creditor's Meeting are attached.

The Chairman confirms having received before the opening of the meeting, Election and Voting forms and Proxy Forms from the Creditors. The Chairman declares that there is quorum and the meeting is duly convened.

COMMENCEMENT OF MEETING

The Chairman called the meeting to order, there being a quorum of creditors present in person and by proxy.

The Chairman proceeds to introduce the people at the head table.

MONITOR'S REPORT

The Chairman asked the representatives of the Creditors present to confirm that they had all read and understood the Monitor's Report on the State of the Petitioners Financial Affairs and Plan of Arrangement dated November 12, 2009 and that there were no questions thereon.

The Chairman reiterated the Monitor's recommendation that all Unsecured Creditors vote in favour of the Plan and that the plan be accepted.

The Chairman confirmed that the Board of Directors duly approved the Plan.

The Chairman informed the creditors that if the Plan is duly approved by them, that the Petitioners intend to seek the sanction of the Plan by the Court within short delays.

VOTING

After the closing of the question period, the Chairman asked the Creditors present whether they had duly registered their vote. There were no additional votes to file.

RESULTS OF THE VOTE

The creditors of Blue Mountain Wallcoverings Inc. et al duly approve the Plan.

The result of the vote is as follows:

| # of Votes | # of Votes In Favor | % of Votes In Favor |
|------------|------------------------|------------------------|
| 135 | 126 | 93% |

| \$ Value of Votes | \$ Value of Votes In Favor | % of Votes In Favor |
|-------------------|-------------------------------|------------------------|
| \$ 12,529,626.67 | \$ 11,982,626.59 | 96% |

The Chairman confirmed that 135 of 231 creditors voted, representing \$12,529,627 of the \$30,066,002 in value of claims.

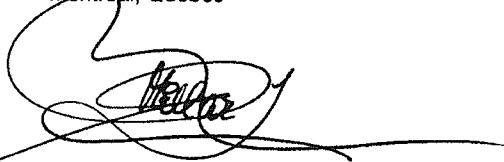
ADJOURNMENT

The adjournment was unanimously approved by the creditors present in person and by proxy.

END OF MEETING

There not being any further items, the Meeting was adjourned .

RSM Richter Inc.
2 Place Alexis Nihon
Suite 1820
Montreal, Quebec

A handwritten signature in black ink, appearing to read "Gilles Robillard", is written over a horizontal line. The signature is stylized and somewhat cursive.

Gilles Robillard, CA,
Court-Appointed Monitor
acting as Chairman of the Meeting of Creditors