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**CANADA**

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

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

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**IN THE MATTER OF THE PLAN OF ARRANGEMENT  
WITH RESPECT TO:**

**BLUE MOUNTAIN WALLCOVERINGS GROUP INC.  
- and -  
BLUE MOUNTAIN WALLCOVERINGS INC.  
- and -  
BLUE MOUNTAIN WALLCOVERINGS CANADA INC.  
- and -  
BLUE MOUNTAIN WALLCOVERINGS USA INC.**

**Debtors/Petitioners**

- and -

**RSM RICHTER INC.**

**Monitor**

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**REPORT OF THE MONITOR WITH RESPECT TO AN  
APPLICATION FOR THE POSTPONEMENT OF THE DELAY TO MAKE THE DISTRIBUTIONS  
UNDER THE SANCTIONED PLAN OF ARRANGEMENT**

**INTRODUCTION**

1. On March 20, 2009, the Honourable Justice Jean-François Buffoni, J.S.C, rendered an order (the "Initial Order") under the CCAA declaring and/or ordering, *inter alia*:
  - a) that Blue Mountain Wallcoverings Group Inc., Blue Mountain Wallcoverings Inc., Blue Mountain Wallcoverings Canada Inc. and Blue Mountain Wallcoverings USA Inc. (collectively, the "Petitioners" or "BMWG") were companies to which the CCAA applies;
  - b) a stay of proceedings in respect of the Petitioners up to and including April 20, 2009; and
  - c) that RSM Richter Inc. be appointed to act as monitor (the "Monitor").

2. Since the Initial Order, the Stay Period and the Stay Termination Date (these terms are defined in the Initial Order) were extended. The extensions were required in order to allow for the following:
  - a) Successfully implement the planned restructuring and reorganization measures;
  - b) Finalize negotiations with HSBC Bank with regard to the assignment of its debt;
  - c) Finalize negotiations with FSTQ with regard to its convertible debenture;
  - d) Initiate a Claims Process;
  - e) File a Plan of Arrangement ("Plan");
  - f) Proceed with the vote on the Plan;
  - g) Proceed to the Sanctioning of the Plan.
3. On January 11, 2010 the Plan was sanctioned by the Court.
4. The Petitioners are planning to present to the Court a Petition requesting the postponement of the delay to make the remaining distributions under the Plan. This Report deals with the postponement in question as well as with the recommendations of the Monitor.
5. The Monitor mailed the present Report to all Unsecured Creditors entitled to the Option 2 Distributions under the Plan. Each creditor has the opportunity, if he so wishes, to make representations to the Court on Tuesday, May 25, 2010 at 9:00 a.m. in Room 16.10 of the Palais de Justice de Montreal.
6. This Report of the Monitor has been prepared in order to inform the Court and the Unsecured Creditors and is presented under the following headings:
  - a) Plan of Arrangement;
  - b) State of affairs of the Petitioners;
  - c) Projected cash flow;
  - d) Petitioners' application to Court – for the postponement of the delay to make the distributions under the Plan and the recommendation of the Monitor.
7. We hereby confirm that the information contained herein is based upon unaudited financial information provided to the Monitor by the Petitioners' management. The Monitor has not conducted an audit or investigation of the information it was provided by the Petitioners and accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this Report.

8. The summary cash flow projection attached to this Report was prepared by the Petitioners' management and is based on underlying financial assumptions. The Monitor cannot provide an opinion as to the accuracy, completeness or reliability of these projections. As the cash flow projections relate to future events, which are indeterminable by nature, variances will occur, which may be material. Accordingly, the Monitor does not express an opinion regarding the likelihood of materialization of these cash flow projections.

#### **PLAN OF ARRANGEMENT (THE "PLAN")**

9. On November 10, 2009 the Petitioners approved and authorized the filing of the Plan.
10. On or about November 12, 2009 all Unsecured Creditors with allowed Claims were provided with the Meeting Materials, which included the Notice of the Creditor's Meeting, the Voting and Election form, the Proxy form, the Report of the Monitor on the State of the Petitioners' Financial Affairs 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. (Montreal Time) and that the Meeting would be held on December 10, 2009 at 10:00 a.m.
11. On December 10, 2009, the Creditors' Meeting was held and the Plan was approved by the majority of creditors, in number and value.
12. On January 11, 2010, a Sanction Order was rendered by the Honourable Judge Jean Yves Lalonde J.S.C. sanctioning the Petitioners' Plan. The Sanction Order became final on February 2, 2010, at the expiry of the appeal period.
13. On March 1, 2010, in accordance with the Plan, the Petitioners remitted to the Monitor the necessary funds amounting to \$120,000 to cover the Option 1 Distribution. On March 2, 2010, the Option 1 Distribution cheques were mailed to those Unsecured Creditors who elected for Option 1.
14. In accordance with the Plan, the remaining two 50% Option 2 Distributions were required to be made on or before May 3, 2010 and July 30, 2010 respectively.

15. The Petitioners were unable to secure financing prior to the first 50% Option 2 Distribution, which was scheduled for May 3, 2010 (distribution estimated at approximately \$1.4 million). We understand that discussions are still under way with a financial institution which appears to have an interest in re-financing the operations of the Petitioners.
16. Accordingly the Petitioners are requesting that the two distributions be postponed by 90 days, namely to July 30, 2010 for the first payment and to October 29, 2010 for the second payment.

#### **STATE OF AFFAIRS OF THE PETITIONERS**

17. Since the issuance of the Initial Order, BMWG has continued to act diligently and to carry on business in good faith while taking the appropriate actions to restore profitability.
18. BMWG has continued to pay for the services provided by its employees in the normal course of business and to pay suppliers of goods or services according to existing agreements, many of which remain on a COD basis.
19. Since the sanctioning of the Plan, BMWG's sales have not materialized at the projected levels and accordingly neither has its cash flow.
20. In order to finance its restructured operations BMWG's management has been actively seeking additional financing to fund its cash flow shortfalls. BMWG obtained \$1.5 million of term financing from one of its existing debt holders and is currently seeking financing of approximately \$4 million to cover its current operations and the dividend payments,
21. In the interim, BMWG has been managing its daily cash flow in order to ensure that it meets its financial obligations.
22. BMWG funded the Option 1 Distribution under the Plan on March 1, 2010, from its operations.
23. As of April 30, 2010, BMWG did not have the required funds to make the first Option 2 Distribution payment to Unsecured Creditors, as per the terms of the Sanctioned Plan.

24. BMWG's accounts payable and accrued liabilities as at April 30, 2010 relate primarily to amounts payable to suppliers who have provided payment terms to BMWG, municipal taxes, accrued interest on term debt, accrued promotion and royalty costs, accrued vacation pay and outstanding cheques.
25. According to the information provided to the Monitor, no expenses were incurred out of the ordinary course of business since the issuance of the Initial Order.

**PROJECTED CASH FLOW - For the period May 1, 2010 to August 31, 2010**

26. We refer you to **Schedule "A"**, which contains a copy of the summary projected monthly cash flow statement for the period May 1, 2010 to August 31, 2010 ("Period"), which essentially reflects the following:
  - a) the projected cash receipts for the period are estimated at approximately \$11.1 million;
  - b) the projected operating expenses are estimated at approximately \$10.5 million;
  - c) BMWG projects a positive operating cash flow of approximately \$0.6 million for the Period.
27. Albeit the attached cash flow reflects an improvement during the Period, the funds generated are insufficient to make the distribution provided in the Plan, without financing.
28. The Monitor is of the opinion that the assumptions used by management of BMWG with respect to the financial projections are realistic.

**PETITIONERS' APPLICATION TO THE COURT**

29. The Petitioners' application for the postponement of the delay to make the distributions under the Plan is reasonable and the Monitor recommends that this Honourable Court consents to the requested postponement, given *inter alia* the above described and following factors:
  - a. the delay will not prejudice the creditors entitled to the Option 2 Distributions;
  - b. in a bankruptcy scenario, the Unsecured Creditors would stand to receive nothing given that all the Petitioners' assets are pledged in favour of the Secured Creditors who are owed significantly more than the estimated realizable liquidation value of the said assets;
  - c. several direct and indirect jobs are at stake;

- d. the Petitioners continue to act diligently, in good faith and in the interest of their creditors;
- e. if the postponement of delays to make distributions under the Plan as requested by the Petitioners is not granted, there is a strong possibility that the Petitioners will go bankrupt, likely resulting in no distribution to the Unsecured Creditors;
- f. the ongoing operations continue to benefit the ongoing suppliers of goods and services.

DATED AT MONTREAL, this 7<sup>th</sup> day of May 2010.

**RSM Richter Inc.**  
Court-appointed Monitor

A handwritten signature in black ink, appearing to read 'Gilles Robillard', with a horizontal line underneath.

Gilles Robillard, CA, CIRP

**Schedule A**

<b>Blue Mountain Wallcoverings Group Inc.</b> <b>Projected Combined Summary Monthly Cash Flow</b> <b>For the period May 1, 2010 to August 31, 2010</b> <b>\$(,000)</b>					
	May	June	July	August	Total
Cash Receipts	2,412	2,889	2,994	2,805	11,100
Cash Disbursements	2,555	2,867	2,490	2,547	10,459
Cash flow from operations	(143)	22	504	258	640
Opening Bank position	147	4	25	529	147
Closing Bank position	4	25	529	787	787