

PEOPLES JEWELLERS LIMITED

NOTICE OF ANNUAL AND
SPECIAL MEETING
OF SHAREHOLDERS

— and —

NOTICES OF SPECIAL MEETINGS
OF SHAREHOLDERS AND CREDITORS

— and —

MANAGEMENT
PROXY
CIRCULAR

JUNE 23, 1993

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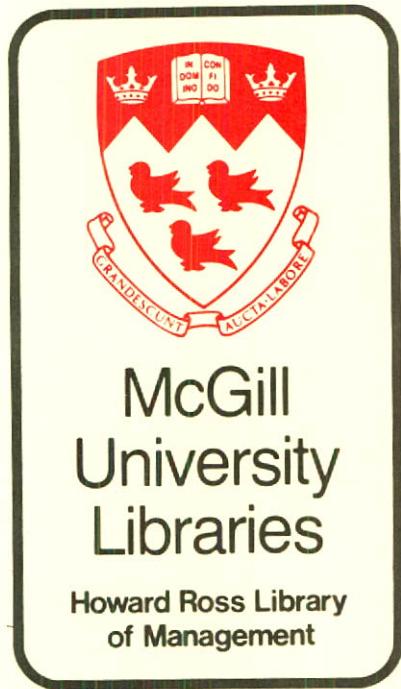


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June 23, 1993

Dear Shareholders and Creditors:

Pursuant to an amended and restated order dated June 23, 1993 (the "Interim Order") of the Ontario Court of Justice (General Division) (the "Court"), special meetings of shareholders and creditors are to be held in Toronto, Ontario, Canada on July 29, 1993 and July 30, 1993 to consider and vote upon a proposed plan of arrangement and compromise (the "Plan") involving the creditors and shareholders of Peoples Jewellers Limited (the "Corporation"). In addition to the foregoing special meetings, the Corporation has called an annual and special meeting of shareholders at which, among other things, the common shareholders only will be asked to elect directors, to appoint auditors and to receive the 1993 consolidated financial statements of the Corporation and all shareholders will be asked to approve by special resolution the continuance of the Corporation under the *Business Corporations Act* (Ontario) as a preliminary step to the Plan. Reference is made to the attached notices of meeting for the time and place of each meeting.

It will be apparent to you from the enclosed financial information that the Corporation is facing severe financial difficulties. The board of directors has appointed from among its members a Steering Committee of independent directors, whose responsibilities have included, among other things, reviewing the proposed Plan during the course of its negotiation and formulation and reporting thereon from time to time to the board. Management and the board of directors of the Corporation believe that the Plan, in substance, represents the best available solution to the Corporation's current financial difficulties. As noted in the management proxy circular (the "Circular") accompanying this letter, unsecured creditors (including, without limitation, holders of the debentures of the Corporation) and shareholders are unlikely to receive any payments or distributions in the event of either an immediate forced liquidation of the Corporation's assets or a transfer of selected assets to a corporation to be incorporated with the consent and approval of the Corporation's principal secured creditor. Acceptance of the Plan and the continued operation of the Corporation's business and affairs are expected to result in greater benefits accruing to all persons with an interest in the Corporation.

We appreciate how difficult creditors will find the prospect of a compromise of their claims against the Corporation and how difficult shareholders will find the very significant reduction of their equity interest in the Corporation. Recent history cannot, however, be altered and current circumstances must be addressed. We trust that you will recognize that significant efforts have been expended to formulate a balanced Plan which is as equitable as practicable to the Corporation's stakeholders given current difficulties. **The board of directors of the Corporation has carefully considered, and recommends that shareholders and creditors vote in favour of, the Plan.**

The Plan is the result of several months of intensive review, analysis and discussions. Such discussions are ongoing and, consequently, the Plan may be modified prior to the special meetings. The Corporation will use all reasonable efforts to communicate to you any modifications to the Plan.

The Plan comprises a complex transaction. The accompanying Circular contains a detailed description of the terms of the proposed Plan and the procedure for voting in respect thereof. You are urged to review this material carefully and, if you require assistance, to consult with your legal, tax or other professional advisors.

Implementation of the Plan is subject to a number of conditions being fulfilled, including its approval at a special meeting of each of the classes of creditors and shareholders of the Corporation established for voting purposes by the Court pursuant to the Interim Order. In order for the Plan to become effective, a further order of the Court approving the Plan will be required following the special meetings.

It is important that your interests as a shareholder be represented at the annual and special meeting and your interests as either a shareholder or a creditor, as the case may be, be represented at the relevant special meeting for your class. For that reason, we would appreciate your completing, signing, dating and returning the enclosed form(s) of proxy in the accompanying envelope(s). You are entitled to attend the relevant meeting and vote in person, even if you have returned your proxy.

Yours sincerely,

ROMAN DORONIUK (Signed)
Chief Financial Officer,
Executive Vice-President,
Finance and Administration, and
Acting Chief Operating Officer

E. DUFF SCOTT (Signed)
Acting Chairman of the Board
of Directors

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual and special meeting (the "Annual and Special Meeting") of the Shareholders (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held in the Essex Room of the Sheraton Hotel at 123 Queen Street West, Toronto, Ontario, Canada on July 29, 1993, at 10:00 a.m. (Toronto time) for the following purposes:

- (1) to receive the consolidated financial statements of the Corporation for the fiscal year ended March 31, 1993, with the report of the auditors thereon;
- (2) to elect directors;
- (3) to appoint auditors and authorize the directors to fix their remuneration;
- (4) to consider and, if thought fit, to pass, with or without variation, a special resolution authorizing the Corporation to apply to be continued as if it had been incorporated under the *Business Corporations Act* (Ontario) (the "Continuance"); and
- (5) to transact such other business as may properly come before the Annual and Special Meeting or any adjournment thereof.

The Continuance and the reasons therefor are described in the accompanying Circular. The full text of the proposed special resolution in respect of the Continuance is set out in Appendix F to the Circular. A Shareholder dissenting in respect of the Continuance is entitled to be paid the fair value of such Shareholder's shares in accordance with section 190 of the *Canada Business Corporations Act*.

The record date for the determination of those Shareholders entitled to receive this Notice (the "Record Date") is June 28, 1993.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Each Shareholder of the Corporation as at the Record Date is entitled to notice of the Annual and Special Meeting and any adjournment thereof. Subject to the following paragraph, each such Shareholder is entitled to vote thereat in connection with the Continuance on the basis of one vote per share held, but only holders of common shares are entitled to vote thereat in respect of matters other than the Continuance.

If a person transfers ownership of any shares after the Record Date, the transferee will be entitled to vote such shares upon demanding not later than ten (10) days prior to the Annual and Special Meeting that the transferee's name be included in the list of Shareholders entitled to vote at such meeting and establishing that the transferee owns such shares by producing properly endorsed share certificates or otherwise.

One or more of the following forms of proxy prepared for use at the Annual and Special Meeting are enclosed:

<u>Proxy</u>	<u>Colour</u>
(a) Common Shareholder Proxy	Green
(b) Class A Non-Voting Shareholder Proxy	Blue
(c) First Preferred Shareholder Proxy	Yellow

Whether or not you expect to attend the Annual and Special Meeting, please complete, date and sign the applicable enclosed form of proxy for each class of shares which you hold and return it in the envelope provided. Proxies must be delivered in sufficient time to ensure receipt by the transfer agent of the Corporation, Montreal

Trust Company of Canada, Proxy Department, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1 not later than 5:00 p.m. (Toronto time) on July 27, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Annual and Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Annual and Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Shareholders" in the Circular accompanying this Notice.

**NOTICE OF SPECIAL MEETING
OF CLASS A NON-VOTING SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Class A Non-Voting Shareholders (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited ("the Corporation") will be held in the Essex Room of the Sheraton Hotel at 123 Queen Street West, Toronto, Ontario, Canada on July 29, 1993, at 1:00 p.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a special resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed special resolution in respect of the Plan is set out in Appendix G to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order and the provisions of the *Business Corporations Act* (Ontario), the Class A Non-Voting Shareholders are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

The record date for the determination of those Class A Non-Voting Shareholders entitled to receive this Notice (the "Record Date") is June 28, 1993.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Class A Non-Voting Shareholders as at the Record Date are entitled to notice of the Special Meeting and any adjournment thereof, and are entitled to one vote per share on each matter to be acted upon thereat, except that if a person transfers ownership of any Class A Non-Voting Shares after the Record Date, the transferee will be entitled to vote such shares upon demanding not later than ten (10) days prior to the Special Meeting that the transferee's name be included in the list of shareholders entitled to vote at such meeting and establishing that the transferee owns such shares by producing properly endorsed share certificates or otherwise.

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Class A Non-Voting Shareholder proxy in respect of such meeting (which is printed on blue paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the transfer agent of the Corporation, Montreal Trust Company of Canada, Proxy Department, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1 not later than 5:00 p.m. (Toronto time) on July 27, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Shareholders" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF COMMON SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Common Shareholders (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held in the Essex Room of the Sheraton Hotel at 123 Queen Street West, Toronto, Ontario, Canada on July 29, 1993, at 2:00 p.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a special resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed special resolution in respect of the Plan is set out in Appendix G to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order and the provisions of the *Business Corporations Act* (Ontario), the Common Shareholders are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

The record date for the determination of those Common Shareholders entitled to receive this Notice (the "Record Date") is June 28, 1993.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Common Shareholders as at the Record Date are entitled to notice of the Special Meeting and any adjournment thereof, and are entitled to one vote per share on each matter to be acted upon thereat, except that if a person transfers ownership of any Common Shares after the Record Date, the transferee will be entitled to vote such shares upon demanding not later than ten (10) days prior to the Special Meeting that the transferee's name be included in the list of shareholders entitled to vote at such meeting and establishing that the transferee owns such shares by producing properly endorsed share certificates or otherwise.

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Common Shareholder proxy in respect of such meeting (which is printed on green paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the transfer agent of the Corporation, Montreal Trust Company of Canada, Proxy Department, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1, not later than 5:00 p.m. (Toronto time) on July 27, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Shareholders" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF FIRST PREFERRED SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the First Preferred Shareholders (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held in the Essex Room of the Sheraton Hotel at 123 Queen Street West, Toronto, Ontario, Canada on July 29, 1993 at 3:00 p.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a special resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed special resolution in respect of the Plan is set out in Appendix G to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order and the provisions of the *Business Corporations Act* (Ontario), the First Preferred Shareholders are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

The record date for the determination of those First Preferred Shareholders entitled to receive this Notice (the "Record Date") is June 28, 1993.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

First Preferred Shareholders as at the Record Date are entitled to notice of the Special Meeting and any adjournment thereof, and are entitled to one vote per share on each matter to be acted upon thereat, except that if a person transfers ownership of any First Preferred Shares after the Record Date, the transferee will be entitled to vote such shares upon demanding not later than ten (10) days prior to the Special Meeting that the transferee's name be included in the list of shareholders entitled to vote at such meeting and establishing that the transferee owns such shares by producing properly endorsed share certificates or otherwise.

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of First Preferred Shareholder proxy in respect of such meeting (which is printed on yellow paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the transfer agent of the Corporation, Montreal Trust Company of Canada, Proxy Department, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1, not later than 5:00 p.m. (Toronto time) on July 27, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Shareholders" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF FIRST MORTGAGE BONDHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the First Mortgage Bondholders (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held at the offices of Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario, Canada on July 30, 1993 at 8:00 a.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed resolution in respect of the Plan is set out in Appendix H to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order, the First Mortgage Bondholders are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of First Mortgage Bondholder proxy (which is printed on grey paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, Canada M5K 1J7 Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Creditors" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF CAPITAL LEASE CREDITOR

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Capital Lease Creditor (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held at the offices of Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario, Canada on July 30, 1993 at 8:30 a.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed resolution in respect of the Plan is set out in Appendix H to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order, the Capital Lease Creditor is to vote as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Capital Lease Creditor proxy (which is printed on beige paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, Canada M5K 1J7 Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Creditors" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF UNSECURED CREDITORS

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Unsecured Creditors (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held in the Essex Room of the Sheraton Hotel at 123 Queen Street West, Toronto, Ontario, Canada on July 30, 1993 at 9:00 a.m. (Toronto time) for the following purposes:

1. conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
2. to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed resolution in respect of the Plan is set out in Appendix H to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order, the Unsecured Creditors are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Unsecured Creditor proxy (which is printed on pink paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, Canada M5K 1J7 Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Creditors" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF LANDLORDS

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Landlords (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held in the Essex Room of the Sheraton Hotel at 123 Queen Street West, Toronto, Ontario, Canada on July 30, 1993 at 10:30 a.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed resolution in respect of the Plan is set out in Appendix H to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order, the Landlords are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Landlord proxy (which is printed on orange paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, Canada M5K 1J7 Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Creditors" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF ZALE CLAIMANTS

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Zale Claimants (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held at the offices of Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario, Canada on July 30, 1993 at 12:30 p.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed resolution in respect of the Plan is set out in Appendix H to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order, the Zale Claimants are to vote together as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Zale Claimant proxy (which is printed on white paper) and return it in the envelope provided. The Interim Order specifies that proxies must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, Canada M5K 1J7 Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation — Creditors" in the Circular accompanying this Notice.

NOTICE OF SPECIAL MEETING OF BANK CREDITOR

NOTICE IS HEREBY GIVEN that a special meeting (the "Special Meeting") of the Bank Creditor (as defined in the "Glossary of Terms" included in the accompanying management proxy circular (the "Circular")) of Peoples Jewellers Limited (the "Corporation") will be held at the offices of Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario, Canada on July 30, 1993 at 1:00 p.m. (Toronto time) for the following purposes:

- (1) conditional upon the continuance of the Corporation under the *Business Corporations Act* (Ontario), to consider and, if thought fit, to pass, with or without variation, a resolution to approve a plan of arrangement and compromise (the "Plan") proposed by the Corporation under the *Companies' Creditors Arrangement Act* (Canada) and section 182 of the *Business Corporations Act* (Ontario); and
- (2) to transact such other business as may properly come before the Special Meeting or any adjournment thereof.

The Plan and the reasons therefor are described in the accompanying Circular. The full text of the proposed resolution in respect of the Plan is set out in Appendix H to the Circular.

The Plan is being considered pursuant to an order of the Ontario Court of Justice (General Division) (the "Court") dated May 10, 1993, as amended and restated on June 23, 1993, (the "Interim Order") and the Plan must be approved by a final order of the Court. Pursuant to the Interim Order, the Bank Creditor is to vote as one class in respect of the Plan. The text of the Interim Order is reproduced in full in Appendix E to the Circular.

DATED at Toronto, Ontario, Canada this 23rd day of June, 1993.

By Order of the Board of Directors

ROMAN DORONIUK
Chief Financial Officer,
Executive Vice-President,
Finance and Administration,
and Acting Chief Operating Officer

Whether or not you expect to attend the Special Meeting, please complete, date and sign the enclosed form of Bank Creditor proxy (which is printed on red paper) and return it in the envelope provided. The Interim Order specifies that the proxies must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, Canada M5K 1J7 Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Special Meeting is to be held. Proxies may also be deposited with the Chairman of the Special Meeting or any adjournment thereof prior to the commencement thereof. For further information respecting proxies, reference should be made to "Proxy Solicitation - Creditors" in the Circular accompanying this Notice.

PEOPLES JEWELLERS LIMITED

MANAGEMENT PROXY CIRCULAR

**Annual and Special Meeting of Shareholders
to be held on July 29, 1993**

— and —

**Special Meetings of Class A Non-Voting Shareholders,
Common Shareholders and First Preferred Shareholders
to be held on July 29, 1993**

— and —

**Special Meetings of the First Mortgage Bondholders,
Capital Lease Creditor, Unsecured Creditors,
Landlords, Zale Claimants and Bank Creditor
to be held on July 30, 1993**

GLOSSARY OF TERMS

In this Circular, unless otherwise stated or unless the context otherwise requires, the following capitalized terms shall have the meanings set out below:

Abandoned Lease	Any Lease held by the Corporation on or before the Date of Filing and abandoned by the Corporation on or before the Plan Implementation Date.
Accepted Claim for Voting Purposes	The Claim of a Creditor or the portion of the Claim of the EPP Trustee and the DPSP Trustee allocated to an EPP Beneficiary or a DPSP Beneficiary, as the case may be, accepted for voting purposes as set out in Section 3.7 of the Plan.
Annual and Special Meeting	The annual and special meeting of the Shareholders to be called, held and conducted immediately prior to the Shareholders' Meetings for the purpose, among other things, of considering and voting upon the continuance of the Corporation under the OBCA, and any adjournment thereof.
Arrangement	The arrangement proposed under the Plan which is to be implemented pursuant to section 182 of the OBCA.
Articles of Arrangement	The articles of arrangement of the Corporation in respect of the Arrangement required by subsection 183(1) of the OBCA to be sent to the OBCA Director after the Final Order has been made.
Bank	The Bank of Nova Scotia, a Schedule I Canadian chartered bank.
Bank Creditor	In its capacity as such, the Bank as the holder of the Bank Secured Debt.
Bank Secured Debt	At any time, the Indebtedness, as to principal, interest and otherwise, of the Corporation to the Bank pursuant to the terms and conditions of the Credit Agreements, the security granted thereunder, the Option Agreement, the Share Issuance Agreement and the Interest Rate Swap Agreement but, for greater certainty, excluding any Indebtedness of the Corporation to the Bank pursuant to the terms and conditions of the New Credit Agreement.
BIA	<i>Bankruptcy and Insolvency Act</i> (Canada), R.S.C. 1985, c. B-3, including any regulations promulgated thereunder, both as amended from time to time.
Base Rent	In respect of each Abandoned Lease (as amended by any agreement, verbal or written, respecting a reduction in rentals), the monthly rent payable by the Corporation pursuant to the Abandoned Lease for the last completed monthly rental period under such Abandoned Lease prior to the date such Abandoned Lease was abandoned by the Corporation, in each case without regard to any amounts payable under the Lease for utilities, taxes, common area maintenance charges, percentage rent or other additional amounts, and excluding any interest or other charges.
Business Day	A day which is not (i) a Saturday or a Sunday; or (ii) a day observed as a holiday under the laws of the Province of Ontario or the federal laws of Canada applicable therein.
Business Plan	The business plan dated May 17, 1993 prepared by the Corporation.
CBCA	<i>Canada Business Corporations Act</i> , R.S.C. 1985, c. C-44, including any regulations promulgated thereunder, both as amended from time to time.
CBCA Director	The Director appointed under section 260 of the CBCA.
CCAA	<i>Companies' Creditors Arrangement Act</i> , R.S.C. 1985, c. C-36, including any rules promulgated thereunder, both as amended from time to time.
Canadian Dollars, Dollars or \$	Dollars denominated in lawful currency of Canada.

Capital Lease Agreement	The agreement dated July 19, 1990 between the Corporation and the Capital Lease Creditor with respect to the lease of certain personal property by the Corporation from the Capital Lease Creditor.
Capital Lease Agreement Amendments	The following amendments to, deletions from and other modifications of the Capital Lease Agreement to be made effective as part of the Plan: <ul style="list-style-type: none"> (i) reduction of the principal amount of the Indebtedness outstanding under such agreement to the Realizable Value Amount; (ii) repayment by the Corporation to the Capital Lease Creditor of \$350,000 of the Realizable Value Amount on the Plan Implementation Date; (iii) repayment by the Corporation to the Capital Lease Creditor of the remainder of the Realizable Value Amount on a monthly basis at the rate of \$37,190 per month commencing on the first day of the sixth calendar month next following the Plan Implementation Date; and (iv) payment by the Corporation to the Capital Lease Creditor of interest at the rate of 8% per annum calculated and payable monthly on the principal amount outstanding from time to time, commencing on the first day of the sixth calendar month next following the Plan Implementation Date.
Capital Lease Creditor	In its capacity as such, Confederation Leasing Limited as holder of the Capital Lease Debt.
Capital Lease Debt	At any time, the Indebtedness, as to principal, interest or otherwise, of the Corporation pursuant to the terms and conditions of the Capital Lease Agreement.
Certificate of Arrangement	The certificate of arrangement to be issued to the Corporation pursuant to subsection 183(2) of the OBCA in respect of the Arrangement.
Circular	This management proxy circular of the Corporation dated June 23, 1993, including the appendices attached hereto.
Claim	Any right of any Person against the Corporation in connection with any Indebtedness, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and whether or not such a right is executory in nature, including, without limitation, the right or ability of any Person to advance a claim for 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 based in whole or in part on facts which exist prior to or at the time of the first Creditors' Meeting.
Claims Officer	The claims officer appointed pursuant to the Interim Order for the purposes of attempting to resolve disputes between the Corporation and its Creditors concerning the Claims of such Creditors and the determination of their Proven Claims.
Class	Each group of Claims or each class of Shareholders, as the case may be, designated by Section 3.1 of the Plan or by the Interim Order.
Class A Non-Voting Shareholders	In their capacities as such, the holders of Class A Non-Voting Shares.
Class A Non-Voting Shares	The Class A Non-Voting Shares in the capital of the Corporation issued and outstanding and as constituted immediately prior to the Plan Implementation Date or which are issued upon conversion of any First Preferred Shares pursuant to Subsection 4.2(c) of the Plan.
Class Creditors' List	The list of names and addresses of Creditors, the DPSP Beneficiaries and EPP Beneficiaries and their Accepted Claims for Voting Purposes to be prepared by the Corporation by June 30, 1993 and maintained at its Head Office and made available to

Creditors upon request, all as provided in the Interim Order and Subsection 3.9(13) of the Plan.

Class One Preferred Shares	The Class One Cumulative Retractable Redeemable Convertible Preferred Shares in the capital of the Corporation, which shall be convertible into New Common Shares representing, upon conversion in full and on a fully diluted basis, 78% of the New Common Shares issued and outstanding after such conversion, to be authorized by the Articles of Arrangement, to be issued to the Bank Creditor in accordance with the Plan, and which shall have attached thereto substantially the rights, privileges, conditions and restrictions described in Schedule 2 to the Plan.
Common Shareholders	In their capacities as such, the holders of Common Shares.
Common Shares	The Common Shares in the capital of the Corporation issued and outstanding and as constituted immediately prior to the Plan Implementation Date.
Contingent Creditor	Any Creditor with a Claim which is contingent or unliquidated or both, on any particular date, provided that the Zale Claimants shall not be considered Contingent Creditors for any purposes under the Plan.
Corporation or Peoples	Peoples Jewellers Limited, a corporation existing under the CBCA and to be continued under the OBCA prior to the Shareholders' Meetings.
Court	Ontario Court of Justice (General Division).
Credit Agreements	Collectively, the agreement dated as of November 14, 1991, as amended by supplemental agreements dated as of February 14, 1992, August 25, 1992, October 19, 1992, November 15, 1992, June 9, 1993 and June 15, 1993 among the Corporation, as borrower, 779159 Ontario Inc. and 830890 Ontario Inc., as guarantors, and the Bank, as lender and as agent; and the amended and restated agreement dated as of August 25, 1992, among the Corporation, as borrower, 779159 Ontario Inc. and 830890 Ontario Inc., as guarantors, and the Bank, as lender and as agent, as amended by a supplemental agreement dated as of October 19, 1992, as each of these agreements may be further amended from time to time.
Creditor	In its capacity as such, any Person having a Claim and, if the context so requires in the case of a Represented Creditor, the respective Represented Creditors' Trustee acting on behalf of such Represented Creditor, but a Creditor shall not include, in its capacity as such, a Person having a Claim in respect of an Unaffected Obligation.
Creditors' Meetings	The special meetings of the Classes of Creditors called for the purpose of considering and voting upon the Plan and any adjournment thereof.
Creditors' Meetings Dates	The date(s) fixed for the Creditors' Meetings.
DPS Order	The Order described in Section 8.10 of the Plan.
DPSP	The deferred profit sharing plan established by the Corporation as of January 1, 1988 for the benefit of certain employees of the Corporation.
DPSP Beneficiaries	In their capacities as such, Persons who are beneficiaries under the DPSP.
DPSP Trustee	The Canada Trust Company, or its successors or assigns, as trustee for the DPSP.
Date of Filing	December 29, 1992, being the date upon which the Initial Order was made.
Debentureholders	In their capacities as such, the holders of the Debentures.
Debentureholders' Trustee	Montreal Trust Company of Canada, or its successors or assigns, as trustee under the Trust Indentures.
Debentures	The 1985 Debentures, 1986 Debentures and 1990 Debentures.

Deed of Trust and Mortgage	The deed of trust and mortgage dated as of December 15, 1988 between the Corporation and the First Mortgage Bond Trustee relating to the First Mortgage Bonds.
Directors	The directors of the Corporation and, where applicable, the board of directors of the Corporation.
Disallowance	The notice provided by the Corporation to a Creditor revising or rejecting a Notice of Objection, all in accordance with Subsection 3.9(8) of the Plan.
Dispute Notice	The notice provided by a Creditor to the Corporation to dispute a Disallowance by the Corporation of any part of a Claim, all in accordance with Subsection 3.9(9) of the Plan.
Distributing Agent	The Person to be appointed from time to time by the Court to distribute New Common Shares as may be required pursuant to Subsections 4.6(c) and 4.7(b) of the Plan.
EPP	The non-contributory executive pension plan established December 1, 1979 for the benefit of certain executives of the Corporation.
EPP Beneficiaries	In their capacities as such, Persons who are beneficiaries under the EPP.
EPP Trustee	TD Trust Company, or its successors or assigns, as trustee for the EPP.
Employee Creditors	In their capacities as such, Creditors who, as at the date of the Unsecured Creditors' Meeting, are former employees of the Corporation or are employees of the Corporation who have been given notice of termination of their employment prior to the date of the Unsecured Creditors' Meeting and who have Claims against the Corporation in respect of the termination of their employment with the Corporation and references to "Claims of Employee Creditors" and similar phrases mean and refer to the Claims of such Employee Creditors in respect of the termination of their employment with the Corporation.
Employee Stock Purchase Plan	The employee stock purchase plan created by the Corporation, pursuant to the terms of which share purchase loans were made to certain employees of the Corporation and its subsidiaries to assist such employees in the purchase of First Preferred Shares, the First Preferred Shares so purchased being held by the trustee of the plan for the benefit of the relevant employees.
Equipment Financier	Any Person who has provided a financing facility to the Corporation for the acquisition or installation of office equipment, furnishings, trade fixtures, leasehold improvements or other assets or chattels and in respect of which such Person has retained a security interest by way of a lease, chattel mortgage, conditional sale agreement, debenture, security agreement or other security instrument provided that such financing facility has not been terminated and no notice to terminate has been given by the Corporation prior to the Plan Implementation Date, and provided that the Capital Lease Creditor is expressly not an Equipment Financier.
Final Order	The Order of the Court approving the Plan to be granted pursuant to the provisions of the CCAA and clause 182(5)(f) of the OBCA, as such order may be amended or modified by any court of competent jurisdiction, after (i) the expiry of applicable appeal periods or (ii) in the event of an appeal or application for leave to appeal, final determination by the applicable appellate tribunal.
First Mortgage Bondholders	In their capacities as such, the holders of the First Mortgage Bonds.
First Mortgage Bonds	The 11.75% First Mortgage Bonds, Series A, due December 15, 2008 of the Corporation, in an original aggregate principal amount of \$15,000,000, issued and outstanding under the Deed of Trust and Mortgage and secured by a mortgage on the Head Office.

First Mortgage Bond Trustee	The R-M Trust Company, as agent for National Trust Company, or its successors or assigns, as trustee under the Deed of Trust and Mortgage.
First Preferred Shareholders	In their capacities as such, the holders of the First Preferred Shares.
First Preferred Shares	Collectively, the First Preferred Shares in the capital of the Corporation issued and outstanding and as constituted immediately prior to the Plan Implementation Date.
Head Office	The lands and premises in the City of North York, Ontario, at the municipal address known as 1440 Don Mills Road, as more particularly described in Schedule "A" to the Deed of Trust and Mortgage and including any "Expansions", "Renovations" and "Redevelopments" (each as defined in the Deed of Trust and Mortgage) thereof.
Indebtedness	In respect of any Creditor, and on any particular date, all of the indebtedness, liabilities and obligations of any kind of the Corporation to such Creditor as at the close of business on such date, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise, including, without limitation, all outstanding principal and interest owing by the Corporation to such Creditor.
Initial Order	The Order of the Court made on the Date of Filing pursuant to which, among other things, the Corporation was provided protection under the CCAA, a copy of which is attached as Appendix C to this Circular.
Interest Rate Swap Agreement	The interest rate swap agreement dated September 7, 1990 between the Bank Creditor and the Corporation.
Interim Creditors	In their capacities as such, Creditors (other than employees) who have supplied or do supply services, utilities, goods or materials during the Interim Period, but only to the extent of their Claims in respect of the supply of such services, utilities, goods or materials during the Interim Period, and only to the extent that their Claims in respect of the supply of such services, utilities, goods or materials do not arise out of a period subsequent to the date the Corporation terminated, repudiated or refuted the contract for such supply.
Interim Order	The Order of the Court dated May 10, 1993, as amended and restated on June 23, 1993, and as the same may be amended further from time to time, and pursuant to which, among other things, the Creditors' Meetings and the Shareholders' Meetings are being called. A copy of the Interim Order is attached as Appendix E to this Circular.
Interim Period	The period from and excluding the Date of Filing to and including the Plan Implementation Date.
Interim Period Debt	At any time, Indebtedness owing by the Corporation to Interim Creditors.
JHC	Jewelers Holding Corporation, a corporation incorporated under the laws of the State of Delaware.
Junior Preferred Shares	The Junior Preferred Shares in the capital of the Corporation as constituted immediately prior to the Plan Implementation Date.
Landlord	In its capacity as such, any landlord, head lessor, sublessor or owner, whether or not in direct privity with the Corporation, of any premises leased by the Corporation pursuant to a Lease, including any mortgagee of such premises who has taken possession of such premises or is collecting rent in respect of such premises as well as any party other than the Bank Creditor who has taken an assignment of rents or assignment of lease in respect of such premises, whether as security or otherwise.
Lease	Any lease, sublease, agreement to lease, offer to lease or similar agreement pursuant to which the Corporation has, had or will have the right to occupy premises.

Leased Property	The property leased by the Corporation which is subject to the security interest created by the Capital Lease Agreement which is still in use on the Plan Implementation Date or is to be retained by the Corporation.
Leased Property Deficiency	The amount which is equal to the difference between the amount of the Capital Lease Creditor's Proven Claim and the Realizable Value Amount.
ME	The Montreal Exchange.
Market Value Amount	The value of the Head Office as at the Date of Filing determined for the purposes of the Plan to be \$6,500,000.
Meetings	Creditors' Meetings and/or Shareholders' Meetings, as the case may be.
Monitor	Ernst & Young Inc., and any successor thereto, appointed by the Court to act as Monitor in the Proceedings.
Mortgage Debt	At any time, the Indebtedness, as to principal, interest and otherwise, of the Corporation to the First Mortgage Bondholders pursuant to the terms and conditions of the First Mortgage Bonds and of the Deed of Trust and Mortgage.
Mortgage Deficiency	The amount which is equal to the difference between the aggregate amount of the First Mortgage Bondholders' Proven Claims and the Market Value Amount.
New Capital Lease Agreement	The restated and amended Capital Lease Agreement to be entered into between the Corporation and the Capital Lease Creditor providing for, among other things, the Capital Lease Agreement Amendments, which shall come into full force and effect upon the Plan Implementation Date as part of the Plan.
New Common Shares	The new class of common shares in the capital of the Corporation to be authorized by the Articles of Arrangement, to be issued in accordance with the Plan and which shall have attached thereto substantially the rights, privileges, conditions and restrictions described in Schedule 1 to the Plan.
New Credit Agreement	The credit agreement to be entered into between the Corporation and the New Creditor, as amended from time to time, which shall come into full force and effect upon the Plan Implementation Date as part of the Plan.
New Creditor	In its capacity as such, the provider of additional credit to the Corporation pursuant to the terms and conditions of the New Credit Agreement.
Newco	A corporation to be incorporated under the OBCA, all of the common shares of which will be owned by the Corporation.
Newco Preferred Share Documentation	The agreements and instruments to be executed and delivered in connection with the issuance of the Newco Preferred Shares, all in form and substance satisfactory to the Corporation and the Bank Creditor.
Newco Preferred Shares	The Class A Preferred Shares in the capital of Newco to be issued in accordance with the Plan and which shall have attached thereto substantially the rights, privileges, conditions and restrictions described in Schedule 3 to the Plan.
1985 Debentures	The 14.25% Retractable Debentures due July 2, 1995 of the Corporation, in an aggregate principal amount of \$17,944,000, issued and outstanding under the 1985 Trust Indenture.
1985 Trust Indenture	The trust indenture dated as of July 11, 1985 between the Corporation and the Debentureholders' Trustee, as successor trustee, as modified, supplemented and amended from time to time, relating to the 1985 Debentures.
1986 Debentures	The 12.5% Senior Unsecured Debentures due July 2, 1996 of the Corporation, in an aggregate principal amount of \$5,500,000, issued and outstanding under the 1986 Trust Indenture.

1986 Trust Indenture	The trust indenture dated as of June 30, 1986 between the Corporation and the Debentureholders' Trustee, as successor trustee, as modified, supplemented and amended from time to time, relating to the 1986 Debentures.
1990 Debentures	The 13.75% Senior Unsecured Debentures due June 29, 1995 of the Corporation, in an aggregate principal amount of \$17,000,000, issued and outstanding under the 1990 Trust Indenture.
1990 Trust Indenture	The trust indenture dated as of June 29, 1990 between the Corporation and the Debentureholders' Trustee, as trustee, as modified, supplemented and amended from time to time, relating to the 1990 Debentures.
Non-Exempt U.S. Shareholders	Shareholders resident in the state of California or Ohio or any other state or territory of the United States of America where the filing of a prospectus, registration statement or similar document would be required pursuant to the securities laws of such state or territory for the issuance to such Shareholders of New Common Shares pursuant to the Plan.
Non-Exempt U.S. Shareholders' Trustee	Montreal Trust Company of Canada, or its successors or assigns, as trustee for and on behalf of the Non-Exempt U.S. Shareholders.
Notice of Objection	The notice to be filed by a Creditor with the Corporation to dispute the amount of its Claim as determined by the Corporation, all in accordance with Subsection 3.9(5) of the Plan.
OBCA	<i>Business Corporations Act</i> (Ontario), R.S.O. 1990, c. B-16, including any regulations promulgated thereunder, both as amended from time to time.
OBCA Director	The Director appointed under section 278 of the OBCA.
Option Agreement	The option agreement dated as of August 23, 1990 between the Corporation and the Bank Creditor, as amended from time to time.
Order	An order of the Court in the Proceedings.
Over \$5,000 Claim	In respect of any Creditor whose Claim or portion thereof is dealt with in the Unsecured Creditors' Class, the Proven Claim or portion thereof, as the case may be, of such Creditor if such Proven Claim or portion thereof exceeds \$5,000.
Person	An individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other juridical entity howsoever designated or constituted.
Plan	The plan of arrangement and compromise of the Corporation under the CCAA and the Arrangement contained therein pursuant to the OBCA, as set out in Appendix A to this Circular, as the same may be supplemented or amended from time to time in accordance with the terms of the Plan and the CCAA.
Plan Implementation Date	The date on which all conditions to the implementation of the Plan, set out in Section 8.9 of the Plan, shall have been fulfilled, satisfied or waived.
Proceedings	Any proceedings before the Court in connection with the development, filing, approval and implementation of the Plan.
Proven Claim	The amount of the Claim of a Creditor finally determined in accordance with the provisions of the CCAA and of the Plan, which amount will not include any interest or penalty charges unless otherwise expressly permitted by the Plan or an Order of the Court.
Realizable Value Amount	The realizable value of the Leased Property determined for the purposes of the Plan to be \$1,912,000.
Record Date	In respect of the Annual and Special Meeting and the Shareholders' Meetings, June 28, 1993.

Rent Abatement Agreement	An agreement with respect to the abatement of rents proposed to be entered into between the Corporation and each Landlord with a Lease other than an Abandoned Lease as contemplated by Subsection 6.3(2) of the Plan.
Represented Creditors	The First Mortgage Bondholders and the Debentureholders.
Represented Creditors' Trustee	In their capacities as such, each of the First Mortgage Bond Trustee and the Debentureholders' Trustee.
Share Issuance Agreement	The share issuance agreement dated as of August 25, 1992 between the Bank Creditor and the Corporation.
Shareholders	In their capacities as such, collectively, the Class A Non-Voting Shareholders, the Common Shareholders and the First Preferred Shareholders.
Shareholders' Meetings	The special meetings of the Shareholders called for the purpose of considering and voting upon the Plan and any adjournment thereof.
Shares	The Class A Non-Voting Shares, Common Shares and First Preferred Shares.
Steering Committee	The special committee of the Board of Directors formed to consider, among other things, management's plans relating to the restructuring of the Corporation.
TSE	The Toronto Stock Exchange.
Tax Ruling	An advance income tax ruling from Revenue Canada, Taxation relating to, among other things, the Newco Preferred Shares.
Texas Condominium	The condominium property known as Penthouse C, 3510 Turtle Creek Blvd., Dallas, Dallas County, Texas, currently owned by the Corporation.
Trade Creditors	In their capacities as such, Creditors who supplied goods, services, materials or utilities prior to the Date of Filing, but only to the extent of their Claims in respect of the supply of such goods, services, materials or utilities prior to the Date of Filing.
Transfer Agent	Montreal Trust Company of Canada, or its successors or assigns, as registrar and transfer agent for the Shares.
Trust Indentures	Collectively, the 1985 Trust Indenture, the 1986 Trust Indenture and the 1990 Trust Indenture.
Trustee's Statement	Individually, each of the Trustee's Statements required to be filed with the Corporation pursuant to Subsections 3.9(2) and 3.9(3) of the Plan.
Unaffected Obligations	The obligations of the Corporation set out in Schedule 4 to the Plan.
Under \$5,000 Claim	In respect of any Creditor whose Claim or portion thereof is dealt with in the Unsecured Creditors' Class, the Proven Claim or portion thereof, as the case may be, of such Creditor if such Proven Claim or such portion thereof does not exceed \$5,000.
Under \$5,000 Payment Date	The date which is 60 days after the Plan Implementation Date.
Unsecured Creditors	All Creditors of the Corporation with Claims other than Claims in respect of Unaffected Obligations and other than Claims dealt with in a Class other than the Unsecured Creditors' Class and, without limitation, shall include the First Mortgage Bondholders and the Capital Lease Creditor to the extent of the portion of their Claims not dealt with in the First Mortgage Bondholders' Class and the Capital Lease Creditor's Class, respectively, the Contingent Creditors, the Debentureholders, the Trade Creditors, the Employee Creditors, the DPSP Trustee and the EPP Trustee.
U.S. Dollars or U.S.\$	Lawful money of the United States of America.
Voting Claim	The form of proof of claim sent to each Creditor known to it by the Corporation as described in Subsection 3.9(1) of the Plan.
ZHC	Zale Holding Corporation, a corporation incorporated under the laws of the State of Delaware.

Zale	Zale Corporation, a corporation reincorporated under the laws of the State of Delaware.
The Zale Corporation	Prior to the effective date of the Zale Plan, Zale and its affiliated debtors, as debtors and debtors in possession under Chapter 11 of the United States Bankruptcy Code, United States Bankruptcy Court for the Northern District of Texas, Dallas Division, case numbers 392-3001- SAF-11, 392-3002- SAF-11, 392-30706- SAF-11 to 392-30720- SAF-11 and 392-31520- SAF-11, and on and after the effective date of the Zale Plan, reorganized Zale as reorganized pursuant to the Zale Plan.
Zale Claimants	In their capacities as such, all Persons that hold Zale Claims.
Zale Claims	Any Claims against the Corporation that, as of May 30, 1993, (i) are owned by The Zale Corporation or any of its affiliates, (ii) were previously owned by a creditor of The Zale Corporation or any of its affiliated debtors who has, pursuant to the Zale Plan, assigned such Claims to The Zale Corporation or, (iii) are owned by any plaintiff in the action titled <i>George C. Witte v. Zale Holding Corporation et al.</i> , case no. CA3-92-CV0138-X, pending in the United States District Court for the Northern District of Texas, Dallas Division.
Zale Plan	The Plan of Reorganization under Chapter 11 of the Bankruptcy Code of the United States of America for Zale and its affiliated debtors proposed by the debtors and the Official Committees of Unsecured Creditors of Zale Corporation, Gordon Jewelry Corporation and Zale Credit Corporation, the ad hoc Committees of Unsecured Trade Creditors of Zale Corporation and Gordon Jewelry Corporation, and the Bank Group, dated March 24, 1993 as filed in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division.

EXCHANGE RATE OF THE CANADIAN DOLLAR

In this Circular, unless otherwise specified, all dollar amounts are expressed in Canadian Dollars. The Government of Canada permits a floating exchange rate to determine the value of the Canadian Dollar against the U.S. Dollar. The exchange rates at the end of each of the past five years ended March 31, 1993, and the average, high and low exchange rates for each of such five years, were as follows (such rates, which are expressed in U.S. Dollars, being the noon buying rates in New York City for cable transfers in Canadian Dollars as certified for customs purposes by the Federal Reserve Bank of New York):

	Year ended March 31,				
	1993	1992	1991	1990	1989
At end of period	\$1.2585	\$1.1892	\$1.1577	\$1.1695	\$1.1925
Average for period*	1.2284	1.1519	1.1593	1.1809	1.2102
High for period	1.2678	1.1892	1.1646	1.2071	1.2330
Low for period	1.1840	1.1226	1.1503	1.1585	1.1835

*Based on the average of the exchange rates on the last business day of each month during the period.

During the period from April 1, 1993 to June 22, 1993, such average, high and low exchange rates, respectively, were \$1.2705, \$1.2870 and \$1.2595. As at June 22, 1993, such exchange rate was U.S. \$1.00 = \$1.2792 (noon rate). The closing spot rate for the U.S. dollar in Canada on June 22, 1993, as reported by the Bank of Canada, was U.S.\$1.00 = \$1.2779.

SUMMARY OF CIRCULAR

The following is a summary of certain information contained elsewhere in this Circular, including the Appendices hereto. This summary is provided for convenience only and is qualified in its entirety by the more detailed information and consolidated financial statements appearing or referred to elsewhere in this Circular, including the Appendices hereto. Certain capitalized words and terms used in this summary are defined in the "Glossary of Terms".

Meetings

Pursuant to the Interim Order, the Corporation has called nine separate Meetings of Shareholders and Creditors for the primary purpose of considering and, if thought fit, approving the Plan pursuant to section 182 of the OBGA and under the CCAA. An Annual and Special Meeting has also been called to elect directors, to appoint auditors, to receive the 1993 consolidated financial statements of the Corporation and to consider and, if thought fit, to authorize an application for continuance of the Corporation under the OBGA as a preliminary step to the Plan. While all Shareholders are entitled to notice of the Annual and Special Meeting and are entitled to vote thereat in connection with the continuance under the OBGA, only Common Shareholders are entitled to vote thereat in respect of matters other than the continuance.

The meetings will be held in Toronto, Ontario, Canada in the following locations, on the following dates and commencing at the following times:

<u>Meetings of Shareholders</u>	<u>Location</u>	<u>Date</u>	<u>Time</u>
Annual and Special Meeting	Sheraton Hotel (1)	July 29, 1993	10:00 a.m.
Class A Non-Voting Shareholders	Sheraton Hotel (1)	July 29, 1993	1:00 p.m.
Common Shareholders	Sheraton Hotel (1)	July 29, 1993	2:00 p.m.
First Preferred Shareholders	Sheraton Hotel (1)	July 29, 1993	3:00 p.m.
<u>Creditors' Meetings</u>	<u>Location</u>	<u>Date</u>	<u>Time</u>
First Mortgage Bondholders	Stikeman, Elliott (2)	July 30, 1993	8:00 a.m.
Capital Lease Creditor	Stikeman, Elliott (2)	July 30, 1993	8:30 a.m.
Unsecured Creditors	Sheraton Hotel (1)	July 30, 1993	9:00 a.m.
Landlords	Sheraton Hotel (1)	July 30, 1993	10:30 a.m.
Zale Claimants	Stikeman, Elliott (2)	July 30, 1993	12:30 p.m.
Bank Creditor	Stikeman, Elliott (2)	July 30, 1993	1:00 p.m.

(1) Sheraton Hotel, Essex Room, 123 Queen Street West, Toronto, Ontario, Canada.

(2) Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario, Canada.

Background

The Corporation has been experiencing significant financial difficulties in recent times and is currently insolvent. In view of continuing economic weakness and resulting poor cashflow, the Corporation is in default of its obligations under the Credit Agreements and has been unable to meet interest obligations to Debentureholders or to pay its other Creditors on agreed upon terms. Since the Date of Filing, as permitted by Order of the Court, the Bank has demanded repayment of the Bank Secured Debt and has delivered to the Corporation notices of intention to enforce security under the BIA. If proceedings against the Corporation had not been stayed by the Initial Order made by the Court under the CCAA, management believes that the Bank would have sought to install a receiver or receiver and manager to realize upon its security in the Corporation's assets and undertaking. In order to avoid this, on the Date of Filing the Corporation applied to the Court seeking protection from its Creditors under the provisions of the CCAA. The Initial Order was granted staying all proceedings of Creditors against Peoples until March 31, 1993 pending preparation and filing by it of a plan of arrangement and compromise by February 26, 1993. By subsequent Orders of the Court, the date for filing a plan was extended to April 21, 1993, and the stay of proceedings has been extended to September 15, 1993.

The Steering Committee and other members of the Board of Directors together with management, and their financial and legal advisors, have been working to formulate, in consultation with the Corporation's principal constituents, a comprehensive financial restructuring plan of arrangement and compromise. Concurrently, and with the authorization of the Court, non-binding letters of intent were sought from potential purchasers of the

Corporation's business and assets. This solicitation process did not result in the making of an acceptable offer. Peoples originally filed a plan of arrangement and compromise with the Court on April 21, 1993, as required by the Court. The terms of such plan have subsequently been revised and the Plan, as revised, was filed with the Court on June 23, 1993. On the same date, the Corporation obtained from the Court the Interim Order in amended and restated form.

The Plan represents a material component in the restructuring of the Corporation's business and affairs and follows or accompanies other measures intended to produce significant operational improvements, including the downsizing of operations and the sale or closure of certain under-performing stores. The objective of the Plan is to permit the Corporation to continue as a financially stable and economically viable operation over the long term in the expectation that all Persons with interests in the Corporation will derive a greater benefit from the continued operation of its business and affairs on such a basis than would result from the immediate forced liquidation of the Corporation's assets or a transfer of selected assets to a corporation to be incorporated with the consent and approval of the Bank Creditor.

The Corporation commenced an operational restructuring in January 1992 which has continued in conjunction with the Corporation's filing for protection under the CCAA. This has resulted in the closure of 73 under-performing stores, a significant reduction in corporate overheads and a corresponding reduction in staff. The implementation of the Plan combined with the operating cost savings inherent in this business restructuring is intended to return the Corporation to satisfactory levels of profitability and to provide returns to stakeholders. See "Background".

Description of the Plan

The purpose of the Plan is to reorganize the capital of the Corporation and to compromise certain Claims of Creditors in order to allow recoveries by the Corporation's various Creditor and Shareholder constituencies, to produce significant financing cost savings through the conversion of debt to lower cost financing and equity, and generally to place the Corporation on a sound financial footing in order to permit the Corporation to continue as a going concern. As a preliminary step to the implementation of the Plan, it is intended that the Corporation, which is governed currently by the CBCA, be continued under the OBCA.

It is strongly recommended that all interested Persons refer to and carefully review the Plan, a copy of which is attached as Appendix A to this Circular. The effects of the Plan on the various Classes of Shareholders and Creditors are summarized below. See "Description of the Plan".

First Mortgage Bondholders

Under the Plan, the Proven Claim of the First Mortgage Bondholders will be dealt with in two separate Creditors' Classes.

The portion of the Proven Claim of the First Mortgage Bondholders equal to the Market Value Amount will be dealt with in the First Mortgage Bondholders' Class. To deal with such portion, the Corporation will quitclaim all of its right, title and interest in the Head Office to the First Mortgage Bond Trustee. This portion of the First Mortgage Bondholders' Proven Claim will simultaneously be released, discharged and cancelled.

The Mortgage Deficiency, being the balance of the amount of the Proven Claim of the First Mortgage Bondholders, will be dealt with in the Unsecured Creditors' Class. Any Under \$5,000 Claim in respect of the Mortgage Deficiency of a First Mortgage Bondholder will be paid as to 25% of the amount thereof in a single payment on the Under \$5,000 Payment Date in full satisfaction of such Under \$5,000 Claim. Each First Mortgage Bondholder having an Over \$5,000 Claim in respect of the Mortgage Deficiency will be deemed to subscribe for that proportion of the number of New Common Shares available to the Unsecured Creditors' Class under the Plan which is equal to the amount of such First Mortgage Bondholder's Over \$5,000 Claim in respect of the Mortgage Deficiency expressed as a proportion of the aggregate amount of all Over \$5,000 Claims. The subscription price payable to the Corporation for such New Common Shares will be set off in full against the obligation of the Corporation to pay the amount of such Over \$5,000 Claim and the New Common Shares will be issued to the First Mortgage Bondholder.

In the event that the First Mortgage Bondholders, acting in their capacities as members of the First Mortgage Bondholders' Class, fail to approve the Plan, the Directors may, in their discretion, elect to proceed with the implementation of the Plan. In such event, the sole recourse of the First Mortgage Bond Trustee in respect of the

Market Value Amount shall be to exercise the remedies available to it under the Deed of Trust and Mortgage to realize on the Head Office by taking title to, or effecting a sale of, the Head Office for and on behalf of the First Mortgage Bondholders. Upon any such exercise, the Corporation shall be deemed to have paid to the First Mortgage Bond Trustee an amount equal to the Market Value Amount in full and final satisfaction of its obligation to the First Mortgage Bondholders in their capacities as members of the First Mortgage Bondholders' Class.

Capital Lease Creditor

Under the Plan, the Proven Claim of the Capital Lease Creditor will be dealt with in two separate Creditors' Classes.

The portion of the Proven Claim of the Capital Lease Creditor equal to the Realizable Value Amount will be dealt with in the Capital Lease Creditor's Class. To deal with such portion, the Capital Lease Agreement Amendments will be made to the Capital Lease Agreement effective on the Plan Implementation Date. Pursuant to the Capital Lease Agreement Amendments, the principal amount of the Indebtedness outstanding under the Capital Lease Agreement will be reduced to the Realizable Value Amount, \$350,000 of the Realizable Value Amount will be repaid by the Corporation to the Capital Lease Creditor on the Plan Implementation Date and the remainder of the Realizable Value Amount will be repaid to the Capital Lease Creditor in 42 equal monthly instalments of \$37,190, plus interest at a rate equal to 8% per annum calculated and payable monthly on the principal amount outstanding from time to time, such principal repayments and interest payments to commence on the first day of the sixth calendar month next following the Plan Implementation Date. The Realizable Value Amount and the terms of the Capital Lease Agreement Amendments may be varied, subject to an Order of the Court, prior to the Plan Implementation Date on the basis of agreements reached with Landlords in respect of store closings and the realizable value of the Leased Property situated in stores which are to be retained by the Corporation.

The Leased Property Deficiency, being the balance of the amount of the Capital Lease Creditor's Proven Claim, will be dealt with in the Unsecured Creditors' Class. The Capital Lease Creditor will be deemed to subscribe for that proportion of the number of New Common Shares available to the Unsecured Creditors' Class under the Plan which is equal to the amount of its Over \$5,000 Claim in respect of the Leased Property Deficiency expressed as a proportion of the aggregate amount of all Over \$5,000 Claims. The subscription price payable to the Corporation for such New Common Shares will be set off in full against the obligation of the Corporation to pay the amount of such Over \$5,000 Claim and the New Common Shares will be issued to the Capital Lease Creditor.

In the event that the Capital Lease Creditor, acting in its capacity as the sole member of the Capital Lease Creditor's Class, fails to approve the Plan, the Directors may, in their discretion, elect to proceed with the implementation of the Plan. In such event, the sole recourse of the Capital Lease Creditor in respect of the Realizable Value Amount shall be to exercise the remedies available to it under the Capital Lease Agreement to realize on the Leased Property by taking title to, or effecting a sale of, the Leased Property. Upon any such exercise, the Corporation shall be deemed to have paid to the Capital Lease Creditor an amount equal to the Realizable Value Amount in full and final satisfaction of its obligation to the Capital Lease Creditor in its capacity as a member of the Capital Lease Creditor's Class.

Unsecured Creditors

The Claims to be dealt with in the Unsecured Creditors' Class will be the Claims of all Debentureholders, Trade Creditors, Contingent Creditors, the DPSP Trustee, the EPP Trustee, Employee Creditors and other Unsecured Creditors, as well as the portion of the First Mortgage Bondholders' Claim in respect of the Mortgage Deficiency (as described under "Description of the Plan — First Mortgage Bondholders" above) and the portion of the Capital Lease Creditor's Claim in respect of the Leased Property Deficiency (as described under "Description of the Plan — Capital Lease Creditor" above).

The aggregate amount of the Debentureholders' Proven Claims will be determined to be the aggregate principal amount outstanding under the Debentures, plus accrued and unpaid interest as at the Date of Filing. Each Debentureholder's Proven Claim will be the amount allocated to such Debentureholder in the Trustee's Statement provided to the Corporation by the Debentureholders' Trustee.

Under the Plan, the Proven Claims of Trade Creditors will be equivalent to the Proven Claims of such Creditors in respect of goods, services, materials or utilities supplied to the Corporation prior to the Date of Filing.

Under the Plan, the Proven Claim of each Employee Creditor will be valued, at a minimum, on the basis of such Creditor's minimum statutory entitlement less any mandatory payments made at the time of termination.

Notwithstanding that the DPSP Beneficiaries and the EPP Beneficiaries vote individually in the Unsecured Creditors' Class, neither the DPSP Beneficiaries nor the EPP Beneficiaries will individually receive distributions under the Plan. All distributions under the Plan in respect of both the DPSP and the EPP will be made to the DPSP Trustee and the EPP Trustee, respectively.

The Plan does not specify how the Claims of other Unsecured Creditors are to be quantified, but provides that the Proven Claim of any such Creditor is to be the amount of the Claim of such Creditor as finally determined in accordance with the CCAA and the Plan.

Under the Plan, each Under \$5,000 Claim of an Unsecured Creditor will be paid as to 25% of the amount thereof in a single payment on the Under \$5,000 Payment Date in full satisfaction of such Under \$5,000 Claim. Any Unsecured Creditor having an Over \$5,000 Claim shall be entitled at any time prior to 10 days before the Unsecured Creditors' Meeting to notify the Corporation that it wishes to reduce the amount of its Claim to \$5,000.

Each Unsecured Creditor having an Over \$5,000 Claim will be deemed to subscribe for that proportion of the number of New Common Shares available to the Unsecured Creditors' Class under the Plan which is equal to the amount of such Unsecured Creditor's Over \$5,000 Claim expressed as a proportion of the aggregate amount of all Over \$5,000 Claims. The subscription price payable to the Corporation for such New Common Shares will be set off in full against the obligation of the Corporation to pay the amount of such Over \$5,000 Claims and the New Common Shares will be issued to the Unsecured Creditors.

The treatment of the portion of the Proven Claims of the First Mortgage Bondholders and the Capital Lease Creditor which will be dealt with under the Plan in the Unsecured Creditors' Class is described above under "Description of the Plan — First Mortgage Bondholders" and "Description of the Plan — Capital Lease Creditor".

Landlords

Landlords with Leases which are not Abandoned Leases will be asked to enter into Rent Abatement Agreements with the Corporation prior to the Plan Implementation Date. If all such Landlords were to so agree, the aggregate effect of such Rent Abatement Agreements would be to reduce the total minimum rent payable to Landlords under all such Leases in effect on the Plan Implementation Date by approximately \$1,750,000 per year for each of the three consecutive years commencing the first day of the first full calendar month following the Plan Implementation Date or provide amendments or variations to the terms and conditions of present Leases and/or Lease renewals or other accommodations to the Corporation that the Monitor deems to have an approximately equivalent value. The amount of rent abatements to be taken by such Landlords will be proportionate to the value of such Leases held by such Landlords and the aggregate abatement to be taken by any such Landlord may be apportioned at its discretion among such Leases held by it. The Proven Claim of each such Landlord which does not enter into such Rent Abatement Agreement or provide amendments, variations or other accommodations of equivalent value will be reduced to zero for distribution purposes under the Plan. Landlords providing abatements, amendments, variations or other accommodations of less than the prescribed value will have their Proven Claims reduced proportionately.

Subject to the foregoing paragraph, under the Plan:

- (i) each Landlord will be paid, in respect of each Abandoned Lease held by such Landlord, an amount equal to the portion of its Proven Claim representing three times the Base Rent under the Abandoned Lease. This amount will be paid to each such Landlord in three equal instalments payable on the last Business Day of each of the three consecutive calendar months next following the Plan Implementation Date. No interest will be payable by the Corporation in respect of these amounts;
- (ii) each Landlord will be deemed to subscribe for that proportion of the number of New Common Shares available to the Landlords' Class under the Plan which is equal to the amount of the portion of such Landlord's Proven Claim for arrears in respect of Abandoned Leases expressed as a proportion of the aggregate of all such portions of the Proven Claims of all Landlords for arrears in respect of Abandoned Leases. The subscription price payable to the Corporation for such New Common Shares will be paid by set off in full against the obligation of the Corporation to pay the amount of such portion of the Proven Claim and the New Common Shares will be issued to such Landlords; and

(iii) the portion of each Landlord's Proven Claim for arrears of rent in respect of Leases other than Abandoned Leases will be satisfied by the payment to each such Landlord of the full amount of such portion of its Proven Claim in three equal instalments payable on the last Business Day of each of the three consecutive calendar months following the Plan Implementation Date. No interest will be payable by the Corporation in respect of these amounts.

Zale Claimants

Pursuant to the Interim Order, The Zale Corporation is the sole Zale Claimant. Under the Plan, The Zale Corporation will be deemed to subscribe for New Common Shares and the subscription price payable to the Corporation for such New Common Shares will be set off in full against the amount of the Zale Claimants' Proven Claim and the New Common Shares will be issued to The Zale Corporation.

Bank Creditor

Under the Plan, the Bank Creditor will transfer \$70,000,000 of its Proven Claim to Newco and will subscribe for Newco Preferred Shares having an aggregate subscription price of an equal amount. In addition, 30,000,000 Class One Preferred Shares will be issued as fully paid and non-assessable shares to the Bank Creditor pursuant to the Plan in consideration of the unconditional and irrevocable covenant and agreement of the Bank Creditor not to sue or otherwise enforce payment by the Corporation of \$30,000,000 of the Bank Creditor's Proven Claim. The remainder of the Bank Creditor's Proven Claim will be treated as an Unaffected Obligation.

It is intended that the priority of the security interests previously granted by the Corporation to the Bank Creditor in the Corporation's assets and undertaking with respect to the Bank Secured Debt will not be affected by the implementation of the Plan and that such security will secure all amounts payable by the Corporation to the Bank (including, without limitation, amounts lent to the Corporation after the Date of Filing by the Bank Creditor under the Credit Agreements or by the New Creditor under the New Credit Agreement) and to Newco.

Shareholders

The Plan will eliminate the existing two-tiered participating share structure of the Corporation. Under the Plan, the articles of the Corporation will be amended to provide, among other things, for an unlimited number of New Common Shares.

Each issued and outstanding Class A Non-Voting Share (including Class A Non-Voting Shares issued on the conversion of First Preferred Shares pursuant to the Plan as described below) and each issued and outstanding Common Share of the Corporation will be changed into one New Common Share pursuant to the Plan.

A number of issued and outstanding First Preferred Shares of each First Preferred Shareholder will be redeemed at the redemption price thereof such that the aggregate redemption price of the First Preferred Shares so redeemed shall be the lesser of (i) the aggregate redemption price of all First Preferred Shares held by such Shareholder; and (ii) the aggregate outstanding principal in respect of any share purchase loan(s) extended by the Corporation to such First Preferred Shareholder to purchase such Shares plus accrued and unpaid interest thereon. The redemption proceeds will be applied to repay such First Preferred Shareholder's share purchase loan. Each First Preferred Share which thereafter remains outstanding will be converted into one Class A Non-Voting Share, which will, in turn, be changed into one New Common Share as part of the Plan.

Unaffected Obligations

The Plan will not affect the holders of Unaffected Obligations, including, with certain exceptions, Claims arising on account of obligations incurred or agreements entered into by the Corporation after the Date of Filing. The Unaffected Obligations are set forth in Schedule 4 to the Plan.

Other Provisions

As part of the Plan, the Corporation will enter into the New Credit Agreement with the New Creditor which will establish a new operating credit facility.

Creditors' Entitlement to Vote

Pursuant to the Interim Order, the Corporation mailed on or before May 17, 1993 a Voting Claim to each Creditor (other than Represented Creditors) known to it setting forth the amount of each such Creditor's Claim

that the Corporation proposes to recognize for voting purposes. The Corporation also mailed Voting Claims to the Debentureholders' Trustee, the First Mortgage Bond Trustee, the EPP Trustee and the DPSP Trustee setting forth the aggregate amount of the Claims of the Debentureholders, the First Mortgage Bondholders, the EPP Trustee and the DPSP Trustee, respectively, which the Corporation proposes to recognize for voting purposes.

On or prior to June 2, 1993, each of the Debentureholders' Trustee, the First Mortgage Bond Trustee, the EPP Trustee and the DPSP Trustee was to provide the Corporation with a Trustee's Statement identifying the portion of the aggregate Claim set out in the respective Voting Claims previously sent to them by the Corporation which is allocable to each Debentureholder, First Mortgage Bondholder, EPP Beneficiary and DPSP Beneficiary, respectively, for voting purposes under the Plan. In the case of the EPP Trustee, such Trustee's Statement will be the list of EPP Beneficiaries and the portion of the aggregate amount of the EPP Trustee's Claim allocable to each such EPP Beneficiary which has been approved by the Court for such purpose.

The Corporation placed a notice in *The Globe and Mail* (National Edition), *The Wall Street Journal* (National Edition) and *Financial Times* (of London) newspapers between May 26, 1993 and May 28, 1993 requesting that any Creditor with a Claim against the Corporation who had not been sent a Voting Claim contact the Corporation and obtain a Notice of Objection. The Claim of any Creditor that has not received a Voting Claim or filed a Notice of Objection or other notice acceptable to the Corporation in respect of its Claim prior to June 2, 1993 will be extinguished unless (i) the time for filing a Notice of Objection in respect of such Claim is extended by an order of the Court or such extension is agreed to by the Corporation; (ii) such Creditor is an Employee Creditor who received notice of termination of his or her employment after June 2, 1993 but before the Creditors' Meeting Date in respect of the Unsecured Creditors' Class and received a Voting Claim from the Corporation or filed a Notice of Objection in respect of such Claim before such Creditors' Meeting Date; or (iii) such Creditor is a Represented Creditor and a Represented Creditor's Trustee has received a Voting Claim in respect of the Claim of such Creditor or has filed a Notice of Objection or other notice acceptable to the Corporation in respect of such Creditor's Claim.

Any Creditor, or in the case of the First Mortgage Bondholders and Debentureholders, the First Mortgage Bond Trustee and Debentureholders' Trustee, respectively, may dispute the Corporation's determination of such Creditor's Claim in accordance with the procedures set out in the Plan and the Interim Order.

Any Creditor not disputing the Corporation's determination of such Creditor's Claim in the manner and within the time limits prescribed by the Interim Order and the Plan will be deemed to have accepted as final and binding the Corporation's determination of such Creditor's Claim and the amount of such determination shall become the amount of the Creditor's Proven Claim for purposes of distributions under the Plan. See "Voting and Meeting Procedure".

Securities to be Issued

The Plan calls, among other things, for all issued and outstanding Common Shares and Class A Non-Voting Shares (including Class A Non-Voting Shares issued on the conversion of First Preferred Shares pursuant to the Plan) to be changed into New Common Shares, for the Corporation to issue New Common Shares to Creditors with the exception of Unsecured Creditors having Under \$5,000 Claims, certain Landlords, the First Mortgage Bondholders in respect of the Market Value Amount, the Capital Lease Creditor in respect of the Realizable Value Amount and the Bank Creditor, for Class One Preferred Shares to be issued pursuant to the Plan to the Bank Creditor and for Newco to issue Newco Preferred Shares to the Bank Creditor.

Each holder of New Common Shares will be entitled to receive notice of and to attend and to vote at all shareholders' meetings of the Corporation held after the Plan Implementation Date, excepting only as provided in the OBCA. Each holder will be entitled to cast one vote in person or by proxy for each New Common Share held at any shareholders' meeting at which such shareholder is entitled to vote.

Class One Preferred Shares will be voting in limited circumstances and convertible at any time at the option of the holder into New Common Shares representing in the aggregate 78% of the voting equity of the Corporation. Class One Preferred Shares will have the right voting separately as a class to elect one-third of the Directors of the Corporation, and to approve certain fundamental changes in the Corporation, and will rank ahead of New Common Shares for the purposes of return of capital on a liquidation, dissolution or winding-up of the Corporation.

Newco Preferred Shares will be redeemable in full no later than the date which is the last Business Day of the fifty-ninth month following the date of issue and will pay cumulative monthly preferential dividends at an annual rate equal to the aggregate of (i) 57% of the Bank Creditor's prime rate of interest and (ii) 2%. The Corporation will fund Newco to the extent required to pay such dividends and the expenses of Newco and will be required to make certain specified payments on the debt owed to Newco to the extent that it generates "Excess Cash Flow" as such term may be defined in the Newco Preferred Share Documentation in order that Newco may redeem such of the outstanding Newco Preferred Shares as shall be required. See "Description of the Plan — Securities to be Issued".

Pro-Forma Shareholdings

Based on a September 1, 1993 Plan Implementation Date, the pro-forma holdings of New Common Shares of the various Creditors' and Shareholders' Classes after giving effect to the Plan, before and after taking into account the conversion into New Common Shares of the Class One Preferred Shares to be issued to the Bank Creditor under the Plan, would be approximately as follows:

Class	Prior to Conversion of Class One Preferred Shares		After Conversion of Class One Preferred Shares	
	Number of New Common Shares (in thousands)	%	Number of New Common Shares (in thousands)	%
Common Shareholders	874.75	0.69	874.75	0.15
Class A Non-Voting Shareholders	10,638.68	8.36	10,638.68	1.84
First Preferred Shareholders	50.48	.04	50.48	.01
First Mortgage Bondholders (1)	—	—	—	—
Capital Lease Creditor (1)	—	—	—	—
Unsecured Creditors	85,775.24	67.43	85,775.24	14.83
Landlords	954.02	0.75	954.02	.17
Zale Claimants	28,909.75	22.73	28,909.75	5.00
Bank Creditor	0.00	0.00	450,992.18	78.00
	<u>127,202.92</u>	<u>100.00</u>	<u>578,195.10</u>	<u>100.00</u>

Note:

(1) To each such Creditor in respect of its specific Class and not in its capacity as an Unsecured Creditor.

See "Description of the Plan — Pro-Forma Shareholdings".

The Monitor's Comments on the Plan and Alternatives

The Monitor believes that the most likely alternatives to the Plan would be (i) a liquidation of the Corporation's assets or (ii) the transfer of selected assets to a corporation to be incorporated with the consent and approval of the Bank Creditor ("Acquisitionco").

The Monitor is of the view that in the event of a liquidation of the Corporation's assets, Shareholders and Creditors, other than the Bank Creditor, the Capital Lease Creditor and the First Mortgage Bondholders, would be unlikely to receive any payments or distributions. These secured Creditors would likely experience an aggregate loss of at least approximately \$25,000,000.

In the event that the Plan is not approved by the requisite majorities of Creditors and Shareholders and confirmed by the Court, the Bank Creditor has indicated that it presently intends to seek appropriate and immediate relief to enforce its security and to transfer selected assets to Acquisitionco. In order to avoid disruption of ongoing operations and to retain current employees, approval for such relief would be sought before the Court to have the transfer occur immediately upon the stay being lifted in the current Proceedings if the Plan were to be defeated. In the view of the Monitor, Shareholders and Creditors, other than the Bank Creditor, the Capital Lease Creditor and the First Mortgage Bondholders, would be unlikely to receive any payment or distributions in such event.

The Monitor believes that the Plan is fair and equitable in the circumstances and will produce a more favourable result for the Creditors and the Shareholders than a liquidation of the Corporation's assets pursuant to

the BIA or a transfer of selected assets to Acquisitionco. See "The Monitor's Comments on the Plan and Alternatives".

Directors' Recommendation

The Directors, having received and considered, among other things, the advice of the Monitor, have determined that the Plan is in the best interests of the Corporation and recommend that the Creditors and the Shareholders vote to approve the Plan. See "Directors' Recommendation".

Required Approvals and Other Conditions

In order for the Plan to become effective, the following approvals must have been obtained and/or the following conditions must have been fulfilled, satisfied or waived in accordance with their terms by September 30, 1993 (subject to extension upon further Order of the Court and the written consent of the Bank Creditor):

- (a) the Plan shall have been approved by the affirmative vote of at least two-thirds of the votes cast by Class A Non-Voting Shareholders voting together as a class, at least two-thirds of the votes cast by Common Shareholders voting together as a class, and at least two-thirds of the votes cast by First Preferred Shareholders voting together as a class;
- (b) the Plan shall have been approved by the affirmative vote of a majority in number representing not less than three-quarters in value of the Claims of each of:
 - (i) the Unsecured Creditors voting together as a Class;
 - (ii) the Landlords voting together as a Class;
 - (iii) the Zale Claimants voting together as a Class; and
 - (iv) the Bank Creditor voting as a Class;
- (c) Newco shall have been incorporated and organized under the OBCA with the attributes contemplated by the Plan;
- (d) the Corporation shall have taken all necessary corporate actions and proceedings to approve the Plan and to enable the Corporation to execute, deliver and perform the obligations of the Corporation under the Plan and the agreements, documents and other instruments to be executed or delivered pursuant to the terms of the Plan;
- (e) all relevant Persons shall have executed, delivered and filed all necessary documentation required to give effect to the terms of the Plan including, without limitation, the Articles of Arrangement, the Newco Preferred Share Documentation, the New Credit Agreement, the New Capital Lease Agreement, all amending agreements, supplemental indentures and all other agreements, documents and instruments required to give effect to the terms of the Plan;
- (f) the Corporation shall have been continued under the OBCA;
- (g) all applicable governmental, regulatory and judicial consents, Orders and similar consents and approvals and all filings with all governmental authorities, securities commissions, stock exchanges and other regulatory authorities having jurisdiction, in each case to the extent deemed necessary or desirable by counsel to the Corporation and in form and substance satisfactory to the Corporation, for the completion of the transactions contemplated by the Plan or any aspect thereof, shall have been made, obtained or received;
- (h) the Court shall have granted the Final Order, in form and substance satisfactory to the Corporation, sanctioning and approving the Plan;
- (i) the conditional approval of the TSE and the ME to the listing thereon of the New Common Shares to be issued pursuant to the Plan shall have been obtained by the Corporation, subject to the Corporation fulfilling all of the usual requirements of such stock exchanges;
- (j) the Tax Ruling, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor;
- (k) the DPS Order, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor;

- (l) all conditions precedent contained in the Newco Preferred Share Documentation and the New Credit Agreement shall have been fulfilled, satisfied or waived in writing at the sole discretion of the Bank Creditor and the New Creditor, respectively;
- (m) the Orders referred to in Section 8.4 of the Plan, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor; and
- (n) the Certificate of Arrangement shall have been obtained.

See "Required Approvals and Other Conditions of the Plan".

Court Approval

The Plan is subject to the approval of the Court. Provided that the Plan is approved as necessary by the Shareholders and the Creditors at the Meetings and that certain other conditions are fulfilled or satisfied, an application to obtain the Final Order will be made to the Court at 130 Queen Street West, Toronto, Ontario, Canada at 9:00 a.m. (Toronto time) on Thursday, August 5, 1993 or such other date and time as may be fixed by the Court. At the hearing, the Court will consider, among other things, the fairness of the Plan. If the Final Order is granted and the other conditions are fulfilled, satisfied, or waived, the Corporation will file Articles of Arrangement to give effect to the Plan. The Corporation anticipates that the Plan Implementation Date may be as early as September 6, 1993. The Corporation shall either provide written notice to interested parties or issue a press release on the Plan Implementation Date. See "Required Approvals and Other Conditions of the Plan — Court Approval".

Share Certificates

If the Plan becomes effective, as soon as practicable after the Plan Implementation Date, the Corporation will forward or cause to be forwarded to each Creditor who is entitled to receive New Common Shares and to each Common Shareholder and Class A Non-Voting Shareholder a letter of transmittal providing instructions for obtaining delivery from the Transfer Agent of the certificates representing the New Common Shares that any such Person is entitled to receive pursuant to the provisions of the Plan. See "Description of the Plan — Procedure for Obtaining Share Certificates". Non-Exempt U.S. Shareholders are not entitled to receive New Common Shares pursuant to the Plan, but will receive letters of transmittal which, when executed by such Shareholders, will direct that certificates representing such Shareholders' New Common Shares be issued instead to the Non-Exempt U.S. Shareholders' Trustee. See "Required Approvals and Other Conditions of the Plan — Regulatory — United States".

Certain Canadian Federal Income Tax Considerations

Shareholders and Creditors should read carefully the information provided under "Certain Canadian Federal Income Tax Considerations" and should consult their own tax advisors concerning the tax consequences to them of the Plan in their own particular circumstances.

Risk Factors

In considering whether to vote to approve the Plan, Shareholders and Creditors should carefully consider certain risks associated with implementation and non-implementation of the Plan. The Corporation is insolvent. If the Plan is not implemented, liquidation proceedings may be commenced against the Corporation or a transfer of assets of the Corporation may be effected as described above under "The Monitor's Comments on the Plan and Alternatives". In such event, the Shareholders, Unsecured Creditors (including the First Mortgage Bondholders to the extent of the Mortgage Deficiency and the Capital Lease Creditor to the extent of the Leased Property Deficiency), Landlords and Zale Claimants will likely not receive any recovery. The First Mortgage Bondholders, Capital Lease Creditor, and Bank Creditor will likely receive significantly less than the amounts owing to them. If the Plan is implemented, the shares to be issued upon implementation should be considered to be speculative. See "Risk Factors".

Rights of Dissenting Shareholders

Shareholders will have the right to dissent in accordance with section 190 of the CBCA in respect of the special resolution to continue the Corporation under the OBCA. Shareholders wishing to exercise their rights of dissent must do so in accordance with the procedures set forth in Appendix I to this Circular which contains the complete

text of section 190 of the CBCA. See "Required Approvals and Other Conditions of the Plan — Rights of Dissenting Shareholders".

Summary Pro-Forma Financial Information

The following summary unaudited pro-forma opening consolidated balance sheet of the Corporation is based on the pro-forma opening consolidated balance sheet as at March 31, 1993 after giving effect to the Plan as if the Plan Implementation Date had been March 31, 1993. See "Consolidated Capitalization and Pro-Forma Capitalization" and "Pro-Forma Consolidated Balance Sheet".

	<u>Unaudited</u> (000's)
Total assets	<u>\$90,161</u>
Total liabilities	21,467
Preferred shares of a subsidiary	70,000
Shareholders' deficiency	<u>(1,306)</u>
	<u>\$90,161</u>

MEETINGS

Pursuant to the Interim Order, the Corporation has called nine separate Meetings of Shareholders and Creditors for the primary purpose of considering and, if thought fit, approving the Plan pursuant to section 182 of the OBCA and under the CCAA. An Annual and Special Meeting has also been called to elect directors, to appoint auditors, to receive the 1993 consolidated financial statements of the Corporation and to consider and, if thought fit, to authorize an application for continuance of the Corporation under the OBCA as a preliminary step to the Plan. While all Shareholders are entitled to notice of the Annual and Special Meeting and are entitled to vote thereat in connection with the continuance under the OBCA, only Common Shareholders are entitled to vote thereat in respect of matters other than the continuance.

The meetings will be held in Toronto, Ontario, Canada in the following locations, on the following dates and commencing at the following times:

<u>Meetings of Shareholders</u>	<u>Location</u>	<u>Date</u>	<u>Time</u>
Annual and Special Meeting	Sheraton Hotel (1)	July 29, 1993	10:00 a.m.
Class A Non-Voting Shareholders	Sheraton Hotel (1)	July 29, 1993	1:00 p.m.
Common Shareholders	Sheraton Hotel (1)	July 29, 1993	2:00 p.m.
First Preferred Shareholders	Sheraton Hotel (1)	July 29, 1993	3:00 p.m.
<u>Creditors' Meetings</u>	<u>Location</u>	<u>Date</u>	<u>Time</u>
First Mortgage Bondholders	Stikeman, Elliott (2)	July 30, 1993	8:00 a.m.
Capital Lease Creditor	Stikeman, Elliott (2)	July 30, 1993	8:30 a.m.
Unsecured Creditors	Sheraton Hotel (1)	July 30, 1993	9:00 a.m.
Landlords	Sheraton Hotel (1)	July 30, 1993	10:30 a.m.
Zale Claimants	Stikeman, Elliott (2)	July 30, 1993	12:30 p.m.
Bank Creditor	Stikeman, Elliott (2)	July 30, 1993	1:00 p.m.

(1) Sheraton Hotel, Essex Room, 123 Queen Street West, Toronto, Ontario, Canada.

(2) Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario, Canada.

PROXY SOLICITATION

General

This Circular is being furnished in connection with the solicitation by and on behalf of management of the Corporation of proxies for use at or in connection with the Annual and Special Meeting or the Meetings, as the case may be, or any adjournment thereof.

It is expected that solicitation will be made primarily by mail, supplemented by telephone or other personal contact by Directors, officers, employees or representatives of the Corporation. The costs of solicitation will be borne by the Corporation.

Creditors

Proxies for Use at Creditors' Meetings

Each Person entitled to vote at a Creditors' Meeting may do so in person or by proxy. An Accepted Claim for Voting Purposes must have been established in accordance with the provisions of the Plan to establish an entitlement to vote. See "Voting and Meeting Procedure". Persons who are unable to attend in person any Creditors' Meeting at which they are entitled to vote may vote by proxy delivered to the Monitor or the Chairman of the relevant Creditors' Meeting in the manner described below.

Any instrument appointing a proxyholder must be in writing and executed by the appointor or the appointor's attorney duly authorized in writing or, if the appointor is a corporation, by an officer or attorney thereof duly authorized. One or more forms of proxy are enclosed with this Circular. The forms of proxy have been colour coded for use by Persons entitled to vote at the respective Creditors' Meetings as follows:

<u>Class</u>	<u>Colour of Proxy</u>
First Mortgage Bondholders	Grey
Capital Lease Creditor	Beige
Unsecured Creditors	Pink
Landlords	Orange
Zale Claimants	White
Bank Creditor	Red

Appointment of Proxyholders

Each of the Persons named in the enclosed form(s) of proxy is an officer and/or Director of the Corporation and was designated by management of the Corporation. A Person entitled to vote at a Creditors' Meeting has the right to appoint some other Person (who need not be a Creditor) to represent the appointor at such Creditors' Meeting. This right may be exercised by inserting the name of such Person in the blank space provided in the enclosed form(s) of proxy or by completing another appropriate form of proxy. In any case, in order to be acted upon at a Creditors' Meeting, the Interim Order specifies that proxies must be deposited with the Monitor at Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario, M5K 1J7 Attention: Harold Reiter, by 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the relevant Creditors' Meeting is to be held. Proxies may also be deposited with the Chairman of the relevant Creditors' Meeting or any adjournment thereof prior to the commencement thereof.

Exercise of Votes by Proxy

The Persons named in the printed portion of the enclosed form(s) of proxy will vote for or against approval of the Plan in accordance with the instructions of the appointor on the proxy. **In the absence of any instructions on the proxy, the votes represented by such proxy will be voted FOR approval of the Plan.**

The enclosed form(s) of proxy confer discretionary authority upon the Persons designated therein to vote on any amendments or variations to matters identified in the notice of the relevant Creditors' Meeting and on any other matters that may properly come before such Creditors' Meeting. In the event that amendments or variations to matters identified in the notices of Creditors' Meetings are properly brought before the Creditors' Meetings, it is the intention of the Persons designated in the enclosed form(s) of proxy to vote in accordance with their best judgement on such matters. At the date of this Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Creditors' Meetings.

Revocation of Proxies

A Person entitled to vote at a Creditors' Meeting who has given a proxy may revoke such proxy at any time before it is exercised by an instrument in writing, executed by the appointor or the appointor's attorney duly authorized in writing or, where the appointor is a corporation, by an officer or attorney thereof duly authorized, and deposited either at the above described office of the Monitor, by 5:00 p.m. (Toronto time) on the Business Day next preceding the date of the relevant Creditors' Meeting, or on the Business Day next preceding the date of any adjournment of the relevant Creditors' Meeting or with the Chairman of the relevant Creditors' Meeting or any adjournment thereof. Unless revoked, a proxy for a Creditors' Meeting will remain valid for use at any adjournment thereof.

Shareholders

Proxies for Use at Meetings of Shareholders

Each Shareholder entitled to vote at the Annual and Special Meeting or a Shareholders' Meeting may do so in person or by proxy. Shareholders who are unable to attend in person the Annual and Special Meeting or any

Shareholders' Meeting at which they are entitled to vote may vote by proxy delivered to the Transfer Agent or the Chairman of the relevant Shareholders' Meeting in the manner described below.

Any instrument appointing a proxyholder must be in writing and executed by the appointor or the appointor's attorney duly authorized in writing or, if the appointor is a corporation, by an officer or attorney thereof duly authorized. One or more forms of proxy are enclosed with this Circular. The forms of proxy enclosed with this Circular have been colour coded for use by Persons entitled to vote at the Annual and Special Meeting and the respective Shareholders' Meetings as follows:

	<u>Colour of Proxy</u>
Annual and Special Meeting	
Common Shareholders	Green
Class A Non-Voting Shareholders	Blue
First Preferred Shareholders	Yellow
Shareholders' Meetings	
Common Shareholders	Green
Class A Non-Voting Shareholders	Blue
First Preferred Shareholders	Yellow

Appointment of Proxyholders

Each of the Persons named in the enclosed form(s) of proxy is an officer and/or Director of the Corporation and was designated by management of the Corporation. A Person entitled to vote at the Annual and Special Meeting or a Shareholders' Meeting has the right to appoint some other Person (who need not be a Shareholder) to represent the appointor at the Annual and Special Meeting or the Shareholders' Meeting. This right may be exercised by inserting the name of such Person in the blank space provided in the enclosed form(s) of proxy or by completing another appropriate form of proxy. In any case, in order to be acted upon at the Annual and Special Meeting or a Shareholders' Meeting, a completed proxy must be deposited with the Transfer Agent, Montreal Trust Company of Canada, Proxy Department, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1, by 5:00 p.m. (Toronto time) on July 27, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the Annual and Special Meeting or relevant Shareholders' Meeting, as the case may be, is to be held. Proxies may also be deposited with the Chairman of the Annual and Special Meeting or relevant Shareholders' Meeting, as the case may be, or any adjournment thereof prior to the commencement thereof.

Exercise of Votes by Proxy

The Shares represented by properly executed forms of proxy will be voted at the appropriate meeting for or against approval of the continuance or the Plan, as the case may be, and the Shares of Common Shareholders represented by properly executed forms of proxy in respect of the Annual and Special Meeting will be voted for or against approval of, or be voted or withheld from voting in respect of, the other matters to be voted on at the Annual and Special Meeting, in accordance with the instructions of the appointor on the proxy. **In the absence of any instructions on a proxy, the Shares represented by such proxy will be voted FOR approval of the continuance or the Plan, as the case may be. In the absence of any instructions on a proxy representing Shares of a Common Shareholder in respect of the Annual and Special Meeting, such Shares will be voted FOR the election as directors of the persons designated in this Circular as nominees for such office, and FOR the reappointment of Ernst & Young, Chartered Accountants, as auditors of the Corporation and the authorization of the Directors to fix their remuneration.**

The enclosed form(s) of proxy confer discretionary authority on the Persons designated therein to vote on any amendments or variations to matters identified in the notice of the Annual and Special Meeting or the relevant Shareholders' Meeting and on any other matters that may properly come before the Annual and Special Meeting or such Shareholders' Meeting. In the event that amendments or variations to matters identified in the notices of the Annual and Special Meeting or Shareholders' Meetings or other matters are properly brought before the Annual and Special Meeting or a Shareholders' Meeting, it is the intention of the Persons designated in the enclosed form(s) of proxy to vote in accordance with their best judgement on such matters. At the date of this Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the Annual and Special Meeting or the Shareholders' Meetings.

Revocation of Proxies

A Person entitled to vote at the Annual and Special Meeting or a Shareholders' Meeting who has given a proxy may revoke such proxy at any time before it is exercised by an instrument in writing, executed by the appointor or by the appointor's attorney duly authorized in writing or, where the appointor is a corporation, by an officer or attorney thereof duly authorized, and deposited either at the registered office of the Corporation, 1440 Don Mills Road, Don Mills, Ontario, M3B 3M1, by 5:00 p.m. (Toronto time) on the Business Day next preceding the date of the Annual and Special Meeting or relevant Shareholders' Meeting or on the Business Day next preceding the date of any adjournment of the Annual and Special Meeting or relevant Shareholders' Meeting, or with the Chairman of the Annual and Special Meeting or relevant Shareholders' Meeting or any adjournment thereof or in any other manner permitted by law. Unless revoked, a proxy for the Annual and Special Meeting or a Shareholders' Meeting will remain valid for use at any adjournment thereof.

VOTING AND MEETING PROCEDURE

Entitlement to Vote

It is important that Shareholders and Creditors read carefully the instructions contained in this Circular and the accompanying form(s) of proxy, as well as, in the case of Creditors, the Voting Claim or other information provided to them by the Corporation, to ensure that any documentation is properly completed and deposited in the manner set forth therein in order to be entitled to attend and vote at the Annual and Special Meeting or the relevant Meeting, as the case may be.

Meeting Procedure

The Annual and Special Meeting is to be called, held and conducted in accordance with the requirements of the CBCA and the articles and by-laws of the Corporation.

Pursuant to the Interim Order, the Shareholders' Meetings are to be called, held and conducted in accordance with the provisions of the CBCA and the articles and by-laws of the Corporation, subject to the provisions of the Interim Order. The Interim Order provides that compliance by the Corporation with the applicable requirements of the CBCA and the Interim Order in relation to the Shareholders' Meetings and any adjournment thereof shall, subject to the continuance of the Corporation under the OBCA, be deemed conclusively to constitute compliance by the Corporation with the provisions of the OBCA relating to the Shareholders' Meetings and any adjournment thereof. The Shareholders' Meetings shall, after the continuance of Peoples under the OBCA, be conducted in accordance with the provisions of the OBCA, subject to the terms of the Interim Order.

Pursuant to the Interim Order, the Creditors' Meetings are to be called, held and conducted in accordance with the provisions of the Interim Order. The Meetings of the First Mortgage Bondholders and the Unsecured Creditors are to be held notwithstanding any provisions respecting the holding of meetings contained in the Deed of Trust and Mortgage or any of the Trust Indentures.

Creditors' Meetings

Each Creditor in a Class shall be entitled to notice of, to attend and, other than the DPSP Trustee and the EPP Trustee, to vote at the Creditors' Meeting for such Class. In addition, each DPSP Beneficiary and EPP Beneficiary is entitled to notice of, to attend and to vote at the Creditors' Meeting for the Unsecured Creditors' Class. The DPSP Trustee and EPP Trustee shall not be entitled to vote in respect of the Plan. Each Creditor of a Class (and in respect of the Unsecured Creditors' Class, each DPSP Beneficiary and EPP Beneficiary) who is entitled to vote shall be entitled to vote at the Creditors' Meeting for such Class in respect of an amount equal to its Accepted Claim for Voting Purposes for such Class, which amount shall be determined in accordance with the Interim Order and the Plan. Pursuant to the Interim Order, The Zale Corporation shall have sole voting authority for the Zale Claimants. By June 30, 1993, the Corporation will establish and maintain at its Head Office a Class Creditors' List, for purposes of notice and otherwise, setting forth the names, addresses and Claims, for voting purposes, of each Person entitled to vote in each Class. The Corporation will send notice of the applicable Creditors' Meeting to each Person set out on the Class Creditors' List. The Class Creditors' List will be made available to any Creditor for inspection at the Head Office upon receipt by the Corporation from such Creditor of a written request for the same.

The only Persons entitled to notice of or to attend and speak at a Creditors' Meeting are those Persons (including in respect of attendance and speaking, their proxyholders) entitled to vote at the Creditors' Meeting, the Claims Officer, the Directors, officers, auditors and legal counsel of the Corporation, the appropriate trustee, the Director under the CBCA or OBCA and the persons appointed to act as scrutineers at the Meeting. Any other Person may be admitted on invitation of the Chairman of the relevant Creditors' Meeting or with the consent of the Creditors at the relevant Creditors' Meeting.

Quorum

Pursuant to the Interim Order, the quorum required at each Creditors' Meeting is a Person or Persons, present in person or by proxy, holding or representing in the aggregate more than 5% by value of the Accepted Claims for Voting Purposes in respect of the Class for which such Meeting has been called.

If no quorum is present at any Creditors' Meeting, the Meeting shall be adjourned to a day, determined by the Chairman of such Meeting, which is not less than seven days and not more than 21 days thereafter. At such adjourned Meeting, the Creditors of the Class present in person or represented by proxy shall constitute a quorum for such adjourned Meeting.

Voting of Creditors

Pursuant to the CCAA, the Interim Order and the provisions of the Plan, and subject to the discretion of the Directors to proceed in the event that the First Mortgage Bondholders' Class and/or the Capital Lease Creditor's Class fail(s) to approve the Plan, in order for the Plan to be implemented, it must be approved by the affirmative vote of a majority in number of the Creditors having a Claim in each Class and representing not less than three quarters in value of the Claims of Creditors in such Class who are present and voting either in person or by proxy at the applicable Creditors' Meeting. Therefore, each Creditors' Class vote will be tabulated in respect of both numbers of Creditors and the value of Claims in the Class. Each Creditor will vote at the relevant Creditors' Meeting on the basis of its Accepted Claim for Voting Purposes. See "Proof of Claim Procedure for Voting and Distribution Purposes".

For the purpose of determining voting entitlements, all Accepted Claims for Voting Purposes which are not denominated in Canadian Dollars will be converted into Canadian Dollars at the Bank of Canada noon spot rate of exchange for the applicable currency to Canadian Dollars as it was on the Date of Filing.

Pursuant to the Interim Order, Creditors of any Class may pass the resolution in respect of approval of the Plan by a resolution in writing signed by Creditors having Claims in such Class representing a majority in number of Creditors having Claims in such Class and not less than three-quarters in value of the Claims of such Class in lieu of passing such resolution at a Meeting for such Class.

(a) First Mortgage Bondholders

To the best of the Corporation's knowledge, The Standard Life Assurance Company is the sole Person which, as at the Date of Filing, beneficially owned, directly or indirectly, or exercised control or direction over, First Mortgage Bonds.

The First Mortgage Bondholders are entitled to vote in the First Mortgage Bondholders' Class to the extent of the portion of their Accepted Claim for Voting Purposes in respect of the Market Value Amount. The First Mortgage Bondholders are also entitled to vote in the Unsecured Creditors' Class to the extent of the portion of their Accepted Claim for Voting Purposes in respect of the Mortgage Deficiency.

(b) Capital Lease Creditor

The Capital Lease Creditor is entitled to vote in the Capital Lease Creditor's Class to the extent of the portion of its Accepted Claim for Voting Purposes in respect of the Realizable Value Amount. The Capital Lease Creditor is also entitled to vote in the Unsecured Creditors' Class to the extent of the portion of its Accepted Claim for Voting Purposes in respect of the Leased Property Deficiency.

(c) Unsecured Creditors

In addition to the First Mortgage Bondholders and the Capital Lease Creditor, as discussed above, the following Persons will be entitled to vote in the Unsecured Creditors' Class to the extent of their Accepted Claims for Voting Purposes:

1. Debentureholders;
2. Trade Creditors;
3. Employee Creditors;
4. DPSP Beneficiaries;
5. EPP Beneficiaries;
6. Contingent Creditors; and
7. other Unsecured Creditors.

(d) Landlords

Each Landlord is entitled to vote in the Landlords' Class to the extent of its Accepted Claim for Voting Purposes for:

- (a) that amount, if any, which is equal to three times the Base Rent accruing due to such Landlord from the Corporation in respect of each Abandoned Lease of such Landlord;
- (b) that amount, if any, which is equal to unpaid arrears of rent in respect of each Abandoned Lease of such Landlord; and
- (c) that amount, if any, which is equal to the Landlord's Claim in respect of each Lease of such Landlord, other than an Abandoned Lease, for unpaid arrears of rent as defined under such Lease to the Plan Implementation Date.

(e) Zale Claimants

Pursuant to the Interim Order, The Zale Corporation will be the sole Creditor entitled to vote in the Zale Claimants' Class and will be entitled to vote therein to the extent of its Accepted Claim for Voting Purposes. Such Accepted Claim for Voting Purposes represents the aggregate Claim of all Zale Claimants.

(f) Bank Creditor

The Bank is the sole Bank Creditor and is entitled to vote in the Bank Creditor's Class.

Transfer of Claims

If a Creditor transfers ownership of a Claim and the transferee establishes ownership thereof in a manner satisfactory to the Corporation, and demands, not later than 10 days before the applicable Creditors' Meeting, that such transferee's name be included in the list of Creditors entitled to vote at the Meeting, such transferee will be entitled to attend and vote at the Creditors' Meeting in accordance with the provisions set out above. All such demands should be made to the Monitor. In determining whether the Plan has been approved by a majority in number of the Creditors in a Class, a Creditor which so transfers its Claim and the transferee(s) thereof will be counted as a single Creditor within such Class. See "Proof of Claim Procedure for Voting and Distribution Purposes".

Meetings of Shareholders

While each Shareholder is entitled to notice of and to attend the Annual and Special Meeting and is entitled to vote thereat in respect of the continuance under the OBCA, only Common Shareholders are entitled to vote thereat in respect of matters other than the continuance.

Pursuant to the Plan, the Interim Order and applicable corporate legislation, the Shareholders are divided into three Classes for purposes of voting on the Plan at the Shareholders' Meetings. Class A Non-Voting Shareholders, Common Shareholders, and First Preferred Shareholders will vote in respect of the Plan at the Shareholders' Meetings called for that purpose on a Class by Class basis.

The only Persons entitled to notice of or to attend and speak at a Shareholders' Meeting are those Persons (including, for purposes of attending and speaking, their proxyholders) entitled to vote at the Shareholders'

Meeting, the Monitor, the Directors, officers, auditors and legal counsel of the Corporation, the Director under the CBCA or OBCA and the persons appointed to act as scrutineers at the Meeting. Any other Person may be admitted on invitation of the Chairman of the relevant Shareholders' Meeting or with the consent of the Shareholders at the relevant Shareholders' Meeting.

Quorum

In accordance with the by-laws of the Corporation, the quorum for the Annual and Special Meeting shall be two persons entitled to vote thereat or their duly appointed proxyholders or, irrespective of the number of persons actually present in person, holders of a majority of shares entitled to vote at the meeting present in person or represented by proxy.

The Interim Order provides that the quorum at each Shareholders' Meeting is a Person or Persons, present in person or by proxy, holding or representing in the aggregate not less than 5% of the outstanding Shares enjoying voting rights at such Shareholders' Meeting.

If no quorum is present at a Shareholders' Meeting, such Meeting shall stand adjourned to a day, determined by the Chairman of such Meeting, which is not less than seven days and not more than 21 days thereafter. At such adjourned Shareholders' Meeting, the Shareholders of such Class present in person or represented by proxy shall constitute a quorum for such adjourned Meeting.

Voting of Shareholders

Each Shareholder of record at the close of business on the Record Date will be entitled to receive notice of the Annual and Special Meeting and the relevant Shareholders' Meeting. In the case of the Annual and Special Meeting, Common Shareholders as of the Record Date will be entitled to one vote per Share on each matter to be acted upon at such Meeting. In addition, each Shareholder of the Corporation as of the Record Date will be entitled to one vote per Share at the Annual and Special Meeting in connection with the continuance under the OBCA. In the case of the Shareholders' Meetings, each Shareholder as of the Record Date will be entitled to one vote per Share at the relevant Meeting.

Where a Shareholder transfers the ownership of any Shares after the Record Date, the transferee will be entitled to vote such Shares upon demanding, not later than 10 days prior to the relevant Shareholders' Meeting, that the transferee's name be included in the list of Shareholders entitled to vote at such Meeting and establishing that the transferee owns such Shares by producing properly endorsed share certificates or otherwise.

As at the close of business on June 7, 1993, there were 10,638,675 Class A Non-Voting Shares, 874,750 Common Shares, 54,050 First Preferred Shares, Non-Voting Series B and 633,700 First Preferred Shares, Non-Voting Series C issued and outstanding.

BACKGROUND

General

The Corporation was originally incorporated by letters patent dated April 9, 1930 and has since become Canada's largest retail jeweller in terms of sales. For many years, Peoples was profitable. However, the Corporation has been experiencing significant financial difficulties in recent periods and is currently insolvent. Reduced sales and cash flow caused by the continuing recession have prevented the Corporation from meeting its secured debt covenants, its interest obligations to Debentureholders or its payment obligations to trade and other Creditors on agreed terms. In addition, the realizable value of the Corporation's assets is less than its liabilities. As at March 31, 1993, the net Shareholders' deficiency was \$106,543,000.

Peoples has been seriously adversely affected by the prolonged economic recession and the negative impact of the goods and services tax on consumer demand. In Canada, sales results were down 2.1% in fiscal year 1991, 7.2% in fiscal year 1992 and 15.1% in fiscal year 1993. This reduced earnings before interest, restructuring costs and taxes and loss relating to investment in JHC from \$22,885,000 in fiscal year 1991 to \$10,565,000 in fiscal year 1992 and \$(41,349,000) in fiscal 1993. Interest costs totalled \$13,358,000, \$14,384,000, and \$18,569,000 in fiscal years 1991, 1992, and 1993, respectively. The significant decline in such earnings has resulted in insufficient operating earnings to cover interest costs.

The Corporation's investment in Zale was affected by the recession and was further aggravated by the decline in consumer and retail spending patterns caused by the Persian Gulf crisis in 1990-1991. At March 31, 1991, the Corporation's investment in JHC had a carrying amount of \$133,000,000. Zale and certain affiliates filed for protection under Chapter 11 of the United States Bankruptcy Code on January 23, 1992. As a result, the Corporation ceased to have control over Zale. As a result of Zale's losses in the 1992 fiscal year and its bankruptcy, the carrying amount of the Corporation's investment in JHC was reduced to zero at March 31, 1992.

Lower sales by the Corporation, together with the costs relating to the restructuring of the Corporation's operations and the write-off relating to JHC, produced a loss of \$159,174,000 in fiscal year 1992. A further loss of \$85,640,000 in the 1993 fiscal year has resulted in a Shareholders' deficiency of \$106,543,000.

In 1992 and 1993, Canadian retail jewellers were hit hard by the economic recession. In addition to Peoples seeking protection under the CCAA, Henry Birks & Sons Limited ("Birks") and Walters Jewellers Limited, both established retailers, sought court protection as part of their restructuring efforts. Birks has emerged as a significantly smaller operation. The severe impact which the recession has had on retail jewellers is due, in part, to the fact that a significant portion of the trade relies upon discretionary consumer purchasing. During the recession, consumers have elected to direct their purchasing dollars towards required purchases and debt repayment rather than discretionary items such as fashion jewellery. It should be noted, however, that a significant portion of the Corporation's sales relates to product purchases that are less discretionary, such as engagement rings and wedding bands.

In the last quarter of fiscal 1993, jewellery retail sales remained depressed relative to other retailers who may have benefitted from any easing of the recession. Management believes that a recovery in retail jewellery sales will likely lag behind an overall retail recovery.

In January 1992, the Corporation began implementation of an operational restructuring. The Corporation engaged Ernst & Young Inc. to assist in this restructuring. This included the closing of 26 underperforming stores, nine of which were closed in fiscal 1993, and a reduction of expenses that totalled \$11,000,000 and resulted in the elimination of approximately 12% of the Corporation's overhead costs. The objectives of this first phase of the operational restructuring were substantially realized as they related to expenses; however, sales and gross margin results were significantly below target as a consequence of continuing economic difficulties and consumer uncertainty. It was determined that further operational improvements would be required through the closing of stores that were non-strategic, the further reducing of store operating expenses such as advertising, occupancy costs and salaries and the further reducing of head office overhead expenses. In the final quarter of fiscal 1993, subsequent to receiving protection under CCAA, the Corporation closed an additional 42 stores, sold 5 stores and reduced overhead expenses by an additional \$5,800,000 resulting in the further elimination of approximately 7% of the Corporation's overhead costs.

In August and September 1992, there was a change in the composition of the Board of Directors of the Corporation. Subsequently, there have also been significant changes in management of the Corporation including the appointment in November 1992 of a new Chief Financial Officer and in February 1993 of a new Acting Chairman of the Board, a new Acting Chief Operating Officer and a new Vice President, Finance and Administration. From the outset, the new management team has focused its energies on the financial restructuring of the Corporation and on continuing the previously initiated operational restructuring.

In October 1992, the Corporation formed a Steering Committee of independent directors to review and implement further operational changes as well as to consider a restructuring of the Corporation's capital. In the course of its work, the Steering Committee determined that the necessary operational improvements likely could not be accomplished without recourse to formal Court protection, that operational improvements alone would not be sufficient to ensure the Corporation's long term viability and that the interest burden related to the Corporation's debt would have to be reduced. The Steering Committee believed that these changes could be accomplished through proceedings taken under the CCAA and the arrangement provisions of applicable corporate legislation to implement a plan of arrangement and compromise which encompasses both the Creditors and the Shareholders of the Corporation. The Steering Committee believed that the Corporation has an established and viable franchise and that addressing the operational issues together with the recapitalization of the Corporation and a consequent reduction in interest costs would have a reasonable likelihood of ensuring the long term viability of the Corporation.

The implementation of a plan of arrangement and compromise appeared to the Steering Committee to be the best available alternative for ensuring the survival of the Corporation. Management of the Corporation believed that the Bank would not have continued to support the Corporation without a restructuring of its balance sheet. Management further believed that if a stay of proceedings against the Corporation had not been obtained under the CCAA, the Bank would have installed a receiver or receiver and manager to realize its security interest in the Corporation's assets and undertaking, and that this same result would occur if such a plan were to be unsuccessful.

Proceedings

As a result of the foregoing financial problems and in order to facilitate a financial restructuring, on the Date of Filing, the Corporation made an application for, and was granted protection from its Creditors under the CCAA pursuant to, the Initial Order.

The Initial Order authorized the Corporation to file a plan of arrangement and compromise for the consideration of secured Creditors, unsecured Creditors and Shareholders pursuant to the provisions of the CCAA and applicable corporate legislation. At the Date of Filing, it was contemplated that the Corporation might need to be continued under the OBGA, if thought necessary or advisable. The Initial Order, as amended by subsequent Orders, among other things, stayed all other proceedings against the Corporation, appointed the Monitor and authorized the Corporation to downsize its operations and proceed with a restructuring and the development of a plan of arrangement and compromise, all subject to certain terms, conditions and restrictions. The responsibilities of the Monitor under the Initial Order include ensuring that the Corporation will make payments for goods and services supplied after the Date of Filing, reviewing and recommending reductions to the overhead expenses of the Corporation, reviewing and approving the proposed compromise between the Corporation and its Creditors, assisting the Corporation in the development of a plan of arrangement and compromise, and observing and reporting to the Bank and other Creditors of the Corporation as to the financial and business affairs of the Corporation. The Initial Order also granted to the Directors and officers of the Corporation, and to the Monitor, certain prior charges on the assets of the Corporation. The Initial Order was obtained to ensure that the Corporation's assets are kept intact during the reorganization process to allow Peoples to carry on its business in the normal course while formulating the restructuring plan, to enable the Corporation to deal with its insolvent condition and, more particularly, to permit it sufficient time to prepare and propose a plan of arrangement and compromise for the consideration of its stakeholders. See "Appendix C — Initial Order".

Since the Initial Order, there have been 18 subsequent Orders made by the Court. Among other things, these Orders restricted the Corporation's ability to close stores (January 11, 1993); permitted certain Creditors to make a demand for payment of all indebtedness (January 11, 1993, and February 22, 1993); allowed the Corporation to solicit non-binding letters of intent from potential purchasers (February 26, 1993); allowed the Corporation to file the Plan (April 21, 1993); established a procedure for seeking approval of the Plan (May 10, 1993), and authorized certain amendments to the Credit Agreements (June 9, 1993). Other Orders simply granted the Corporation extensions of time to comply with certain requirements of the Initial Order and subsequent Orders, or authorized the Corporation to downsize its operations in ways not necessarily provided for in the Initial Order. A summary of all of the Orders can be found in Appendix B. The Initial Order is reproduced in Appendix C while the May 10, 1993 Order is reproduced in Appendix D.

Following the making of the Initial Order, management, the Steering Committee and other members of the Board of Directors, together with their financial and legal advisors, have been engaged in the process of formulating the Plan. The Corporation has conducted negotiations principally with the Bank Creditor, the First Mortgage Bondholder, the Capital Lease Creditor, and representatives of the Debentureholders, Trade Creditors, Landlords and Zale Claimants. The efforts of the Steering Committee, Board of Directors and management in the formulation of the Plan were delayed and hampered to a degree by the discovery of certain questionable accounting, financial and other transactions described under "Information Concerning Peoples — Recent Developments". See also "Directors' Recommendation".

On April 21, 1993, the Corporation filed the Plan, in its original form, with the Court under the CCAA and applicable corporate legislation. Subsequent to such filing, the Corporation engaged in discussions with various of its Creditor constituencies. In part as a result of such discussions, the terms of the Plan have been revised and an amended and restated Plan was filed with the Court on June 23, 1993. A copy of the Plan, as so amended and restated, is attached as Appendix A to this Circular.

On May 10, 1993, the Court granted the original interim order. On June 23, 1993, the Court granted the amended and restated Interim Order which, in this form, among other things:

- (a) designates the respective Classes of Creditors and Shareholders for the purpose of voting to approve the Plan;
- (b) directs the Corporation as to the calling, holding and conducting of the Meetings;
- (c) mandates the required levels of approval from each Class for approval of the Plan; and
- (d) provides for the hearing of the application as to the Final Order.

The amended and restated Interim Order is reproduced in Appendix E to this Circular.

BUSINESS PLAN

The Corporation has prepared a Business Plan including projections of operating cash flows for the five year period from 1993 to 1998. There have been several revisions and updates to the Business Plan's assumptions and projections. The objectives of the Business Plan were to demonstrate the ability of the Corporation to generate positive operating cash flow (given the commercial and economic assumptions used and based on an optimal use of existing resources) and to indicate the extent and type of compromises and contributions required from all stakeholders to effect a successful restructuring. With modest exceptions, the Business Plan has generally been adopted as the basis of, and forms the foundation for, the Plan. The implementation of the Business Plan, with its inherent operational cost savings, combined with the restructuring of the Corporation's capital pursuant to the Plan, is intended to return the Corporation to satisfactory levels of profitability and to provide ongoing returns to its stakeholders.

CONTINUANCE

The Corporation is currently governed by the CBCA. As a preliminary step to the implementation of the Plan, the Corporation is intended to be continued under the OBCA. Shareholders will be asked at the Annual and Special Meeting to pass a special resolution authorizing the board of Directors to apply to the Director under the OBCA for a certificate of continuance (the "Continuance") in order to change the governing jurisdiction of the Corporation from Canada to Ontario. Notwithstanding any approval by the Shareholders of the Continuance at the Annual and Special Meeting, the Directors may determine not to proceed with the Continuance at any time prior to the issuance to the Corporation of a certificate of continuance without further action on the part of the Shareholders.

The following summary of certain similarities and differences between the CBCA and OBCA on matters pertaining to shareholder rights is not an exhaustive review and is of a general nature only. This summary is not intended to be, and should not be construed to be, legal advice to any particular Shareholder and, accordingly, Shareholders should consult their own legal advisors with respect to the corporate law consequences to them of the Continuance and the Plan.

The substantive provisions of the OBCA and CBCA as they apply to the ongoing operations of the Corporation are substantially similar. Insofar as such statutes relate to the relationship between corporations and their shareholders, the OBCA and CBCA are broadly similar although there are a number of variations in detail. The OBCA has undergone significant amendment more recently than the CBCA after mirroring for some years the provisions of the CBCA. The OBCA is now the more "modern" statute and affords a somewhat broader range of more fully defined rights and remedies of shareholders, in particular minority shareholders, than does the CBCA. In addition, the OBCA provides somewhat greater flexibility than the CBCA in corporate reorganizations such as the proposed Plan. Continuance under the OBCA may facilitate the implementation of the Plan. The Plan involves Shareholder Class votes and Court approval and neither this nor the substance of such votes or approval will be affected to the detriment of Shareholders if the Continuance is effected.

Upon the issuance to the Corporation of a certificate of continuance under the OBCA, the Shareholders' Meetings and the Creditors' Meetings will be held to approve the Plan. The Interim Order authorizes the Corporation to dispense with delivering additional notices and meeting materials in respect of the Shareholders' Meetings to avoid the unnecessary delay, duplication and expense which such a requirement would impose. See "Required Approvals and Other Conditions of the Plan".

DESCRIPTION OF THE PLAN

The Plan, the text of which is set forth in Appendix A to this Circular, is the result of an extensive review by the Steering Committee, the other members of the Board of Directors, management and their financial and legal advisors of the available alternatives to address Peoples' deteriorating financial condition and to maximize value for all of its stakeholders.

Philosophy and Principles

The general principles which underlie the Plan are that (i) it is in the interests of all Persons with an interest in the business and affairs of the Corporation that the Corporation continue to carry on business as a going concern rather than be liquidated; (ii) the financial restructuring should result in a long-term, stable solution to the Corporation's financial problems; and (iii) all Creditors and Shareholders of the Corporation should be treated equitably having regard to their respective security and priority positions.

Classification of Constituencies under the Plan

The Plan affects both Shareholders and Creditors of the Corporation. The Plan and the Interim Order provide for three Classes of Shareholders and six Classes of Creditors for voting purposes and generally for purposes of distributions under the Plan. Creditors' classifications are based upon commonality of interest. Creditors with essentially similar rights against Peoples, and which are proposed to receive essentially similar treatment under the Plan, have been placed together in one Class to vote on approval of the Plan.

The Shareholder Classes are as follows:

1. Class A Non-Voting Shareholders;
2. Common Shareholders; and
3. First Preferred Shareholders.

The Creditor Classes are as follows:

1. First Mortgage Bondholders;
2. Capital Lease Creditor;
3. Unsecured Creditors;
4. Landlords;
5. Zale Claimants; and
6. Bank Creditor.

The Plan includes provisions regarding the valuation of Claims for voting purposes and generally for purposes of the Plan. See "Proof of Claim Procedures for Voting and Distribution Purposes".

The following is an outline of how the various constituencies of the Corporation will be treated under the Plan. This description is qualified in its entirety by reference to the full text of the Plan attached to this Circular as Appendix A. The entitlements of the respective Classes to New Common Shares are set out in "Description of the Plan — Pro-Forma Shareholdings". The discussion of the Plan below assumes that the Corporation will be continued under the OBCA.

Treatment of Shareholders

Common Shareholders and Class A Non-Voting Shareholders

As at June 7, 1993, there were 874,750 Common Shares and 10,638,675 Class A Non-Voting Shares outstanding. The holders of the Class A Non-Voting Shares and the Common Shares of the Corporation receive identical treatment under the Plan. While the Common Shares are currently voting and the Class A Non-Voting Shares do not entitle holders to a vote (other than as prescribed by applicable law), the Plan proposes to dispense with this two-tier structure. The Plan provides that, on the Plan Implementation Date, the articles of the Corporation will be amended to provide, among other things, for an unlimited number of New Common Shares. Each outstanding Class A Non-Voting Share and each outstanding Common Share will be changed into one New Common Share. See "Description of Existing Share Capital" and "Description of the Plan — Securities to be Issued".

First Preferred Shareholders

The Corporation is currently authorized to issue three series of First Preferred Shares. An unlimited number of First Preferred Shares, Non-Voting Series A are authorized, but currently no such shares are issued and outstanding. Certain current and former employees of the Corporation hold First Preferred Shares, Non-Voting Series B and First Preferred Shares, Non-Voting Series C. These First Preferred Shares were issued pursuant to the Employee Stock Purchase Plan and were financed by loans from the Corporation. Pursuant to the Employee Stock Purchase Plan, dividends payable on the First Preferred Shares were applied to reduce the amount outstanding on such loans. The First Preferred Shares are convertible into Class A Non-Voting Shares on a one-for-one basis, and are redeemable at the request of holders thereof at their issue price. See "Description of Existing Share Capital". The Corporation has not redeemed any of these Shares since September 1991. Upon the Corporation being unable to meet the solvency tests prescribed by the CBCA, it could no longer effect redemptions of First Preferred Shares pursuant to the Employee Stock Purchase Plan. At the present time, First Preferred Shares having an aggregate redemption price of approximately \$9.5 million are outstanding, financed by shareholder loans having an outstanding balance of approximately \$8.8 million. Pursuant to the Plan, a number of the issued and outstanding First Preferred Shares of each First Preferred Shareholder will be redeemed at the redemption price thereof such that the aggregate redemption price of the First Preferred Shares so redeemed shall be the lesser of (i) the aggregate redemption price of all First Preferred Shares held by such Shareholder; and (ii) the aggregate outstanding principal in respect of any share purchase loan(s) extended by the Corporation to such First Preferred Shareholder to purchase such Shares plus accrued and unpaid interest thereon. The redemption proceeds will be applied to repay such First Preferred Shareholder's share purchase loan. Each First Preferred Share which thereafter remains outstanding will be converted into one Class A Non-Voting Share which will, in turn, be changed into one New Common Share as part of the Plan. It is currently anticipated that approximately 50,500 First Preferred Shares will be so converted.

Treatment of Creditors

First Mortgage Bondholders

To the best of the Corporation's knowledge, The Standard Life Assurance Company is currently the sole beneficial holder of the First Mortgage Bonds and, therefore, the sole member of the First Mortgage Bondholders' Class. As at December 29, 1992, First Mortgage Bonds in an aggregate principal amount of \$14,685,000 were issued and outstanding. Interest on the First Mortgage Bonds has been paid by the Corporation up to the Date of Filing. See "Description of First Mortgage Bonds".

Under the Plan, the Proven Claim of the First Mortgage Bondholders will be dealt with in two separate Creditors' Classes.

The portion of the Proven Claim of the First Mortgage Bondholders equal to the Market Value Amount, being fixed at \$6,500,000 in the Plan, will be dealt with in the First Mortgage Bondholders' Class. To deal with such portion, the Corporation will quitclaim all of its right, title and interest in the Head Office to the First Mortgage Bond Trustee. This portion of the First Mortgage Bondholders' Proven Claim will simultaneously be released, discharged and cancelled.

The Mortgage Deficiency, currently estimated at \$8,185,000, being the balance of the amount of the Proven Claim of the First Mortgage Bondholders, will be dealt with in the Unsecured Creditors' Class. Any Under \$5,000 Claim in respect of the Mortgage Deficiency of a First Mortgage Bondholder will be paid as to 25% in a single payment on the Under \$5,000 Payment Date in full satisfaction of such Under \$5,000 Claim. Each First Mortgage Bondholder having an Over \$5,000 Claim in respect of the Mortgage Deficiency will be deemed to subscribe for that proportion of the number of New Common Shares available to the Unsecured Creditors' Class under the Plan which is equal to the amount of such First Mortgage Bondholder's Over \$5,000 Claim in respect of the Mortgage Deficiency expressed as a proportion of the aggregate amount of all Over \$5,000 Claims for an aggregate subscription price equal to such First Mortgage Bondholder's Over \$5,000 Claim. The subscription price payable to the Corporation for such New Common Shares will be set-off in full against the obligation of the Corporation to pay the amounts of such Over \$5,000 Claims and such New Common Shares will be issued to the First Mortgage Bondholders as fully paid and non-assessable.

No further payments will be made by the Corporation under the First Mortgage Bonds.

In the event that the First Mortgage Bondholders, acting in their capacities as members of the First Mortgage Bondholders' Class, fail to approve the Plan, the Directors may, in their discretion, elect to proceed with the implementation of the Plan. In such event, the sole recourse of the First Mortgage Bond Trustee in respect of the Market Value Amount shall be to exercise the remedies available to it under the Deed of Trust and Mortgage to realize on the Head Office by taking title to, or effecting a sale of, the Head Office for and on behalf of the First Mortgage Bondholders. Upon any such exercise, the Corporation shall be deemed to have paid to the First Mortgage Bond Trustee an amount equal to the Market Value Amount in full and final satisfaction of its obligation to the First Mortgage Bondholders in their capacities as members of the First Mortgage Bondholders' Class.

Capital Lease Creditor

As at the Date of Filing, the Capital Lease Creditor was owed an estimated \$3,497,000 in respect of the Leased Property.

Under the Plan, the Proven Claim of the Capital Lease Creditor will be dealt with in two separate Creditors' Classes.

The portion of the Proven Claim of the Capital Lease Creditor equal to the Realizable Value Amount, being fixed at \$1,912,000 in the Plan, will be dealt with in the Capital Lease Creditor's Class. To deal with such portion, the Capital Lease Agreement Amendments will be made to the Capital Lease Agreement effective on the Plan Implementation Date. Pursuant to the Capital Lease Agreement Amendments, the principal amount of Indebtedness outstanding under the Capital Lease Agreement will be reduced to the Realizable Value Amount, \$350,000 of the Realizable Value Amount will be repaid by the Corporation to the Capital Lease Creditor on the Plan Implementation Date and the remainder of the Realizable Value Amount will be paid to the Capital Lease Creditor in 42 equal monthly instalments of \$37,190 plus interest at a rate equal to 8% per annum calculated and payable monthly on the principal amount outstanding from time to time, such principal repayments and interest payments to commence on the first day of the sixth calendar month next following the Plan Implementation Date. The Realizable Value Amount and the terms of the Capital Lease Agreement Amendments may be varied, subject to an Order of the Court, prior to the Plan Implementation Date on the basis of agreements reached with Landlords in respect of store closings and the realizable value of the Leased Property situated in stores which are to be retained by the Corporation.

The Leased Property Deficiency, estimated at approximately \$1,585,000, being the balance of the amount of the Capital Lease Creditor's Proven Claim, will be dealt with in the Unsecured Creditors' Class. The Capital Lease Creditor will be deemed to subscribe for that proportion of the number of New Common Shares available to the Unsecured Creditors' Class under the Plan which is equal to the amount of its Over \$5,000 Claim in respect of the Leased Property Deficiency expressed as a proportion of the aggregate amount of all Over \$5,000 Claims for an aggregate subscription price equal to its Over \$5,000 Claim. The subscription price payable to the Corporation for such New Common Shares will be set off in full against the obligation of the Corporation to pay the amount of such Over \$5,000 Claim and New Common Shares will be issued to the Capital Lease Creditor as fully paid and non-assessable.

In the event that the Capital Lease Creditor, acting in its capacity as the sole member of the Capital Lease Creditor's Class, fails to approve the Plan, the Directors may, in their discretion, elect to proceed with the implementation of the Plan. In such event, the sole recourse of the Capital Lease Creditor in respect of the Realizable Value Amount shall be to exercise the remedies available to it under the Capital Lease Agreement to realize on the Leased Property by taking title to, or effecting a sale of, the Leased Property. Upon any such exercise, the Corporation shall be deemed to have paid to the Capital Lease Creditor an amount equal to the Realizable Value Amount in full and final satisfaction of its obligation to the Capital Lease Creditor in its capacity as a member of the Capital Lease Creditor's Class.

Unsecured Creditors

The Plan contemplates that the Unsecured Creditors' Class will comprise all Creditors of the Corporation with Claims other than Claims against the Corporation in respect of Unaffected Obligations and Claims which do not otherwise fit into another Creditors' Class. The Claims to be dealt with in the Unsecured Creditors' Class will be the Claims of all Debentureholders, Trade Creditors, Contingent Creditors, the DPSP Trustee, the EPP Trustee, Employee Creditors and other Unsecured Creditors, as well as a portion of the First Mortgage Bondholders' Claim

in respect of the Mortgage Deficiency (as described under "First Mortgage Bondholders" above) and a portion of the Capital Lease Creditor's Claim in respect of the Leased Property Deficiency (as described under "Capital Lease Creditor" above).

The aggregate amount of the Debentureholders' Proven Claims will be determined to be the aggregate principal amount outstanding under the Debentures, plus accrued and unpaid interest as at the Date of Filing. Each Debentureholder's Proven Claim will be the amount allocated to such Debentureholder in the Trustee's Statement provided to the Corporation by the Debentureholders' Trustee. As at the Date of Filing, Debentures in an aggregate principal amount of \$40,400,000 were issued and outstanding, with accrued and unpaid interest thereon in the aggregate amount of \$2,792,000.

The Proven Claims of Trade Creditors will be equivalent to the Proven Claims of such Creditors in respect of goods, services, materials or utilities supplied to the Corporation prior to the Date of Filing.

The Proven Claim of each Employee Creditor will be valued, at a minimum, on the basis of such Creditor's minimum statutory entitlement less any mandatory payments made at the time of termination.

Notwithstanding that the DPSP Beneficiaries and the EPP Beneficiaries vote individually in the Unsecured Creditors' Class, neither the DPSP Beneficiaries nor the EPP Beneficiaries will individually receive distributions under the Plan. All distributions under the Plan in respect of both the DPSP and the EPP will be made to the DPSP Trustee and the EPP Trustee, respectively.

The Plan does not specify how the Claims of other Unsecured Creditors are to be quantified, but provides that the Proven Claim of any such Creditor is to be the amount of the Claim of such Creditor as finally determined in accordance with the CCAA and the Plan.

Under the Plan, each Under \$5,000 Claim of an Unsecured Creditor will be paid as to 25% of the amount thereof in a single payment on the Under \$5,000 Payment Date in full satisfaction of such Under \$5,000 Claim. Any payment made to a Debentureholder in respect of the Under \$5,000 Claim of such Debentureholder shall be applied to the repayment of the portion of such Proven Claim relating to the outstanding principal amount on the Debentures held by such Debentureholder.

Each Unsecured Creditor having an Over \$5,000 Claim will be deemed to subscribe for that proportion of the number of New Common Shares available to the Unsecured Creditors' Class under the Plan, which is equal to the amount of such Unsecured Creditor's Over \$5,000 Claim expressed as a proportion of the aggregate amount of all Over \$5,000 Claims for an aggregate subscription price equal to such Unsecured Creditor's Over \$5,000 Claim. The subscription price payable to the Corporation for such New Common Shares will be paid by way of set off in full against the obligation of the Corporation to pay the amount of such Over \$5,000 Claim and such New Common Shares will be issued to such Unsecured Creditors as fully paid and non-assessable.

Any Unsecured Creditor having an Over \$5,000 Claim shall be entitled, at any time prior to 10 days before the Unsecured Creditors' Meeting, to notify the Corporation that it wishes to reduce the amount of its Claim to \$5,000 for the purposes of this Plan, and (i) such revised amount shall be the maximum amount of such Creditor's Proven Claim as finally determined for the purposes of this Plan, and (ii) such Creditor shall be deemed to have released and discharged the Corporation from its obligations in respect of such Creditor's Claim to the extent that it exceeds \$5,000.

Each Claim set out on a Voting Claim, Notice of Objection or, in the case of a Represented Creditor, the relevant Trustee's Statement shall be treated by the Corporation as a single Claim for the purposes of distributions under the Plan, notwithstanding that a portion of such Claim may have been transferred by the Creditor named in such Voting Claim, Notice of Objection or Trustee's Statement, unless such Creditor can establish to the satisfaction of the Claims Officer that the transfer of such portion of the Claim occurred prior to the Date of Filing.

The Debentureholders' Trustee, the First Mortgage Bond Trustee, the DPSP Trustee and the EPP Trustee will not incur any liability or obligation towards the Debentureholders, the First Mortgage Bondholders, the DPSP Beneficiaries or the EPP Beneficiaries, respectively, in connection with the calling, holding or conduct of the Creditors' Meetings or the voting on the Plan including the receipt of a Voting Claim on behalf of such Persons, or as a result of its determination for voting purposes of the Claim of a First Mortgage Bondholder, Debentureholder, DPSP Beneficiary or EPP Beneficiary, as the case may be, other than, in each case, for such trustee's own gross negligence or wilful misconduct.

In the event that all Over \$5,000 Claims are not finally determined on the Plan Implementation Date, the Corporation will issue the relevant New Common Shares to the Distributing Agent to be held in trust for the Unsecured Creditors. The Distributing Agent will distribute or cause to be distributed to each Unsecured Creditor in respect of its Over \$5,000 Claim the number of New Common Shares to which such Unsecured Creditor would be entitled under the Plan if all Over \$5,000 Claims to be dealt with by the Corporation in the Unsecured Creditors' Class were treated as Proven Claims. If the Claim of the EPP Trustee and any Claim of the trustee of the employee pension plan of the Corporation have not been finally determined prior to the Plan Implementation Date, the maximum aggregate amount of the Claims of such trustees shall be treated as not exceeding \$1,000,000. The remaining New Common Shares held by the Distributing Agent for the Unsecured Creditors' Class will be distributed among the Unsecured Creditors according to the Plan after all Over \$5,000 Claims to be dealt with by the Corporation in the Unsecured Creditors' Class have been finally determined. In exercising its rights and duties under the Plan, the Distributing Agent will be required to exercise that degree of care, diligence and skill that a reasonably prudent trustee in bankruptcy would exercise in comparable circumstances, but will not be liable to the Corporation or to the Unsecured Creditors other than for its own negligence or wilful misconduct. Unsecured Creditors may transfer or assign their rights to receive or to hold any New Common Shares to which they are entitled at any time before or after such shares are distributed.

Landlords

Landlords with Leases which are not Abandoned Leases will be asked to enter into Rent Abatement Agreements with the Corporation prior to the Plan Implementation Date. If all such Landlords were to so agree, the aggregate effect of such Rent Abatement Agreements would be to reduce the total minimum rent payable to Landlords under all such Leases in effect on the Plan Implementation Date by approximately \$1,750,000 per year for each of the three consecutive years commencing the first day of the first full calendar month following the Plan Implementation Date or provide amendments or variations to the terms and conditions of present Leases and/or Lease renewals or other accommodations to the Corporation that the Monitor deems to have an approximately equivalent value. The amount of rent abatements to be taken by such Landlords will be proportionate to the value of such Leases held by such Landlords and the aggregate abatement to be taken by any such Landlord may be apportioned at its discretion among such Leases held by it. The Proven Claim of each such Landlord which does not enter into such Rent Abatement Agreement or provide amendments, variations or other accommodations of equivalent value will be reduced to zero for distribution purposes under the Plan. Landlords providing abatements, amendments, variations or other accommodations of less than the prescribed value will have their Proven Claims reduced proportionately.

Subject to the foregoing paragraph, under the Plan:

- (i) each Landlord will be paid, in respect of each Abandoned Lease held by such Landlord, an amount equal to the portion of its Proven Claim representing three times the Base Rent under the Abandoned Lease. This amount will be paid to each such Landlord in three equal instalments payable on the last Business Day of each of the three consecutive calendar months next following the Plan Implementation Date. No interest will be payable by the Corporation in respect of these amounts;
- (ii) each Landlord will be deemed to subscribe for that proportion of the number of New Common Shares available to the Landlords' Class under the Plan which is equal to the amount of the portion of such Landlord's Proven Claim for arrears in respect of Abandoned Leases expressed as a proportion of the aggregate of all such portions of the Proven Claims of all Landlords for arrears in respect of Abandoned Leases for an aggregate subscription price equal to the portion of such Landlord's Proven Claim. The subscription price payable to the Corporation for such New Common Shares will be paid by way of set off in full against the obligation of the Corporation to pay the amount of such portion of the Proven Claim and the New Common Shares will be issued to such Landlords as fully paid and non-assessable.
- (iii) the portion of each Landlord's Proven Claim for arrears of rent in respect of Leases other than Abandoned Leases will be satisfied by the payment to each such Landlord of the full amount of such portion of its Proven Claim in three equal instalments payable on the last Business Day of each of the three consecutive calendar months following the Plan Implementation Date. No interest will be payable by the Corporation in respect of these amounts.

In the event that all Claims of Creditors in the Landlords' Class for arrears of rent under Abandoned Leases are not finally determined on the Plan Implementation Date, the Corporation will issue the relevant New Common Shares to the Distributing Agent to be held in trust for the Landlords. The Distributing Agent will distribute or cause to be distributed to each Landlord in respect of its Proven Claim the number of New Common Shares to which such Landlord would be entitled under the Plan if all relevant Claims to be dealt with by the Corporation in the Landlords' Class were treated as Proven Claims. The remaining New Common Shares held by the Distributing Agent for the Landlords' Class will be distributed among the Landlords according to the Plan after all Claims to be dealt with by the Corporation in the Landlords' Class have been finally determined. In exercising its rights and duties under the Plan, the Distributing Agent will be required to exercise that degree of care, diligence and skill that a reasonably prudent trustee in bankruptcy would exercise in comparable circumstances, but will not be liable to the Corporation or to the Landlords other than for its own negligence or wilful misconduct. Landlords may transfer or assign their rights to receive or to hold any New Common Shares to which they are entitled at any time before or after such shares are distributed.

Three-months Base Rent under Abandoned Leases abandoned prior to the date of this Circular total approximately \$500,000, and aggregate arrears for such Abandoned Leases total approximately \$600,000.

As at the Plan Implementation Date, arrears in respect of ongoing Leases are expected to total approximately \$2,000,000.

Zale Claimants

Pursuant to the Interim Order, The Zale Corporation is the sole Zale Claimant. Under the Plan, The Zale Corporation will be deemed to subscribe for New Common Shares. The subscription price payable to the Corporation for such New Common Shares will be paid by way of set off in full against the obligation of the Corporation to pay to the Zale Claimants the amount of the Zale Claimants' Proven Claim and such New Common Shares will be issued to The Zale Corporation as fully paid and non-assessable.

Bank Creditor

The Bank is the Corporation's sole Bank Creditor. The Bank Creditor was owed approximately \$106,500,000 as at the close of business on the Date of Filing.

Prior to the Plan Implementation Date, the Corporation will incorporate Newco, as a new wholly-owned subsidiary. Under the Plan, the Bank Creditor will lend \$70,000,000 to Newco which amount will be used by Newco to acquire from the Bank Creditor \$70,000,000 of the Bank Secured Debt and an interest in the security for such debt. No interest will be payable by the Corporation in respect of this portion of the Bank Secured Debt while it is owing to Newco or until the Corporation is otherwise notified by the Bank Creditor.

The Bank Creditor will subscribe for Newco Preferred Shares having an aggregate subscription price of \$70,000,000. Newco will issue the Newco Preferred Shares to the Bank Creditor and will use the proceeds received on the subscription to repay the \$70,000,000 loan to the Bank Creditor. The Newco Preferred Shares shall have the characteristics described below under "Description of the Plan — Securities to be Issued". Pursuant to the Newco Preferred Share Documentation, the Corporation shall be required to pay to Newco, within 90 days after each of the Corporation's fiscal year ends, its "Excess Cash Flow" (as defined in the Newco Preferred Share Documentation) arising in the fiscal year which will be used by Newco to redeem Newco Preferred Shares. In addition, the Corporation shall be required to pay to Newco, by way of contributions of capital, amounts sufficient to permit Newco to pay the expenses of Newco and preferential cumulative monthly dividends on the Newco Preferred Shares at an annual rate equal to the aggregate of (i) 57% of the Bank Creditor's prime rate of interest and (ii) 2%.

In addition, pursuant to the Newco Preferred Share Documentation, Newco will have the right to require the Bank Creditor to purchase and the Bank Creditor will have the right to require Newco to sell to the Bank Creditor the debt acquired by Newco from the Bank Creditor together with the interest in the security for such debt. The Corporation will also enter into an agreement with the Bank Creditor such that the Bank Creditor could, at any time, put the Newco Preferred Shares to the Corporation for the redemption price thereof plus all accrued and unpaid dividends and such additional amount as is necessary to put the Bank Creditor in the same position as it would be in if it were to receive all dividends as tax-free intercorporate dividends.

The Corporation has applied to Revenue Canada, Taxation for the Tax Ruling in respect of the Newco Preferred Shares. There is no assurance that the Tax Ruling will be obtained by the Corporation.

Class One Preferred Shares of the Corporation in the aggregate number of 30,000,000 will be issued as fully paid and non-assessable shares to the Bank Creditor pursuant to the Plan in consideration of the unconditional and irrevocable covenant and agreement of the Bank Creditor not to sue or otherwise enforce payment by the Corporation of \$30,000,000 of the Bank Creditor's Proven Claim. The Class One Preferred Shares will be voting in limited circumstances and convertible at any time at the option of the holder into New Common Shares such that, upon conversion in full and on a fully diluted basis, the holder would be entitled to 78% of the New Common Shares issued and outstanding after such conversion. See "Description of the Plan — Securities to be Issued".

The remainder of the Bank Creditor's Proven Claim will be treated as an Unaffected Obligation.

It is intended that the priority of the security interests previously granted by the Corporation to the Bank Creditor in the Corporation's assets and undertaking with respect to the Bank Secured Debt will not be affected by the implementation of the Plan and that such security will secure all amounts payable by the Corporation to the Bank (including, without limitation, amounts lent to the Corporation after the Date of Filing by the Bank Creditor under the Credit Agreements or by the New Creditor under the New Credit Agreement) and to Newco.

Unaffected Obligations

The Plan will not affect the holders of Unaffected Obligations which include the following:

- A. The amount by which the Bank Creditor's Proven Claim exceeds \$100,000,000.
- B. Interim Period Debt.
- C. Claims by Creditors which the Corporation determines not to compromise under the Plan.
- D. Indemnification of trustees for expenses in accordance with the Trust Indentures, the Deed of Trust and Mortgage, the EPP and the DPSP.
- E. Claims of legal, accounting and financial advisors to the Corporation for reasonable expenses incurred after the Date of Filing and at the direction of the Corporation or to be incurred for the purposes of reorganizing the Corporation's debt or equity including, without limitation, the Plan.
- F. Settlement arrangements made by the Corporation after the Date of Filing pursuant to Order by the Court, including, without limitation, with certain Landlords in respect of Abandoned Leases.
- G. Claims for indemnity pursuant to indemnities provided by the Corporation to (i) Directors who were, at the Date of Filing or at the Plan Implementation Date, Directors of the Corporation but who were not at the Date of Filing officers of the Corporation; and (ii) officers of the Corporation who assumed offices with the Corporation after the Date of Filing and will be officers of the Corporation on the Plan Implementation Date.
- H. Claims of Equipment Financiers.
- I. Claims pursuant to the New Credit Agreement.
- J. Any Claim pursuant to any consignment agreement to which the Corporation is a party at the Plan Implementation Date.
- K. The Directors' and officers' charge as provided to survive and be continued pursuant to Section 7.2 of the Plan.
- L. Carol Young, to the extent necessary to enable her (i) to assume title to the Texas Condominium; or (ii) to effect a sale of the Texas Condominium to a third party.
- M. Obligations owed to the First Mortgage Bondholders and the Capital Lease Creditor, each in their capacities as members of the First Mortgage Bondholders' Class and the Capital Lease Creditor's Class, respectively, to the extent set out in Subsections 3.5(2) and 3.5(3), respectively, of the Plan.

Releases

Other than in respect of the Unaffected Obligations and after the Plan Implementation Date, each Creditor and Shareholder of the Corporation shall be deemed to forever release any and all suits, claims and causes of action that it may have had against persons who were (i) Directors who were, at the Date of Filing or as at the Plan Implementation Date, Directors of the Corporation but who were not at the Date of Filing officers of the

Corporation, and (ii) officers of the Corporation who assumed offices with the Corporation after the Date of Filing and will be officers of the Corporation on the Plan Implementation Date.

Plan Implementation Date

The Plan Implementation Date will be the date on which the Certificate of Arrangement is issued in respect of the Plan. This date will be determined by the Corporation following issuance of the Final Order and the satisfaction of all other conditions for the implementation of the Plan. See "Required Approvals and Other Conditions of the Plan". Assuming that the Creditors' Meetings and Shareholders' Meetings are held during the period prescribed therefor in the Interim Order and that the Final Order is issued shortly thereafter, the Corporation anticipates that the Plan Implementation Date may be as early as September 6, 1993.

Release of Monitor and Priority Under Initial Order

Peoples will pay or will make provision through the Monitor to pay all Interim Period Debt to Interim Creditors in accordance with the terms of the obligations in respect thereof. The Plan provides that, effective 60 days after the Plan Implementation Date, all Claims of the Interim Creditors against the Monitor for all services, utilities, goods or materials supplied to the Corporation after the Date of Filing and as against the property, assets and undertaking of the Corporation pursuant to the Initial Order (as amended) shall be released. Such release is without prejudice to the Corporation's obligations in respect of the Interim Period Debt.

Release of Directors' and Officers' Charge

The first charge and security interest in the amount of \$5,000,000 on the Property (as defined in the Initial Order) of the Corporation granted to those individuals who were Directors and officers of the Corporation during the Interim Period, created by, and for the purposes set forth in, paragraph 29 of the Initial Order, shall survive and continue in full force and effect for the benefit of such individuals for a period of six months after the Plan Implementation Date.

Extinguishment of Claims

The Claim of any Creditor that has not received a Voting Claim or filed a Notice of Objection or other notice acceptable to the Corporation in respect of its Claim prior to June 2, 1993 will be extinguished unless, (i) the time for filing a Notice of Objection in respect of such Claim is extended by an order of the Court or such extension is agreed to by the Corporation; (ii) such Creditor is an Employee Creditor who received notice of termination of his or her employment after June 2, 1993 but before the Creditors' Meeting Date in respect of the Unsecured Creditors' Class and received a Voting Claim from the Corporation or filed a Notice of Objection in respect of such Claim before such Creditors' Meeting Date; or (iii) such Creditor is a Represented Creditor and a Represented Creditor's Trustee has received a Voting Claim in respect of the Claim of such Creditor or has filed a Notice of Objection or other notice acceptable to the Corporation in respect of such Creditor's Claim.

Securities to be Issued

New Common Shares

The rights, privileges, conditions and restrictions attaching to the New Common Shares will include the rights, subject to the prior rights of the Class One Preferred Shares, to receive dividends when declared by the Directors and to receive the remaining property of the Corporation in the event of the liquidation, dissolution or winding up of the Corporation and the right to receive notice of and to attend and vote at all meetings of shareholders of the Corporation except where the holders of a specified class are entitled to vote separately as a class as provided in the OBCA. Each New Common Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of the Corporation at which holders of New Common Shares are entitled to vote.

Under the Plan, existing Shareholders and Creditors of the Corporation will receive New Common Shares as follows:

- (a) the Class A Non-Voting Shareholders will receive in the aggregate 10,638,675 New Common Shares;
- (b) the Common Shareholders will receive in the aggregate 874,750 New Common Shares;
- (c) First Preferred Shareholders whose First Preferred Shares are converted into Class A Non-Voting Shares will receive in the aggregate approximately 50,500 New Common Shares;

- (d) the Unsecured Creditors will receive in the aggregate approximately 85,775,000 New Common Shares, such shares to be distributed *pro rata* to the Unsecured Creditors based on each Unsecured Creditor's proportionate share of the total amount of the Over \$5,000 Claims for the Unsecured Creditors' Class;
- (e) the Landlords will receive in the aggregate approximately 954,000 New Common Shares in respect of the portion of their Proven Claims for arrears on Abandoned Leases, such shares to be distributed *pro rata* to the Landlords based on each Landlord's proportionate share of the total amount of such portions of the Proven Claims for the Landlords' Class; and
- (f) the Zale Claimants will receive in the aggregate approximately 28,910,000 New Common Shares in respect of their Proven Claim.

Class One Preferred Shares

30,000,000 Class One Preferred Shares will be issued pursuant to the Plan to the Bank Creditor on the Plan Implementation Date as part of the Certificate of Arrangement.

The rights, privileges, conditions and restrictions attaching to the Class One Preferred Shares are as follows:

- (1) Holders of Class One Preferred Shares will be entitled to fixed cumulative preferential cash dividends payable quarterly on the last day of each of March, June, September and December in each year at the rate of 2% per annum until the earlier of (i) the fifth anniversary of the Plan Implementation Date and (ii) the redemption or purchase for cancellation of the Newco Preferred Shares, and thereafter at an annual rate equal to the Bank Creditor's prime rate of interest plus 2%. The first such dividend shall be payable on September 30, 1993;
- (2) The Class One Preferred Shares will be convertible at the option of the holder into New Common Shares at any time prior to the close of business on the fifteenth anniversary of the Plan Implementation Date at a rate to be determined on the basis that if the right to convert were to be exercised in respect of all of the Class One Preferred Shares, the New Common Shares issued upon conversion would represent 78% of all New Common Shares then issued and outstanding on a fully diluted basis. The basis of conversion will be subject to adjustment in certain events.
- (3) The Class One Preferred Shares will be redeemable at any time at the option of the holder at a redemption price of \$1.00 per share plus all accrued and unpaid dividends; provided however that such retraction privilege shall terminate with respect to all Class One Preferred Shares upon any transfer of any of such shares by the holder other than to an affiliate (as defined in the OBCA) of the holder;
- (4) The Class One Preferred Shares will not be redeemable at the option of the Corporation prior to the fifteenth anniversary of the Plan Implementation Date. Thereafter the Class One Preferred Shares will be redeemable in whole at any time or in part from time to time at the option of the Corporation at a redemption price of \$1.00 per share plus all accrued and unpaid dividends;
- (5) On or after the date on which the Corporation may redeem the Class One Preferred Shares, the Corporation may at any time purchase for cancellation any of the Class One Preferred Shares in the open market or by tender at a price per share not exceeding \$1.00 plus all accrued and unpaid dividends to the date of purchase and the costs of purchase;
- (6) The Class One Preferred Shares will rank prior to all classes of shares of the Corporation with respect to the payment of dividends and with respect to the return of capital and payment of accrued and unpaid dividends in the event of liquidation, dissolution or winding-up, whether voluntary or involuntary.
- (7) The holders of Class One Preferred Shares will not be entitled, except as otherwise provided in the OBCA or described below, to vote at any meeting of the shareholders of the Corporation, unless and until the Corporation shall have failed to pay twelve quarterly dividends on the Class One Preferred Shares, whether or not consecutive, after which time the holders of Class One Preferred Shares will have the right to vote at any such meetings on the basis of one vote per share for so long as the Corporation is in default in payment of twelve quarterly dividends;
- (8) The holders of the Class One Preferred Shares will be entitled at all meetings at which Directors are to be elected, voting separately and as a separate class, to elect in the aggregate one-third of the members of the Board of Directors on the basis of one vote for each share held. In the event of any vacancy on the

Board of Directors due to the death, resignation, ineligibility or inability for any other reason of any Director elected by holders of the Class One Preferred Shares, such vacancy will be filled for the remainder of the term by such person as may be elected by the holders of the Class One Preferred Shares at a special meeting of such holders called for that purpose;

- (9) The holders of the Class One Preferred Shares shall be entitled to vote separately as a class to approve and the Corporation shall not, without the prior approval of the holders of Class One Preferred Shares, take actions involving certain fundamental changes to the Corporation.
- (10) The holders of Class One Preferred Shares shall be entitled to receive copies of all financial information provided or required to be provided to holders of New Common Shares.

Newco Preferred Shares

Subject to receipt of the Tax Ruling (which condition may be waived at the discretion of the Bank Creditor) and the satisfaction of certain other conditions on or before the Plan Implementation Date, 70,000,000 Newco Preferred Shares will be issued by Newco, a newly incorporated wholly-owned subsidiary of the Corporation, to the Bank Creditor as part of the Plan on the Plan Implementation Date for an aggregate subscription price of \$70,000,000.

The rights, privileges, conditions and restrictions attaching to the Newco Preferred Shares are as follows:

- (1) The Newco Preferred Shares will rank prior to the common shares of Newco (the "Newco Common Shares") with respect to Dissolutions (as defined below) and any purchases for cancellation of Newco Common Shares. In addition, no dividends may be declared on or paid in respect of any Newco Common Shares while any Newco Preferred Shares are outstanding;
- (2) Holders of Newco Preferred Shares will be entitled to (a) cumulative monthly preferential dividends to be paid at an annual rate equal to the aggregate of (i) 57% of the Bank Creditor's prime rate of interest and (ii) 2% ("Regular Dividends") and (b) such other discretionary dividends as may be declared and paid on such shares ("Additional Dividends");
- (3) Regular Dividends will be paid on the last Business Day of each month. Additional Dividends will be paid on the date that any such dividends are declared to be payable but, in any event, on the date that the Newco Preferred Shares are to be redeemed, such dividends to be paid immediately before such redemption and to be in respect of dividends that have accrued to such date on the Newco Preferred Shares but which are unpaid;
- (4) In the event of a liquidation, dissolution or winding-up (a "Dissolution") of Newco, holders of Newco Preferred Shares will be entitled to receive an amount equal to the redemption price of such Newco Preferred Shares. The redemption price of each Newco Preferred Share will be \$1.00 (the "Preferred Share Redemption Price"). In addition, all accrued and unpaid dividends on the Newco Preferred Shares must be paid immediately prior to the distribution of such amounts;
- (5) Holders of Newco Preferred Shares will be entitled to retract all or any of such shares at any time and from time to time;
- (6) Redemption of all or any of the Newco Preferred Shares will be at the option of Newco, at any time and from time to time. The price payable on any such redemption will be equal to the aggregate of the Preferred Share Redemption Prices of the Newco Preferred Shares to be redeemed. In addition, all accrued and unpaid dividends on the Newco Preferred Shares must be paid immediately prior to the redemption of such Newco Preferred Shares;
- (7) Newco will be required to redeem all of the Newco Preferred Shares on the last Business Day of the fifty-ninth month following the date of issuance of the Newco Preferred Shares. As well, Newco will be required to redeem, on an annual basis, the Newco Preferred Shares to the extent of the Corporation's "excess cash flow" as defined in the Newco Preferred Share Documentation;
- (8) Except as provided under the OBCA, holders of Newco Preferred Shares will not be entitled to vote unless:
 - (i) certain events or defaults have occurred and are continuing; or

(ii) certain fundamental changes to Newco are being proposed, in which case each Newco Preferred Share will carry one vote per share at all meetings of shareholders.

Pro-Forma Shareholdings

Based on a September 1, 1993 Plan Implementation Date, the pro-forma holdings of New Common Shares of the various Creditors' and Shareholders' Classes after giving effect to the Plan, before and after taking into account the conversion into New Common Shares of the Class One Preferred Shares to be issued to the Bank Creditor under the Plan, would be approximately as follows:

	Prior to Conversion of Class One Preferred Shares		After Conversion of Class One Preferred Shares	
	Number of New Common Shares	%	Number of New Common Shares	%
	(in thousands)		(in thousands)	
Common Shareholders (1)	874.75	0.69	874.75	0.15
Class A Non-Voting Shareholders	10,638.68	8.36	10,638.68	1.84
First Preferred Shareholders	50.48	0.04	50.48	.01
First Mortgage Bondholders (2)	—	—	—	—
Capital Lease Creditor (2)	—	—	—	—
Unsecured Creditors	85,775.24	67.43	85,775.24	14.83
Landlords	954.02	0.75	954.02	.17
Zale Claimants	28,909.75	22.73	28,909.75	5.00
Bank Creditor	0.00	0.00	450,992.18	78.00
	<u>127,202.92</u>	<u>100.00</u>	<u>578,195.10</u>	<u>100.00</u>

Notes:

(1) Irving Gerstein, Marvin Gerstein and associates currently own beneficially or control directly or indirectly 755,390 Common Shares, or approximately 86.4% of the voting securities of the Corporation. Following implementation of the Plan, less than 1.5% of the New Common Shares will be owned or controlled by such persons (less than 0.3% on a fully diluted basis).

(2) To each Creditor in respect of its specific Class and not in its capacity as an Unsecured Creditor.

Procedure for Obtaining Share Certificates

If the Plan becomes effective, as soon as practicable after the Plan Implementation Date, the Corporation will forward or cause to be forwarded to each Creditor who is entitled to receive New Common Shares and to the registered Common Shareholders and Class A Non-Voting Shareholders (collectively, the "Share Recipients"), at the address of each such Share Recipient as it appears on the records of the Corporation, a letter of transmittal providing, among other things, instructions for obtaining delivery from the Transfer Agent of the certificates representing the New Common Shares that the Share Recipient is entitled to receive pursuant to the Plan. Subject to the provisions described below with respect to fractional shares, upon receipt by the Transfer Agent of the letter of transmittal, duly completed, along with any Share or Debenture certificate or other evidence of a Claim to be returned therewith and such other documents as the Transfer Agent may reasonably require, the Transfer Agent will register the New Common Shares in accordance with the instructions contained in the letter of transmittal and, as soon as practicable, deliver the certificates for the New Common Shares to such address as the Share Recipient directs in such letter of transmittal.

Securities laws of the states of Ohio and California require the registration of securities issued to residents of such states unless such securities are exempt from registration or unless the transaction pursuant to which they are issued is exempt from registration. Neither the New Common Shares to be issued by Peoples nor the transaction pursuant to which they are to be issued are within the exemptions provided by Ohio and California securities laws. Therefore, New Common Shares will not be issued to Shareholders (the "Non-Exempt U.S. Shareholders") whose addresses, as recorded on the books of the Corporation, are in the states of California, Ohio or any other state of the United States of America having securities laws similar to those of California or Ohio which require the registration of the New Common Shares issued to residents of such state. Letters of transmittal forwarded to such Shareholders must be completed so as to direct that the New Common Shares to which such Shareholders would otherwise be

entitled be issued to the Non-Exempt U.S. Shareholders' Trustee, for and on behalf of such Non-Exempt U.S. Shareholder. The Non-Exempt U.S. Shareholders' Trustee will, without any responsibility, attempt to sell such New Common Shares on behalf of the Non-Exempt U.S. Shareholders. The Non-Exempt U.S. Shareholders' Trustee will make the sales on such date or dates and at such price or prices as it, in its sole discretion, deems advisable. Net proceeds received by the Non-Exempt U.S. Shareholders' Trustee from such sales of New Common Shares will be divided *pro rata* among the Non-Exempt U.S. Shareholders and the Non-Exempt U.S. Shareholders' Trustee will mail the proceeds therefrom as soon as practicable to such Non-Exempt U.S. Shareholders at their addresses, as recorded in the books of the Transfer Agent. The Non-Exempt U.S. Shareholders' Trustee will act in this capacity as agent of the Non-Exempt U.S. Shareholders on a best efforts basis only and will not be responsible for the price obtained on the sale of, or any inability to sell, New Common Shares on behalf of any such Shareholders.

No Share Recipient will be entitled to be registered on the books of the Corporation in respect of a fraction of a share. If the Plan provisions would otherwise result in any Share Recipient being entitled to a fraction of a share, its entitlement will be rounded down to the next whole number of New Common Shares.

Any document formerly representing any Share, Debenture or First Mortgage Bond and all other instruments or evidences of Indebtedness of Creditors will become null and void on the Plan Implementation Date and on and after the Plan Implementation Date such certificates and other instruments shall represent only the right to receive certificates representing New Common Shares, except instruments evidencing (i) Indebtedness owed by the Corporation in connection with the Bank Secured Debt together with all security granted in respect thereof; (ii) any other indebtedness owed to the Bank by the Corporation on the Plan Implementation Date; and (iii) Leases other than Abandoned Leases. Any such document that is not so deposited within six years after the Plan Implementation Date will cease to represent any claim or other interest and the right of the holder thereof to receive New Common Shares, pursuant to the provisions of the Plan, will be cancelled on such date.

New Creditor

The Bank has indicated a willingness to consider a facility sufficient to accommodate the Corporation's working capital needs, subject to security and terms and conditions as would be normal for a transaction of this nature.

Shareholder Reporting Requirements

Following implementation of the Plan, the Corporation will continue to be a "reporting issuer" for the purposes of Canadian securities laws and, accordingly, will be required to comply with the continuous disclosure obligations of these laws. Among other things, these laws will require Peoples to provide annual and quarterly financial statements to all shareholders within the time periods prescribed by law.

CONSOLIDATED CAPITALIZATION AND PRO-FORMA CAPITALIZATION

The following table sets forth the consolidated capitalization of Peoples on the dates indicated and the pro-forma capitalization of Peoples, after giving effect to the Plan as if the Plan had been implemented on May 22, 1993. The table should be read in conjunction with the consolidated financial statements of Peoples and the unaudited pro-forma consolidated balance sheet and the notes thereto included elsewhere in the Circular.

	<u>Authorized</u>	As at March 31, 1993	As at May 22, 1993	Pro Forma After Giving Effect to the Plan as at May 22, 1993
		(in thousands of dollars except share data) (unaudited)		
Secured Short-term Obligations				
Bank Indebtedness		\$ 103,132	\$ 103,381	\$ 5,231
Debentures, Mortgages and Capital Lease				
Obligation				
1985 Debentures (1)		17,944	17,944	—
1986 Debentures (2)		5,500	5,500	—
1990 Debentures (3)		17,000	17,000	—
First Mortgage Bonds		14,685	14,685	—
Lease Obligation (4)		3,650	3,650	1,562
Preferred Shares of Subsidiary (5)				70,000
Share Capital				
Existing shareholdings (6)				
— amount		\$ 106,726	\$ 106,726	
— number of Class A Non-Voting Shares....	Unlimited	10,638,675	10,638,675	
— number of Common Shares	Unlimited	874,750	874,750	—
— number of First Preferred Shares.....	Unlimited	687,750	687,750	—
New Common Shares (7)				
— amount		—	—	0
— number of shares				127,202,920
Class One Preferred Shares (8)				
— amount		—	—	0
— number of shares		—	—	30,000,000
Deficit (9)		\$ (204,428)	\$ (204,428)	\$ (1,306)

Notes:

- (1) The 1985 Debentures due July 2, 1995 are unsecured obligations of the Corporation. Interest on the Debentures is payable semi-annually on July 2 and January 2.
- (2) The 1986 Debentures due July 2, 1996 are unsecured obligations of the Corporation. Interest on the Debentures is payable semi-annually on July 2 and January 2.
- (3) The 1990 Debentures due June 29, 1995 are unsecured obligations of the Corporation. Interest on the Debentures is payable semi-annually on June 29 and December 29.
- (4) Reflects capital lease obligations respecting the Leased Property.
- (5) The Plan provides for the issue of 70,000,000 Newco Preferred Shares to the Bank Creditor for an aggregate subscription price of \$70,000,000.
- (6) The Class A Non-Voting Shares are without par value, and are non-voting except when the Corporation has been in default of payment of a quarterly dividend for a period of two years. Shareholders are entitled to non-cumulative, preferential dividends of \$0.15 per share per annum payable quarterly, and after the Common Shares have received \$0.15 per share in any one year, to further participation ratably with Common Shares. Commencing April 1, 1994 the holders of Class A Non-Voting Shares will be entitled to vote and to elect one-third of directors to the Board of Directors.

Common Shares are without par value.

As at August 25, 1992, 531,934 Class A Non-Voting Shares were set aside for issuance pursuant to the Option Agreement with the Bank. 687,750 First Preferred Shares are currently outstanding pursuant to the Employee Stock Purchase Plan. Pursuant to the Plan, approximately 637,250 of these Shares will be redeemed and the redemption price will be applied to loans made by the Corporation to the Shareholders to purchase such shares and any accrued and unpaid interest thereon. The remaining approximately 50,500 First Preferred

Shares are to be converted into Class A Non-Voting Shares which, in turn, are to be changed into New Common Shares pursuant to the Plan.

- (7) The Plan provides for a class of New Common Shares that are to be issued as follows:
 - (a) 11,564,000 New Common Shares (approximately 2.0% of the New Common Shares to be issued pursuant to the Plan on a fully diluted basis) in respect of the Class A Non-Voting Shares and the Common Shares.
 - (b) 85,775,000 New Common Shares (approximately 14.8% of the New Common Shares to be issued pursuant to the Plan on a fully diluted basis) with an aggregate subscription price equal to the aggregate amount of the Over \$5,000 Claims of the Unsecured Creditors.
 - (c) 954,000 New Common Shares (approximately 0.2% of the New Common Shares to be issued pursuant to the Plan on a fully diluted basis) with an aggregate subscription price equal to the aggregate amount of unpaid arrears under Abandoned Leases.
 - (d) 28,910,000 New Common Shares (approximately 5.0% of the New Common Shares to be issued pursuant to the Plan on a fully diluted basis) with an aggregate subscription price equal to the aggregate amount of the Proven Claim of the Zale Claimants.
- (8) The Plan provides for the creation and the issue to the Bank Creditor of 30,000,000 Class One Preferred Shares. Such shares are convertible into approximately 450,992,000 New Common Shares (78.0% of the New Common Shares to be issued pursuant to the Plan on a fully-diluted basis.)
- (9) As at March 31, 1993.

ANCILLARY SETTLEMENTS

Settlements Related to Store Closures

The Corporation has completed the closure of 47 stores, including the sale of five stores in the Province of Quebec concluded on March 15, 1993, pursuant to the business restructuring initiated in 1992 and continued during the Interim Period. Five of the store closures were with respect to month-to-month tenancies or Leases which expired on January 31, 1992, and the Corporation has no further obligations in respect of such Leases. Landlord approval was not obtained for the assignment of one of the Quebec store Leases because the purchaser was trading under a different name in the same shopping centre.

The Corporation received \$176,584 from the sale of the Quebec stores and the sale of equipment from one of its other stores. Inquiries have been made by other Persons and Landlords regarding the possible purchase of other store fixtures of the Corporation and more sales are expected to be completed in the future.

Rent Abatements

The Corporation has requested abatements in rents under its ongoing Leases as part of the Plan as proposed. The Corporation requires rent abatements of \$1,750,000 for each of the three years commencing the first day of the first full calendar month following the Plan Implementation Date or a total of \$5,250,000. The net present value of such abatements, using a discount rate of 8%, is \$4,301,000. In order to obtain such abatements, the Corporation intends to renegotiate its existing Leases with various Landlords during the period preceding the Plan Implementation Date.

If the Corporation is unable to reach agreements with Landlords regarding rent abatements, the Corporation may have to close further stores to meet its savings objective. Termination notices in respect thereof will be issued prior to the Plan Implementation Date and the liabilities resulting therefrom will be treated as Claims for purposes of distribution under the Plan.

REQUIRED APPROVALS AND OTHER CONDITIONS OF THE PLAN

The following is a summary of the approvals which must be obtained at each of the respective Creditors' Meetings and Shareholders' Meetings in order to authorize the Plan and the other conditions which must be met in order for the Plan to be implemented. If any one or more of such approvals is not obtained, the Plan will not be implemented. Even if all such approvals are obtained, the Board of Directors may exercise its discretion not to implement the Plan. In addition, in order to make the Plan effective, a Final Order of the Court, discretionary rulings from certain Canadian securities regulatory authorities and the Tax Ruling (unless such requirement is waived by the Bank Creditor) will need to be obtained, among other things.

Shareholder Approvals

Before the Plan is submitted to the Shareholders and Creditors at the Meetings, the Corporation will need to be continued under the OBCA. The CBCA provides that each share of a corporation carries the right to vote in respect of a continuance whether or not it otherwise carries the right to vote. The Class A Non-Voting Shareholders, the

Common Shareholders and the First Preferred Shareholders are therefore all entitled to vote on the special resolution to approve the continuance. An application for continuance becomes authorized when the shareholders voting thereon have approved of the continuance by a special resolution. A special resolution is a resolution that is passed by a majority of not less than two-thirds of the votes cast by the shareholders who voted in respect of the resolution.

The OBCA provides that holders of shares of a class are entitled to vote separately as a class on an amendment to the articles of a corporation which effects an exchange, reclassification or cancellation of the shares of such class, whether or not such shares otherwise carry the right to vote. As the Plan contemplates the filing of Articles of Arrangement which will effect an exchange, reclassification or cancellation of Shares, the Class A Non-Voting Shareholders, the Common Shareholders and the First Preferred Shareholders are each entitled to vote separately as a class on the Plan. The Interim Order also so provides. The Plan will therefore be adopted if holders of each Class of Shares approve the Plan by special resolution.

The forms of the special resolutions which the Shareholders will be asked to consider and, if thought fit, pass, in respect of the continuance and the Plan are attached as Appendix F and Appendix G, respectively, to this Circular.

Rights of Dissenting Shareholders

The special resolution required to approve the continuance gives rise to dissent rights under the CBCA. Pursuant to section 190 of the CBCA, each Shareholder is entitled to send to the Corporation a written objection to the special resolution and, in addition to any other right the Shareholder may have, when the Continuance becomes effective, a Shareholder who complies with the dissent procedure under section 190 of the CBCA is entitled to be paid the fair value of the Shares in respect of which he dissents determined as at the close of business on the day before the special resolution is adopted. There can be no assurance that such fair value will be greater than or equivalent to the consideration offered to Shareholders under the Plan. The dissent procedure under section 190 of the CBCA is set forth in Appendix I to this Circular. Failure to adhere strictly to the requirements of section 190 of the CBCA may result in the loss of dissent rights under that section.

Shareholders who have given a demand for payment which remains outstanding on the Plan Implementation Date in accordance with the rights of dissent in respect of the continuance of the Corporation under the OBCA and who:

- (i) are ultimately entitled to be paid for the Shares in respect of which they dissent in accordance with the provisions of the CBCA, whether by order of a court or by acceptance of an offer made pursuant to the CBCA, shall be deemed to have transferred such Shares to the Corporation for cancellation immediately after the continuance; or
- (ii) are ultimately not so entitled to be paid for the Shares in respect of which they dissent for any reason, shall not be reinstated as Shareholders but for purposes of receipt of consideration shall be treated as if they had participated in the Plan on the same basis as non-dissenting Shareholders and such Shareholders shall accordingly be entitled to receive such New Common Shares as such non-dissenting Shareholders are entitled to receive on the basis determined in accordance with Article IV of the Plan.

The Court has ordered that the rights available to Shareholders under the CBCA to dissent in respect of the continuance shall constitute the full and sufficient rights of dissent for Shareholders with respect to the special resolution approving the Plan. The Interim Order does not provide for any additional rights of dissent with respect to the special resolution approving the Plan.

Creditor Approvals

Pursuant to the CCAA, the Interim Order and the provisions of the Plan, the Plan must be approved by the affirmative vote of a majority in number of the Creditors having a Claim in each Class and representing not less than three-quarters in value of the Claims of Creditors in each of the following Classes of Creditors present and voting either in person or by proxy at the applicable Creditors' Meeting in each case voting as a Class:

- (i) the Unsecured Creditors;
- (ii) the Landlords;
- (iii) the Zale Claimants; and
- (iv) the Bank Creditor.

In addition, the treatment of the First Mortgage Bondholders' Proven Claims dealt with in the First Mortgage Bondholders' Class and the treatment of the Capital Lease Creditor's Proven Claim dealt with in the Capital Lease Creditor's Class contemplated by the Plan must be approved by a majority in number of the Creditors having a Claim in each such Class and representing not less than three-quarters in value of the Claims of Creditors in each of the First Mortgage Bondholders' Class and the Capital Lease Creditor's Class who are present in person or by proxy at the First Mortgage Bondholders' Creditors' Meeting and the Capital Lease Creditor's Meeting, respectively. The Directors may decide in their discretion to proceed to implement the Plan if such approval of the First Mortgage Bondholders and/or the Capital Lease Creditor is not obtained.

The Interim Order provides that the Creditors of any Class may approve the Plan by resolution in writing signed by Creditors having Claims in such Class representing a majority in number of Creditors having Claims in such Class and not less than three-quarters in value of the Claims of such Class in lieu of passing such resolution at a Creditors' Meeting for such Class.

All of the Creditors' Meetings are to be conducted in accordance with the CCAA and as more particularly prescribed by the Plan and the Interim Order. The form of the resolutions which the Creditors will be asked to consider and, if thought fit, pass, are attached as Appendix H to this Circular.

Court Approval

The Plan has been filed with the Court pursuant to the CCAA and applicable business corporations legislation. The OBCA, the CCAA and the Interim Order require that the Plan be approved by the Court following approval by the Shareholders and Creditors. Prior to the mailing of this Circular, the Corporation obtained the Interim Order providing, among other things, for the calling and holding of the Meetings. The hearing in respect of the Final Order at which Court approval of the Plan will be sought is scheduled to take place on August 5, 1993 at 130 Queen Street West, Toronto, Ontario, Canada subject to the approval of the Creditors and Shareholders being obtained. At this hearing, Shareholders and Creditors who wish to participate, to be represented or to present evidence or argument may do so subject to filing and service of a notice of their intention to appear and satisfying other requirements, all as specified in the Interim Order. In the event that the hearing is adjourned, only those persons who have filed and served a notice of intention to appear at the initial hearing shall be served with notice of the adjourned date. A copy of the Interim Order is attached as Appendix E to this Circular.

The authority and discretion of the Court is very broad under both the OBCA and the CCAA. Counsel has advised the Corporation that the Court will consider, among other things, the fairness and reasonableness of the terms and conditions of the Plan. The Court may approve the Plan as proposed or as amended in any manner that the Court may direct and subject to such terms and conditions, if any, as the Court thinks fit.

Shareholders and Creditors should consult their legal advisors with respect to the legal rights available to them in relation to the Plan.

Regulatory

Canada

Implementation of the Plan will be conditional upon the Corporation obtaining discretionary rulings from the Ontario Securities Commission and the securities regulatory authorities of all of the other relevant jurisdictions in Canada exempting the Corporation from the prospectus and registration requirements of applicable securities legislation in respect of those issuances of New Common Shares contemplated by the Plan which are not otherwise exempt from such requirements under applicable securities legislation. To be acceptable to the Corporation, such discretionary orders should not impose resale restrictions upon New Common Shares substantially more onerous than those customarily applicable to securities issued pursuant to statutory plans of arrangement.

The Corporation will apply to all relevant securities regulatory authorities in Canada seeking such relief. Although the Corporation has no reason to expect that such relief will not be forthcoming, there can be no assurance that such relief will be granted on terms acceptable to the Corporation as the granting of such relief is in the discretion of each relevant securities regulatory authority.

Since the New Common Shares will be distributed in reliance on discretionary exemptions obtained from the relevant securities regulatory authorities from otherwise applicable prospectus and registration requirements, certain protections, rights and remedies under applicable securities legislation and regulations which would be

afforded in the case of a distribution by prospectus, including statutory rights of rescission and statutory rights to damages for misrepresentations, will not be available to the recipient of the New Common Shares. In addition, the New Common Shares being issued may be subject to resale restrictions in certain circumstances.

United States

The issue of New Common Shares pursuant to the Plan will not be registered under the provisions of the *Securities Act of 1933* (United States), as amended, (the “1933 Act”) in reliance upon the exemption from registration provided by Section 3(a)(10) of the 1933 Act. Shares issued to a Shareholder or a Creditor who is not an affiliate of the Corporation may be resold without restriction under the 1933 Act, provided that Persons who receive a number of New Common Shares pursuant to the Plan which is substantial in relation to the total amount of New Common Shares issued pursuant to the Plan may sell such New Common Shares only in compliance with the provisions of paragraphs (c), (e), (f) and (g) of Securities and Exchange Commission Rule 144. For the purposes of the 1933 Act, an “affiliate” is any Person that directly or indirectly controls or is controlled by or is under common control with the Corporation.

Other Conditions of the Plan

The implementation of the Plan by the Corporation shall be conditional upon the fulfilment, satisfaction or waiver of the following conditions (the “Conditions”) in accordance with their terms by September 30, 1993 (subject to extension upon further Order of the Court and the written consent of the Bank Creditor):

- (a) a corporation (i.e., Newco) shall have been incorporated under the OBCA with articles of incorporation in the form as agreed to between the Bank Creditor and the Corporation naming the directors of Newco and the number of Newco Preferred Shares and shall be organized under the OBCA in the manner set out below:
 - (i) By-law No. 1 of Newco shall be in the form as agreed to between the Bank Creditor and the Corporation;
 - (ii) The directors of Newco shall be the persons listed in the articles of Newco as directors;
 - (iii) The offices of Newco shall be the President and Secretary and the officers appointed to those offices and their duties and powers will be the Chief Financial Officer and the Vice-President, Finance and Administration, of the Corporation, respectively;
 - (iv) The form of share certificate for each of the common shares of Newco and the Newco Preferred Shares shall be as approved by the President of Newco; and
 - (v) 100 Common Shares of Newco shall be issued to the Corporation for a subscription price of \$100;
- (b) the Corporation shall have taken all necessary corporate actions and proceedings to approve the Plan and to enable the Corporation to execute, deliver and perform the obligations of the Corporation under the Plan and the agreements, documents and other instruments to be executed or delivered pursuant to the terms of the Plan;
- (c) all relevant Persons shall have executed, delivered and filed all necessary documentation required to give effect to the terms of the Plan including, without limitation, the Articles of Arrangement, the Newco Preferred Share Documentation, the New Credit Agreement, the New Capital Lease Agreement, all amending agreements, supplemental indentures and all other agreements, documents and instruments required to give effect to the terms of the Plan;
- (d) the Corporation shall have been continued under the OBCA;
- (e) all applicable governmental, regulatory and judicial consents, Orders and similar consents and approvals and all filings with all governmental authorities, securities commissions, stock exchanges and other regulatory authorities having jurisdiction, in each case to the extent deemed necessary or desirable by counsel to the Corporation and in form and substance satisfactory to the Corporation, for the completion of the transactions contemplated by the Plan or any aspect thereof, shall have been made, obtained or received;
- (f) the Court shall have granted the Final Order, in form and substance satisfactory to the Corporation, sanctioning and approving the Plan;

- (g) the conditional approval of the TSE and the ME to the listing thereon of the New Common Shares to be issued pursuant to the Plan shall have been obtained by the Corporation, subject to the Corporation fulfilling all of the usual requirements of such stock exchanges;
- (h) the Tax Ruling, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor;
- (i) the DPS Order, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor;
- (j) all conditions precedent contained in the Newco Preferred Share Documentation and the New Credit Agreement shall have been fulfilled, satisfied or waived in writing at the sole discretion of the Bank Creditor and the New Creditor, respectively;
- (k) the Orders referred to in Section 8.4 of the Plan, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor; and
- (l) the Certificate of Arrangement shall have been obtained.

Implementation of the Plan

The Plan Implementation Date will be the date on which all of the Conditions have been fulfilled, satisfied or waived. Upon the fulfilment, satisfaction or waiver of the other conditions to the Plan, the Board of Directors intends to cause Articles of Arrangement to be filed with the Director under the OBCA, together with such other material as may be required by the Director, in order that the Director may issue a Certificate of Arrangement giving effect to the Plan. The Board of Directors of the Corporation reserves the right to withdraw the Plan at any time prior to the issue of the Certificate of Arrangement. The Plan provides that upon fulfillment, satisfaction or waiver of all the Conditions, the Corporation shall either provide written notice to all Creditors having been provided Voting Claims or having filed Notices of Objection, to all Shareholders and to the Monitor notifying them of that fact and of the Plan Implementation Date, or shall issue a press release to the same effect. The specific date for filing the Articles of Arrangement will be determined by the Corporation following issuance of the Final Order. The Corporation's current intention is to have the Plan Implementation Date occur as soon as practicable after the Meetings.

Any interested person may object before the Court during the hearing of the application for the Final Order, and may appeal such Final Order within 30 days of the date on which it is granted. Such circumstances, among others, which are beyond the control of the Corporation, may cause the Plan Implementation Date to be delayed. In such circumstances, the Corporation will apply to the Court for an extension of the stay of proceedings granted under the Initial Order (as amended). If the Final Order is granted on August 5, 1993 and there is no appeal (or any appeal is dismissed), and if the other Conditions to implementation of the Plan are substantially satisfied or waived prior to the end of the appeal period, the Corporation currently intends to file Articles of Arrangement under the OBCA and the Plan may thereby become effective as early as September 6, 1993. The Corporation intends to issue a press release immediately upon a final determination of the Plan Implementation Date.

PROOF OF CLAIM PROCEDURE FOR VOTING AND DISTRIBUTION PURPOSES

The method by which Creditors' Claims against the Corporation will be valued is set out in the Plan and the Interim Order (contained in Appendices A and E to this Circular). Subject to the next following paragraph, on May 17, 1993, the Corporation sent to each Creditor known to it a Voting Claim. Each such Voting Claim will be determinative notwithstanding any changes made subsequently in the definition of the Creditors' Classes under the Plan. Pursuant to the terms of the Interim Order, the Corporation was not required to include in any Voting Claim the estimated value of any security held by a Creditor in respect of its Claim.

The Interim Order relieved the Corporation of its obligation to send Voting Claims to each of the First Mortgage Bondholders, the Debentureholders, the EPP Beneficiaries, the DPSP Beneficiaries and any Zale Claimants other than The Zale Corporation, provided that Voting Claims be sent to the First Mortgage Bond Trustee, the Debentureholders' Trustee, the EPP Trustee, the DPSP Trustee and The Zale Corporation, respectively. The aforementioned trustees were required to prepare and return to the Corporation a Trustee's Statement by June 2, 1993. In the case of the EPP Trustee, such Trustee's Statement will be the list of EPP

Beneficiaries and portion of the aggregate amount of the EPP Trustee's Claim allocable to each such EPP Beneficiary which has been approved by the Court for such purpose.

The Corporation placed notices in *The Globe & Mail* (national edition), *The Wall Street Journal* (national edition) and the *Financial Times* (of London) newspapers on May 27, 1993, May 26, 1993 and May 28, 1993 respectively, among other things, to notify unknown Creditors of the Plan, the Proceedings and the requirement to establish a Claim in accordance with the procedures established by the Plan and the Interim Order. Both Creditors who receive a Voting Claim and previously unknown Creditors were entitled to submit a Notice of Objection to dispute the Corporation's determination of its Claim or to establish a Claim, as the case may be, on or before June 2, 1993 (or as otherwise agreed to by the Corporation). If a Creditor who received a Voting Claim failed to file a Notice of Objection on or before June 2, the Corporation's determination of each such Creditor's Claim is final and binding on such Creditor for voting and distribution purposes. If a Creditor who received a Voting Claim returned a Notice of Objection to the Corporation to assert a Claim which was less than or equal to one hundred and ten percent (110%) of the amount shown on its Voting Claim, the Corporation is entitled to treat the amount shown on the Voting Claim as being final for the purposes of voting on the Plan, and that amount will become the Creditor's Accepted Claim for Voting Purposes.

On receipt of a Notice of Objection, the Corporation was required to accept, revise or reject the amount of the Voting Claim set forth therein for the purposes of voting at the relevant Creditors' Meeting. The Corporation was required to send to each Creditor whose claim had been revised or rejected notice advising of the Disallowance by June 16, 1993 (except in the case of The Zale Corporation in respect of which such deadline was extended to June 23, 1993). In the event that the Corporation did not send notice advising of a Disallowance to any Creditor in respect of such Creditor's Notice of Objection, the Corporation is deemed to have accepted the amount set forth in the Notice of Objection for voting and distribution purposes. A Creditor may dispute a Disallowance by delivering to the Claims Officer and the Corporation a Dispute Notice, within five Business Days of being advised of the Disallowance, stating that it does not accept the Corporation's determination of its Claim. Failing delivery of a Dispute Notice, the Corporation's determination of the Claim as set out in the Disallowance will be final and binding on the Creditor for the purposes of voting under the Plan, unless the Corporation agrees or the Court orders otherwise.

Within five Business Days of receiving a Dispute Notice, or within such longer time frame as the Claims Officer may determine after accounting for the timetable for holding the Creditors' Meetings, the Claims Officer will determine and, subject to the direction of the Court, notify the Creditor and the Corporation of the amount of its Accepted Claim for Voting Purposes. The Court must also be notified of such determination. The Claims Officer shall determine the manner, if any, in which evidence may be brought before the Claim Officer by the parties, as well as any other procedural matter which may arise in the course of making his determination. Within five Business Days of being notified of the Claims Officer's determination, a Creditor or the Corporation may appeal the determination to the Court, in default of which the Claims Officer's determination will, subject to further Order of the Court, be final and binding on the Corporation and the Creditor for the purposes of voting on the Plan.

All Disallowances, Dispute Notices, Class Creditors' Lists, Trustee's Statements, Voting Claims, Notices of Objection and determinations by the Claims Officer and/or the Corporation will be filed with the Monitor on a timely basis, and will be made available to any Creditor for inspection upon request made to the Monitor or the Corporation in writing.

Any Voting Claim or Notice of Objection, notices or other written communications may be served by telecopier or ordinary mail and shall be deemed to have been received:

- (a) if transmitted by telecopier or delivered, on the day of transmission or delivery; and
- (b) if sent by ordinary mail, three Business Days after mailing.

By June 30, 1993, the Corporation will prepare a Class Creditors' List setting out the names, addresses and Accepted Claims for Voting Purposes of each Person entitled to vote in each Class. The Class Creditors' List will be maintained at its Head Office and will be provided to any Creditor who makes a request in writing to the Corporation.

Where there is a dispute as to the amount of the Claim or the entitlement to vote in a particular Class which has not been resolved in a final and binding manner before the date of the Creditors' Meeting at which the Creditor is to vote, the Corporation may either accept the determination of the Creditor or the Claims Officer, as the case

may be, of the value of the Creditors' Claim or entitlement to vote in a particular Class solely for purposes of voting on the Plan, conduct the vote of the Class into which that Creditor falls or claims to fall subject to a final determination of its Claim or right to vote in that Class, or delay the vote of the Class into which that Creditor falls or claims to fall until a final determination of its Claim is made.

The Corporation and its Creditors will retain, subject to the following paragraph, an unrestricted right to revise and, in the case of the Corporation, to reject an Accepted Claim for Voting Purposes which is not a Proven Claim after the date of the Meetings for all purposes other than voting purposes in connection with the Plan. In the event that a Proven Claim has not been finally determined prior to the Creditors' Meetings, the Corporation will review the Creditor's Accepted Claim for Voting Purposes and will, no later than forty (40) days after the last Creditors' Meeting, notify the relevant Creditor of the amount that the Corporation has determined to be the proper amount of such Claim for purposes of payments and other distributions under the Plan if a determination can then be made by the Corporation. If the Corporation is unable to determine the Claim within the forty (40) day period, it shall so advise the Creditor prior to the expiry of such period and shall notify the Creditor of its determination of the proper amount of the Creditor's Claim as soon thereafter as it has determined that amount. Any Creditor receiving such a notice may apply to the Court for a summary determination of the amount of its Proven Claim within thirty (30) days of receipt of the notice. If no application to the Court is so filed within the thirty (30) day period, the Claim of the Creditor shall be deemed to be a Proven Claim in the amount determined by the Corporation as described above.

Any Unsecured Creditor having an Over \$5,000 Claim is entitled, at any time prior to 10 days before the Unsecured Creditors' Meeting, to notify the Corporation that it wishes to reduce the amount of its Claim to \$5,000 for the purposes of the Plan, and (i) such revised amount will be the maximum amount of such Creditor's Proven Claim as finally determined for the purposes of the Plan; and (ii) such Creditor will be deemed to have released and discharged the Corporation from its obligations in respect of the portion of such Creditors' Claim which exceeds \$5000.

The Corporation has retained the discretion to permit the Proven Claim of a Creditor to be calculated net of any amount owing by the Creditor to the Corporation as at the Date of Filing. The amount of any set-off in respect of a given Claim shall be verified in proving the Claim.

If any payments are to be made by the Corporation to a Creditor prior to the final determination of the Proven Claim of the Creditor, the Corporation must make such payments to the Creditor based on the portion, if any, of the Creditor's Claim which has not been disallowed by the Corporation. If, thereafter, it is determined that the Creditor's Proven Claim is greater than that for which the Corporation made payments as aforesaid, the Corporation will make such further payments contemplated by the Plan to the Creditor so that the Creditor will receive the aggregate amount of payments which it would have had if its Proven Claim had been finally determined prior to the Plan Implementation Date.

THE MONITOR'S COMMENTS ON THE PLAN AND ALTERNATIVES

Ernst & Young have been the independent auditors of the Corporation since 1967. The Monitor, a company related to the Corporation's independent auditors, was appointed Monitor by the Court when the Initial Order was made and has assisted the Corporation in the development of its Business Plan and the Plan.

The Monitor believes that the most likely alternatives to the Plan would be either (i) a liquidation of the Corporation's assets or (ii) the transfer of selected assets to a corporation to be incorporated with the consent and approval of the Bank Creditor ("Acquisitionco").

If the Plan is not implemented, liquidation proceedings against the assets of the Corporation may be commenced. The Monitor has prepared a review of the net realizable value of the Corporation which assumes an orderly liquidation of the Corporation's assets as opposed to the sale of the Corporation as a going-concern. It is assumed that such liquidation would proceed by way of the appointment of a receiver and manager by the Bank, in the context of a bankruptcy of the Corporation. The Monitor is of the view that in the event of a liquidation, Shareholders and Creditors, other than the Bank Creditor, the Capital Lease Creditor and the First Mortgage Bondholders, are unlikely to receive any payments or distributions and that these secured Creditors would likely experience an aggregate loss after deducting liquidation expenses and liabilities incurred pursuant to the Initial

Order (as amended) of at least approximately \$25,000,000 (i.e. at least approximately \$0.21 on each dollar of secured Indebtedness).

In the event that the Plan is not approved by the requisite majorities of Creditors and Shareholders and confirmed by the Court, the Bank Creditor has indicated that it presently intends to seek appropriate and immediate relief to enforce its security and to transfer selected assets to Acquisitionco. In order to avoid disruption of ongoing operations and to retain current employees, approval for such relief would be sought before the Court to have the transfer occur immediately upon the stay being lifted in the current Proceedings if the Plan were to be defeated. In the view of the Monitor, Shareholders and Creditors, other than the Bank Creditor, the Capital Lease Creditor and the First Mortgage Bondholders, would be unlikely to receive any payments or distributions in such event.

The Monitor believes that the Plan is fair and equitable in the circumstances and will produce a more favourable result for the Creditors and the Shareholders than a liquidation of the Corporation's assets pursuant to the BIA or a transfer of selected assets to Acquisitionco.

DIRECTORS' RECOMMENDATION

On October 19, 1992, the Board of Directors appointed a Steering Committee comprised of three independent directors, Messrs. Robert Martin, David McCamus and Duff Scott to work with the Corporation's management and advisors (including the Monitor) and to recommend restructuring strategies and plans to the Board of Directors. The members of the Steering Committee are independent of management and the principal Shareholder, and none of the members of the committee will have any interest in Peoples upon completion of the transactions contemplated by the Plan, except in their capacity as Directors. Mr. McCamus subsequently resigned from the committee on March 8, 1993.

Since its creation, the Steering Committee has met on 30 occasions. During that time period, the Board of Directors met on 10 occasions. The Steering Committee has taken an active role in the development of the Plan and has worked closely with management. Although there have been fewer board meetings than Steering Committee meetings, the members of the Steering Committee have, on an ongoing basis, informally updated the other independent members of the Board as to the progress of discussions with various constituencies and the status of the Plan. Throughout, the Steering Committee, the Board of Directors and management have considered their primary objective to be the preservation of maximum value for all major constituencies of the Corporation.

The Directors have authorized the submission of the Plan to Creditors and Shareholders for their consideration and approval. The Directors have determined that the Plan is in the best interests of the Corporation and recommend that Creditors and Shareholders vote in favour of the Plan. In arriving at their recommendation in favour of the Plan, the Directors have considered, among other things, the following:

- (1) the current financial condition of the Corporation and the alternatives available to it to meet its ongoing obligations as they come due and the opinion of management of the Corporation and the Monitor that the most likely alternative to the Plan is a liquidation of the assets of the Corporation or the transfer of selected assets to a corporation to be incorporated with the consent and approval of the Bank Creditor;
- (2) the professional advice of the Monitor and the Corporation's legal counsel;
- (3) the desirability of restructuring the capital structure of the Corporation and whether the Plan would achieve these objectives; and
- (4) the procedures by which the Plan will be approved, including the requirement for Creditor and Shareholder approvals and approval by the Court after a hearing at which the fairness of the Plan will be considered.

The Directors believe that the Plan is essential in order for the Corporation to continue as a going concern. The Directors believe that all stakeholders in the Corporation will derive a greater benefit over time from the continuation of the Corporation than would result from its liquidation or sale at the present time. The Plan is in the best interests of all the Creditors, Shareholders, and employees of the Corporation because it represents an opportunity to preserve the Corporation from bankruptcy and, through the establishment of a sound financial foundation, is intended to return the Corporation to satisfactory levels of profitability, to provide continuing returns to the Corporation's shareholders and to ensure the long-term viability of the Corporation. The Directors have also concluded that the compromises involved in the Plan are reasonable.

The Board of Directors has carefully considered, and recommends that Shareholders and Creditors vote in favour of, the Plan.

INTENTIONS OF THE PRINCIPAL SHAREHOLDERS

Mr. Irving Gerstein, a Director, being the owner of, or exercising direct or indirect control or direction over, approximately 53.1% of the Common Shares, has indicated to the Board of Directors that, as of the date of the meeting of the Board of Directors convened to approve this Circular, his intentions as to the voting of his Shares in respect of the Plan at the Shareholders' Meetings were not yet finalized. Mr. Marvin Gerstein, a former Director, being the owner of, or exercising direct or indirect control or direction over, approximately 33.3% of the Common Shares, has indicated to the Corporation that his Shares and those of Dewbourne Investments Limited and 941237 Ontario Limited will be voted in favour of the Plan.

OTHER LEGAL MATTERS

The Plan contemplates transactions which might otherwise be subject to the requirements of Ontario Securities Commission Policy 9.1 and Quebec Securities Commission Policy Statement No. Q-27 (together, the "Policies"). The Policies generally require that public companies engaged in certain transactions follow prescribed guidelines, and consider certain recommendations set forth therein, relating to disclosure, valuations, shareholder approval and the discharge of the responsibility of boards of directors.

In relation to "related party transactions" (as therein described), the Policies specify certain valuation requirements and a level of approval by holders of "voting securities" and "equity securities" excluding "interested parties" (each as therein defined). Where, as is the case with respect to the Plan, the proposed related party transaction is subject to the approval of a court charged with the responsibility of determining the fairness of the proposed transactions to securityholders under the CCAA and the court is advised of the purpose and requirements of the Policies, there is an exemption from compliance with the valuation, and minority shareholder approval requirements of the Policies that would otherwise be applicable to the related party transaction unless the court otherwise determines to require compliance therewith.

EXPENSES OF THE PLAN

The Corporation currently estimates that the professional fees and costs incurred since April 1, 1992 and anticipated to be incurred up to the Plan Implementation Date which have been, are or will be associated with the development and implementation of the Plan, the related operational restructuring and certain Zale related issues will amount to approximately \$8,300,000. This amount may vary, depending upon the response of the Creditors and the Shareholders to the Plan and the time required to implement it. Included in this estimate are the fees and expenses of the Monitor, the Corporation's Canadian and U.S. legal counsel, the Corporation's financial advisors, and those of the Bank Creditor's counsel and financial advisor. Also included are fees and expenses paid to Deloitte & Touche with respect to the special investigations conducted by them.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman, Elliott, the following is a general summary of the principal Canadian federal income tax considerations arising in connection with the Plan generally applicable (i) to holders of Class A Non-Voting Shares and Common Shares who for the purposes of the *Income Tax Act* (Canada) (the "ITA"), are resident in Canada, hold their Class A Non-Voting Shares and Common Shares, as the case may be, as capital property and deal at arm's length with the Corporation, (ii) to Debentureholders who, for the purposes of the ITA, are resident in Canada, hold their Debentures as capital property and deal at arm's length with the Corporation, (iii) to Employee Creditors who, for purposes of the ITA, are resident in Canada and deal at arm's length with the Corporation, and (iv) to Unsecured Creditors, other than Debentureholders and Employee Creditors, and Landlords who, for purposes of the ITA, are resident in Canada, deal at arm's length with the Corporation and whose Claims arose in the course of business carried on by them. Class A Non-Voting Shares, Common Shares and Debentures will generally constitute capital property to a holder unless such Shares or Debentures are held in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying and selling securities or were acquired in a transaction or transactions considered to be an adventure in the nature of

trade. The following discussion also describes certain of the more significant Canadian federal income tax considerations to the Corporation arising in connection with the Plan.

This summary is based upon the current provisions of the ITA, the regulations thereunder, the Income Tax Application Rules, 1971 (the "ITAR"), all specific proposals to amend the ITA, the regulations thereunder and the ITAR released by the Minister of Finance prior to the date hereof and the current administrative practices of, and as published in writing as such, by Revenue Canada, Taxation. Except as specifically referred to above, this summary does not otherwise take into account or anticipate any changes in law, whether by legislative or judicial action or decision, nor does it take into account tax legislation of any province or territory of Canada or of any jurisdiction outside of Canada.

This summary is of a general nature only and is not intended to be nor should it be construed to be, legal, business or tax advice to any particular Shareholder or Creditor. The discussion relating to certain tax considerations to the Corporation does not purport to be a complete summary of all relevant tax considerations and is only a discussion of the more significant tax considerations. **Each Shareholder and Creditor should consult his own tax advisors regarding the income tax consequences to him in his particular circumstances, and to the Corporation, of implementation of the Plan.**

Class A Non-Voting Shareholders and Common Shareholders

A Shareholder whose Class A Non-Voting Shares or Common Shares are changed into New Common Shares under the Plan will not realize either a capital gain or a capital loss as a result of such change. On the change of a Shareholder's Class A Non-Voting Shares or Common Shares into New Common Shares, the Shareholder will be deemed to have disposed of his Class A Non-Voting Shares or Common Shares, as the case may be, for proceeds of disposition equal to the Shareholder's adjusted cost base of those Shares immediately before the change. The cost to the Shareholder of the New Common Shares received under the Plan will be equal to the Shareholder's aggregate adjusted cost base, immediately before the change, of the Class A Non-Voting Shares and Common Shares so changed.

The ITAR contains special transitional rules which may apply to determine the adjusted cost base to a Shareholder of his Class A Non-Voting Shares or Common Shares (and hence the cost to such Shareholder of the New Common Shares received under the Plan) if such Shares are deemed under the ITAR to have been owned on December 31, 1971 and continuously thereafter until the time of implementation of the Plan. Shareholders should consult their own advisors with respect to the application and effect of such rules.

Debentureholders

Under the Plan, each Debentureholder having an Over \$5,000 Claim is deemed to subscribe for a specified number of New Common Shares for a subscription price equal to the Proven Claim of the Debentureholder (which is equal to the principal amount of his Debentures plus accrued and unpaid interest thereon as at the close of business on the Date of Filing) and is deemed to pay the subscription price for such shares by way of set-off against the obligation of the Corporation to pay the principal amount of such Debentures plus such accrued and unpaid interest. In these circumstances, the Debentureholder will be considered to have disposed of his Debentures and to have received an amount of interest on the Debentures. It is not clear, however, whether the Debentureholder's proceeds of disposition for the Debentures will be equal to the aggregate principal amount of such Debentures or equal to the fair market value of the New Common Shares issued for the portion of the subscription price representing the principal amount of such Debentures. Similarly, it is not clear whether the Debentureholder will be considered to receive the full amount of accrued and unpaid interest which is paid by set-off in full against the subscription price for such New Common Shares or an amount of interest equal to the fair market value of the New Common Shares issued for the portion of the subscription price representing accrued and unpaid interest on such Debentures. A Debentureholder will be considered to acquire the New Common Shares so issued for a cost equal to the aggregate of the proceeds of disposition of his Debentures and the amount of interest so received.

Under the Plan each Debentureholder having an Under \$5,000 Claim will be entitled to certain cash payments in respect of his Proven Claim. The cash payments are applied, under the provisions of the Plan, to the repayment of the portion of such Proven Claim representing the outstanding principal amount of the Debentures held by the Debentureholder. Such a Debentureholder should be considered to have disposed of his Debentures for proceeds of

disposition equal to the amount of the cash payment and should not be considered to have received any amount on account of interest.

To the extent that the proceeds of disposition, net of any costs of disposition, exceed (or are less than) the adjusted cost base to the Debentureholder of his Debentures, the Debentureholder will realize a capital gain (or capital loss). Such Debentureholder will be required to include in income three-quarters of the amount of any such capital gain (a "taxable capital gain") and will generally be entitled to deduct three-quarters of any such capital loss against taxable capital gains realized by the Debentureholder in accordance with the rules under the ITA. A capital gain realized by a Debentureholder who is an individual (other than most trusts) will normally qualify for the cumulative lifetime capital gains exemption which is generally limited to \$100,000 of post-1984 capital gains.

The income tax consequences of the receipt of interest by a Debentureholder and the non-payment of other amounts owing to a Debentureholder will be dependent on the particular circumstances of the Debentureholder, including the method followed in computing his income for tax purposes and whether he has previously claimed a bad or doubtful debt deduction in respect of such interest.

Employee Creditors

Each Employee Creditor having an Under \$5,000 Claim who receives a cash payment in respect of his Proven Claim under the Plan will be required to include the amount of such payment in computing the income of such Employee Creditor in the taxation year such payment is received.

Each Employee Creditor having an Over \$5,000 Claim is deemed to subscribe for a specified number of New Common Shares for a subscription price equal to the Proven Claim of the Employee Creditor and is deemed to pay the subscription price for such shares by way of set off against the obligation of the Corporation to pay the amount of such Proven Claim to such Creditor. In the circumstances it is not clear whether the Employee Creditor will be considered to have received the full amount of such Proven Claim or an amount equal to the fair market value of the New Common Shares issued to him. The amount the Employee Creditor is considered to have received will be required to be included in computing his income in the taxation year in which such shares are received and will be the cost to the Employee Creditor of such shares.

The cash payment received by an Employee Creditor in respect of an Under \$5,000 Claim or the amount an Employee Creditor is considered to receive in respect of an Over \$5,000 Claim, as the case may be, will qualify as a "retiring allowance" for the purposes of the ITA and, accordingly, a deduction may be available to an Employee Creditor in respect of all or a portion of such amount which is designated by the Employee Creditor in his tax return for the year of receipt and which is transferred to a registered pension plan or a registered retirement savings plan. Employee Creditors should consult their own advisors with respect to the application of these rules and the limitations imposed under the ITA.

Other Unsecured Creditors and Landlords

Under the Plan, each Unsecured Creditor, other than a Debentureholder or an Employee Creditor, having an Over \$5,000 Claim and each Landlord with a Proven Claim in respect of unpaid arrears of rent under an Abandoned Lease is deemed to subscribe for a specified number of New Common Shares for a subscription price equal to all or a portion of the Proven Claim of such Creditor (as described in the Plan) and is deemed to pay the subscription price for such shares by way of set-off in full against the obligation of the Corporation to pay the amount of such Proven Claim to such Creditor. In the circumstances, it is not clear whether such Creditor will be considered to have been paid the full amount of such Proven Claim or an amount equal to the fair market value of the New Common Shares issued to him. Such Creditor will be considered to acquire such New Common Shares at a cost equal to the amount he is considered to have been paid in respect of such Proven Claim. The income tax consequences of such payment will depend on the particular circumstances of the Unsecured Creditor or Landlord, including the method followed in computing his income for tax purposes and the manner in which he holds such debt.

Under the Plan, each Unsecured Creditor, other than a Debentureholder or an Employee Creditor, with an Under \$5,000 Claim and certain of the Landlords will be entitled to receive certain cash payments in respect of such Creditor's Proven Claim. The income tax treatment of any cash payments an Unsecured Creditor or Landlord receives or is entitled to receive, and the income tax consequences of non-payment of any amounts owing to an Unsecured Creditor or Landlord will be dependent on the particular circumstances of the Creditor including the

method followed in computing his income for tax purposes, the manner in which such debt is held, the type of property or services to which it relates and whether he has previously claimed a bad or doubtful debt deduction in respect of such debt.

The Corporation

As at the Corporation's March 31, 1993 fiscal year end, it is anticipated that the Corporation will have significant non-capital and net capital losses available to be carried forward and a significant undepreciated capital cost for tax purposes in respect of certain of its depreciable assets. Such losses and the relevant percentage of such undepreciated capital cost may generally be deducted in computing taxable income of the Corporation for future years in accordance with the rules contained in the ITA to reduce income taxes payable by the Corporation.

Certain aspects of the Plan may materially affect the ability of the Corporation to utilize its loss carry forwards and the undepreciated capital cost of its depreciable assets.

Pursuant to the provisions of the Plan, certain Creditors will be deemed to subscribe for a number of New Common Shares for an aggregate subscription price equal to all or a portion of the Proven Claims of such Creditors and will agree to pay such subscription price by way of set-off in full against the obligation of the Corporation to pay an amount equal to such Proven Claims. Pursuant to these subscriptions, New Common Shares will be issued by the Corporation to certain Creditors. It is Revenue Canada's published position that, to the extent that the fair market value of the shares so issued is less than the aggregate principal amount of the debts so satisfied, section 80 of the ITA will apply to the Corporation. Section 80 provides, generally, that where a debt of a taxpayer is settled or extinguished without any payment by the taxpayer or by the payment of an amount less than the principal amount of the debt, the amount by which the principal amount of the debt exceeds the amount so paid shall be applied to reduce, in the following order, the taxpayer's (i) non-capital losses for prior years, (ii) net capital losses for prior years, (iii) capital cost allowance of depreciable property, and (iv) adjusted cost base of non-depreciable capital property. For the purposes of section 80 of the ITA, interest in respect of a debt is generally deemed to be a debt that has a principal amount equal to the amount that is deductible in computing the taxpayer's income.

It is not certain that Revenue Canada's views in this regard would be upheld by a court. Where a debtor corporation issues shares to a creditor and the subscription price is satisfied by set-off against the obligation of the corporation to pay outstanding indebtedness to the creditor, substantial arguments can be made on the basis of existing jurisprudence that the corporation has repaid the debt to the extent of the subscription price.

The Plan does, however, provide for the settlement or extinguishment of certain other amounts of indebtedness and, accordingly, implementation of the Plan will result in the reduction of the non-capital loss carryforwards of the Corporation by such amounts.

INFORMATION CONCERNING PEOPLES

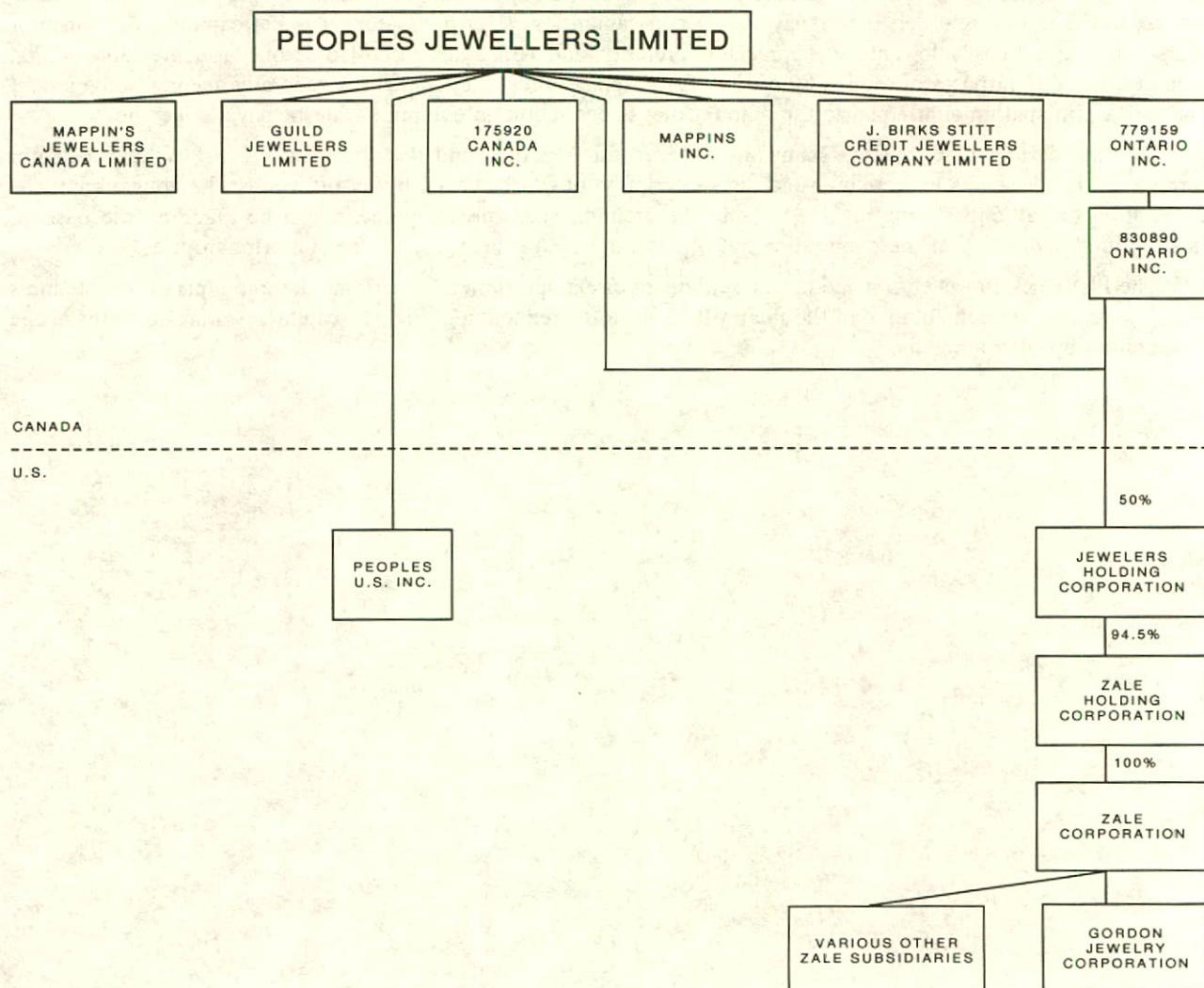
General

Peoples Credit Jewellers Limited was incorporated under the laws of Canada by letters patent dated April 9, 1930 to carry on the business originally started in Toronto in 1919. By supplementary letters patent granted in 1973, Peoples Credit Jewellers Limited changed its name to Peoples Jewellers Limited and the French translation of the name was added by further supplementary letters patent in 1979. The Corporation is the successor corporation of Peoples Credit Jewellers Limited and various other corporations pursuant to several reorganizations involving short form amalgamations with wholly-owned subsidiaries. It was continued under the CBCA by a certificate of continuance dated August 30, 1979. The most recent amalgamation occurred on November 30, 1988.

The registered and principal office of the Corporation is located at 1440 Don Mills Road, Don Mills, Ontario, M3B 3M1.

Corporate Structure

The Corporation has a number of inactive wholly-owned subsidiaries and currently owns indirectly 47.5% of Zale. The chart below sets out the current intercorporate relationships among Peoples, its subsidiaries and Zale. The Zale Plan provides for the cancellation of all stock of Zale held by ZHC. See "Potential Liabilities with Respect to Zale."



History of the Corporation

Seventy years ago, Frank Gerstein, the founder of the Corporation, opened his first jewellery store. Since that time, Peoples has grown under the management of succeeding generations of the Gerstein family. Irving Gerstein, a grandson of Frank Gerstein, was Chairman of the Board, President and Chief Executive Officer of the Corporation until his resignation on February 25, 1993. On that date, E. Duff Scott, a director of the Corporation since August 1992, was appointed to the position of acting Chairman of the Board, and Roman Doroniuk, Chief Financial Officer and Executive Vice President, Finance and Administration, was appointed to the additional position of acting Chief Operating Officer.

From a base of 23 stores in Canada in 1962, Peoples pursued an aggressive expansion program concentrating on growing along with the increasing number of shopping centres. While its greatest growth occurred through internal expansion, the Corporation also made, since the mid-1960's, a number of acquisitions across Canada of smaller jewellery companies and individual stores. One of its most significant acquisitions occurred in 1964 when the Corporation acquired Mappins Limited, a guild jewellery operation in Montreal. The Canadian operations have not grown significantly since the early 1980's and since January 1992, as part of the operational restructuring described below, the Corporation has closed approximately 25% of its stores.

Peoples focuses on the retail jewellery business in Canada and is not involved in any significant activity outside of its specialty. Peoples is the largest retail jeweller in Canada based upon total sales. The Corporation currently operates approximately 221 stores throughout Canada located primarily in shopping centres, offering gold and diamond jewellery, watches and giftware.

From December 1986 to December 1991, Peoples operated Zale, a corporation incorporated in 1924 under the laws of the State of Texas and reincorporated in 1989 under the laws of the State of Delaware. The principal executive office of Zale is located at 901 West Walnut Hill Lane, Irving, Texas 75038. In December 1986, the Corporation, together with its joint venture partner, Swarovski International Holding A.G. ("Swarovski"), a company incorporated under the laws of Switzerland, indirectly acquired, through JHC (formerly named Zale Holding Corporation), 100% of the outstanding shares of Zale, then the largest specialty retailer of fine jewellery merchandise in North America based on sales and total number of stores. The stock of JHC is currently owned directly and indirectly as to 50% by Peoples and as to 50% by Swarovski.

In June 1989, Zale acquired all of the outstanding shares of Gordon Jewelry Corporation ("Gordon"), a Delaware corporation. Gordon, through its subsidiaries, was at the time one of the three largest chains of jewellery stores in the United States. The acquisition of Gordon enabled Zale to enter the lower priced segment of the retail jewellery market. Zale currently operates approximately 1,444 stores in the United States under various names, including Zale and Gordon.

In conjunction with the granting of a new bank facility to Zale in May 1990, Peoples and Swarovski made subordinated advances of U.S. \$50,000,000 each to JHC. JHC then invested such amounts in the common equity of Zale. Zale used the proceeds to repay a U.S. \$100,000,000 obligation which had been incurred to provide Zale's equity contribution to the acquisition of Gordon. A substantial portion of the U.S. \$50,000,000 borrowed by the Corporation to make the subordinated advance was subsequently repaid.

As a result of a corporate restructuring at Zale completed in May 1991, Zale became a wholly-owned subsidiary of a newly formed Delaware corporation, ZHC, which was formed for the purpose of holding the issued and outstanding common shares of Zale. JHC owns approximately 94.5% of the common stock of ZHC, and Zale's employee stock ownership plan holds the remaining approximately 5.5% of such common stock.

As a result of the recessionary environment continuing for a second Christmas, coupled with its high leverage, Zale found it necessary to declare a payment moratorium at the end of December 1991. An involuntary bankruptcy petition relating to Zale was filed by certain bondholders under Chapter 11 of the United States Bankruptcy Code on January 1, 1992. Accordingly, Zale was no longer able to obtain accounts receivable financing and it and certain affiliates voluntarily filed for court protection under Chapter 11 of the United States Bankruptcy Code on January 23, 1992. Peoples and Swarovski therefore no longer exercise control over the business and affairs of Zale. Effective December 29, 1991, Peoples changed the accounting basis in respect of its investment in Zale from an equity basis to a cost basis. The carrying amount of Peoples' investment in JHC as at March 31, 1991, after giving effect to the foregoing advances, was approximately \$133,000,000. As a result of Zale's losses in the 1992 fiscal year

and its bankruptcy, the carrying amount of the Corporation's investment in JHC was reduced to zero as at March 31, 1992.

On March 24, 1993, a plan of reorganization for Zale and its affiliated debtors was proposed by the Official Committees of Unsecured Creditors of Zale Corporation, Gordon Jewelry Corporation and Zale Credit Corporation, the ad hoc Committees of Unsecured Trade Creditors of Zale Corporation and Gordon Jewelry Corporation, the Bank Group and Zale and its affiliated debtors. The plan of reorganization allocates no continuing equity interest in Zale or any of the affiliated debtors to Peoples. The Zale Plan was confirmed by the United States Bankruptcy Court on May 20, 1993. An appeal was taken from that confirmation. Notwithstanding that appeal, it is expected that such plan will be implemented between late June and the end of August 1993. See "Potential Liabilities with Respect to Zale".

Recent Developments

In the fiscal years ended March 31, 1992 and March 31, 1993, the Corporation's profitability was negatively impacted by the continued recessionary environment and a coincident lack of consumer confidence. To respond to this environment, the Corporation underwent two significant operational restructurings, including closing 73 stores, ceasing to operate through separate Peoples and Mappins divisions, and implementing other head office reductions aimed at lowering expenses at all levels. As a result of this restructuring, the Corporation significantly reduced its expenses and incurred restructuring charges of \$5,500,000 in fiscal 1992 and \$25,392,000 in fiscal 1993.

Faced with the ongoing recessionary impact on sales and profitability combined with Zale's bankruptcy, Peoples determined that it could no longer honour all of its obligations to its Creditors. On the Date of Filing, the Corporation was granted protection under the CCAA to permit it, among other things, to prepare and file a plan of arrangement and compromise. See "Background", "Business Plan" and "Description of the Plan".

During the preparation by the Corporation of its business and capital plans as part of the Proceedings under the CCAA, certain questionable accounting, financial and other transactions were discovered. These appeared to have occurred prior to the Date of Filing. Although the magnitude and particulars of the questionable transactions were yet to be verified, the Board of Directors and management of the Corporation determined that they could prove to be significant, and took several actions to address the problem. First, certain management changes were made. In February 1993, Mr. Verne Somers was appointed Vice President, Finance and Administration. Mr. Roman Doroniuk, Chief Financial Officer and Executive Vice President, Finance and Administration, was appointed to the additional position of acting Chief Operating Officer and Mr. E. Duff Scott, a director of Peoples since August 1992, was appointed to the position of acting Chairman of the Board. Second, in accordance with an Order dated February 22, 1993, Deloitte & Touche were retained as accounting specialists to conduct an investigation of Peoples' financial records. The Board of Directors worked closely with management, legal counsel and the accounting specialists to ascertain the nature, scale and effect of the questionable transactions.

Peoples' investigations revealed the following in the Corporation's financial records:

- (a) the carrying value of the Corporation's inventory was overstated at March 31, 1992 in the amount of approximately \$12,500,000, owing to the inappropriate application of accounting practices;
- (b) 19,877 Common Shares were invalidly issued without appropriate board authorization in 1991 and sold to the DPSP in exchange for cash in the amount of \$397,540; and
- (c) the Corporation made provision in its accounts, but failed to remit, prior year contributions to the EPP as required which, combined with the decline in market value of other plan assets, resulted in an unfunded shortfall of approximately \$550,000.

The findings of Deloitte & Touche with respect to the status of the EPP and DPSP were contained in a final report of Deloitte & Touche dated April 1993. These findings are discussed further under "Compensation of Directors and Officers — Executive Pension Plan" and "Compensation of Directors and Officers — Deferred Profit Sharing Plan".

The following measures have been taken to address these issues:

- (a) the Corporation reported an adjustment of the carrying cost of inventory by \$12,500,000 as at March 31, 1992 in conjunction with its reporting on the third quarter of fiscal year 1993;

- (b) the Corporation informed the DPSP Trustee about the above issuance irregularities and ensured that the corporate books of account properly reflected a liability to the DPSP; and
- (c) the Corporation advised the Ontario Superintendent of Pensions of irregularities regarding the EPP and took steps to see that the EPP would be wound-up. The corporate books of account were reviewed to ensure that the liability had been properly reflected.

The time required to fully investigate these questionable transactions caused Peoples to delay the filing with Canadian securities regulators of interim financial statements for the third quarter ended December 26, 1992. A corresponding delay occurred in distributing such interim financial statements to Shareholders. Securities regulators were informed of the circumstances and were advised of the progress of the Corporation's investigations on an ongoing basis, and third quarter interim financial statements were eventually filed.

On December 31, 1992, the Corporation engaged Ernst & Young Corporate Finance ("EYCF") to seek potential investors in the business of Peoples. EYCF prepared information memoranda that were provided on a confidential basis to interested parties. The EYCF worldwide network was used to seek investors on a global basis. The mandate of EYCF was not to solicit purchasers for the assets of the Corporation unless it was possible to obtain values in excess of the secured debt owing by the Corporation. The search process by EYCF revealed a number of significant facts:

- (a) the clear preference of all investors was to purchase the assets of the Corporation from a receiver; and
- (b) there were few investors who were comfortable with making an investment in a jewellery retailer given the economic climate in Canada.

As a result of this, the Corporation sought and obtained Orders dated February 26, 1993 and March 8, 1993, as amended, approving the solicitation by Peoples of non-binding letters of intent from potential purchasers of the Corporation's business or assets and a protocol for such solicitation. The Corporation sought the Orders because it believed that the sale of assets of the Corporation would net an amount that would provide a return only to the Bank Creditor. The Corporation felt that its obligation was to attempt to provide a return to all Creditors, regardless of how small. The Orders provided the Corporation with comfort that it was acting responsibly given the economic facts of the situation. Under the terms of the Orders, prospective purchasers were required to confirm their non-binding interest in acquiring Peoples' business or assets in writing delivered to the Corporation. The Corporation received several expressions of interest in acquiring the assets of the Corporation. Once their expressions were received, potential investors were invited to deal directly with the Bank to negotiate the asset purchase price. In late May 1993, the Corporation was informed by the Bank that discussions with potential investors had ceased due to unsatisfactory values being proposed by such investors. The Bank then considered whether to proceed with the implementation of a plan of arrangement and compromise or to liquidate the business. The Corporation understands that the Bank is currently willing to proceed with the implementation of a plan of arrangement subject to the Bank being satisfied with the final terms and conditions thereof and subject to its right at any time to pursue an alternative course of conduct, including the seeking of investors or the entertaining of further offers.

Business and Properties

Sales

In fiscal 1993, Peoples experienced a decline in sales of 15.1% due in part to the closing of 26 stores in the first half of calendar year 1992 and the closure and sale of 47 stores in the first quarter of calendar year 1993. Same store sales declined 11.4% as a result of the effects of the continuing recession, low consumer confidence and reduced inventory levels. In fiscal year 1992, sales declined 7.2% as a result of the recession. During the four fiscal years ending fiscal 1991, sales of Peoples had increased from \$200,000,000 to \$212,100,000, representing a compound annual growth rate of approximately 1.5%.

The following table presents net retail merchandise sales by product category.

Net Retail Merchandise Sales by Product Category

(\$ thousands)
(unaudited)

	Year ended March 31									
	1993	%	1992	%	1991	%	1990	%	1989	%
Diamond rings.....	\$ 65,077	39	\$ 72,777	37	\$ 79,088	37	\$ 81,670	37	\$ 75,927	37
Gold/diamond jewellery.....	45,477	27	50,710	26	53,096	25	53,941	25	49,407	24
Watches.....	20,491	12	27,028	14	28,351	13	26,862	12	23,253	12
Gold rings.....	14,055	8	18,900	9	20,006	10	20,580	10	19,252	10
Other jewellery.....	12,519	8	15,590	8	17,144	8	18,414	9	18,143	9
Giftware and other sales.....	9,439	6	11,850	6	14,458	7	15,164	7	15,828	8
Net sales.....	<u>\$167,058</u>	<u>100</u>	<u>\$196,855</u>	<u>100</u>	<u>\$212,143</u>	<u>100</u>	<u>\$216,631</u>	<u>100</u>	<u>\$201,810</u>	<u>100</u>

Markets and Competition

The retail jewellery industry is highly competitive. In Canada, it is composed of many different types of retailers, including department stores, national and regional chains, independent jewellers and discount and catalogue stores. About 40% of total jewellery sales are accounted for by the two national chains and department stores. Peoples' share of the market has declined in the past year due to reduced inventory levels relative to competitors. Peoples believes that it is competing for consumers' discretionary spending dollars and that it must therefore compete with retailers who offer merchandise other than jewellery or giftware. It must compete on a mall-by-mall basis with other retailers of jewellery, and has been successful in obtaining desirable locations to pursue this objective. Peoples, therefore, competes primarily on the basis of store location, providing a broad selection of contemporary jewellery at affordable prices and personal service. Its ability to offer in-house credit card programs to customers wishing to finance their purchases is an advantage. Peoples' success is also dependent on its ability to react to and create consumer demand for specific product lines.

Based on Statistics Canada's retail business reports for February 1993, Peoples had approximately a 12% share of the Canadian retail jewellery market.

Seasonality

Peoples' sales vary by quarter due to the seasonality of the business. The percentages of sales by quarter during the three fiscal years ended March 31, 1993 are listed below:

Quarter	Percentage of Sales		
	1993	1992	1991
April - June	23	21	20
July - September	23	22	21
October - December	41	43	45
January - March	13	14	14
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The seasonality of the business results in an accumulation of inventory from August through December each year to enable the Corporation to service adequately the larger sales volumes through the Christmas period. The Corporation earns most of its revenue, and substantially all of its profits, during the three-month period ending December 31.

Credit Operations

The Corporation's private label credit card program is operated by Boulevard Consumer Credit Services Inc. ("Boulevard") on a non-recourse basis pursuant to an agreement dated as of May 1, 1990. Under this agreement, all of the Corporation's customer accounts receivable were sold. No credit card receivables are owned by the Corporation apart from transactions in process. Boulevard provides for the generation, ownership, administration and collection of any new receivables on a fee basis. For the years ended March 31, 1992 and March 31, 1993,

approximately 25.0% and 21.3%, respectively, of Peoples' retail sales were generated by credit sales on its own credit accounts. At March 31, 1993, there were approximately 83,700 active customer charge accounts outstanding with current balances.

Flexible payment arrangements, typically of 24 to 36 months, are extended to customers, with interest rates on outstanding customer balances being competitive with the marketplace. Peoples' credit insurance program, introduced in September 1989, provides coverage for credit purchasers in the event of total disability, involuntary unemployment, death and other losses such as theft and fire.

The Corporation has also entered into merchants member agreements or similar arrangements for VISA, Master Card and American Express. Due to the importance to the business of the Corporation of ensuring access by its customers to the Corporation's credit card and other major credit cards, the Corporation has continued to perform its obligations under these agreements during the Interim Period.

Merchandising Strategy

Peoples services two segments of the jewellery market. Historically, the "Peoples" division, which currently operates 160 stores, served the middle-income segment of the market, selling primarily medium-priced merchandise in the \$70 to \$700 price range. The "Mappins" division, which currently operates 61 stores, served the middle to upper-income segment of the market, selling primarily higher-priced merchandise in the \$100 to \$1,000 price range. The two divisions were merged operationally in 1993. The merger of the divisions has not affected Peoples' intention or ability to continue to serve its entire market and Peoples continues to carry on business under the "Peoples", "Mappins" and "MacKenzie's" names.

Peoples' merchandising strength traditionally lay in marketing large volumes of specific products through advertising, promotions and special sales. Peoples' promotions and advertising have been focused on attracting customers in shopping malls. Since the early 1980s, the store has been the key focus of the Corporation's marketing program which is enhanced by colourful, high impact signage and other point-of-purchase materials. In the past year, the Corporation has reintroduced television advertising at Christmas to offset reduced mall traffic and attract customers to its stores.

Peoples has placed increased emphasis on product categories where distinctive styling and design can make a significant contribution to increased sales and margins. Peoples' marketing strategy also continues to be focused on providing value for customers by using its purchasing power to acquire merchandise at attractive prices. The Corporation emphasizes the sale of diamond rings which are typically a high margin product.

During the past year, as a result of People's deteriorating financial condition, it has been more difficult to purchase the levels of inventory historically stocked. This has had a negative impact on sales, especially in the important fall season.

A significant part of Peoples' franchise and its relationship with its customers has been its commitment to provide guarantees and warranties on the products which it sells. The guarantees vary from lifetime guarantees on certain of its diamond rings and watches to limited warranties on certain other products. In addition, Peoples currently has four different policies with respect to returned merchandise. The policies provide for full cash refund for products returned within differing periods of time. These policies have been referred to in advertising material and have been a significant factor in building the Peoples franchise. In addition, Peoples provides layaway services wherein it holds goods for which its customers have made partial payments. Peoples has continued to honour its layaway, warranty and refund commitments during the Interim Period. Peoples has issued gift certificates and coins which entitle the holder to exchange a gift certificate or coin for merchandise. These, too, are an important part of the Corporation's relationship with its customers, and Peoples has therefore continued to honour its gift certificates and coins during the Interim Period.

Deferred credit promotions, which offer customers interest-free periods on credit purchases, have been popular with Peoples' customers who value credit for its ability to allow the purchase of higher-priced merchandise, especially diamonds, at a time when their discretionary income may have been reduced. Credit sales as a percentage of total sales increased 1.5% for the 1992 fiscal year and decreased 3.7% for the 1993 fiscal year. The terms of Peoples' arrangement with the supplier of credit provides for the granting of credit to the customers of Peoples on a non-recourse basis. The Corporation thereby avoids much of the liability typically associated with retail credit operations during an economic downturn.

Peoples encourages customers with major credit cards to apply for its credit card, even when no purchase is made, as this enables Peoples to solicit new business from such customers by direct mailings. Peoples believes that this program will enhance future sales to customers with a strong credit history.

Sourcing of Products and Services

The Corporation purchases all of its merchandise in finished form from established suppliers and manufacturers located primarily in Canada and East Asia. The Corporation is not materially dependent on any particular supplier.

The jewellery manufacturing industry is highly fragmented. Peoples is a significant customer to over 50 suppliers and has relationships with over 200 suppliers. Since the beginning of fiscal 1993, Peoples' suppliers have been reluctant to extend historical credit terms because of Zale's bankruptcy and Peoples' deteriorating financial condition. As a result, the Corporation has not been able to obtain the levels of inventory which it has historically purchased.

Prior to the Date of Filing, Peoples' suppliers limited their financial exposure to the Corporation by setting strict credit limits. This caused the Corporation to purchase lower levels of inventory than planned for the Christmas season and had a negative impact on sales. Since the Date of Filing, vendors have required immediate cash payment for goods as shipped. This practice has continued to limit Peoples' ability to carry the proper levels of inventory and has continued to have a negative impact on sales.

Certain suppliers of Peoples have expressed an interest in supplying merchandise by way of consignment. Under a consignment arrangement, ownership in the consigned merchandise is retained by the supplier until the merchandise is sold by Peoples to a retail customer. Peoples retains, as its payment, the difference between the retail sale price and the supplier's wholesale cost of merchandise. Such arrangements are advantageous to Peoples since payment to a supplier for goods sold is made only upon the successful sale of an item of merchandise. In addition, unsold goods generally may be returned to the supplier at any time. However, certain additional costs are incurred by Peoples in maintaining the consignment arrangements, including costs relating to the tagging and separate display of consigned goods and administrative costs relating to inventory controls and the processing of sale proceeds. Peoples has entered into consignment supply arrangements with certain suppliers. The Working Capital Facility limits Peoples' ability to enter into consignment arrangements to the extent that inventory to be delivered on a consignment basis may not exceed \$10,000,000 in the aggregate, and Peoples may not enter into any consignment arrangement without the prior written consent of the Bank Creditor. See "Bank Financing and Security".

A large portion of Peoples' merchandise consists of items containing gold and diamonds. The Corporation's results are affected by fluctuations in the prices of these two commodities. Generally, it is possible to reflect gradual commodity price increases in retail prices in such a manner as to ensure that an adequate margin on sales is maintained. However, in order to reduce its price risk, Peoples entered into gold commodity swaps to hedge its exposure to significant declines in the price of gold during 1992. The Corporation is not currently a party to any such hedging arrangements. Peoples is not subject to substantial currency fluctuation considerations because most purchases are denominated in Canadian Dollars.

Peoples has established a point-of-sale distribution system which allows its buyers to track the sales of each item in each store. This system provides for automated orders for replenishment and allows store managers to respond quickly to customer demands.

Properties

The Corporation's principal operating assets are its jewellery (and precious metals) inventories, deposits, leases and leasehold improvements, furniture, fixtures and equipment. In addition, the Corporation owns the land and building at its Head Office, together with one property in Ottawa, Ontario and one property in the province of Saskatchewan. The Head Office is subject to the Deed of Trust and Mortgage. See "Description of First Mortgage Bonds". A security interest has been granted by the Corporation over its property and assets in favour of the Bank Creditor. See "Bank Financing and Security". Certain personal property of the Corporation is subject to the Capital Lease Agreement. See "Capital Lease Agreement".

Peoples' retail stores are located across Canada in most large and medium-sized population centres and in some smaller centres. The number of retail stores by province as at March 31, 1993 is shown in the following table:

	Peoples/ MacKenzie's (number of stores)	Mappins	Total
British Columbia	31	11	42
Alberta	17	8	25
Saskatchewan	11	4	15
Manitoba	8	3	11
Ontario	73	32	105
Quebec	1	0	1
New Brunswick	6	0	6
Nova Scotia	9	3	12
Prince Edward Island	1	0	1
Newfoundland	<u>3</u>	<u>0</u>	<u>3</u>
	<u>160</u>	<u>61</u>	<u>221</u>

Included in the 160 Peoples/MacKenzie's stores is one store in Oshawa which has been temporarily closed until 1994. The gross floor area of the 221 stores is 367,715 square feet, representing an average gross floor area of approximately 1,663 square feet per store.

Since the Date of Filing, the Corporation has closed 42 underperforming stores which generated sales and an operating loss of approximately \$16,400,000 and \$300,000, respectively, for the 12 months ended December 31, 1992. Fixed assets for the 42 stores were \$3,800,000. The Corporation announced the Court sanctioned sale of three Peoples and two Mappins stores located in the province of Quebec on March 8, 1993. The five stores which were sold generated sales and operating profit of \$3,000,000 and \$600,000, respectively. The carrying value of the fixed assets sold was \$500,000.

Most of the Corporation's retail stores are held under Leases which are for minimum periods from four to 20 years. Many of these Leases contain clauses, common in the retail industry, that require Peoples to pay Landlords a percentage of sales and certain occupancy costs. Rental payments in the 1993 and 1992 fiscal years amounted to \$11,883,000 and \$18,511,000, respectively. The Corporation has store Leases with 54 different Landlords. The ten most significant of these, based on numbers of Leases are: Atlantic Shopping Centres Limited (4), Burnac Corporation (8), The Cadillac Fairview Corporation Ltd. (39), Cambridge Shopping Centres Ltd. (38), J.D.S. Investments Ltd. (4), Laing Property Corporation (10), The Lehdorff Group (4), Marathon Realty Company Limited (10), Markborough Properties Inc. (4) and Trilea Centres Inc. (24).

Employees

Peoples currently employs approximately 1,800 full-time and part-time employees. Of this total, about 95% are employed in retail stores. Peoples considers its relations with its employees to be good.

PRO-FORMA CONSOLIDATED BALANCE SHEET

The following unaudited pro-forma balance sheet of the Corporation should be read in conjunction with the Corporation's audited consolidated financial statements including the notes thereto included in the Peoples Jewellers Limited 1993 Annual Report in Appendix J to this Circular. The unaudited pro-forma balance sheet is intended to reflect what the financial position of the Corporation would have been if the Plan had been implemented on March 31, 1993 with a Plan Implementation Date of March 31, 1993.

The Corporation is projecting net losses during the period since March 31, 1993 until the Plan Implementation Date which will increase the Shareholders' deficiency of the Corporation at the Plan Implementation Date.

Pro-forma Consolidated Balance Sheet

	As at March 31, 1993		
	Corporation Actual	Pro-forma Adjustments	Corporation Pro-forma (unaudited)
ASSETS			
Cash	\$ 51	\$ —	\$ 51
Amounts receivable	892	—	892
Merchandise	59,785	—	59,785
Prepaid expenses	1,904	—	1,904
Mortgage and other loans to employees	1,753	—	1,753
Fixed assets	30,625	(9,009)(4)	21,616
Other	4,160	—	4,160
Total assets	\$ 99,170		\$ 90,161
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Bank indebtedness	103,132	(70,000)(1a)	
		(30,000)(1b)	
		350 (3)	
		1,500 (5)	4,982
Amounts payable and accrued expenses	43,648	(4,187)(2)	
		(425)(4)	
		(23,711)(5)	
		(556)(6)	14,769
Income, sales and other taxes payable	154		154
Debentures, mortgages and capital lease obligations	58,779	(40,444)(2)	
		(2,088)(3)	
		(14,685)(4)	1,562
Total liabilities	205,713		21,467
Contingent liabilities	—	(7)	
Preferred shares of a subsidiary	70,000	(1a)	70,000
Shareholders' Deficiency			
Capital stock:			
First Preferred Shares, Non-Voting Series C	8,952	(8,952)(8)	
First Preferred Shares, Non-Voting Series B	526	(526)(8)	
Class A Non-Voting Shares	97,041	(97,041)(8)	
Common Shares	207	(207)(8)	
Class One Preferred Shares	30,000	(30,000)(1b)	
New Common Shares	43,236 (2)		
	1,585 (3)		
	8,185 (4)		
	17,711 (5)		
	556 (6)		
	21,290 (7)		
	97,885 (8)		
	(190,448)(9)		—
Employee stock purchase plan loans	106,726		—
	(8,841)	8,841 (8)	—
	97,885		—
Deficit	(204,428)	1,395 (2)	
		153 (3)	
		425 (4)	
		(2,509)(4)	
		4,500 (5)	
		(21,290)(7)	
		220,448 (9)	(1,306)
Net shareholders' deficiency	(106,543)		(1,306)
Total liabilities and shareholders' deficiency	\$ 99,170		\$ 90,161

(see accompanying notes to the unaudited pro-forma consolidated balance sheet)

Notes to Unaudited Pro-Forma Consolidated Balance Sheet

The pro-forma consolidated balance sheet has been prepared by management from the audited consolidated balance sheet as at March 31, 1993 included in Appendix J to this Circular. In the opinion of Peoples, this pro-forma consolidated balance sheet includes all adjustments necessary for fair presentation. The unaudited pro-forma consolidated balance sheet gives effect as at March 31, 1993 to the implementation of the Plan described elsewhere in this Circular. The Plan is subject to amendment and approval.

The pro-forma consolidated balance sheet reflects:

- (1) (a) The transfer by the Bank Creditor to Newco, a new wholly owned subsidiary of the Corporation, of \$70,000,000 of Bank Indebtedness in exchange for \$70,000,000 of Newco Preferred Shares. Pursuant to the Newco Preferred Share Documentation, the Corporation shall be required to pay to Newco within 60 days after the end of the Corporation's fiscal year end, its Excess Cash Flow (as defined in the Newco Preferred Share Documentation) arising in the fiscal year which will be used by Newco to redeem Newco Preferred Shares. In addition, the Corporation shall be required to pay to Newco, by way of contributions of capital, amounts sufficient to permit Newco to pay cumulative monthly preferential dividends on the Newco Preferred Shares to be paid at an annual rate equal to the aggregate of (i) 57% of the Bank Creditor's prime rate of interest and (ii) 2%.
- (b) The issue of \$30,000,000 of Class One Preferred Shares in exchange for a covenant from the Bank which has the effect of eliminating the Corporation's obligation to repay \$30,000,000 of Bank indebtedness. On the Plan Implementation Date the Bank Indebtedness, while continuing to exist in legal form, will become non-interest bearing without maturity; accordingly, it has been reflected at nil value on the pro-forma consolidated balance sheet. The 30,000,000 Class One Preferred Shares will be convertible into 450,992,178 New Common Shares.
- (2) The repayment of \$40,444,000 of the Debentures plus accrued interest of \$2,792,000 by the issuance of 52,442,530 New Common Shares. Interest accruing between the Date of Filing and the Plan Implementation Date will reduce the deficit at the Plan Implementation Date and has been shown as a reduction of deficit of \$1,395,000 on the pro forma balance sheet.
- (3) The repayment of \$1,585,000 of amounts due under the Capital Lease Agreement by the issuance of 1,922,505 New Common Shares. The remaining amount of \$1,912,000 will be repaid as to \$350,000 in cash on the Plan Implementation Date and as to the balance of \$1,562,000 in monthly instalments of \$37,192 plus interest payable at 8%. Interest accruing between the Date of Filing and the Plan Implementation Date will reduce the deficit at the Plan Implementation Date and has been shown as a reduction of deficit of \$153,000 on the pro forma balance sheet.
- (4) The repayment of \$6,500,000 under the First Mortgage Bonds by the transfer of the Head Office pledged as collateral therefor with a net book value of \$9,009,000 resulting in a difference of \$2,509,000 charged to deficit, and on the repayment of the balance of \$8,185,000 by the issuance of 9,927,887 New Common Shares. Interest accruing between the Date of Filing and the Plan Implementation Date will reduce the deficit at the Plan Implementation Date and has been shown as a reduction of deficit of \$425,000 on the pro forma balance sheet.
- (5) The repayment of \$1,500,000 in cash in respect of the aggregate amount of \$6,000,000 of Under \$5,000 Claims of Unsecured Creditors and the extinguishment of the balance of \$4,500,000 which is credited to deficit and the repayment of \$17,711,000 of amounts due to Trade Creditors, Contingent Creditors, DPSP Trustee, EPP Trustee and Employee Creditors by the issuance of 21,482,322 New Common Shares.
- (6) The amount of approximately \$2,500,000 to be repaid to Landlords in three equal instalments payable on the last Business Day of each of the three consecutive calendar months following the Plan Implementation Date is shown as part of amounts payable and accrued expenses. The remaining \$556,000 of amounts due Landlords is repaid by the issuance of 954,022 New Common Shares.
- (7) The repayment of the amount of the Zale Claimants' Proven Claim by the issuance of 28,909,755 New Common Shares. The Directors of the Corporation have fixed the value ascribed to these New Common Shares at \$21,290,000. This amount is approximately equal to the values at which New Common Shares will be issued to Unsecured Creditors under the Plan.
- (8) The redemption of the First Preferred Shares, Non-Voting Series B and Non-Voting Series C issued under the Employee Stock Purchase Plan and the repayment of the loans under the Employee Stock Purchase Plan and the change of the existing 10,638,675 Class A Non-Voting Shares into one New Common Share per Class A Non-Voting Share, the existing 874,750 Common Shares into one New Common Share per Common Share, and 50,477 First Preferred Shares into one Class A Non-Voting Share per First Preferred Share which in turn will be changed into one New Common Share per Class A Non-Voting Share assuming no Shareholders exercise their right to dissent in respect of continuance under the OBCA.
- (9) To reduce the recorded value of Class One Preferred Shares and New Common Shares to a nominal amount by a reduction of \$220,448,000 in the accumulated deficit after the pro-forma adjustments. The remaining deficit of \$1,306,000 will be carried forward as a capital deficiency resulting from the financial reorganization.

Compilation Report

To the Directors of Peoples Jewellers Limited:

We have reviewed, as to compilation only, the accompanying pro-forma consolidated balance sheet of Peoples Jewellers Limited as at March 31, 1993 prepared for inclusion in this Circular. In our opinion, the pro-forma consolidated balance sheet has been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Toronto, Canada
June 4, 1993

By (signed) ERNST & YOUNG

RISK FACTORS

Shareholders and Creditors should carefully consider certain risks before deciding whether to vote to approve the Plan.

Risks of Non-Implementation

If the Plan is not implemented, the most likely alternatives to the Plan would be (i) a liquidation of the Corporation's assets or (ii) the transfer of selected assets to a corporation to be incorporated with the consent and approval of the Bank Creditor. It is unlikely that any Creditor (other than the Bank Creditor, the First Mortgage Bondholders or the Capital Lease Creditor) or any Shareholder would receive anything from either such alternative to the Plan. See "The Monitor's Comments on the Plan and Alternatives".

There are numerous conditions which must be satisfied prior to the completion of the Plan, some of which may not be satisfied or waived as required by the Plan, thus increasing the risk that the Plan will not be consummated. See "Required Approvals and Other Conditions of the Plan".

Risks of Implementation

The anticipated financial performance of Peoples is based on the assumptions used to develop the Business Plan. See "Business Plan". The financial performance of the Corporation is anticipated to improve in comparison with recent results. This improvement is based, in part, on the implementation of cost saving measures. However, this improvement and the ability of the Corporation to achieve further improvements in the longer term are highly dependent upon the economic and commercial assumptions in the Business Plan. The Business Plan projections are particularly sensitive to sales levels. In addition, the projections include an assumed improvement in gross margin to near historical levels. These assumptions are inherently subject to uncertainty and variation depending on evolving events. Variations between actual results and the Business Plan may be material.

If the Plan is approved, the recoveries to Creditors (and residual value to Shareholders) will be dependent upon the Corporation's ability to generate cash flow which, in turn, depends primarily upon management's success in achieving its Business Plan, obtaining seasonal working capital financing and the Corporation's ability to utilize its existing tax losses and capital cost allowance to shelter future income.

Management has prepared a Business Plan based upon certain assumptions that it believes are reasonable in the circumstances. There can be no assurance that the Corporation's actual financial performance will achieve the levels contemplated by the Business Plan because of uncertainties associated with many of the assumptions made regarding future events.

The Newco Preferred Share Documentation provides for payments of substantially all of the Corporation's "excess cash flow" (as to be defined therein) to Newco for the purpose of redemptions of the Newco Preferred Shares. The Plan provides for certain mandatory payments to specified Creditors on the Plan Implementation Date and on fixed dates following the Plan Implementation Date. In addition, it is anticipated that the New Credit Agreement with the New Creditor will continue to impose restrictive covenants and other provisions which will restrict Peoples' access to operating credit. Peoples' ability to comply with these obligations will depend upon the successful implementation of the Business Plan.

The Business Plan assumes that income taxes will not be payable by the Corporation for the next four years. There can be no certainty that all amounts assumed to be deductible in computing the Corporation's income for tax purposes will be allowed as deductions by the relevant taxing authorities. Assumptions as to capital and non-capital loss carry forwards and other deductible amounts have not been confirmed by an external audit. See "Certain Canadian Federal Income Tax Considerations — The Corporation".

If the Plan is approved, the securities to be issued upon implementation of the Plan are subject to a number of risks and should be considered to be speculative. There is no assurance that Peoples will have sufficient funds available to make the scheduled payments to Creditors contemplated under the Plan, to pay the dividends due on or to redeem the Newco Preferred Shares in accordance with their terms or to pay dividends on the Class One Preferred Shares or New Common Shares. Holders of New Common Shares will be entitled to dividends only if, as and when declared by the Directors and subject to the prior rights of holders of Class One Preferred Shares, and it is not expected that Peoples will be in a position to pay dividends for some time as most excess cash flow must be used to redeem Newco Preferred Shares. If, notwithstanding implementation of the Plan, the Corporation is unable to

meet its continuing obligations and is forced into receivership or to seek relief under applicable insolvency or liquidation legislation, the holders of New Common Shares will have claims ranking junior to the holders of Newco Preferred Shares and Class One Preferred Shares.

DESCRIPTION OF EXISTING SHARE CAPITAL

Authorized and Issued Shares

The authorized capital of the Corporation consists of an unlimited number of First Preferred Shares, issuable in series, an unlimited number of Junior Preferred Shares, an unlimited number of Class A Non-Voting Shares and an unlimited number of Common Shares.

As at June 7, 1993, there were issued and outstanding 54,050 First Preferred Shares, Non-Voting Series B, 633,700 First Preferred Shares, Non-Voting Series C, 10,638,675 Class A Non-Voting Shares and 874,750 Common Shares. In addition, a sufficient number of Class A Non-Voting Shares have been reserved for the conversion of First Preferred Shares pursuant to the Employee Stock Purchase Plan and 531,934 Class A Non-Voting Shares have been reserved for issuance pursuant to the Option Agreement.

There are no restrictions on the transfer of the Junior Preferred Shares, the Class A Non-Voting Shares or the Common Shares. The First Preferred Shares may not be transferred without the consent of the Board of Directors.

Description of Shares

The following is a summary of the material rights, privileges, restrictions and conditions attaching to the share capital of the Corporation. The following summary is qualified in its entirety by the full text of such attributes contained in the Articles of the Corporation.

Class A Non-Voting Shares and Common Shares

(a) Priority

The Class A Non-Voting Shares and the Common Shares rank junior to the First Preferred Shares and the Junior Preferred Shares. The Common Shares rank junior to the Class A Non-Voting Shares.

(b) Dividends

Holders of the Class A Non-Voting Shares are entitled to receive, as and when declared by the Directors, in each fiscal year of the Corporation, non-cumulative preferential cash dividends aggregating \$0.15 per share on such dates as the Directors may from time to time determine. No dividend may be declared or paid on the Common Shares or on any other shares of the Corporation ranking junior to Class A Non-Voting Shares in any fiscal year unless concurrently with or during the 13 calendar months immediately preceding the date of declaration or date of payment, as the case may be, dividends aggregating \$0.15 per share have been paid on the outstanding Class A Non-Voting Shares or have been declared and the payment thereof authorized. If, in any fiscal year, dividends aggregating \$0.15 per share or any part thereof on the Class A Non-Voting Shares are not declared then the rights of the holders of the Class A Non-Voting Shares to such dividends or to any greater dividend than the dividends actually declared for such fiscal year shall be extinguished.

Whenever in any fiscal year of the Corporation dividends aggregating \$0.15 per share have been paid or declared and set aside for payment on all outstanding Class A Non-Voting Shares and on all outstanding Common Shares, any further dividends (other than dividends on shares ranking in priority to the Class A Non-Voting Shares) declared in such fiscal year shall be declared and paid in equal amounts per share on all outstanding Class A Non-Voting Shares and all outstanding Common Shares without preference or distinction.

(c) Anti-Dilution Provision

Neither the Class A Non-Voting Shares nor the Common Shares may be subdivided, consolidated, reclassified or otherwise changed unless contemporaneously therewith the other class of Shares is also subdivided, consolidated, reclassified or otherwise changed in the same proportion and in the same manner and unless such subdivision, consolidation, reclassification or change has been approved by the Class A Non-Voting Shareholders in such manner as may be required under the CBCA.

(d) Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its Shareholders for the purpose of winding-up its affairs, the Class A Non-Voting Shareholders are entitled to receive all declared and unpaid preferential dividends thereon (if any) before any amount is paid or any property or assets of the Corporation distributed to the Common Shareholders or shares of any other class ranking junior to the Class A Non-Voting Shares and thereafter all remaining property and assets of the Corporation is to be paid and distributed *pro rata* to the Class A Non-Voting Shareholders and to the Common Shareholders without preference or distinction.

(e) Voting Rights

Holders of the Class A Non-Voting Shares, as such, are not entitled, except where otherwise specifically provided in the terms attaching to such Shares or by applicable law, to vote at any meeting of Shareholders either for the election of Directors or for any other purpose. However, Class A Non-Voting Shareholders, as such, are entitled to receive informational documents that are required by applicable law to be sent to holders of voting securities of the Corporation, and are entitled to receive notice of, to attend and to speak at all meetings of Shareholders of the Corporation.

Whenever the Corporation has failed to pay dividends aggregating at least \$0.15 per share on the Class A Non-Voting Shares in each of two consecutive fiscal years, then and until the Corporation has paid dividends aggregating at least \$0.15 per share on the Class A Non-Voting Shares in each of two consecutive fiscal years, the Class A Non-Voting Shareholders are entitled to receive notice of all meetings of Shareholders at which Directors are to be elected and are entitled therat, voting separately and as a single class, to elect in the aggregate one third of the members of the Board of Directors. At any such meeting, each Class A Non-Voting Shareholder has, for the purpose of such election, one vote for each Class A Non-Voting Share. In the event of any vacancy on the Board of Directors due to death, resignation, ineligibility or inability for any other reason of any Director elected by the Class A Non-Voting Shareholders in accordance with such provisions, such vacancy is to be filled for the remainder of the term of office by such person as may be elected by the Class A Non-Voting Shareholders at a special meeting of such holders called for that purpose.

The Common Shareholders are entitled to one vote per Common Share at all meetings of shareholders of the Corporation.

First Preferred Shares and Junior Preferred Shares

The First Preferred Shares were created and have been issued for the purposes of the Employee Stock Purchase Plan. The First Preferred Shares are issuable from time to time in one or more series, each series to consist of such number of shares and to have attached thereto such rights, privileges, restrictions and conditions as the Directors of the Corporation may fix. There are currently First Preferred Shares, Non-Voting Series B and First Preferred Shares, Non-Voting Series C outstanding.

Junior Preferred Shares have been issued by the Corporation in connection with the declaration of stock dividends on its other classes of shares and immediately redeemed. None are currently outstanding and the attributes thereof are therefore not described herein.

(a) Dividends

The First Preferred Shares, Non-Voting Series B and Non-Voting Series C are entitled to non-cumulative preferential dividends as and when declared by the Directors. Whenever and so often as dividends are declared and paid on Class A Non-Voting Shares, dividends are to be declared and paid on the First Preferred Shares, Non-Voting Series B and Non-Voting Series C in equivalent amounts per share and on the same dates as dividends on the Class A Non-Voting Shares.

(b) Anti-Dilution Provision

If the Class A Non-Voting Shares are redesignated, reclassified, subdivided, exchanged, converted or otherwise reorganized, the rights attached to First Preferred Shares to payment of dividends and to convert into Class A Non-Voting Shares will be adjusted proportionately, with the intention of preserving the correspondence between such First Preferred Shares and the Class A Non-Voting Shares prior to such action.

(c) Rights on Liquidation

The First Preferred Shares are entitled to preference over the Class A Non-Voting Shares and the Common Shares with respect to the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation or any other return of capital or distribution of assets of the Corporation among its Shareholders for the purpose of winding-up its affairs. In such event, holders of the First Preferred Shares, Non-Voting Series B and Non-Voting Series C are entitled to payment of the amount added to the stated capital of the Corporation in respect of the issue of each such Share, together with any declared but unpaid dividends, but are not entitled to any further right of participation.

(d) Voting Rights

First Preferred Shareholders are not, as such, entitled to receive notice of or to attend any meeting of Shareholders of the Corporation or to vote at any such meeting for the election of Directors or for any other purpose.

(e) Redemption

The First Preferred Shares, Non-Voting Series B and Non-Voting Series C are redeemable at any time in whole or in part at a price equal to the amount added to the stated capital of the Corporation in respect of the issue of each such Share, together with any declared but unpaid dividends. The Corporation is to redeem First Preferred Shares, Non-Voting Series B and Non-Voting Series C within 30 days following the 15th day of August coincident with or next following the tenth anniversary of the respective date of issue of each such Share. In addition, a Preferred Shareholder is entitled at any time prior to the 15th day of August, coincident with or next following the tenth anniversary of the date of issue of any First Preferred Shares held by such Shareholder, to require the Corporation to redeem all or any part of any such First Preferred Shares.

(f) Conversion

First Preferred Shareholders are entitled to convert each First Preferred Share into one Class A Non-Voting Share, subject to certain limitations. In addition to such limitations, First Preferred Shareholders may not convert more than 20% of the number of such First Preferred Shares originally issued, on a cumulative basis, in each of the five years following the first anniversary date of their respective dates of issue. First Preferred Shares may not be converted following the 31st day of August, coincident with or next following the tenth anniversary date of their respective dates of issue.

DESCRIPTION OF DEBENTURES

The Corporation has three series of unsecured Debentures outstanding. The 1985 Debentures, 1986 Debentures, and 1990 Debentures have the following principal characteristics:

Amount Outstanding (\$000's)	Approximate No. of Debenture- holders	Current Interest Rate	Maturity Date	Date Issued	Type of Placement	Date of Next Semi-Annual Interest Payment
17,944	100+	14.25%	July 2, 1995	July 11, 1985	Public	July 2, 1993
5,500	3	12.50%	July 2, 1996	July 2, 1986	Private	July 2, 1993
17,000	2	13.75%	June 29, 1995	June 29, 1990	Private	June 29, 1993

The Corporation originally issued the 1985 Debentures in an aggregate principal amount of \$35,000,000 pursuant to the 1985 Trust Indenture. The interest rate applied to the 1985 Debentures was increased to 14% effective July 2, 1990 by a supplemental indenture dated as of November 30, 1990, and further increased to 14.25% effective June 15, 1991 by a supplemental indenture dated as of June 15, 1991. Interest on the 1985 Debentures has not been paid since July 2, 1992.

The Corporation originally issued the 1986 Debentures in an aggregate principal amount of \$25,000,000 pursuant to the 1986 Trust Indenture. The interest rate applied to the 1986 Debentures was increased to 11.25% effective June 15, 1991 and further increased to 12.5% effective July 2, 1991 by supplemental indenture dated as of June 15, 1991. Certain holders of the 1986 Debentures exercised retraction rights with respect to approximately \$19,500,000 of the \$25,000,000 principal outstanding as at July 2, 1991. The principal amount of the 1986

Debentures retracted on July 2, 1991 was refinanced by the Term Credit Facility. See "Bank Financing and Security". Interest on the 1986 Debentures has not been paid since July 2, 1992.

On July 2, 1990, certain holders of the 1985 Debentures exercised retraction rights with respect to \$17,056,000 of the \$35,000,000 principal amount previously outstanding. The retracted 1985 Debentures were replaced by a private placement of the 1990 Debentures in an aggregate principal amount of \$17,000,000 pursuant to the 1990 Trust Indenture. The interest rate applied to the 1990 Debentures was increased to 13.75% effective June 15, 1991 by supplemental indenture dated as of June 15, 1991. Interest on the 1990 Debentures has not been paid since June 29, 1992.

DESCRIPTION OF FIRST MORTGAGE BONDS

The Corporation issued \$15,000,000 in principal amount of First Mortgage Bonds under the Deed of Trust and Mortgage. Payments on the First Mortgage Bonds are to be made monthly on the first of each month on the basis of a 35 year amortization. Security for the First Mortgage Bonds is a first fixed and specific mortgage and charge on the Head Office. Principal and interest due and payable were paid through December 29, 1992.

CAPITAL LEASE AGREEMENT

Pursuant to an agreement dated July 19, 1990, Peoples entered into a capital lease program with the Capital Lease Creditor in order to finance certain fixed assets. As part of that agreement, the Capital Lease Creditor holds security on leasehold improvements in approximately 190 stores. By an Order dated February 22, 1993, the Court granted leave to the Capital Lease Creditor to issue a demand for repayment of certain indebtedness and to issue a statutory notice of its intention to enforce security.

BANK FINANCING AND SECURITY

The Bank Creditor has provided debt financing to the Corporation under the Credit Agreements. To the knowledge of the Corporation, the Bank Creditor is the sole lender in respect of the facilities provided pursuant to such credit agreements.

Working Capital Facility

By agreement dated as of May 8, 1990, the Bank Creditor extended revolving facilities to the Corporation in the maximum amount of \$115,000,000 (the "Working Capital Facility"). The credit agreement carried a term expiring 18 months from the date of the agreement. On May 24, 1990, the Corporation completed a credit card agreement with a private label service organization for the sale by the Corporation of its customer accounts receivable for proceeds of approximately \$26,000,000, \$20,000,000 of which was used to reduce the available credit pursuant to the Working Capital Facility to \$95,000,000.

The Working Capital Facility was amended by a first supplemental and amending agreement dated as of August 21, 1990 to extend specified time periods for fulfilling conditions under the loan. The facility was further amended by a second supplemental and amending agreement dated as of July 2, 1991 to provide for the reorganization of a subsidiary of the Corporation, and to reduce the amount made available under the facility by an additional \$5,000,000 pending the satisfaction of the Corporation's obligations under the Term Credit Facility (as defined below).

The Corporation's debts and liabilities under the Working Capital Facility were refinanced by an agreement dated as of November 14, 1991 in the maximum amount of \$90,000,000 (the "New Working Capital Facility"). The maximum amount of the New Working Capital Facility was reduced to \$85,000,000 by December 31, 1992 in accordance with the terms of the agreement. The New Working Capital Facility carried a maturity date of August 31, 1992. By a first supplemental and amending agreement dated as of February 14, 1992, funds available under the facility were increased to \$87,500,000. The New Working Capital Facility was amended and restated by a second supplemental and amending agreement dated as of August 25, 1992 which, among other things, extended the maturity date to April 1, 1993. Third and fourth supplemental and amending agreements were concluded as of October 19, 1992 and November 15, 1992, respectively. On June 9, 1993, a fifth supplemental and amending agreement increasing the limit on allowable consignment merchandise to \$10,000,000, and on June 15, 1993, a sixth supplemental and amending agreement providing for up to an additional \$15,000,000 of credit for use in inventory purchases and the payment of certain operating expenses were concluded.

The New Working Capital Facility provides for various floating interest rate options. It is currently secured by substantially all of the Corporation's property together with the unconditional guarantees of 779159 ("779159") Ontario Inc., a wholly-owned subsidiary of the Corporation, and 830890 Ontario Inc., ("830890") a wholly-owned subsidiary of 779159. The only assets of 779159 are the shares it holds in 830890. The only assets of 830890 are the shares it holds in JHC. More specifically, the security granted in respect of the New Working Capital Facility includes the following:

- (i) a general assignment of book debts;
- (ii) section 427 security under the *Bank Act* (Canada);
- (iii) a general security agreement creating a security interest in all present and future personal property of the Corporation;
- (iv) a debenture in the maximum principal amount of \$200,000,000 constituting a floating charge over all property, assets and undertakings of the Corporation;
- (v) a second charge on the Head Office;
- (vi) a certificate by insurers of the Corporation naming the Bank Creditor as first loss payee except for permitted mortgagees in respect of Head Office;
- (vii) a first fixed and specific mortgage and charge in respect of real properties owned by the Corporation other than the Head Office;
- (viii) a pledge of a subordinated note of JHC in the principal amount of U.S. \$50 million;
- (ix) a trust deed of hypothec, mortgage and pledge registered in the Province of Quebec;
- (x) an assignment to the Bank Creditor pursuant to an assignment agreement dated June 12, 1990 of certain security documents previously executed, delivered and registered by the Corporation in favour of a Canadian chartered bank other than the Bank Creditor;
- (xi) full and unconditional guarantees by 830890 and 779159 and debentures of 779159 and 830890 in maximum principal amounts of \$200,000,000 constituting floating charges over all property, assets and undertakings of such corporations in support of the guarantees thereof; and
- (xii) a custodian agreement with respect to the shares of JHC owned by the Corporation and 830890.

By an Order dated March 22, 1993, Mr. William D. Chambers of the law firm of Fraser & Beatty was retained to provide an independent legal opinion to the Court with respect to the security held by Creditors. To date, a draft form of such opinion has been delivered to the Court.

Term Credit Facility

By agreement dated as of July 2, 1991, the Bank extended a non-revolving term facility (the "Term Credit Facility") to the Corporation in the amount of \$19,500,000 to mature on January 4, 1993. Proceeds of this facility were used to finance the retraction of the 1986 Debentures, as discussed above. Interest is charged for amounts outstanding under the Term Credit Facility at a floating rate. This facility was converted to a demand basis on January 10, 1992, in accordance with its terms and on delivery of written notice thereof by the Bank Creditor to the Corporation. The Term Credit Facility was amended and restated by an agreement dated as of August 25, 1992, pursuant to which the maximum amount of borrowings under the Term Credit Facility was increased to the lesser of \$24,000,000 and \$19,500,000 plus an amount necessary to be paid by the Corporation in connection with the termination of a currency swap dated October 16, 1991, which amount was not to exceed \$4,500,000. The maximum available amount was increased to \$26,000,000 by a first supplemental and amending agreement dated as of October 19, 1992. The swap was terminated on October 19, 1992 and \$6,267,000 was added to the term loan of \$19,500,000. During December 1992, the Term Credit Facility was reduced to \$18,100,000.

The Term Credit Facility is secured by that part of the security for the New Working Capital Facility comprised of book debts and inventory of the Corporation and any proceeds thereof.

Option Agreement and Share Issuance Agreement

Pursuant to the Option Agreement, the Corporation granted to the Bank Creditor a five year option to acquire 531,934 Class A Non-Voting Shares at a price of \$11.10 per share, which was subsequently reduced as of

November 14, 1991 to \$6.50 per share pursuant to an amendment to the agreement. In consideration of the revised credit facilities provided to the Corporation in August 1992, it agreed, pursuant to the Share Issuance Agreement, to issue to the Bank Creditor, upon written notice by the Bank Creditor delivered not later than April 1, 1993 and subject to any required regulatory approvals, a new series of preferred shares convertible into Common Shares or Class A Non-Voting Shares representing at all times 9.9% of the issued and outstanding equity shares of the Corporation and at the same time to seek regulatory approval to a reduction in the exercise price under the Option Agreement to \$0.39 per share. To date, the TSE and the ME have expressed their approval of a reduction in the exercise price under the Option Agreement to \$0.50 per share. The Bank Creditor did not notify the Company of its intention to implement the Share Issuance Agreement prior to April 1, 1993.

Financial Advisor

Pursuant to a financial advisory agreement dated August 25, 1992, the Bank Creditor engaged Peat Marwick Thorne to review and report to the Bank Creditor on the Corporation and its business and affairs.

Bank Debt Levels and Default

In the year ended March 31, 1992, Bank Indebtedness increased by \$19,500,000 as a result of the Bank Creditor funding, through the Term Credit Facility, the retraction of 1986 Debentures on July 2, 1991. Bank Indebtedness decreased \$4,139,000 net of amounts applied to retraction of the 1986 Debentures. Between March 31, 1992 and December 29, 1992, Bank Indebtedness increased by \$6,267,000 under the Term Credit Facility in respect of the unwinding of a swap arrangement. As partial consideration for the revised banking facilities provided in August 1992, the Corporation agreed to pay the Bank Creditor \$900,000 on August 31, 1994. This amount has been added to Bank Indebtedness.

By an Order dated January 11, 1993, the Court varied the Initial Order to permit the Bank Creditor to make demand for payment on all Indebtedness then due and owing to it under the then existing Credit Agreements and security granted thereunder and to deliver to the Corporation notices of intention to enforce security under the BIA. The Court further ordered that associated notice periods would begin to run on the issue of such demand and such notices. The stay of any proceedings which might otherwise be taken in connection with such demands and/or notices, however, expressly remained in effect. The Bank Creditor issued the demands and statutory notices pursuant to the Order.

POTENTIAL LIABILITIES WITH RESPECT TO ZALE

The Corporation has signed two separate agreements respecting affiliates of Zale. The first, the Inter-Company Debt Support Agreement (the "Support Agreement") is an obligation by the Corporation in favour of ZHC whereby under certain conditions the Corporation could be required to assist ZHC in repaying its obligations and indebtedness to Zale of up to U.S. \$82,500,000 plus related interest. Zale is under the supervision of the United States Bankruptcy Court pursuant to Chapter 11 of the United States Bankruptcy Code. On and after May 15, 1992, Zale demanded from ZHC the repayment of all debt plus interest. ZHC has not repaid and does not have the ability to repay such amounts and the Corporation, due to its current financial condition, would be unable to pay the amount that could be required to be paid under the Support Agreement.

By an order dated May 20, 1993, the United States Bankruptcy Court confirmed the Zale Plan for Zale and its affiliated debtors. The Zale Plan, among other things, provides for the cancellation of all stock of Zale held by ZHC and provides for no distributions to ZHC in respect of such stock. One appeal of the order confirming the Zale Plan has been filed. No hearing date with respect to that appeal has yet been set. It is expected that the closing under the Zale Plan will occur between late June and the end of August 1993. On the closing, the Claims against the Corporation held by all creditors of Zale and its affiliated debtors will be assigned to Reorganized Zale (as defined under the Zale Plan), with the exception of the Claims of the five parties who opted out of such assignment pursuant to the terms of the Zale Plan (which parties for purposes of the Plan would, if they were to file Claims, be treated as Contingent Creditors under the Plan). On June 1, 1993, Zale filed a Claim against the Corporation for U.S. \$112,500,000. This Claim is apparently based on the Support Agreement and alleged fraudulent conveyances regarding the amendments of or modifications to various predecessor guarantees to the Support Agreement.

Assuming that the Zale Plan is consummated, ZHC will have no ability to repay amounts due with respect to the Support Agreement due to its current financial condition and the cancellation of the Zale stock that it holds.

The second agreement regarding affiliates of Zale referred to above is the Gordon Indemnity Agreement between the Corporation and the banks for Gordon which requires the Corporation to indemnify such banks for up to U.S. \$47,000,000 to the extent that their loan is not satisfied on their first priority security on Gordon's inventory or from any plan of reorganization or liquidation involving Gordon. As at November 30, 1992, Gordon had reported its inventory as approximately U.S. \$129,900,000 at FIFO cost and the loan balance was U.S. \$60,000,000. Under the Zale Plan, the banks will receive secured notes with an aggregate original principal amount of U.S. \$60,017,000. Accordingly, it would appear that the liability of Peoples under the Gordon Indemnity Agreement, if any, would be nominal.

PRICE RANGES AND TRADING HISTORIES

The outstanding Class A Non-Voting Shares and Common Shares are listed and posted for trading on the TSE and the ME.

The following table sets forth the high and low sale prices and share volumes traded on the TSE and the ME for the Class A Non-Voting Shares as reported by such stock exchanges for the respective periods shown. The information set out below is as to calendar year, and not fiscal year, quarters. The symbol for the Class A Non-Voting Shares on the TSE and ME is PCJ.A.

	TSE			ME		
	High	Low	Share Volume	High	Low	Share Volume
1991						
First Quarter	7.60	4.40	635,595	7.50	4.70	108,800
Second Quarter	8.00	6.60	943,924	7.125	6.50	91,700
Third Quarter	7.00	4.50	380,590	7.25	4.30	42,608
Fourth Quarter	4.60	1.70	1,078,568	4.80	1.70	185,277
1992						
First Quarter	1.50	1.08	1,047,355	2.50	1.10	152,550
Second Quarter	1.30	0.40	1,090,529	1.40	0.40	107,200
Third Quarter	0.70	0.35	3,278,361	0.65	0.32	97,100
Fourth Quarter	0.50	0.23	1,061,524	0.54	0.20	106,835
1993						
January	0.40	0.28	213,500	0.42	0.30	45,300
February	0.31	0.30	191,000	0.35	0.25	13,000
March	0.28	0.22	297,650	0.32	0.23	63,700
April	0.15	0.15	174,200	0.23	0.10	91,381
May	0.17	0.12	531,625	0.18	0.12	109,000
June 1-22	0.32	0.15	288,400	0.32	0.16	87,600

The following table sets forth the high and low sale prices and share volumes traded on the TSE and the ME for the Common Shares as reported by such stock exchanges for the respective periods shown. The information set out below is as to calendar year, and not fiscal year, quarters. The symbol for the Common Shares on the TSE and ME is PCJ.

	TSE			ME		
	High	Low	Share Volume	High	Low	Share Volume
1991						
First Quarter	20.00	19.40	812	0.00	0.00	0
Second Quarter	26.00	20.00	237	0.00	0.00	0
Third Quarter	20.00	20.00	300	0.00	0.00	0
Fourth Quarter	10.00	10.00	205	0.00	0.00	0
1992						
First Quarter	10.00	10.00	1,220	0.00	0.00	0
Second Quarter	12.00	12.00	501	0.00	0.00	0
Third Quarter	0.00	0.00	0	0.00	0.00	0
Fourth Quarter	12.00	10.00	200	0.00	0.00	0
1993						
January	0.00	0.00	0	0.00	0.00	0
February	0.00	0.00	0	0.00	0.00	0
March	0.00	0.00	0	0.00	0.00	0
April	0.20	0.13	20,850	0.00	0.00	0
May	0.30	0.30	8,250	0.00	0.00	0
June 1-22	0.50	0.24	28,000	0.00	0.00	0

DIVIDEND RECORD

Dividends were paid on all issued and outstanding Shares of the Corporation on a quarterly basis until and including the second quarter of fiscal year 1992. For fiscal year 1992, dividends were paid at the rate per Share of \$0.11 per quarter for the first two quarters or \$0.22 annually. The Corporation last paid a dividend on each class of Shares outstanding on September 15, 1991. For fiscal 1991, dividends were paid at the rate per share of \$0.11 per quarter or \$0.44 annually. The Corporation paid aggregate dividends of \$0.30, \$0.40, \$0.44, \$0.44 and \$0.22 per Share for fiscal years 1988, 1989, 1990, 1991 and 1992 respectively.

After the Corporation fails to declare and pay a dividend of \$0.15 on the Class A Non-Voting Shares for a period of two fiscal years, the holders of the Class A Non-Voting Shares become entitled to elect one-third of the Directors of the Corporation.

PRINCIPAL SECURITYHOLDERS

The table below sets forth certain information concerning Persons owning, beneficially or of record, more than 10% of the issued and outstanding voting securities as at June 7, 1993.

Name and Address	Designation of Class	Number of Securities	Percentage of Class
IRVING GERSTEIN	Common	464,162	53.1%
Toronto, Ontario (1)			
MARVIN GERSTEIN	Common	291,228	33.3%
Lefroy, Ontario (2)			

Notes:

- (1) Irving Gerstein personally holds 840 Common Shares and holds 462,122 Common Shares through Glenoak Investments Incorporated, a company indirectly controlled by him. Irving Gerstein exercises control or direction over 1,200 Common Shares held by family trusts for his children, of which he and Gail Gerstein, his spouse, are co-trustees. Irving Gerstein owns 325,856 Class A Non-Voting Shares and Gail Gerstein exercises control or direction over a further 96,130 Class A Non-Voting Shares owned by Camf Holdings Limited. Irving Gerstein also owns 300,000 First Preferred Shares.
- (2) Marvin Gerstein personally holds 55,228 Common Shares and 128,966 Class A Non-Voting Shares and holds 236,000 Common Shares and 25,819 Class A Non-Voting Shares through Dewbourne Investments Limited, a corporation controlled by him. 941237 Ontario Limited, a corporation controlled by Dewbourne Investments Limited, owns 234,000 Class A Non-Voting Shares.

The information as to the Shares beneficially owned, or over which control or direction is exercised, not being within the knowledge of the Corporation, has been furnished by the respective Shareholders. To the knowledge of the Directors and officers of the Corporation, no other person beneficially owns or exercises control or direction over securities of the Corporation carrying more than 10% of the votes attached to such securities.

Directors and senior officers of the Corporation as a group beneficially owned, directly or indirectly, as at June 7, 1993, 424,786 or 0.4% of the Class A Non-Voting Shares and 464,162 or 53.1% of Common Shares.

DIRECTORS AND OFFICERS

Directors

Under the articles of the Corporation, the number of Directors may range from a minimum of five to a maximum of 12. In accordance with the Corporation's by-laws, the Board of Directors has by resolution fixed the number of Directors at seven. Each Director to be elected at the Annual and Special Meeting will hold office until the election of Directors at the next annual meeting, unless such office is vacated earlier in accordance with the by-laws of the Corporation. It is the intention of the Persons named in the enclosed form of proxy for Common Shareholders, unless instructed otherwise, to vote for the election of each proposed nominee listed below as a Director. The Directors are to be elected by the Common Shareholders. **The management of the Corporation does not contemplate that any of the proposed nominees will be unable to serve as a Director. If that should occur for any reason prior to the Annual and Special Meeting, proxies executed in favour of the Persons named in the enclosed form of proxy for Common Shareholders may be voted for another nominee in their discretion unless the Common Shareholder has specified in the proxy that the Common Shares represented thereby are to be withheld from voting in the election of Directors.**

The following table sets forth, with respect to each Person nominated for election as a Director, his name and municipality of residence, his present principal occupation or employment, all other positions and offices with the Corporation now held by him, if any, the year that any Person who is currently a Director of the Corporation was first elected a Director, and according to the information furnished by him to the Corporation, the approximate number of Shares beneficially owned, or over which control or direction was exercised, by him as at June 7, 1993:

Name and Municipality of Residence	Office and Principal Occupation	Year Became Director	Shares in the Corporation		
			Class A Non-Voting	Common	First Preferred
ROMAN DORONIUK (1)	Acting Chief Operating Officer, Chief Financial Officer and Executive Vice-President, Finance and Administration, Peoples Jewellers Limited	—	—	—	—
Toronto, Ontario					
ALLAN GOTLIEB (2)(8)	Chairman, Burson-Marsteller Limited, Canada (public relations)	1992	—	—	—
Toronto, Ontario					
ANTHONY F. GRIFFITHS (3)(8)(9) ..	Corporate Director; Independent Consultant	1992	—	—	—
Toronto, Ontario					
E. DUFF SCOTT (4)(9)(10)	Acting Chairman of the Board, Peoples Jewellers Limited; President, Multibanc NT Financial Corp. and Multibanc NT (financial services); Chairman, Quadra Logic Technologies Inc. (biopharmaceutical)	1992	—	—	—
Toronto, Ontario					

<u>Name and Municipality of Residence</u>	<u>Office and Principal Occupation</u>	<u>Year Became Director</u>	<u>Shares in the Corporation</u>		
			<u>Class A Non-Voting</u>	<u>Common</u>	<u>First Preferred</u>
ROBERT W. MARTIN (5)(8)(10) Toronto, Ontario	Corporate Director	1992	—	—	—
VERNE SOMERS (6) Etobicoke, Ontario	Vice-President, Finance and Administration, Peoples Jewellers Limited	—	—	—	—
LAWRENCE G. TAPP (7) Oakville, Ontario	Corporate Director	—	—	—	—

Notes:

1. Mr. Doroniuk was Senior Manager, Corporate Finance Services at Ernst & Young from May 1987 to May 1990. From June 1990 to January 1992, he was Senior Manager, Insolvency and Restructuring Services at Ernst & Young Inc., and from February 1992 to July 1992 he was Chief Financial Officer of GMF Assistance Internationale in Paris, France.
2. Prior to 1989, Mr. Gotlieb was the Canadian Ambassador to the United States. Since 1991, he has also been the Chairman of Executive Consultants Ltd.
3. Prior to January 1991, Mr. Griffiths was an Associate with Fairfax Financial Holdings Limited. From January 1991 to January 1993, he was Chairman, President, and Chief Executive Officer of Mitel Corporation.
4. Prior to 1990, Mr. Scott was the Chairman of Prudential Bache Securities and from 1987 to 1989 he was the Chairman of the TSE.
5. Mr. Martin was the President and Chief Executive Officer of Consumers' Gas Company Ltd. from 1984 to May 1991. Following the acquisition of Consumers' Gas Company Ltd. by British Gas Holdings (Canada) Ltd., Mr. Martin was appointed President, Chief Executive Officer and a director of British Gas Holdings (Canada) Ltd. from June 1991 to March 31, 1992. He is currently also the Chairman of the Board of Silcorp Limited.
6. Mr. Somers was the Senior Vice President and Chief Financial Officer of Ayre & Sons Limited from 1976 to 1992. He was a consultant with Mansbord Inc. from 1992 to 1993.
7. Mr. Tapp is currently Chairman of A.T.S. Automation Tooling Systems Inc. He was previously Vice-Chairman, President and Chief Executive Officer of Lawson Mardon Group Limited.
8. Member of the Audit Committee.
9. Member of the Compensation Committee.
10. Member of the Steering Committee.

During the past five years, all of the Directors have been associated in various capacities with the same corporations or institutions, or affiliates or predecessors thereof, as are indicated opposite their names, under the heading "Office and Principal Occupation", except as indicated in the Notes following the table.

Officers

The following table sets forth the names and municipalities of residence of the current officers of the Corporation and their offices and principal occupations.

<u>Name and municipality of residence</u>	<u>Office</u>
E. DUFF SCOTT Toronto, Ontario	Acting Chairman of the Board
ROMAN DORONIUK Toronto, Ontario	Acting Chief Operating Officer, Chief Financial Officer and Executive Vice-President, Finance and Administration
VERNE SOMERS Etobicoke, Ontario	Vice-President, Finance and Administration
SARAH KAVANAGH Toronto, Ontario	Vice-President, Corporate Finance
RICHARD A. FIELD Toronto, Ontario	Vice-President, Real Estate

<u>Name and municipality of residence</u>	<u>Office</u>
MICHAEL M. CLARKE Toronto, Ontario	Vice President, Merchandising
D. ALAN WOOLFF Willowdale, Ontario	Vice-President, Merchandising
IONA E. KEBIC Willowdale, Ontario	Vice-President, Merchandising
BRIAN C. LAND Oakville, Ontario	Vice-President, Operations

The Corporation has retained the services of Spencer Stuart & Associates (Canada) Ltd. to conduct a search for a new president and chief executive officer.

COMPENSATION OF DIRECTORS AND OFFICERS

Compensation of Executive Officers and Directors

The Corporation had 15 executive officers, who received aggregate cash compensation of \$3,220,586 paid by the Corporation, during the financial year ended March 31, 1993. The aggregate value of other compensation to executive officers not including termination payments did not exceed \$728,000.

Each Director who is not an officer of the Corporation or of an associate of the Corporation is paid an annual director's fee of \$12,000 plus \$800 for attendance at each meeting of the Board of Directors or of a committee thereof. The chairman of any committee is paid an annual fee of \$2,000. The Acting Chairman of the Board receives \$24,000 per year plus \$1,600 per meeting.

Employee Stock Options

The Corporation currently has no employee stock option plan or employee stock options outstanding. The Corporation intends upon the implementation of the Plan to institute a stock option plan or to issue stock options, consistent with applicable regulatory requirements, to provide an incentive to members of management and/or other employees of the Corporation. One current executive officer has been provided with an undertaking by the Corporation that he will receive at such time stock options in a number, with a term and at an exercise price then determined to be appropriate.

Life Insurance

During the financial year ended March 31, 1993, the Corporation had life insurance coverage in respect of its executive officers which provided for a lump sum payment and, in certain circumstances, annual payments commencing on death. These obligations were funded by such insurance, but no specific portion of the annual premium was allocated to the executive benefit portion. The Corporation's cost of providing these benefits may not be accurately determined in that the cash surrender value of the insurance generally exceeded the premiums payable. This life insurance coverage has been cancelled.

Directors' and Officers' Liability Insurance

The Corporation maintains insurance for the benefit of the Directors and officers of the Corporation and its subsidiaries and for the benefit of the Corporation and its subsidiaries. Directors and officers are insured against liabilities incurred as such, and are also entitled to indemnification to the extent permitted under the by-laws of the Corporation or its subsidiaries, subject to applicable law. The Corporation and its subsidiaries are insured under the indemnification.

The Corporation maintains executive liability and indemnification coverage pursuant to which the insurer agrees to pay to any Person who has been, now is or shall become a duly elected Director or a duly elected or appointed officer of Peoples and its subsidiaries, any claim made against such Director or officer in respect of which such Director or officer is not indemnified by Peoples or its subsidiary, as applicable, where the Director or officer is legally obligated to pay on account of the claim made against him during the policy period ("executive liability coverage"). The insurer also agrees to pay on behalf of Peoples and its subsidiaries any claim for which Peoples or a subsidiary of Peoples grants indemnification to a Director or officer, as permitted or required by law, which the

Director or officer has become legally obligated to pay on account of a claim made against him during the policy period ("executive indemnification coverage"). The policy period expires on October 1, 1993. The annual premium is \$156,414. Coverage is limited to \$10,000,000 in respect of each loss and in respect of losses in each policy year. The deductible for claims in respect of executive liability coverage is nil. The deductible in respect of executive indemnification coverage is \$100,000. Coverage is extended to certain outside directorships in Zale, subject to a deductible of \$1,000,000 in respect of executive indemnification coverage for a loss resulting from, attributable to, or in any manner related to the takeover of Zale by Peoples. Executive liability coverage is excluded in the case of claims brought by or on behalf of any individual or entity owning, either directly or beneficially, 10% or more of the outstanding common shares of Peoples or its subsidiaries.

The Corporation also maintains excess Directors' and officers' liability and corporate reimbursement insurance providing coverage for loss in excess of the primary \$10,000,000 directors' and officers' liability of the primary policy discussed in the previous paragraph, subject to coverage limits of \$10,000,000 in respect of a single loss and in respect of aggregate losses. Coverage exclusions include claims for loss resulting from, attributable to, or in any manner relating to a bankruptcy of Peoples or any of its subsidiaries. The Corporation and its Canadian subsidiary and affiliated companies are covered. The expiry date of the current policy is October 1, 1993. The annual premium, subject to adjustment, is \$56,810.

Executive Pension Plan

Executives of the Corporation are entitled to receive benefits under the non-contributory EPP based on the number of years of participation in the EPP, earnings before retirement, and the age at which retirement occurs. Benefits are paid after retirement on a monthly basis.

Deloitte & Touche were retained by the Corporation to conduct a review of the status of the EPP in light of certain irregularities relating to the EPP identified by Peoples. See also "Information Concerning Peoples — Recent Developments". The findings of Deloitte & Touche were contained in a final report dated April 1993. The report found that Peoples had not made the required contribution to the EPP since January 1990, and as at January 31, 1993, contribution arrears and interest had accumulated to \$172,800. The report also noted that the EPP holds more shares of Peoples than the maximum permitted by provincial law, and that annual filings have not been made and provincial authorities have not been advised of the arrears in contributions to the EPP, as required by law. The report noted that Peoples could not make any further contributions to the EPP as a result of its filing under the CCAA and that, if no alternative source of funding was obtained, there would be a deficit for members and pensioners of approximately \$546,800 if the EPP were wound up as at January 31, 1993.

The Corporation has learned that the full pensions of two former executives of Peoples were paid from the Employee Pension Plan account from August 1, 1984 to October 1, 1989 inclusive, including the portions of their pensions that were payable by the EPP. The total overpayment was \$120,413.16. Peoples has been advised by its actuarial consultants that a transfer in such amount should be made from the EPP to the Employee Pension Plan. The impact of the transfer would be to decrease the market value of assets in the EPP from \$469,000 (at February 28, 1993) to \$349,000, which would increase the unfunded liability of the EPP and impair the EPP's ability to pay full benefits to pensioners. The surplus in the Employee Pension Plan would increase from \$483,000 to \$503,000.

The Corporation has decided to discontinue its EPP and will address the need for one at a later date. The Corporation has informed regulatory authorities of the deficit in the EPP and is considering ways in which to address the aforesaid problems.

Indebtedness of Officers and Directors

The following current and former officers and Directors were indebted to the Corporation in respect of non-interest bearing loans outstanding during the fiscal year of the Corporation ended March 31, 1993:

	Maximum Balance During the Period	Present Balance
J. R. BLICKSTEAD	\$ 200,967(1)	\$ 200,967
Toronto, Ontario	121,256(2)	0

	Maximum Balance During the Period	Present Balance
B. G. CHAPMAN..... Don Mills, Ontario	168,133(1) 43,905(2)	168,133 40,020
M. M. CLARKE	61,590(1)	61,590
R. DORONIUK..... Toronto, Ontario	50,000(2)	49,172
R. A. FIELD	62,875(1)	62,875
Toronto, Ontario		
I. R. GERSTEIN	4,697,739(1) 848,134(3) 152,078(4)	4,697,739 848,134 152,078
Don Mills, Ontario		
C. F. GILL	1,932,169(1) 144,340(5) 282,828(3)	1,932,169 134,188 282,828
Toronto, Ontario		
L. M. KARN	70,000(1)	70,000
Mississauga, Ontario		
S. B. KAVANAGH..... Toronto, Ontario	67,800(1)	67,800
I. E. KEBIC	70,330(1) 22,913(2)	70,330 20,909
Willowdale, Ontario		
B. C. LAND	53,925(1) 30,190(2)	53,925 27,170
Oakville, Ontario		
S. MURPHY..... Thornhill, Ontario	65,750(1)	65,750
K. N. NEVISON	62,475(1) 15,992(2)	62,475 0
Mississauga, Ontario		
R. P. PICOTTE	84,025(1)	84,025
Laval, Quebec		
W. THOM	107,850(1)	107,850
Whitby, Ontario		
J. WELCH	16,408(2)	9,271
Dallas, Texas		
D. O. WOOD	70,000(1) 20,248(2)	70,000 0
North York, Ontario		
D. ALAN WOOLFF	12,930(1) 13,705(2)	12,930 12,865
Willowdale, Ontario		

(1) On account of loans to purchase shares including shares acquired under the Employee Stock Purchase Plan of the Corporation. Under the terms of the Employee Stock Purchase Plan, the outstanding balance of any loan will bear interest at 2% above the prime commercial lending rate charged by the Corporation's principal banker for loans in Canadian dollars from time to time, calculated monthly on the balance outstanding from time to time, on the 30th day following the resignation, retirement or termination of employment of an employee. Loans to the following former employees are now bearing interest at the aforementioned rate: J. R. Blickstead, B. G. Chapman, I. R. Gerstein, C. F. Gill, L. M. Karn, S. Murphy, K. N. Nevison, W. Thom, J. Welch and D. O. Wood.

(2) On account of a loan to purchase a home for which a ten-year non-interest bearing mortgage was taken as security.

(3) On account of carrying and repayment costs of loans incurred to purchase Class A Non-Voting Shares.

(4) On account of certain contract purchases.

(5) On account of two loans for which ten-year non-interest bearing mortgages were taken as security.

Compensation for Termination of Executive Employment

One current executive officer of the Corporation has an employment contract which entitles that person in certain circumstances to receive a severance payment equivalent to six months' wages in the event of a termination of employment.

Directors' and Officers' Charge and Indemnity

Pursuant to the Initial Order, the Court granted the Directors and officers of the Corporation a first charge and security interest in an amount of \$5,000,000 on the property, assets and undertaking of Peoples in priority to any encumbrances, security or security interest then outstanding in order to: (1) secure payment from time to time of outstanding statutory vacation pay owed to employees of the Corporation; (2) secure the current payroll obligations to the employees of the Corporation including estimated commissions, wages, benefits, pension benefits and other obligations including, *inter alia*, obligations under the *Employment Standards Act* (Ontario), and other and similar statutes in other provinces and remittances in connection therewith pursuant to, *inter alia*, the *Income Tax Act* (Canada), the *Canada Pension Plan Act* and the *Unemployment Insurance Act* (Canada), and amounts owed to any workers' compensation authority whether as premiums, assessments or reassessments; and (3) to secure statutory obligations for federal or provincial sales or excise tax (including Goods and Services Tax) in relation to sales of the Corporation.

The Court also ordered that the Corporation be permitted to indemnify its Directors and officers and each of them with respect to any personal liability they might incur as Directors or officers under any legislation or at law.

Employee Stock Purchase Plan

The Corporation has an Employee Stock Purchase Plan pursuant to which employees designated by the Board of Directors are given the opportunity to purchase treasury shares of a series of the First Preferred Shares funded by an interest-free loan from the Corporation. First Preferred Shares issued under the Employee Stock Purchase Plan are convertible into Class A Non-Voting Shares on a share-for-share basis at a rate of 20% per year (on a cumulative basis commencing one year after the issuance of such First Preferred Shares). The loans are repayable upon the earliest of (i) a demand being made by the Corporation (the loans bearing interest after demand); (ii) 30 days after resignation or termination of the employee; (iii) 60 days after the death of the employee; and (iv) one year following the tenth anniversary of the date of issue of the shares in respect of which the loans were made. As at March 31, 1993, there remained outstanding loans to 66 employees other than executive officers or Directors in the aggregate amount of \$1,142,240. Any employees who have left the Corporation or were terminated remain liable for the share purchase loans. This is due to the Corporation's inability to redeem the First Preferred Shares in accordance with the terms of the Employee Stock Purchase Plan as they currently exist. The Corporation has not taken legal action at this time to recover the amount of such loans. See also "Description of the Plan — Treatment of Shareholders" and "Description of Existing Share Capital — Description of Shares — First Preferred Shares and Junior Preferred Shares".

Deferred Profit Sharing Plan

The Corporation established the DPSP for the benefit of certain employees of the Corporation pursuant to an agreement between the Corporation and the DPSP Trustee entered into as of December 31, 1988, with effect as of January 1, 1988. Under the agreement, the Corporation may make contributions to the DPSP out of the Corporation's accumulated or current profits for each calendar year ending December 31 (a "Plan Year") in such amount and at such times as the Corporation may in its absolute discretion determine, provided that (i) the Corporation must contribute out of current profits an amount which is at least equal to the lesser of 1% of the aggregate of the wages and salary paid by the Corporation in the Plan Year to the members of the DPSP and the amount of the profits of the Corporation for that Plan Year, (ii) the maximum contribution of the Corporation for any Plan Year may not exceed the amount allowable as a deduction in computing the income of the Corporation under the *Income Tax Act* (Canada), and (iii) any contribution must be made in that Plan Year or within 120 days following the last fiscal year end of the Corporation in that Plan Year. Upon receipt of a contribution to the DPSP by the Corporation, the DPSP Trustee must allocate and credit to a member's account such portion thereof as the Corporation directs in writing. All amounts allocated to a member's account vest in the member from the earliest of the date on which the member has completed a continuous period of two years as a member under the DPSP, the date on which the member retires from the employ of the Corporation or an affiliate thereof after attaining age 65,

and the date on which the member retires from the employ of the Corporation due to disability. All amounts allocated to a member's account on or after such date vest in the member from the date of allocation. The realized value of a member's account becomes payable not later than 90 days after the earliest of the death of the member, the day on which the member otherwise ceased to be an employee of the Corporation and all affiliates of the Corporation, the day on which the member attains the age of 71 or such earlier retirement date as may be established by the Corporation's employment policy, and the termination or winding-up of the DPSP. The realized value of a member's account generally is paid to a departing member by converting to cash all amounts allocated to the member's account. The DPSP has traditionally invested contributions in Shares. Where Shares are being held as investments of the DPSP, any rights to vote attaching to the said Shares may be exercised by the DPSP Trustee only upon the written direction of the Corporation, and the DPSP Trustee must consult with the Corporation before selling any such Shares.

Certain accounting irregularities in connection with the operation of the DPSP have recently been investigated by the Corporation, its legal counsel and accounting specialists. These irregularities involved an unauthorized issue in 1991 of 19,877 Common Shares sold to the DPSP in exchange for cash in the amount of \$397,450. The Corporation has acknowledged that the Corporation is indebted to the DPSP.

Peoples may also have made an unnecessary payment in the amount of \$419,000 into the DPSP in 1991. This payment was substantially off-set by the purchase of the unauthorized treasury shares by the DPSP. Peoples has since re-purchased shares in the amount of \$46,000 from the DPSP and accounted for the re-purchase as a reduction in the liability of \$397,450 on the books of the Corporation. It is unclear whether the Corporation had the authority to make this re-purchase, and whether the accounting entries used to record the re-purchase were improper. Departing members of the DPSP may have received a benefit to the detriment of remaining members and, possibly, to the detriment of Peoples both as a result of certain cash pay-outs which coincided with the share purchase, and as a result of the potentially unnecessary 1991 funding contribution made by Peoples. See "Information Concerning Peoples — Recent Developments".

INTEREST OF INSIDERS AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Directors and officers of the Corporation, no current Director or officer of Peoples or any insider or associate or affiliate of any of the foregoing persons has or had any material interest in any transaction during the last three years or any proposed transactions that have materially affected or will materially affect Peoples or any of its affiliates, except as disclosed elsewhere in this Circular.

MATERIAL CONTRACTS

The following are material contracts to which the Corporation is currently a party, excluding Leases and other contracts entered into in the ordinary course of business:

1. The Credit Agreements, the Option Agreement and the Share Issuance Agreement and related waiver agreements dated as of February 14, 1992, July 6, 1992 and August 25, 1992 (see "Bank Financing and Security");
2. The Support Agreement (see "Potential Liabilities with Respect to Zale");
3. The Gordon Indemnity Agreement (see "Potential Liabilities with Respect to Zale");
4. The Trust Indentures (see "Description of Debentures");
5. The Capital Lease Agreement (see "Capital Lease Agreement");
6. The Deed of Trust and Mortgage (see "Description of First Mortgage Bonds"); and
7. The receivables purchase agreement dated as of May 1, 1990, and the service agreement dated as of September 19, 1990, among Peoples, Mappins Inc. and Boulevard (see "Information Concerning Peoples — Business and Properties — Credit Operations").

Copies of each of the foregoing contracts may be inspected during ordinary business hours at the registered office of the Corporation up to and including the dates of the Creditors' Meetings and Shareholders' Meetings or any adjournment thereof.

LEGAL PROCEEDINGS

On or about December 24, 1991, a class action styled *George C. Witte v. Zale Holding Corporation, et al.* was filed in Texas District Court, Dallas County, on behalf of note and bond holders of Zale, Zale Credit Corporation and Gordon (the "Witte Litigation"). The Witte Litigation was subsequently removed to the United States District Court, Northern District of Texas, Dallas Division. This action was filed against various parties including Peoples. The complaint originally charged the defendants with violating anti-fraud provisions of the federal securities laws of the United States and the *Texas Securities Act*, common law fraud, breaches of fiduciary duties, negligence, fraudulent transfers and conversions, wrongful interference with contractual relations, and violations of other U.S. federal statutes. There were subsequently various amendments to the claim. The action has been settled between the parties subject to approval by the United States District Court. As part of the settlement, the action against Peoples will be dismissed without any requirement that Peoples contribute to the approximately \$3,250,000 settlement.

The holders of the \$17,000,000 of 1990 Debentures have indicated that they believe they have the right to rescind the purchase of such Debentures or, alternatively, a right of action for damages against the Corporation. The Corporation considers this belief to be without merit. These Debentureholders have commenced a lawsuit against certain parties involved in the sale of the 1990 Debentures to the holders claiming damages of \$35,000,000. In turn, those parties have received leave from the Court to issue a third party claim against the Corporation and others for indemnification as against any liability pursuant to the Debentureholders' lawsuit. The third party claim is otherwise stayed pursuant to the Proceedings. The likelihood of the 1990 Debentures being rescinded or any possible lawsuit being successfully pursued is not determinable at this time and accordingly no provision for loss has been made in the financial statements of the Corporation.

By Order dated February 22, 1993, the Court permitted Carol Young, as holder of a promissory note maturing June 27, 1999, to declare all principal outstanding thereunder together with accrued interest due and payable. The Court further permitted foreclosure proceedings to be instituted pursuant to certain security (including over the Texas Condominium) held in respect of the promissory note.

In addition, since the Date of Filing, the Corporation has commenced three actions in the Court against two former employees (and their wives) with respect to unpaid loans and mortgages: (i) Charles F. Gill, for \$282,828 due and owing pursuant to a loan agreement and pursuant to a promissory note; (ii) Charles F. Gill and Mary Elizabeth Gill for judicial power of sale under a mortgage having an outstanding balance of \$134,188; and (iii) Bradford G. Chapman and Karen Patricia Chapman for judicial power of sale under a mortgage having an outstanding balance of \$40,200.

In the Corporation's ordinary course of business, a number of legal actions are outstanding. The Plan provides for all Claims against Peoples, both known and unknown, to be extinguished as part of the Plan. It is therefore anticipated that, after the Plan Implementation Date, the Corporation will not be a party to any legal claims or proceedings currently outstanding against it.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of Peoples, first appointed in 1967, are Ernst & Young, Chartered Accountants, Ernst & Young Tower, Toronto-Dominion Centre, Toronto, Ontario. Ernst & Young have indicated to Peoples their intention to have a representative at the Annual and Special Meeting and the Meetings who will be available to answer appropriate questions. The Common Shareholders of Peoples will be asked at the Annual and Special Meeting to appoint, by ordinary resolution, Ernst & Young as the auditors of Peoples to hold office until the close of the next annual meeting and to authorize the Board of Directors to fix their remuneration.

The registrar and transfer agent for the Class A Non-Voting Shares, Common Shares and First Preferred Shares is Montreal Trust Company of Canada at its principal office, as the case may be, in each of the cities of Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

The register for the Debentures is kept at the principal office of the Debentureholders' Trustee in Toronto, and facilities for the registration, exchange and transfer of the Debentures are maintained at the principal office, as the case may be, of the Debentureholders' Trustee in each of the cities of Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

APPROVAL OF CIRCULAR

The contents and sending of this Circular have been approved by the Directors.

DATED this 23rd day of June, 1993.

BY ORDER OF THE BOARD OF DIRECTORS

ROMAN DORONIUK (Signed)
Acting Chief Operating Officer, Chief Financial
Officer and Executive Vice President, Finance and
Administration

E. DUFF SCOTT (Signed)
Acting Chairman of the Board

APPENDIX A

PEOPLES JEWELLERS LIMITED

**PLAN OF ARRANGEMENT AND
COMPROMISE PURSUANT TO
SECTION 182 OF THE BUSINESS
CORPORATIONS ACT (ONTARIO)
AND THE COMPANIES' CREDITORS
ARRANGEMENT ACT (CANADA)**

JUNE 23, 1993

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ARTICLE I
INTERPRETATION

1.1 Definitions

In this Plan (including the Schedules hereto), unless otherwise stated or unless the context otherwise requires:

“Abandoned Lease” means any Lease held by the Corporation on or before the Date of Filing and abandoned by the Corporation on or before the Plan Implementation Date;

“Accepted Claim for Voting Purposes” has the meaning ascribed thereto in Section 3.7;

“Annual and Special Meeting” means the annual and special meeting of the Shareholders to be called, held and conducted immediately prior to the Shareholders’ Meetings for the purpose, among other things, of considering and voting upon the continuance of the Corporation under the OBCA and any adjournment thereof;

“Arrangement” means the arrangement proposed under this Plan which is to be implemented pursuant to section 182 of the OBCA;

“Articles of Arrangement” means the articles of arrangement of the Corporation in respect of the Arrangement required by subsection 183(1) of the OBCA to be sent to the OBCA Director after the Final Order has been made;

“Assigned Assets” has the meaning ascribed thereto in Subsection 4.10(b);

“Bank” means The Bank of Nova Scotia, a Schedule I Canadian chartered bank;

“Bank Creditor” means, in its capacity as such, the Bank as the holder of the Bank Secured Debt;

“Bank Secured Debt” means at any time the Indebtedness, as to principal, interest and otherwise, of the Corporation to the Bank pursuant to the terms and conditions of the Credit Agreements, the security granted thereunder, the Option Agreement, the Share Issuance Agreement and the Interest Rate Swap Agreement, but, for greater certainty, excluding any Indebtedness of the Corporation to the Bank pursuant to the terms and conditions of the New Credit Agreement;

“Base Rent” means, in respect of each Abandoned Lease (as amended by any agreement, verbal or written, respecting a reduction in rentals), the monthly rent payable by the Corporation pursuant to the Abandoned Lease for the last completed monthly rental period under such Abandoned Lease prior to the date such Abandoned Lease was abandoned by the Corporation, in each case without regard to any amounts payable under the Lease for utilities, taxes, common area maintenance charges, percentage rent or other additional amounts, and excluding any interest or other charges;

“Business Day” means a day which is not (i) a Saturday or a Sunday; or (ii) a day observed as a holiday under the laws of the Province of Ontario or the federal laws of Canada applicable therein;

“CBCA” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, including any regulations promulgated thereunder, both as amended from time to time;

“CCAA” means the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, including any rules promulgated thereunder, both as amended from time to time;

“Canadian Dollars”, “Dollars”, or “\$” means dollars denominated in lawful currency of Canada;

“Capital Lease Agreement” means the agreement dated July 19, 1990 between the Corporation and the Capital Lease Creditor with respect to the lease of certain personal property by the Corporation from the Capital Lease Creditor;

“Capital Lease Agreement Amendments” means the following amendments to, deletions from and other modifications of the Capital Lease Agreement to be made effective as part of this Plan:

- (i) reduction of the principal amount of the Indebtedness outstanding under such agreement to the Realizable Value Amount;
- (ii) repayment by the Corporation to the Capital Lease Creditor of \$350,000 of the Realizable Value Amount on the Plan Implementation Date;

- (iii) repayment by the Corporation to the Capital Lease Creditor of the remainder of the Realizable Value Amount on a monthly basis at the rate of \$37,190 per month commencing on the first day of the sixth calendar month next following the Plan Implementation Date; and
- (iv) payment by the Corporation to the Capital Lease Creditor of interest at the rate of 8% per annum calculated and payable monthly on the principal amount outstanding from time to time, commencing on the first day of the sixth calendar month next following the Plan Implementation Date;

“Capital Lease Creditor” means, in its capacity as such, Confederation Leasing Limited as holder of the Capital Lease Debt;

“Capital Lease Debt” means, at any time, the Indebtedness, as to principal, interest or otherwise, of the Corporation pursuant to the terms and conditions of the Capital Lease Agreement;

“Certificate of Arrangement” means the certificate of arrangement to be issued to the Corporation pursuant to subsection 183(2) of the OBCA in respect of the Arrangement;

“Circular” means the management proxy circular (including the appendices attached thereto) prepared by the Corporation, filed with the Court and sent by the Corporation, pursuant to the Interim Order, to the Creditors and the Shareholders, among others, in connection with the Creditors’ Meetings and Shareholders’ Meetings being held to consider and vote upon this Plan;

“Claim” means any right of any Person against the Corporation in connection with any Indebtedness, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and whether or not such a right is executory in nature, including, without limitation, the right or ability of any Person to advance a claim for 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 based in whole or in part on facts which exist prior to or at the time of the first Creditors’ Meeting;

“Claims Officer” means the claims officer appointed pursuant to the Interim Order for the purposes of attempting to resolve disputes between the Corporation and its Creditors concerning the Claims of such Creditors and the determination of their Proven Claims;

“Class” means each group of Claims or each class of Shareholders, as the case may be, designated by Section 3.1 or by the Interim Order;

“Class A Non-Voting Shareholders” means, in their capacities as such, the holders of Class A Non-Voting Shares;

“Class A Non-Voting Shares” means the Class A Non-Voting Shares in the capital of the Corporation issued and outstanding and as constituted immediately prior to the Plan Implementation Date or which are issued upon conversion of any First Preferred Shares pursuant to Subsection 4.2(c);

“Class Creditors’ List” has the meaning ascribed thereto in Subsection 3.9(13);

“Class One Preferred Shares” means the Class One Cumulative Retractable Redeemable Convertible Preferred Shares in the capital of the Corporation, which shall be convertible into New Common Shares representing, upon conversion in full and on a fully diluted basis, 78% of the New Common Shares issued and outstanding after such conversion, to be authorized by the Articles of Arrangement, to be issued to the Bank Creditor in accordance with this Plan, and which shall have attached thereto substantially the rights, privileges, conditions and restrictions described in Schedule 2;

“Common Shareholders” means, in their capacities as such, the holders of Common Shares;

“Common Shares” means the Common Shares in the capital of the Corporation issued and outstanding and as constituted immediately prior to the Plan Implementation Date;

“Contingent Creditor” means any Creditor with a Claim which is contingent or unliquidated or both, on any particular date, provided that the Zale Claimants shall not be considered Contingent Creditors for any purposes under this Plan;

“Corporation” means Peoples Jewellers Limited, a corporation existing under the CBCA and to be continued under the OBCA prior to the Shareholders’ Meetings;

“Court” means the Ontario Court of Justice (General Division);

“Credit Agreements” means, collectively, the agreement dated as of November 14, 1991, as amended by supplemental agreements dated as of February 14, 1992, August 25, 1992, October 19, 1992, November 15, 1992, June 9, 1993 and June 15, 1993 among the Corporation, as borrower, 779159 Ontario Inc. and 830890 Ontario Inc., as guarantors, and the Bank, as lender and as agent; and the amended and restated agreement dated as of August 25, 1992, among the Corporation, as borrower, 779159 Ontario Inc. and 830890 Ontario Inc., as guarantors, and the Bank, as lender and as agent, as amended by a supplemental agreement dated as of October 19, 1992, as each of these agreements may be further amended from time to time;

“Creditor” means, in its capacity as such, any Person having a Claim and, if the context so requires in the case of a Represented Creditor, the respective Represented Creditors’ Trustee acting on behalf of such Represented Creditor, but a Creditor shall not include, in its capacity as such, a Person having a Claim in respect of an Unaffected Obligation;

“Creditors’ Meetings” means the special meetings of the Classes of Creditors called for the purpose of considering and voting upon this Plan and any adjournment thereof;

“Creditors’ Meetings Dates” means the date(s) fixed for the Creditors’ Meetings;

“DPS Order” has the meaning ascribed thereto in Section 8.10;

“DPSP” means the deferred profit sharing plan established by the Corporation as of January 1, 1988 for the benefit of certain employees of the Corporation;

“DPSP Beneficiaries” means, in their capacities as such, Persons who are beneficiaries under the DPSP;

“DPSP Trustee” means The Canada Trust Company, or its successors or assigns, as trustee for the DPSP;

“Date of Filing” means December 29, 1992, the date upon which the Initial Order was made;

“Daylight Loan” has the meaning ascribed thereto in Subsection 4.10(b);

“Debentureholders” means, in their capacities as such, the holders of the Debentures;

“Debentureholders’ Trustee” means Montreal Trust Company of Canada, or its successor or assigns, as trustee under the Trust Indentures;

“Debentures” means the 1985 Debentures, 1986 Debentures and 1990 Debentures;

“Deed of Trust and Mortgage” means the deed of trust and mortgage dated as of December 15, 1988 between the Corporation and the First Mortgage Bond Trustee relating to the First Mortgage Bonds;

“Directors” means the directors of the Corporation and, where applicable, the board of directors of the Corporation;

“Disallowance” has the meaning ascribed thereto in Subsection 3.9(8);

“Dispute Notice” has the meaning ascribed thereto in Subsection 3.9(9);

“Distributing Agent” means the Person to be appointed from time to time by the Court to distribute New Common Shares as may be required pursuant to Subsections 4.6(c) and 4.7(b);

“EPP” means the non-contributory executive pension plan established December 1, 1979 for the benefit of certain executives of the Corporation;

“EPP Beneficiaries” means, in their capacities as such, Persons who are beneficiaries under the EPP;

“EPP Trustee” means TD Trust Company, or its successors or assigns, as trustee for the EPP;

“Employee Creditors” means, in their capacities as such, Creditors who, as at the date of the Unsecured Creditors’ Meeting, are former employees of the Corporation or are employees of the Corporation who have been given notice of termination of their employment prior to the date of the Unsecured Creditors’ Meeting and who have Claims against the Corporation in respect of the termination of their employment with the Corporation and references to “Claims of Employee Creditors” and similar phrases mean and refer to the Claims of such Employee Creditors in respect of the termination of their employment with the Corporation;

“Employee Stock Purchase Plan” means the employee stock purchase plan created by the Corporation, pursuant to the terms of which share purchase loans were made to certain employees of the Corporation and its

subsidiaries to assist such employees in the purchase of First Preferred Shares, the First Preferred Shares so purchased being held by the trustee of the plan for the benefit of the relevant employees;

“Equipment Financier” means any Person who has provided a financing facility to the Corporation for the acquisition or installation of office equipment, furnishings, trade fixtures, leasehold improvements or other assets or chattels and in respect of which such Person has retained a security interest by way of a lease, chattel mortgage, conditional sale agreement, debenture, security agreement or other security instrument provided that such financing facility has not been terminated and no notice to terminate has been given by the Corporation prior to the Plan Implementation Date, and provided that the Capital Lease Creditor is expressly not an Equipment Financier;

“Final Order” means the Order of the Court approving this Plan to be granted pursuant to the provisions of the CCAA and clause 182(5)(f) of the OBCA, as such order may be amended or modified by any court of competent jurisdiction, after (i) the expiry of applicable appeal periods or (ii) in the event of an appeal or application for leave to appeal, final determination by the applicable appellate tribunal;

“First Mortgage Bondholders” means, in their capacities as such, the holders of the First Mortgage Bonds;

“First Mortgage Bonds” means the 11.75% First Mortgage Bonds, Series A, due December 15, 2008 of the Corporation, in an original aggregate principal amount of \$15,000,000, issued and outstanding under the Deed of Trust and Mortgage and secured by a mortgage on the Head Office;

“First Mortgage Bond Trustee” means The R-M Trust Company, as agent for National Trust Company, or its successors or assigns, as trustee under the Deed of Trust and Mortgage;

“First Preferred Shareholders” means, in their capacities as such, the holders of the First Preferred Shares;

“First Preferred Shares” means, collectively, the First Preferred Shares in the capital of the Corporation issued and outstanding and as constituted immediately prior to the Plan Implementation Date;

“Head Office” means the lands and premises in the City of North York, Ontario, at the municipal address known as 1440 Don Mills Road, as more particularly described in Schedule “A” to the Deed of Trust and Mortgage and including any “Expansions”, “Renovations” and “Redevelopments” (each as defined in the Deed of Trust and Mortgage) thereof;

“Indebtedness” means, in respect of any Creditor, and on any particular date, all of the indebtedness, liabilities and obligations of any kind of the Corporation to such Creditor as at the close of business on such date, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise, including, without limitation, all outstanding principal and interest owing by the Corporation to such Creditor;

“Initial Order” means the Order of the Court made on the Date of Filing pursuant to which, among other things, the Corporation was provided protection under the CCAA;

“Interest Rate Swap Agreement” means the interest rate swap agreement dated September 7, 1990 between the Bank Creditor and the Corporation;

“Interim Creditors” means, in their capacities as such, Creditors (other than employees) who have supplied or do supply services, utilities, goods or materials during the Interim Period, but only to the extent of their Claims in respect of the supply of such services, utilities, goods or materials during the Interim Period, and only to the extent that their Claims in respect of the supply of such services, utilities, goods or materials do not arise out of a period subsequent to the date the Corporation terminated, repudiated or refuted the contract for such supply;

“Interim Order” means the Order of the Court dated May 10, 1993, as amended and restated on June 23, 1993, and as the same may be amended further from time to time, and pursuant to which, among other things, the Creditors’ Meetings and Shareholders’ Meetings are being called;

“Interim Period” means the period from and excluding the Date of Filing to and including the Plan Implementation Date;

“Interim Period Debt” means, at any time, Indebtedness owing by the Corporation to Interim Creditors;

“Junior Preferred Shares” means the Junior Preferred Shares in the capital of the Corporation as constituted immediately prior to the Plan Implementation Date;

“Landlord” means, in its capacity as such, any landlord, head lessor, sublessor or owner, whether or not in direct privity with the Corporation, of any premises leased by the Corporation pursuant to a Lease, including any mortgagee of such premises who has taken possession of such premises or is collecting rent in respect of such premises as well as any party other than the Bank Creditor who has taken an assignment of rents or assignment of lease in respect of such premises, whether as security or otherwise;

“Lease” means any lease, sublease, agreement to lease, offer to lease or similar agreement pursuant to which the Corporation has, had or will have the right to occupy premises;

“Leased Property” means the property leased by the Corporation which is subject to the security interest created by the Capital Lease Agreement which is still in use on the Plan Implementation Date or is to be retained by the Corporation;

“Leased Property Deficiency” means the amount which is equal to the difference between the amount of the Capital Lease Creditor’s Proven Claim and the Realizable Value Amount;

“ME” means the Montreal Exchange;

“Market Value Amount” means the value of the Head Office as at the Date of Filing determined for the purposes of this Plan to be \$6,500,000;

“Meetings” means Creditors’ Meetings and/or Shareholders’ Meetings, as the case may be;

“Monitor” means Ernst & Young Inc., and any successor thereto, appointed by the Court to act as Monitor in the Proceedings;

“Mortgage Debt” means, at any time, the Indebtedness, as to principal, interest and otherwise, of the Corporation to the First Mortgage Bondholders pursuant to the terms and conditions of the First Mortgage Bonds and of the Deed of Trust and Mortgage;

“Mortgage Deficiency” means the amount which is equal to the difference between the aggregate amount of the First Mortgage Bondholders’ Proven Claims and the Market Value Amount;

“New Capital Lease Agreement” means the restated and amended Capital Lease Agreement to be entered into between the Corporation and the Capital Lease Creditor providing for, among other things, the Capital Lease Agreement Amendments, which shall come into full force and effect upon the Plan Implementation Date as part of this Plan;

“New Common Shares” means the new class of common shares in the capital of the Corporation to be authorized by the Articles of Arrangement, to be issued in accordance with this Plan and which shall have attached thereto substantially the rights, privileges, conditions and restrictions described in Schedule 1;

“New Credit Agreement” means the credit agreement to be entered into between the Corporation and the New Creditor, as amended from time to time, which shall come into full force and effect upon the Plan Implementation Date as part of this Plan;

“New Creditor” means, in its capacity as such, the provider of additional credit to the Corporation pursuant to the terms and conditions of the New Credit Agreement;

“Newco” means a corporation to be incorporated under the OBCA, all of the common shares of which will be owned by the Corporation;

“Newco Preferred Share Documentation” means the agreements and instruments to be executed and delivered in connection with the issuance of the Newco Preferred Shares, all in form and substance satisfactory to the Corporation and the Bank Creditor;

“Newco Preferred Shares” means the Class A Preferred Shares in the capital of Newco to be issued in accordance with this Plan and which shall have attached thereto substantially the rights, privileges, conditions and restrictions described in Schedule 3;

“1985 Debentures” means the 14.25% Retractable Debentures due July 2, 1995 of the Corporation, in an aggregate principal amount of \$17,944,000, issued and outstanding under the 1985 Trust Indenture;

“1985 Trust Indenture” means the trust indenture dated as of July 11, 1985 between the Corporation and the Debentureholders’ Trustee, as successor trustee, as modified, supplemented and amended from time to time, relating to the 1985 Debentures;

“1986 Debentures” means the 12.5% Senior Unsecured Debentures due July 2, 1996 of the Corporation, in an aggregate principal amount of \$5,500,000, issued and outstanding under the 1986 Trust Indenture;

“1986 Trust Indenture” means the trust indenture dated as of June 30, 1986 between the Corporation and the Debentureholders’ Trustee, as successor trustee, as modified, supplemented and amended from time to time, relating to the 1986 Debentures;

“1990 Debentures” means the 13.75% Senior Unsecured Debentures due June 29, 1995 of the Corporation, in an aggregate principal amount of \$17,000,000, issued and outstanding under the 1990 Trust Indenture;

“1990 Trust Indenture” means the trust indenture dated as of June 29, 1990 between the Corporation and the Debentureholders’ Trustee, as trustee, as modified, supplemented and amended from time to time, relating to the 1990 Debentures;

“Non-Exempt U.S. Shareholders” means Shareholders resident in the state of California or Ohio or any other state or territory of the United States of America where the filing of a prospectus, registration statement or similar document would be required pursuant to the securities laws of such state or territory for the issuance to such Shareholders of New Common Shares pursuant to this Plan;

“Non-Exempt U.S. Shareholders’ Trustee” means Montreal Trust Company of Canada, or its successors or assigns, as trustee for and on behalf of the Non-Exempt U.S. Shareholders;

“Notice of Objection” has the meaning ascribed thereto in Subsection 3.9(5);

“OBCA” means the *Business Corporations Act* (Ontario), R.S.O. 1990, c. B-16, including any regulations promulgated thereunder, both as amended from time to time;

“OBCA Director” means the Director appointed under section 278 of the OBCA;

“Option Agreement” means the option agreement dated as of August 23, 1990 between the Corporation and the Bank Creditor, as amended from time to time;

“Order” means an order of the Court in the Proceedings;

“Over \$5,000 Claim” means, in respect of any Creditor whose Claim or a portion thereof is dealt with in the Unsecured Creditors’ Class, the Proven Claim or portion thereof, as the case may be, of such Creditor if such Proven Claim or such portion thereof exceeds \$5,000;

“Person” means an individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other juridical entity howsoever designated or constituted;

“Plan” means this plan of arrangement and compromise of the Corporation under the CCAA and the Arrangement contained herein pursuant to the OBCA, as supplemented or amended from time to time in accordance with the terms of this Plan and the CCAA;

“Plan Implementation Date” means the date on which all conditions to the implementation of this Plan set out in Section 8.9 shall have been fulfilled, satisfied or waived;

“Proceedings” means any proceedings before the Court in connection with the development, filing, approval and implementation of this Plan;

“Proven Claim” means the amount of the Claim of a Creditor finally determined in accordance with the provisions of the CCAA and of this Plan, which amount will not include any interest or penalty charges unless otherwise expressly permitted by this Plan or an Order of the Court;

“Purchased Debt” has the meaning ascribed thereto in Subsection 4.10(a);

“Realizable Value Amount” means the realizable value of the Leased Property determined for the purposes of this Plan to be \$1,912,000;

“Redemption Price” has the meaning ascribed thereto in Subsection 4.2(a);

“Rent Abatement Agreement” has the meaning ascribed thereto in Subsection 6.3(2);

“Represented Creditors” means the First Mortgage Bondholders and the Debentureholders;

“Represented Creditors’ Trustee” means, in their capacities as such, each of the First Mortgage Bond Trustee and the Debentureholders’ Trustee;

“Share Issuance Agreement” means the share issuance agreement dated as of August 25, 1992 between the Bank Creditor and the Corporation;

“Shareholders” means, in their capacities as such, collectively, the Class A Non-Voting Shareholders, the Common Shareholders and the First Preferred Shareholders;

“Shareholders’ Meetings” means the special meetings of the Shareholders called for the purpose of considering and voting upon this Plan and any adjournment thereof;

“Shares” means the Class A Non-Voting Shares, Common Shares and First Preferred Shares;

“TSE” means The Toronto Stock Exchange;

“Tax Ruling” means an advance income tax ruling from Revenue Canada, Taxation relating to, among other things, the Newco Preferred Shares;

“Texas Condominium” means the condominium property known as Penthouse C, 3510 Turtle Creek Blvd., Dallas, Dallas County, Texas, currently owned by the Corporation;

“Trade Creditors” means, in their capacities as such, Creditors who supplied goods, services, materials or utilities prior to the Date of Filing, but only to the extent of their Claims in respect of the supply of such goods, services, materials or utilities prior to the Date of Filing;

“Transfer Agent” means Montreal Trust Company of Canada, or its successors or assigns, as registrar and transfer agent for the Shares;

“Trust Indentures” means, collectively, the 1985 Trust Indenture, the 1986 Trust Indenture and the 1990 Trust Indenture;

“Trustee’s Statement” means, individually, each of the Trustee’s Statements required to be filed with the Corporation pursuant to Subsections 3.9(2) and 3.9(3);

“Unaffected Obligations” means the obligations of the Corporation set forth in Schedule 4;

“Under \$5,000 Claim” means, in respect of any Creditor whose Claim or a portion thereof is dealt with in the Unsecured Creditors’ Class, the Proven Claim or portion thereof, as the case may be, of such Creditor if such Proven Claim or such portion thereof does not exceed \$5,000;

“Under \$5,000 Payment Date” means the date which is 60 days after the Plan Implementation Date;

“Unsecured Creditors” means all Creditors of the Corporation with Claims other than Claims in respect of Unaffected Obligations and other than Claims dealt with in a Class other than the Unsecured Creditors’ Class and, without limitation, shall include the First Mortgage Bondholders and the Capital Lease Creditor to the extent of the portion of their Claims not dealt with in the First Mortgage Bondholders’ Class and the Capital Lease Creditor’s Class, respectively, the Contingent Creditors, the Debentureholders, the Trade Creditors, the Employee Creditors, the DPSP Trustee and the EPP Trustee;

“U.S. Dollars” or “U.S. \$" means lawful money of the United States of America;

“Voting Claim” has the meaning ascribed thereto in Subsection 3.9(1);

“The Zale Corporation” means (i) prior to the effective date of the Zale Plan, Zale Corporation and its affiliated debtors, as debtors and debtors in possession under Chapter 11 of the United States Bankruptcy Code, United States Bankruptcy Court for the Northern District of Texas, Dallas Division, case numbers 392-3001-SAF-11, 392-3002-SAF-11, 392-30706-SAF-11 to 392-30720-SAF-11 and 392-31520-SAF-11, and (ii) on and after the effective date of the Zale Plan, reorganized Zale Corporation as reorganized pursuant to the Zale Plan;

“Zale Claimants” means, in their capacities as such, all Persons that hold Zale Claims;

“Zale Claims” means any Claims against the Corporation that, as of May 30, 1993, (i) are owned by The Zale Corporation or any of its affiliates, (ii) were previously owned by a creditor of The Zale Corporation or any of its affiliated debtors who has, pursuant to the Zale Plan, assigned such Claims to The Zale Corporation or, (iii) are owned by any plaintiff in the action titled *George C. Witte v. Zale Holding Corporation et al.*, case

no. CA3-92-CV0138-X, pending in the United States District Court for the Northern District of Texas, Dallas Division; and

“Zale Plan” means the Plan of Reorganization under Chapter 11 of the Bankruptcy Code of the United States of America for Zale Corporation and its affiliated debtors proposed by the debtors and the Official Committees of Unsecured Creditors of Zale Corporation, Gordon Jewelry Corporation and Zale Credit Corporation, the ad hoc Committees of Unsecured Trade Creditors of Zale Corporation and Gordon Jewelry Corporation, and the Bank Group, dated March 24, 1993 as filed in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division.

1.2 Definitions in the OBCA

A word or words with initial capitalized letters used herein and not defined herein but defined in the OBCA shall have the meaning ascribed thereto in the OBCA unless the context otherwise requires.

1.3 Accounting Terms

All accounting terms not otherwise defined herein shall have the meanings ascribed to them in accordance with Canadian generally accepted accounting principles including those prescribed by the Canadian Institute of Chartered Accountants. Accounting policies and standards of financial disclosure shall be in accordance with Canadian generally accepted accounting principles.

1.4 Articles Reference

The terms “this Plan”, “hereof”, “hereunder”, “herein” and similar expressions refer to this Plan and not to any particular Articles, Section, Subsection, clause or paragraph of this Plan and include any agreements supplemental hereto. In this Plan, a reference to an Article, Section, Subsection, clause or paragraph shall, unless otherwise stated, refer to an Article, Section, Subsection, clause or paragraph of this Plan.

1.5 Number and Gender

In this Plan, where the context requires, a word importing the singular number shall include the plural and vice versa; and a word or words importing gender shall include all genders.

1.6 Interpretation Not Affected by Headings

The division of this Plan into Articles, Sections, Subsections, clauses and paragraphs and the insertion of a table of contents and headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan.

1.7 Date for any Action

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

1.8 Time

All times expressed herein are local time in Toronto, Ontario unless otherwise stipulated herein.

1.9 Currency

Unless otherwise stated herein, all references to currency in this Plan are to lawful money of Canada.

1.10 Statutory References

Any reference in this Plan to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation.

1.11 Schedules

The following are the schedules to this Plan which are incorporated by reference into this Plan and form part hereof:

Schedule 1 — Rights, Privileges, Conditions and Restrictions attaching to the New Common Shares

- Schedule 2 — Rights, Privileges, Conditions and Restrictions attaching to the Class One Preferred Shares
- Schedule 3 — Rights, Privileges, Conditions and Restrictions attaching to the Newco Preferred Shares
- Schedule 4 — Unaffected Obligations

ARTICLE II

PURPOSE AND EFFECT OF THE PLAN

2.1 Purpose

The following is only intended to be a general statement of the purpose of this Plan and is qualified in its entirety by the specific provisions of this Plan.

The purpose of this Plan is to effect a reorganization of the business and affairs of the Corporation in order to enable its business to continue, in the expectation that all Persons with an interest in the Corporation will derive a greater benefit from its continued operation than would result from the immediate forced liquidation of the Corporation's assets.

2.2 Persons Affected and Unaffected

This Plan, upon the filing of the Articles of Arrangement and the issuance of the Certificate of Arrangement, will become effective on, and be binding on and after, the Plan Implementation Date, and shall enure to the benefit of the Corporation, the Creditors and the Shareholders and, for greater certainty, all Persons with Claims against the Corporation as at the Plan Implementation Date, and any heirs, executors, administrators, legal personal representatives, successors and assigns of the foregoing. For greater certainty, and notwithstanding Section 8.1, except to the extent specifically provided for herein, this Plan does not compromise the Claims of the holders of Unaffected Obligations in their capacity as such or persons currently employed by the Corporation, in their capacity as employees and/or officers, and, except for Claims relating to Leases, other executory contracts terminated or repudiated by the Corporation prior to the Plan Implementation Date and agreements with former employees relating to their entitlement on termination of their employment, will not affect any Claims arising on account of any obligation incurred by the Corporation after the Date of Filing, including obligations incurred in favour of the Interim Creditors, in respect of contractual obligations or agreements entered into after the Date of Filing.

ARTICLE III

CLASSIFICATION OF CREDITORS, VALUATION OF CLAIMS AND PROCEDURAL MATTERS

3.1 Classification of Creditors

- (1) For the purposes of considering and voting upon this Plan, the Claims of Creditors with Accepted Claims for Voting Purposes shall be grouped into the following Classes and, subject to Subsection 3.1(2) and Section 3.8, each Creditor in a designated Class shall be entitled to vote upon this Plan as part of that Class:
 - Class 1 — The First Mortgage Bondholders;
 - Class 2 — The Capital Lease Creditor;
 - Class 3 — The Unsecured Creditors;
 - Class 4 — The Landlords;
 - Class 5 — The Zale Claimants; and
 - Class 6 — The Bank Creditor.
- (2) The Zale Claimants shall not be entitled to an individual vote in any Class, but The Zale Corporation shall be entitled to vote in the Zale Claimants' Class on behalf of all Zale Claimants.

3.2 Creditors' Meetings

A Meeting of each Class of Creditors shall be held for the purpose of presenting this Plan to that Class of Creditors for its approval in accordance with the provisions of this Plan, the Interim Order and any further Order.

3.3 Procedure

- (1) In order that this Plan be binding on the Creditors of the Corporation in accordance with the CCAA, it must first be accepted within each Class of Creditors as prescribed by this Plan by a majority in number of the Creditors in such Class which actually vote upon this Plan (in person or by proxy) at the relevant Creditors' Meetings and representing three-quarters in value of the Accepted Claims for Voting Purposes of the Creditors in such Class which actually vote upon this Plan (whether in person or by proxy) at the Creditors' Meetings. For the purpose of determining whether this Plan has been accepted by the Creditors in the Unsecured Creditors' Class, each DPSP Beneficiary and EPP Beneficiary and the value of each such DPSP Beneficiary's and EPP Beneficiary's Accepted Claims for Voting Purposes shall be counted as if each such DPSP Beneficiary and EPP Beneficiary was a Creditor in such Class.
- (2) The Corporation shall send to all Creditors, other than Represented Creditors, of which the Corporation is aware a Voting Claim as provided in Subsection 3.9(1). The Corporation shall send a Voting Claim to each Represented Creditors' Trustee in accordance with Subsection 3.9(2). Creditors, other than Represented Creditors, who do not receive a Voting Claim will not be entitled to attend a Creditors' Meeting or to vote on this Plan unless each such Creditor files a Notice of Objection with the Corporation in accordance with Subsection 3.9(6).

3.4 Confirmation of Plan

In the event that this Plan is approved by the required majority of Creditors in each Class, and by the Shareholders in accordance with the provisions of the OBCA, the Corporation will thereafter seek a Final Order for the sanction and approval of this Plan, provided that the Directors may exercise their discretion not to implement this Plan by not seeking such a Final Order. Subject only to such Final Order being granted and the satisfaction of the conditions of this Plan described in Section 8.9, this Plan will be implemented by the Corporation and will be binding upon all Creditors and Shareholders of the Corporation.

3.5 Severability of Certain Creditors' Claims

- (1) In the event that this Plan is not approved by the required majority of Creditors in either or both of the First Mortgage Bondholders' Class and the Capital Lease Creditor's Class, the Directors may, subject to Subsections 3.5(2) and 3.5(3), in their discretion elect to proceed with the implementation of this Plan.
- (2) If this Plan is not approved by the required majority of First Mortgage Bondholders voting in the First Mortgage Bondholders' Class and the Directors elect to proceed with this Plan, then the sole recourse of the First Mortgage Bond Trustee in respect of the Market Value Amount shall be to exercise the remedies available to it under the Deed of Trust and Mortgage to enable it (i) to assume title to the Head Office for and on behalf of the First Mortgage Bondholders; or (ii) to effect a sale of the Head Office to a third party for and on behalf of the First Mortgage Bondholders. In such event, the obligations of the Corporation to the First Mortgage Bondholders shall be Unaffected Obligations to the extent necessary to permit the First Mortgage Bond Trustee to exercise the aforementioned remedies only and, upon the exercise of such remedies, the First Mortgage Bondholders shall be deemed to have received the Market Value Amount from the Corporation, and the obligations of the Corporation to the First Mortgage Bondholders in their capacities as members of the First Mortgage Bondholders' Class shall be deemed to be fully satisfied. The Claim of the First Mortgage Bondholders to be dealt with in the First Mortgage Bondholders' Class shall otherwise be extinguished on the Plan Implementation Date.
- (3) If this Plan is not approved by the Capital Lease Creditor voting in the Capital Lease Creditor's Class and the Directors elect to proceed with this Plan, then the sole recourse of the Capital Lease Creditor in respect of the Realizable Value Amount shall be to exercise the remedies available to it under the Capital Lease Agreement to enable it (i) to assume title to the Leased Property; or (ii) to effect a sale of the Leased Property to a third party. In such event, the obligations of the Corporation to the Capital Lease Creditor shall be Unaffected Obligations to the extent necessary to permit the Capital Lease Creditor to exercise the aforementioned remedies only and, upon the exercise of such remedies, the Capital Lease Creditor shall be deemed to have received the Realizable Value Amount from the Corporation, and the obligations of the Corporation to the Capital Lease Creditor in its capacity as a member of the Capital Lease Creditor's Class shall be deemed to be fully satisfied. The Claim of the

Capital Lease Creditor to be dealt with in the Capital Lease Creditor's Class shall otherwise be extinguished on the Plan Implementation Date.

3.6 Order to Establish Procedure for Valuing Claims

Subject to the Interim Order and any subsequent Order which establishes a procedure for valuing the Claims of Creditors and for resolving any dispute between the Corporation and any Creditor as to the value of the Claim of such Creditor, the procedure for valuing Claims and resolving disputes shall be as set forth this Section 3.6 and in Sections 3.7, 3.8, 3.9 and 8.13. The Corporation reserves the right to seek the assistance of the Court in valuing the Claim of any Creditor, if required, to ascertain the result of any vote on this Plan or the amount payable or to be distributed to such Creditor under this Plan, as the case may be.

3.7 Valuation of Claims for Voting Purposes and Entitlement to Vote

- (1) Each Creditor in a Class shall be entitled to notice of, to attend and, other than the DPSP Trustee and the EPP Trustee, to vote at the Creditors' Meeting for such Class. In addition, each DPSP Beneficiary and EPP Beneficiary is entitled to notice of, to attend and to vote at the Creditors' Meeting for the Unsecured Creditors' Class. The DPSP Trustee and EPP Trustee shall not be entitled to vote in respect of this Plan. Each Creditor of a Class (and in respect of the Unsecured Creditors' Class, each DPSP Beneficiary and EPP Beneficiary) who is entitled to vote shall be entitled to vote at the Creditors' Meeting for such Class in respect of an amount equal to the amount accepted by the Corporation for voting purposes for such Class (the "Accepted Claim for Voting Purposes") in respect of such Person, which amount shall be determined in accordance with the Interim Order and this Plan.
- (2) The Accepted Claim for Voting Purposes of a Creditor in respect of a particular Class will be equal to the Dollar amount of the portion of its Proven Claim allocable to such Class, if such Proven Claim has been finally determined prior to the Creditors' Meeting Date of the Creditors' Meeting in respect of that Class, as determined in accordance with this Section 3.7 and the provisions of Sections 3.6, 3.8, 3.9 and 8.13.
- (3) If the Proven Claim of the DPSP Trustee and the EPP Trustee has been finally determined prior the Unsecured Creditors' Meeting Date, the Accepted Claim for Voting Purposes of each DPSP Beneficiary and EPP Beneficiary will be equal to the portion of the Proven Claim of the DPSP Trustee or EPP Trustee, as the case may be, allocated to such DPSP Beneficiary or EPP Beneficiary, as the case may be, in the respective Trustee's Statement.
- (4) In the event that the Proven Claim of a Creditor, other than the DPSP Trustee or the EPP Trustee, is not finally determined prior to the Creditors' Meeting Date in respect of the Creditors' Meeting for the particular Creditors' Class in accordance with this Plan and any Order of the Court, such Creditor shall be entitled to vote at the Creditors' Meeting for the particular Class based on its Accepted Claim for Voting Purposes determined in accordance with Section 3.9, without prejudice to the Corporation or the Creditor's rights to require the final determination of the Creditor's Proven Claim as provided in Section 3.9. In the event that the Proven Claim of the DPSP Trustee or the EPP Trustee is not finally determined prior to the Unsecured Creditors' Meeting Date in accordance with this Plan and any Order of the Court, each DPSP Beneficiary or EPP Beneficiary, as the case may be, shall be entitled to vote at the Unsecured Creditors' Meeting in respect of its Accepted Claim for Voting Purposes determined on the basis of the portion of the Accepted Claim for Voting Purposes of the DPSP Trustee or the EPP Trustee, as the case may be, allocated in accordance with Subsection 3.9(3), without prejudice to the Corporation or the DPSP Trustee's or the EPP Trustee's rights to require the final determination of the Creditor's Proven Claim as provided in Section 3.9.

3.8 Valuation of Claims

- (1) The aggregate of the Proven Claims of the First Mortgage Bondholders shall be equal to the amount of the Mortgage Debt as at the Date of Filing. The portion of the aggregate Proven Claims of the First Mortgage Bondholders to be dealt with in the First Mortgage Bondholders' Class shall be equal to the Market Value Amount. The portion of the aggregate Proven Claims of the First Mortgage Bondholders to be dealt with in the Unsecured Creditors' Class shall be equal to the Mortgage Deficiency.

- (2) The Proven Claim of the Capital Lease Creditor shall be equal to the amount of the Capital Lease Debt as at the Date of Filing. The portion of the aggregate Proven Claim of the Capital Lease Creditor to be dealt with in the Capital Lease Creditor's Class shall be equal to the Realizable Value Amount. The portion of the aggregate Proven Claim of the Capital Lease Creditor to be dealt with in the Unsecured Creditors' Class shall be equal to the Lease Property Deficiency. The Realizable Value Amount and the terms of the Capital Lease Agreement Amendments may be varied, subject to an Order of the Court, prior to the Plan Implementation Date on the basis of agreements reached with Landlords in respect of store closings and the realizable value of the Leased Property situated in stores which are to be retained by the Corporation.
- (3) The aggregate of the Proven Claims of the Debentureholders shall be equal to the principal amount of the Debentures plus accrued and unpaid interest thereon as at the close of business on the Date of Filing.
- (4) The Proven Claim of each Employee Creditor shall be valued, at a minimum, on the basis of such Employee Creditor's minimum statutory entitlement less any mandatory payments made at the time of termination.
- (5) The Proven Claim of each Landlord to be dealt with in the Landlord Class shall be as described in Article VI.
- (6) The Proven Claim of the Bank Creditor shall be equal to the amount of the Bank Secured Debt at the Plan Implementation Date.
- (7) The Proven Claim of each Creditor other than a Creditor referred to in Subsections 3.8(1) to 3.8(6) shall be the amount of such Creditor's Claim finally determined in accordance with the provision of the CCAA and this Plan.
- (8) If a Creditor transfers ownership of its Claim after the Date of Filing and the transferee establishes ownership thereof and demands, no later than ten days before the applicable Creditors' Meetings Date, that such transferee's name be included in the list of Creditors entitled to vote at the Meeting, such transferee shall be entitled to attend and vote at the Creditors' Meeting; provided, however, that in determining whether this Plan has been approved by a majority in number of the Creditors in a Class, the transferor and any transferees will be counted as a single Creditor within such Class.
- (9) At the sole discretion of the Corporation, the Proven Claim of any Creditor shall be net of any amount owing by the Creditor to the Corporation as of the Date of Filing, the amount of the set-off to be verified in proving the Claim.

3.9 Procedure for Valuation of Claims

- (1) Subject to Subsection 3.9(2), the Corporation shall send to each Creditor who is known to it a proof of claim setting out the details of such Creditor's Claim (a "Voting Claim"), as prescribed by the Interim Order.
- (2) The Corporation shall send a single Voting Claim to the Debentureholders' Trustee and the First Mortgage Bond Trustee, who will prove the Claims of the Debentureholders and the First Mortgage Bondholders, respectively. The Corporation shall thereby be relieved from sending Voting Claims to each individual Debentureholder and First Mortgage Bondholder. For the purpose of determining the Proven Claim of each individual Debentureholder and First Mortgage Bondholder, the relevant Trustee shall file with the Corporation prior to June 2, 1993, a separate statement (each a "Trustee's Statement") in respect of each of the Trust Indentures and the Deed of Trust and Mortgage identifying the portion of aggregate Claim thereunder which is allocable to each registered Debentureholder and First Mortgage Bondholder, identified by the name of such Debentureholder or First Mortgage Bondholder. The aggregate of the Claims identified in each such Trustee's Statement shall be equal to the amount of the relevant Voting Claim provided to such Trustee by the Corporation, and each individual Claim identified in each Trustee's Statement shall become the Voting Claim of the Creditor identified in respect of the same. The First Mortgage Bond Trustee and the Debentureholders' Trustee shall not incur any liability or obligation towards the Debentureholders or the First Mortgage Bondholders as a result of determining the Voting Claim of the First Mortgage Bondholders and the Debentureholders, respectively, other than, in each case, for such trustee's own gross negligence or willful misconduct. The portion of each First

Mortgage Bondholder's Claim to be dealt with in the First Mortgage Bondholders' Class and the portion of such Claim to be dealt with in the Unsecured Creditors' Class shall be such First Mortgage Bondholder's *pro rata* share of the aggregate portions of the Proven Claims of the First Mortgage Bondholders in respect of each such Class as determined pursuant to subsection 3.8(1).

- (3) The DPSP Trustee and the EPP Trustee shall file with the Corporation a separate statement (each a "Trustee's Statement") in respect of the DPSP and the EPP identifying the portion of aggregate amount of each such Claim which is allocable to each individual DPSP Beneficiary and to each individual EPP Beneficiary, identified by the name of such DPSP Beneficiary and EPP Beneficiary. In the case of the EPP Trustee, such Trustee's Statement shall be the list of the EPP Beneficiaries and the portion of aggregate amount the EPP Trustee's Claim allocable to each such EPP Beneficiary which has been approved by the Court for such purpose. The aggregate of the amounts identified in each such Trustee's statement shall equal the amount of the relevant Voting Claim provided to the DPSP Trustee or the EPP Trustee, as the case may be, by the Corporation.
- (4) The Corporation shall send a single Voting Claim to The Zale Corporation, who will prove the aggregate Claim of the Zale Claimants as a single Claim. The Corporation shall thereby be relieved from sending Voting Claims to each individual Zale Claimant.
- (5) Each Creditor who receives a Voting Claim may dispute the amount of the Claim set out therein by filing a notice of objection (a "Notice of Objection") with the Corporation on or before June 2, 1993. Where a Notice of Objection so filed asserts a Claim which is less than or equal to one hundred and ten percent (110%) of the Voting Claim, the Corporation is entitled to treat the Voting Claim as an Accepted Claim for Voting Purposes. A Voting Claim in respect of which no Notice of Objection is received will be deemed to be a Proven Claim for the purposes of this Plan.
- (6) The Corporation shall publish written notice in *The Globe & Mail* (National Edition), *The Wall Street Journal* (National Edition) and *The Financial Times* (of London) newspapers at least thirty (30) days prior to any Meeting, as provided in the Interim Order, in order that any unknown Creditor may establish a Claim by filing a Notice of Objection with the Corporation no later than June 2, 1993, unless otherwise agreed to by the Corporation.
- (7) The Corporation shall not be obligated to provide the estimated value of security, if any, held by a Creditor in respect of its Claim in the Voting Claim.
- (8) Upon receipt of a completed Notice of Objection, the Corporation shall either accept, revise or reject the amount of the Claim set forth in the Notice of Objection for the purposes of voting at the Meetings. The Corporation shall, as soon as possible thereafter but, in any event, no later than June 16, 1993 (except in the case of The Zale Corporation, in which case the date shall be June 23, 1993) advise each Creditor in writing whose Notice of Objection has been revised or rejected of such revision or rejection and the reasons therefor (the "Disallowance"). The notice advising of the Disallowance will indicate the manner in which a Creditor may dispute the Corporation's determination of its Claim and the address and telecopier number of the Claims Officer for notification of a dispute. In the event that the Corporation does not send notice advising of the Disallowance to the Creditor in respect of such Creditor's Notice of Objection, the amount set forth in the Notice of Objection shall be deemed a Proven Claim for the purposes of the Plan.
- (9) A Creditor who intends to dispute a Disallowance shall, within five (5) Business Days of being advised of such Disallowance, notify both the Claims Officer and the Corporation in writing (the "Dispute Notice") that it does not accept the Corporation's determination of its Claim. Subject to further order of the Court or unless otherwise agreed by the Corporation, any Creditor who is entitled to deliver a Dispute Notice in accordance with this paragraph and does not do so will be deemed to have accepted the Corporation's determination of its Claim for voting purposes (which shall be such Creditor's Accepted Claim for Voting Purposes), but such Creditor shall retain the right to challenge the Corporation's determination after the Meetings in the manner set forth in this Section 3.9. Any notification to the Claims Officer and to the Corporation pursuant to this Subsection 3.9(9) may be effected by facsimile transmission.

- (10) Upon receipt of a Dispute Notice, the Claims Officer shall attempt to resolve the dispute between the Corporation and the relevant Creditor, and the Claims Officer shall, within five (5) Business Days of receipt of the Dispute Notice, or such other period as the Claims Officer shall determine after taking into account the timetable for the holding of the Creditors' Meetings set by the Court, determine and, subject to the direction of the Court, notify the Corporation and such Creditor of its determination of the amount of the Creditor's Claim.
- (11) Subject to the direction of the Court, the Claims Officer shall determine the manner, if any, in which evidence may be brought before him by the parties as well as any other procedural matters which may arise in respect of his determination of a Creditor's Claim.
- (12) Either a Creditor or the Corporation may, within five (5) Business Days of notification of the Claims Officer's determination of such Creditor's Claim, appeal the determination to the Court, in default of which such determination shall, subject to further Order of the Court, become the Creditor's Accepted Claim for Voting Purposes.
- (13) By June 30, 1993, the Corporation shall prepare and maintain at its Head Office a list (the "Class Creditors' List") setting forth the names, addresses and the Accepted Claims for Voting Purposes of each Creditor, DPSP Beneficiary and EPP Beneficiary in the different Classes, including the Corporation's allocation of the amount of the Accepted Claim for Voting Purposes, if any, that each Creditor shall vote in separate Classes. The Corporation shall make the Class Creditors' List available to any Creditor upon request made by such Creditor to the Corporation in writing.
- (14) Any Unsecured Creditor having an Over \$5,000 Claim shall be entitled at any time prior to 10 days before the Unsecured Creditors' Meeting to notify the Corporation that it wishes to reduce the amount of its Claim to \$5,000 for the purposes of this Plan, and (i) such revised amount shall be the maximum amount of such Creditor's Proven Claim as finally determined for the purposes of this Plan; and (ii) such Creditor shall be deemed to have released and discharged the Corporation from its obligations in respect of the portion of such Creditors' Claim which exceeds \$5000.
- (15) Each Claim set out on a Voting Claim, Notice of Objection or, in the case of a Debentureholder or a First Mortgage Bondholder, the relevant Trustee's Statement, shall be treated by the Corporation as a single Claim for the purposes of distributions under this Plan, notwithstanding that a portion of such Claim may have been transferred by the Creditor named in such Voting Claim, Notice of Objection or Trustee's Statement, unless such Creditor can establish to the satisfaction of the Claims Officer that the transfer of such portion of the Claim occurred prior to the Date of Filing.
- (16) The Corporation and, subject to Subsection 3.9(14), its Creditors shall retain an unrestricted right to revise and, in the case of the Corporation, to reject an Accepted Claim for Voting Purposes which is not a Proven Claim after the date of the Meetings for all purposes other than voting purposes in connection with this Plan.
- (17) In the event that the Proven Claim of a Creditor is not finally determined in accordance with Subsection 3.9(5) or 3.9(8) or otherwise settled as between the Corporation and the Creditor, the Corporation shall review such Creditor's Accepted Claim for Voting Purposes and shall, no later than forty (40) days after the last Creditors' Meeting, notify the relevant Creditor of the amount that the Corporation has determined to be the proper amount of such Claim for purposes of payments and other distributions under this Plan if such determination can then be made by the Corporation. If the Corporation is unable to make such determination within such forty (40) day period, it shall so advise the Creditor prior to the expiry of such period and shall notify the Creditor of its determination of the proper amount of the Creditor's Claim as soon thereafter as it has determined such amount.
- (18) Any Creditor receiving a notice pursuant to Subsection 3.9(17) may apply to the Court for a summary determination of the amount of its Proven Claim within thirty (30) days of receipt of such notice. If no application to the Court is so filed within such thirty (30) day period, the Claim of the Creditor shall be deemed to be a Proven Claim in the amount determined by the Corporation pursuant to Subsection 3.9(17).
- (19) If any payments are to be made by the Corporation to a Creditor prior to the final determination of the Proven Claim of the Creditor, the Corporation shall make such payments to the Creditor based on the

portion, if any, of the Creditor's Claim which has not been disallowed by the Corporation. If thereafter it is determined that the Creditor's Proven Claim is greater than that for which the Corporation made payments as aforesaid, the Corporation shall make such further payments contemplated by this Plan to the Creditor so that the Creditor shall receive the aggregate amount of payments which it would have had if its Proven Claim had been finally determined prior to the Plan Implementation Date. Notwithstanding the foregoing, except as provided in Subsections 4.6(c) and 4.7(b), no New Common Shares shall be issued to any member of a Class of Creditors until the Proven Claims of all Creditors in such Class are finally determined.

(20) The Corporation shall file copies of all Class Creditors' Lists, Trustee's Statements, Voting Claims, Notices of Objection, Disallowances, Dispute Notices and determinations by the Claims Officer and/or Corporation under this Section 3.9 with the Monitor on a timely basis, and all such documents shall be made available for inspection by any Creditor upon request made to the Corporation or to the Monitor in writing.

3.10 Extinguishment of Claims

The Claim of any Creditor that has not received a Voting Claim or filed a Notice of Objection or other notice acceptable to the Corporation in respect of its Claim prior to June 2, 1993 will be extinguished unless (i) the time for filing a Notice of Objection in respect of such Claim is extended by an order of the Court or such extension is agreed to by the Corporation; (ii) such Creditor is an Employee Creditor who received notice of termination of his or her employment after June 2, 1993 but before the Creditors' Meeting Date in respect of the Unsecured Creditors' Class and received a Voting Claim from the Corporation or filed a Notice of Objection in respect of such Claim before such Creditors' Meeting Date; or (iii) such Creditor is a Represented Creditor and a Represented Creditor's Trustee has received a Voting Claim in respect of the Claim of such Creditor or has filed a Notice of Objection or other notice acceptable to the Corporation in respect of such Creditor's Claim.

3.11 Release of Claims

Effective on the Plan Implementation Date, the Corporation shall be released from all Claims of Creditors other than in respect of its obligations (i) previously existing in connection with the Bank Secured Debt, as such obligations are expressly modified by this Plan, and (ii) pursuant to this Plan.

ARTICLE IV

THE ARRANGEMENT AND COMPROMISE

4.1 Sequence of Events

On the Plan Implementation Date, each of the events set out in Sections 4.2 through 4.12, inclusive, shall occur and be deemed to occur sequentially commencing at 10:00 a.m. without any further authorization being required or any other act or formality.

4.2 Employee Stock Purchase Plan

(a) A number of the issued and outstanding First Preferred Shares of each employee participant in the Employee Stock Purchase Plan on whose behalf such First Preferred Shares are being held by the trustee under the Employee Stock Purchase Plan shall be redeemed at the redemption price thereof determined in accordance with the rights, privileges, conditions and restrictions attaching thereto, which number shall be determined by the Corporation on the basis that the aggregate redemption price (the "Redemption Price") of the shares so redeemed in the case of each employee participant shall be the lesser of (i) the aggregate redemption price of all First Preferred Shares held by such employee participant; and (ii) the aggregate of (x) the outstanding principal amount of the share purchase loan incurred by such employee participant to purchase First Preferred Shares under the Employee Stock Purchase Plan; and (y) the accrued and unpaid interest, if any, on such share purchase loan;

(b) The Redemption Price in respect of the First Preferred Shares held on behalf of each employee participant in the Employee Stock Purchase Plan, and which are redeemed pursuant to Subsection 4.2(a), shall, in accordance with paragraph 5(h) of the Employee Stock Purchase Plan, be

applied to repay the principal amount of the share purchase loan owing by such employee participant to the Corporation in respect of the purchase by such employee participant of First Preferred Shares and, to the extent that such Redemption Price exceeds the full principal amount of such loan, the accrued and unpaid interest, if any, thereon;

- (c) To the extent that immediately after such redemptions of First Preferred Shares there remain outstanding any First Preferred Shares, each such First Preferred Share shall be converted into one Class A Non-Voting Share and all such Class A Non-Voting Shares shall be released and distributed by the trustee to the employee participants entitled thereto;
- (d) The amount added to the stated capital account for the purposes of the OBCA in respect of the Class A Non-Voting Shares issued as a result of the conversion, pursuant to Subsection 4.2(c), of any First Preferred Shares which have not been redeemed shall be the aggregate paid-up capital, as determined prior to the Plan Implementation Date for the purposes of the Income Tax Act (Canada), of the First Preferred Shares so converted; and
- (e) The Employee Stock Purchase Plan shall be terminated.

4.3 Amendment of Articles of the Corporation and Related Matters

- (a) The articles of the Corporation shall be amended to provide for an unlimited number of New Common Shares, which shall have attached thereto the rights, privileges, conditions and restrictions described in Schedule 1, and an unlimited number of Class One Preferred Shares, which shall have attached thereto the rights, privileges, conditions and restrictions described in Schedule 2;
- (b) Each of the 10,638,675 Class A Non-Voting Shares issued and outstanding prior to the Plan Implementation Date and each of the Class A Non-Voting Shares issued pursuant to Subsection 4.2(c) shall be changed into one New Common Share;
- (c) Each of the 874,750 issued and outstanding Common Shares shall be changed into one New Common Share;
- (d) The articles of the Corporation shall be amended to delete the rights, privileges, restrictions and conditions attaching to the Class A Non-Voting Shares, the Common Shares, the First Preferred Shares and the Junior Preferred Shares;
- (e) The articles of the Corporation shall provide that 30,000,000 Class One Preferred Shares shall be issued to the Bank Creditor as fully paid and non-assessable shares of the Corporation as provided in Section 4.10 hereof; and
- (f) The Option Agreement and the Share Issuance Agreement shall be terminated.

4.4 New Capital Lease Agreement

On the Plan Implementation Date, immediately following the actions provided for in Section 4.3 and without any further act or formality, but as evidenced prior thereto by the signatures of the Corporation and the Capital Lease Creditor as the parties to the New Capital Lease Agreement, and such other agreements, documents and instruments as counsel to the Capital Lease Creditor may advise are necessary therefor, the New Capital Lease Agreement shall become effective. The form, terms and conditions of the New Capital Lease Agreement shall have been settled between the Corporation and the Capital Lease Creditor, as evidenced by a draft thereof initialled by duly authorized officers of the Corporation and the Capital Lease Creditor, prior to the Creditors' Meeting Date in respect of the Meeting of the Capital Lease Creditor.

4.5 The First Mortgage Bondholders

Subject to Subsection 3.5(2), the Corporation shall quit claim all of its right, title and interest in and to the Head Office to the First Mortgage Bond Trustee whereupon an amount of the Mortgage Debt held by the First Mortgage Bondholder equal to the Market Value Amount shall be released, discharged and cancelled.

4.6 The Unsecured Creditors

- (a) Each Unsecured Creditor having an Under \$5,000 Claim shall be entitled to be paid an amount equal to 25% of the amount of such Claim in a single payment on the Under \$5,000 Payment Date. Any payment

made to a Debentureholder in respect of the Under \$5000 Claim of such Debentureholder shall be applied to the repayment of the portion of such Proven Claim representing the outstanding principal amount on the Debentures held by such Debentureholder. At the time when the payments required by this Subsection 4.6(a) are made in respect of each such Under \$5,000 Claim, each Unsecured Creditor having an Under \$5,000 Claim shall release and discharge the Corporation in full in respect of such Claim and the Corporation shall have no further obligations in respect of such Claims.

- (b) Each Unsecured Creditor having an Over \$5,000 Claim shall be deemed to subscribe for the number of New Common Shares which is equal to the product of (i) the amount of its Over \$5,000 Claim divided by the divisor which is equal to the aggregate amount of all Over \$5,000 Claims; and (ii) 85,775,244 New Common Shares. Each Unsecured Creditor shall be deemed to pay such subscription price for the New Common Shares by way of set-off in full against the obligation of the Corporation to pay the amount of its Over \$5,000 Claim. On payment of the subscription price as hereinbefore set out, the Corporation shall issue to each such Unsecured Creditor the New Common Shares so subscribed for by such Unsecured Creditor and such New Common Shares shall be issued as fully paid and non-assessable;
- (c) Notwithstanding the foregoing, in the event that all Over \$5,000 Claims are not finally determined on the Plan Implementation Date with the result that the relative number of shares to which each Unsecured Creditor is entitled cannot be ascertained as at such date, the aggregate of the New Common Shares issuable to the Unsecured Creditors shall be issued to the Distributing Agent in trust for the Unsecured Creditors in accordance with their respective entitlements under this Plan. The Distributing Agent shall distribute or shall cause to be distributed to each Unsecured Creditor in respect of its Over \$5,000 Claim or the portion of such Claim which has been accepted by the Corporation for purposes of payment under this Plan, the number of the New Common Shares to which such Unsecured Creditor would be entitled if all the Over \$5,000 Claims of the Unsecured Creditors then received by the Corporation and in respect of which there is outstanding a dispute or which have not then been accepted or deemed accepted by the Corporation were finally determined at the maximum amount which was claimed against the Corporation. If the Claims of the EPP Trustee and any Claim by the trustee of the employee pension plan of the Corporation have not been finally determined prior to the Plan Implementation Date, the maximum aggregate amount of such Claims shall not exceed \$1,000,000. The Distributing Agent shall thereafter distribute the balance of the New Common Shares held in trust by the Distributing Agent at such time as all of the Over \$5,000 Claims are finally determined and the relative entitlements of each of the Unsecured Creditors to the New Common Shares remaining to be distributed to the Unsecured Creditors is established. In the exercise of the rights and duties prescribed or conferred by the terms of this Plan, the Distributing Agent shall exercise that degree of care, diligence and skill that a reasonably prudent trustee in bankruptcy would exercise in comparable circumstances, provided that the Distributing Agent shall have no liability to the Corporation or to any Unsecured Creditor or to any Represented Creditors' Trustee except in respect of its own negligence or wilful misconduct and, without limiting the generality of the foregoing, further provided that the Distributing Agent shall have no liability to the Corporation or any Unsecured Creditor or Represented Creditors' Trustee in respect of any distribution of New Common Shares as provided for in this Subsection 4.6(c) which does not accord with the entitlements of the Unsecured Creditors based on the Proven Claims of all Unsecured Creditors as finally determined if any disputed Claims are accepted or any Claims of Unsecured Creditors are otherwise admitted after the Plan Implementation Date.
- (d) Nothing in this Plan shall restrict the right of any Unsecured Creditor to assign or transfer any New Common Shares or any right to receive New Common Shares from the Distributing Agent as provided for in Subsection 4.6(c).

4.7 The Landlords

- (a) Subject to Section 6.3, each Landlord shall, in respect of any portion of its Proven Claim determined in accordance with Subsection 6.2(ii), be deemed to subscribe for the number of New Common Shares which is equal to the product of (i) the amount of such portion of the Proven Claim divided by the divisor which is equal to the aggregate amount of all such portions of the Proven Claims for the Class; and (ii) 954,022 New Common Shares. Each Landlord shall be deemed to pay such subscription price for the New Common Shares by way of set-off in full against the obligation of the Corporation to pay the

portion of such Proven Claim. On payment of the subscription price for such shares as hereinbefore set out, the Corporation shall issue to each such Landlord the New Common Shares so subscribed for by such Landlord and such New Common Shares shall be issued as fully paid and non-assessable;

- (b) Notwithstanding the foregoing, in the event that the portions of the Proven Claims of the Landlords determined in accordance with Subsection 6.2(ii) are not finally determined on the Plan Implementation Date with the result that the number of shares to which each of the Landlords is entitled cannot be ascertained as at such date, the aggregate of the New Common Shares issuable to the Landlords shall be issued to the Distributing Agent in trust for the Landlords in accordance with their respective entitlements under this Plan. The Distributing Agent shall distribute or shall cause to be distributed to each Landlord in respect of the portion of its Proven Claim determined in accordance with Subsection 6.2(ii) or the portion of such Claim which has been accepted by the Corporation for purposes of payment under this Plan, the number of the New Common Shares to which such Landlord would be entitled if all such portions of the Claims of the Landlords then received by the Corporation and in respect of which there is outstanding a dispute or which have not then been accepted or deemed accepted by the Corporation were finally determined at the maximum amount which was claimed against the Corporation. The Distributing Agent shall thereafter distribute the balance of the New Common Shares held in trust by the Distributing Agent at such time as all such portions of the Proven Claims of such Landlords are finally determined and the relative entitlements of each of such Landlords to the New Common Shares remaining to be distributed to such Landlords is established. In the exercise of the rights and duties prescribed or conferred by the terms of this Plan, the Distributing Agent shall exercise that degree of care, diligence and skill that a reasonably prudent trustee in bankruptcy would exercise in comparable circumstances, provided that the Distributing Agent shall have no liability to the Corporation or to any Landlord except in respect of its own negligence or wilful misconduct and, without limiting the generality of the foregoing, further provided that the Distributing Agent shall have no liability to the Corporation or any Landlord in respect of any distribution of New Common Shares as provided for in this Subsection 4.7(b) which does not accord with the entitlements of the Landlords based on the Proven Claims of all Landlords as finally determined if any disputed Claims are accepted or any Claims of Landlords are otherwise admitted after the Plan Implementation Date;
- (c) Nothing in this Plan shall restrict the right of any Landlord to assign or transfer any New Common Shares or any right to receive New Common Shares from the Distributing Agent as provided for in Subsection 4.7(b).

4.8 Zale Claimants

- (a) The Zale Corporation shall be deemed to subscribe for 28,909,755 New Common Shares, which shares shall be purchased for an aggregate subscription price equal to the aggregate amount of the Proven Claim of the Zale Claimants, and shall be deemed to pay such subscription price for the New Common Shares by way of set-off in full against the obligation of the Corporation to pay to the Zale Claimants the amount of the Zale Claimants' Proven Claim;
- (b) On payment of the subscription price for such shares as provided for in Subsection 4.8(a), the Corporation shall issue to The Zale Corporation the New Common Shares so subscribed for by the Zale Corporation and such New Common Shares shall be issued as fully paid and non-assessable.

4.9 Release of Trust Indentures, etc.

The Trust Indentures and, except to the extent permitted by Section 3.5, if applicable, the Deed of Trust and Mortgage shall be cancelled and the Corporation shall be released from all Claims with respect thereto and with respect to the Debentures and First Mortgage Bonds. On the Plan Implementation Date the Trust Indentures and, except to the extent permitted by Section 3.5, if applicable, the Deed of Trust and Mortgage shall cease to be of any further force and effect, the Debentureholders' Trustee and the First Mortgage Bond Trustee shall execute and deliver and shall be deemed to have executed and delivered in favour of the Corporation a full and final release and discharge of the Trust Indentures and, except to the extent otherwise provided by Section 3.5, if applicable, the Deed of Trust and Mortgage, respectively, and the Debentureholders' Trustee and the First Mortgage Bond Trustee shall each be fully and formally released all of their respective obligations thereunder.

4.10 Bank Creditor

Without any further act or formality, but as evidenced prior thereto by the signatures of the Corporation, Newco and the Bank Creditor, as the parties to the Newco Preferred Share Documentation, the Newco Preferred Share Documentation shall become effective in the following order. The form, terms and conditions of each of the agreements and instruments comprising the Newco Preferred Share Documentation shall have been settled between the Corporation and the Bank Creditor:

- (a) The Corporation and the Bank Creditor will agree to reduce to zero the interest rate on the Bank Secured Debt in the amount of \$70,000,000 (the "Purchased Debt") for so long as Newco owns the Purchased Debt or until the Corporation is otherwise notified, in writing, by the Bank Creditor;
- (b) The Bank Creditor will transfer the Purchased Debt together with an interest in the security therefor (the "Assigned Assets") to Newco for \$70,000,000, which amount will be funded by the proceeds of a daylight loan from the Bank Creditor (the "Daylight Loan");
- (c) The Bank Creditor and Newco will agree that the Bank Creditor will retain title to the security in respect of the Purchased Debt and will hold such security for its own account (with respect to the obligations of the Corporation to the Bank Creditor under the Newco Preferred Share Documentation and with respect to the amount of any outstanding loans of the Bank Creditor to the Corporation) and for the account of Newco (with respect to the Purchased Debt);
- (d) The Bank Creditor will subscribe for 70,000,000 Newco Preferred Shares at a subscription price of \$1.00 per share and the aggregate subscription proceeds of \$70,000,000 will be added to Newco's stated capital account maintained for the Newco Preferred Shares;
- (e) Newco will use the \$70,000,000 of subscription proceeds to repay the Daylight Loan;
- (f) The Bank Creditor, Newco and the Corporation will enter into a unanimous shareholders agreement pursuant to which, *inter alia*, the business and activities of Newco will be restricted to only those activities necessary and incidental to issuing, and meeting its obligations in respect of, the Newco Preferred Shares;
- (g) The Corporation will pledge its common shares of Newco to the Bank Creditor as security for the Corporation's debts, liabilities and obligations to the Bank Creditor from time to time, including the indemnity and share put obligations described in paragraphs (j) and (k) below;
- (h) Newco, the Corporation and the Bank Creditor will enter into a support agreement pursuant to which the Corporation will:
 - (i) agree to make payments to Newco, as contributions of capital, to provide Newco with sufficient funds to meet its dividend payments on the Newco Preferred Shares and to satisfy other costs and expenses incurred by Newco;
 - (ii) agree to make payments on the Purchased Debt and Newco will agree to use such payments to redeem the Newco Preferred Shares from time to time;
 - (iii) agree that, within ninety (90) days after the end of each of its fiscal years, the Corporation's "excess cash flow" (as defined in the Newco Preferred Share Documentation) arising in that fiscal year will be used to redeem the Newco Preferred Shares; and
 - (iv) provide the Bank Creditor and Newco with yearly projections of its excess cash flow;
- (i) Newco will enter into a debt put/call agreement with the Bank Creditor pursuant to which Newco will have the right at any time to require the Bank Creditor to purchase, and the Bank Creditor will have the right at any time to require Newco to sell to the Bank Creditor, all or any part of the Assigned Assets;
- (j) The Corporation will agree to indemnify the Bank Creditor, on a tax-adjusted basis, *inter alia*, for:
 - (i) any tax, interest or penalties payable by the Bank Creditor in respect of dividends on, or redemption or retraction of, the Newco Preferred Shares held by the Bank Creditor;
 - (ii) any accrued and unpaid dividends on the Newco Preferred Shares, whether or not declared; and

- (iii) any dividends declared or paid on the Newco Preferred Shares on any redemption of, or any redemption proceeds received in respect of, the Newco Preferred Shares that the Bank Creditor is required to refund because such declaration, payment or redemption is contrary to law.

Such indemnity will be secured by security that is the same in all material respects as the security that secures the Purchased Debt and/or by such other security that is acceptable to the Bank Creditor;

- (k) The Corporation will enter into a share put agreement with the Bank Creditor pursuant to which the Corporation will, at any time or from time to time at the option of the Bank Creditor, purchase all or any of the Newco Preferred Shares for a purchase price equal to the initial stated capital of such shares, together with all accrued and unpaid dividends thereon, and such additional amount as is necessary to put the Bank Creditor in the same position as it would be in if it were to receive all such amounts as a tax-free intercorporate dividend. The foregoing obligation of the Corporation will be secured by security that is the same in all material respects as the security that secures the Purchased Debt and/or by such other security that is acceptable to the Bank Creditor;
- (l) Subject to applicable law, Newco will be wound up without any undue delay after the earlier of:
 - (i) sixty (60) days after the date upon which there are no longer any Newco Preferred Shares outstanding; and
 - (ii) the date that is five (5) years after the date upon which the Newco Preferred Shares are issued.

30,000,000 Class One Preferred Shares will be issued to the Bank Creditor, pursuant to the Plan as part of the Certificate of Arrangement, as consideration for the unconditional and irrevocable covenant and agreement of the Bank Creditor not to sue or otherwise enforce payment by the Corporation of \$30,000,000 of the indebtedness owing by the Corporation to the Bank Creditor which unconditional and irrevocable covenant and agreement the Bank Creditor shall be deemed to have given upon approval of the Plan by the Bank Creditor with effect as of the Plan Implementation Date.

4.11 New Credit Agreement

On the Plan Implementation Date, immediately following the actions provided for in Section 4.10 and without any further act or formality, but as evidenced prior thereto by the signatures of the Corporation and the New Creditor as the parties to the New Credit Agreement, and such other agreements, documents and instruments as counsel to the New Creditor may advise are necessary therefor, the New Credit Agreement shall become effective, but no advances shall be permitted thereunder until any conditions precedent therein shall have been satisfied, or waived by the New Creditor. The form, terms and conditions of the New Credit Agreement shall have been settled between the Corporation and the New Creditor.

4.12 Stated Capital

The amount added to the stated capital account of the Corporation for purposes of the OBCA in respect of the New Common Shares and Class One Preferred Shares issued on the Plan Implementation Date shall, unless otherwise determined in the case of (i) by the Directors of the Corporation, be:

- (i) in respect of the New Common Shares, the aggregate of (a) the aggregate paid-up capital, as determined prior to the Plan Implementation Date for the purposes of the *Income Tax Act* (Canada), of the Class A Non-Voting Shares and the Common Shares; (b) the amount added to the stated capital account of the Class A Non-Voting Shares pursuant to Subsection 4.2(d); and (c) the aggregate amount of the subscription prices for the New Common Shares issued pursuant to Subsections 4.6(b), 4.7(a) and 4.8(a); and
- (ii) in respect of the Class One Preferred Shares, \$30,000,000.

ARTICLE V

CANCELLATION AND ISSUANCE OF CERTIFICATES

5.1 Cancellation of Certificates, etc.

After the time on the Plan Implementation Date at which all the transactions in Article IV have become effective, certificates formerly representing the Debentures, First Mortgage Bonds and Shares and all other instruments or evidence of Indebtedness of Creditors shall be cancelled and become null and void, provided only that instruments evidencing (i) Indebtedness owed by the Corporation in connection with the Bank Secured Debt together with all security granted in respect thereof; (ii) any other indebtedness owed to the Bank by the Corporation on the Plan Implementation Date; and (iii) Leases other than Abandoned Leases shall expressly remain in full force and effect on and after the Plan Implementation Date, the whole as may be otherwise expressly modified by this Plan.

5.2 Issuance of Certificates

- (1) As soon as practicable after the Plan Implementation Date, the Corporation shall forward or cause to be forwarded to each Shareholder or Creditor, as the case may be, entitled to receive New Common Shares pursuant to this Plan to the address of such Shareholder or Creditor as it appears on the records of the Transfer Agent or the Corporation a letter of transmittal containing, among other things, instructions for obtaining delivery of the New Common Shares. Subject to Subsection 5.2(2), such Shareholder or Creditor shall be entitled to receive certificates representing New Common Shares upon delivering the certificate formerly representing the Debentures, First Mortgage Bonds, Shares or any other relevant instruments or evidence of Indebtedness, as the case may be, to the Transfer Agent or as the Transfer Agent may otherwise direct and in accordance with the instructions contained in the letter of transmittal. Such certificates and other instruments or evidence of Indebtedness shall be accompanied by the letter of transmittal, duly completed, and such other documents as the Transfer Agent may reasonably require. The Transfer Agent shall register the New Common Shares in such name and shall deliver certificates representing such New Common Shares to such address as such Person may direct in such letter of transmittal, as soon as practicable after receipt by the Transfer Agent of such documents.
- (2) Letters of transmittal forwarded to each Non-Exempt U.S. Shareholder will, when executed by such Shareholder, direct that certificates representing such Shareholder's New Common Shares be issued to the Non-Exempt U.S. Shareholders' Trustee, for and on behalf of such Non-Exempt U.S. Shareholder, which will, without any responsibility, attempt to sell such New Common Shares. The Non-Exempt U.S. Shareholder's Trustee shall sell the New Common Shares issued to it on such date or dates and at such price or prices as it, in its sole discretion, deems advisable and shall distribute the proceeds received from such sale pro rata amongst the Non-Exempt U.S. Shareholders by mailing the proceeds therefrom, as soon as practicable, to such Non-Exempt U.S. Shareholders at their address as recorded in the books of the Transfer Agent. The Non-Exempt U.S. Shareholders' Trustee will act as agent of the Non-Exempt U.S. Shareholders on a best-efforts basis only and will not be responsible for the price obtained on the sale of the New Common Shares or for any inability to sell the New Common Shares on behalf of the Non-Exempt U.S. Shareholders.
- (3) On or after the Plan Implementation Date, certificates formerly representing Shares, Debentures, First Mortgage Bonds, and all other instruments or evidence of Indebtedness which in accordance with Section 5.1 shall be null and void, shall represent only the right to receive New Common Shares in accordance with the provisions of Article IV hereof. Any such document that is not so deposited within six years after the Plan Implementation Date will cease to represent any claim or interest and the right of the holder thereof to receive New Common Shares pursuant to the provisions of this Plan will be cancelled on such date.

5.3 No Fractional New Common Shares, Class One Preferred Shares or Newco Preferred Shares

No fractional New Common Shares, Class One Preferred Shares or Newco Preferred Shares will be issued in connection with the implementation of this Plan. Calculations resulting in less than one-half New Common Share, Class One Preferred Share or Newco Preferred Share shall be rounded down; calculations resulting in one-half New Common Share, Class One Preferred Share or Newco Preferred Share or more shall be rounded up.

ARTICLE VI

PLAN FOR LANDLORDS

6.1 Claims to be Dealt With in Landlords' Class

The Claims to be dealt with in the Landlords' Class shall be (i) the Claims of Landlords in respect of the Abandoned Leases, other than any Claims for damages, costs and expenses, to the date of abandonment or repudiation of such Abandoned Leases by the Corporation (which shall be dealt with as a separate Claim in the Unsecured Creditors' Class), and (ii) the Claims of all Landlords in respect of Leases other than Abandoned Leases.

6.2 Landlord's Entitlement to Vote

Each Landlord shall be entitled to vote in the Landlords' Class:

- (i) to the extent of the amount of the portion of the Landlord's Accepted Claim for Voting Purposes, if any, which is equal to three times the Base Rent accruing due to such Landlord from the Corporation in respect of each Abandoned Lease of such Landlord;
- (ii) to the extent of the amount of the portion of the Landlord's Accepted Claim for Voting Purposes, if any, which is equal to unpaid arrears of rent in respect of each Abandoned Lease of such Landlord; and
- (iii) to the extent of the amount of the portion of the Landlord's Accepted Claim for Voting Purposes, if any, in respect of each Lease of such Landlord other than an Abandoned Lease, for unpaid arrears of rent as defined under such Lease to the Plan Implementation Date.

6.3 Valuation of Claims in the Landlords' Class for Distribution Purposes

- (1) Subject to Subsection 6.3(2), the Proven Claim(s) of any Landlord dealt with in the Landlords' Class shall, for the purpose of distribution under this Plan, be determined in accordance with Sections 3.9 and 6.2.
- (2) It is intended that the Corporation and the Landlords negotiate and agree upon, prior to the Plan Implementation Date, either (i) certain abatements of rent (each such agreement being referred to herein as a "Rent Abatement Agreement") such that the total minimum rent payable to a Landlord in respect of all Leases with such Landlord for the stores operated by the Corporation on the Plan Implementation Date will be reduced for each of three (3) consecutive years beginning on the first day of the first full calendar month following the Plan Implementation Date by an amount per year equal to the product of (a) \$1,750,000; and (b) the number which is the quotient of the total minimum rent payable by the Corporation to such Landlord under all such Leases for the first such year (prior to any reduction or abatement in the monthly rent payable under each such Leases pursuant to any agreement, whether verbal or written, in respect of amounts payable as rent under each such Lease) divided by a divisor which is equal to the aggregate minimum rents payable under all such Leases with all Landlords for the first such year or (ii) amendments or variations to the terms and conditions of the present Leases and/or Lease renewals or other accommodations with the Corporation that the Monitor deems to have an approximately equivalent value. The amount of rent abatement taken by any such Landlord may be apportioned at its discretion among the Leases held by such Landlord. The Proven Claim(s) of any Landlord which has not entered into a Rent Abatement Agreement on the terms set out above prior to the Plan Implementation Date or provided amendments or variations or other accommodations of approximately equivalent value shall be reduced to zero for the purposes of distributions under this Plan. To the extent that a Landlord enters a Rent Abatement Agreement or provides amendments, variations or other accommodations which in the opinion of the Monitor have a value which is less than the value of the Rent Abatement Agreement required by this Subsection 6.3(2), the Monitor shall determine the value of such Rent Abatement Agreement, amendment, variation or other accommodation and the Landlord's Proven Claim shall be adjusted proportionately.

6.4 Three Months Base Rent

Subject to Section 6.3, the Corporation shall pay to the Landlords the portion of any Proven Claim(s) determined in accordance with Subsection 6.2(i) in three instalments. One-third of such portion of each Proven Claim shall be payable on the last Business Day of each of the three calendar months next following the Plan Implementation Date. No interest will be payable by the Corporation in respect of such amounts.

6.5 Arrears of Rent: Abandoned Leases

Subject to Section 6.3, the portion of the Proven Claims of Landlords determined in accordance with Subsection 6.2(ii) hereof shall be paid in the manner set out in Section 4.7 hereof.

6.6 Arrears of Rent: Leases Other than Abandoned Leases

Subject to Section 6.3, the Corporation shall pay to the Landlords the portion of any Proven Claims determined in accordance with Subsection 6.2(iii) in three instalments. One-third of such portion of each Proven Claim shall be payable on the last Business Day of each of the three calendar months following the Plan Implementation Date. No interest will be payable by the Corporation in respect of such amounts.

6.7 Effect of Plan on Landlords

Effective on the Plan Implementation Date, the Corporation shall be released and discharged from all Claims of the Landlords, other than the obligation to make the payments provided for in Sections 6.4 and 6.6.

ARTICLE VII

SPECIAL PROVISIONS REGARDING CERTAIN ASSETS

7.1 Release of Prior Charge by Trade Creditors

Without prejudice to the obligations of the Corporation in respect of the Interim Period Debt, effective as of the date which is sixty (60) days after the Plan Implementation Date, all Claims of the Interim Creditors against the Monitor solely in its capacity as Monitor of the Corporation for payment for all services, utilities, goods or materials supplied to the Corporation after the Date of Filing and as against the property, assets and undertaking of the Corporation pursuant to paragraph 14 of the Initial Order, as amended, shall be released.

7.2 Release of Prior Charge of Directors and Officers

The first charge and security interest in the amount of \$5,000,000 on the Property (as defined in the Initial Order) of the Corporation granted, to those individuals who were Directors and officers of the Corporation, during the Interim Period by and for the purposes set forth in paragraph 29 of the Initial Order, as amended, shall survive and continue in full force and effect for the benefit of such individuals for a period of six months after the Plan Implementation Date.

ARTICLE VIII

MISCELLANEOUS

8.1 Paramountcy

Except with respect to the Newco Preferred Share Documentation, which shall take precedence and priority over this Plan to the extent of any conflict between such documentation and this Plan, from and after the Plan Implementation Date, any conflict between this 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 Corporation, lease or other agreement, written or oral, and any and all amendments or supplements thereto existing between one or more of the Creditors or the Shareholders and the Corporation as at the Plan Implementation Date will be deemed to be governed by the terms, conditions and provisions of this Plan, which shall take precedence and priority; provided that, for greater certainty, the agreements and other documents related to the Bank Secured Debt and the security

granted in respect thereof shall survive unamended except as the same may be otherwise expressly modified by this Plan.

8.2 Waiver of Defaults

From and after the Plan Implementation Date, each Creditor and Shareholder shall be deemed to have waived any and all defaults by the Corporation in every covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in every 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 such Creditor or Shareholder and the Corporation which have occurred and are continuing as at the Plan Implementation Date, 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; provided that, for greater certainty, no default shall be deemed to have been waived by the Bank Creditor in respect of the Bank Secured Debt by virtue solely of the implementation of this Plan.

8.3 Effect of Compromise

The payment, compromise or other satisfaction of any Indebtedness as provided for under this Plan, if sanctioned and approved by the Court, shall, in the case of any Creditor whose Claim is in a Class voting in favour of this Plan, be binding upon such Creditor, its heirs, executors, administrators, legal representatives, successors and assigns, but shall not have the effect of releasing any Person (other than the Corporation) directly or indirectly liable for such Indebtedness except as otherwise expressly stated herein. For greater certainty all rights, claims and causes of action of any description whatsoever which now exist, may exist or may hereafter exist for the benefit of the Bank Creditor as lender under the Credit Agreements against any third party, save and except the Corporation, are hereby expressly preserved and are unaffected by the terms and conditions of the Plan, including, without limitation, any unconditional and irrevocable covenant of the Bank Creditor not to sue the Corporation, by the Bank Creditor voting in favour of the Plan, or by the approval of the Final Order by the Court.

8.4 Effect of Proceedings on Executory Contracts

On or before the Plan Implementation Date, the Corporation shall seek an Order declaring that all executory contracts (including leases of both real and personal property) to which the Corporation is a party, other than contracts or leases which are terminated or repudiated by the Corporation prior to the Plan Implementation Date, are in full force and effect as at the Plan Implementation Date notwithstanding (i) that the Corporation has obtained relief under the CCAA; (ii) the effect upon the Corporation of the completion of any of the transactions contemplated under this Plan; (iii) any compromises effected pursuant to this Plan; or (iv) any default with respect to such contract on the part of the Corporation prior to the Plan Implementation Date. Without limiting the generality of the foregoing, the Corporation shall request that such Order expressly declare that all agreements related (i) to the Bank Secured Debt (except as the same are otherwise expressly modified by this Plan); and (ii) to any credit provided to the Corporation during the Interim Period shall survive the implementation of this Plan, provided only that the Corporation shall be prohibited from drawing funds against credit extended by the Bank under such agreements, which funds would be in addition to funds drawn prior to the Plan Implementation Date thereunder. The Corporation shall also seek an Order declaring that no other party to any such executory contract shall be entitled to accelerate the obligations of the Corporation or terminate, rescind or repudiate its obligations under the executory contract following the Plan Implementation Date by reason solely (i) of any event which occurred prior to the Date of Filing which would have entitled any other party to accelerate the obligations of the Corporation or to terminate, rescind or repudiate its obligations under an executory contract; (ii) that the Corporation has obtained relief under the CCAA; (iii) the effect upon the Corporation of the completion of any transactions contemplated under this Plan; or (iv) any compromises effected pursuant to this Plan.

8.5 Participation in Different Capacities

Creditors whose Claims are affected by this Plan may be affected in more than one capacity. Each such Creditor shall be entitled to participate hereunder in each such capacity. Any action taken by a Creditor in any one capacity shall not affect the Creditor in any other capacity unless the Creditor agrees in writing.

8.6 Modification of Plan

The Corporation reserves the right to file any modification of or amendment to this Plan by way of a supplementary plan or plans of compromise or arrangement or both filed with the Court at any time or from time to time prior to the conducting of votes upon this Plan by Creditors and by Shareholders at the Creditors' Meetings and the Shareholders' Meetings convened by the Corporation for that purpose, in which case any such supplementary plan or plans of compromise or arrangement or both shall, for all purposes, be and be deemed to be a part of and incorporated into this Plan. The Corporation shall give notice by publication or otherwise to all Creditors in an affected Class and the Bank Creditor of the details of any modifications or amendments prior to the vote being taken to approve this Plan. The Corporation may propose an alteration or modification to this Plan at any Creditors' Meeting or Shareholders' Meeting, as the case may be. After such Creditors' Meetings and Shareholders' Meetings, the Corporation may at any time and from time to time, after appropriate notice to the parties affected, vary, amend, modify or supplement this Plan if the Court and the Corporation determine that such variation, amendment, modification or supplement would not be materially prejudicial to the interests of any Creditor or Shareholder under this Plan.

8.7 Consents, Waivers and Agreements

As at 10:01 a.m. on the Plan Implementation Date, each Creditor and Shareholder shall be deemed to have consented and to have agreed to all of the provisions of this Plan as an entirety. In particular, each Creditor and Shareholder shall be deemed:

- (a) except as otherwise provided herein, to have executed and delivered to the Corporation all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Plan as an entirety;
- (b) except as otherwise provided herein, to have waived any default by the Corporation in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor or Shareholder and the Corporation that has occurred on or prior to the Plan Implementation Date;
- (c) except as otherwise provided herein, to have agreed that if there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor or Shareholder and the Corporation as at the Plan Implementation Date (other than those entered into by the Corporation on, or with effect from, the Plan Implementation Date) and the provisions of this Plan, then the provisions of this Plan take precedence and priority and the provisions of such agreement or other arrangement are amended accordingly; and
- (d) except as otherwise provided herein, to have released any and all Claims.

In this Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

8.8 Releases

Other than in respect of the Unaffected Obligations and after the Plan Implementation Date, each Creditor and Shareholder of the Corporation shall be deemed to forever release any and all suits, claims and causes of action that it may have had against persons who were (i) Directors who were, at the Date of Filing or as at the Plan Implementation Date, Directors of the Corporation but who were not at the Date of Filing officers of the Corporation, and (ii) officers of the Corporation who assumed offices with the Corporation after the Date of Filing and will be officers of the Corporation on the Plan Implementation Date.

8.9 Conditions of Plan Implementation

- (1) The implementation of this Plan by the Corporation shall be conditional upon the fulfilment, satisfaction or waiver of the following conditions in accordance with their terms by September 30, 1993 (subject to extension upon further Order of the Court and the written consent of the Bank Creditor):
 - (a) a corporation (i.e., Newco) shall have been incorporated under the OBCA with articles of incorporation in the form as agreed to between the Corporation and the Bank Creditor naming the directors of Newco and the number of Newco Preferred Shares and shall be organized under the OBCA in the manner set out below:

- (i) By-law No. 1 of Newco shall be in the form as agreed to between the Bank Creditor and the Corporation;
- (ii) The directors of Newco shall be the persons listed in the articles of Newco as directors;
- (iii) The offices of Newco shall be the President and Secretary and the officers appointed to those offices and their duties and powers will be the Chief Financial Officer and the Vice-President, Finance and Administration, of the Corporation, respectively;
- (iv) The form of share certificate for each of the common shares of Newco and the Newco Preferred Shares shall be as approved by the President of Newco; and
- (v) 100 Common Shares of Newco shall be issued to the Corporation for a subscription price of \$100.

(b) the Corporation shall have taken all necessary corporate actions and proceedings to approve this Plan and to enable the Corporation to execute, deliver and perform the obligations of the Corporation under this Plan and the agreements, documents and other instruments to be executed or delivered pursuant to the terms of this Plan;

(c) all relevant Persons shall have executed, delivered and filed all necessary documentation required to give effect to the terms of this Plan including, without limitation, the Articles of Arrangement, the Newco Preferred Share Documentation, the New Credit Agreement, the New Capital Lease Agreement, all amending agreements, supplemental indentures and all other agreements, documents and instruments required to give effect to the terms of this Plan;

(d) the Corporation shall have been continued under the OBCA;

(e) all applicable governmental, regulatory and judicial consents, Orders and similar consents and approvals and all filings with all governmental authorities, securities commissions, stock exchanges and other regulatory authorities having jurisdiction, in each case to the extent deemed necessary or desirable by counsel to the Corporation and in form and substance satisfactory to the Corporation, for the completion of the transactions contemplated by this Plan or any aspect thereof, shall have been made, obtained or received;

(f) the Court shall have granted the Final Order, in form and substance satisfactory to the Corporation, sanctioning and approving this Plan;

(g) the conditional approval of the TSE and the ME to the listing thereon of the New Common Shares to be issued pursuant to this Plan shall have been obtained by the Corporation, subject to the Corporation fulfilling all of the usual requirements of such stock exchanges;

(h) the Tax Ruling, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor;

(i) the DPS Order, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor;

(j) all conditions precedent contained in the Newco Preferred Share Documentation and the New Credit Agreement shall have been fulfilled, satisfied or waived in writing at the sole discretion of the Bank Creditor and the New Creditor, respectively;

(k) the Orders referred to in Section 8.4, in form and substance acceptable to the Bank Creditor in its sole discretion, shall have been obtained, which condition may be waived in writing at the sole discretion of the Bank Creditor; and

(l) the Certificate of Arrangement shall have been obtained.

(2) Upon the fulfillment, satisfaction or waiver of all the conditions contained in Subsection 8.9(1), the Corporation shall either provide written notice to all Creditors having been provided Voting Claims or having filed Notices of Objection, to all Shareholders and to the Monitor notifying them of that fact and of the Plan Implementation Date, or shall issue a press release to the same effect, and such Creditors and Shareholders and the Monitor shall be entitled to rely on such notice or press release.

8.10 DPS Order

The Corporation will apply for an order of the Ontario Court of Justice (General Division), (the "DPS Order") declaring that upon the occurrence of certain events (such as a payment default by the Corporation or the insolvency or bankruptcy of the Corporation) any holder of Newco Preferred Shares will be deemed to be a creditor of the Corporation immediately prior to the occurrence of such event as if such holder had exercised its rights under the debt put/call agreement or the share put agreement to redeem or sell the Newco Preferred Shares, as the case may be, and permitting the transactions necessary to effect such result under the documentation relating to the Newco Preferred Shares notwithstanding any stay of proceedings that may now or in the future be in effect.

8.11 Management Proxy Circular

Copies of this Plan will be included as an appendix to the Circular.

8.12 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall reflect this Plan and may, subject as hereinafter provided, be made or given by personal delivery, by prepaid mail or by telecopier addressed to the respective parties as follows:

- (a) if to the Corporation:

Peoples Jewellers Limited
1440 Don Mills Road
Don Mills, Ontario
M3B 1M1

Attention: Verne Somers

Telecopier: (416) 441-1363

- (b) if to a Creditor:

to the address for such Creditor as specified in the Voting Claim sent by the Corporation to the Creditor, or, if different, to the address of such Creditor as specified in the Notice of Objection received by the Corporation from such Creditor;

- (c) if to a Shareholder:

to the last known address for such Shareholder as shown on the books of the Transfer Agent;

- (d) if to the Monitor:

Ernst & Young Inc.
P.O. Box 251
Ernst & Young Tower
Toronto, Ontario
M5K 1J7

Attention: Harold Reiter

Telecopier: (416) 943-3300

or to such other address as any party may from time to time notify the others in accordance with this Section. In the event of any strike, lock-out or other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery or by telecopier and any notice or other communication given or made by prepaid mail within the four (4) Business Day period immediately preceding the commencement of such interruption shall be deemed not to have been given or made. All such notices and communications shall be deemed to have been received, in the case of notice by telecopier or by delivery, on the day of such transmission or delivery and, in the case of notice mailed as aforesaid, on the third (3rd) Business Day following the date on which such notice or other communication is mailed. The unintentional failure by the Corporation to give a notice contemplated hereunder to any particular Creditor or Shareholder shall not invalidate this Plan or any action taken by any Person pursuant to this Plan.

8.13 U.S. Dollar Obligations

- (1) For purposes of determining the amount of an Accepted Claim for Voting Purposes, Claims denominated in U.S. Dollars shall be converted to Canadian Dollars at the published noon rate of exchange thereof of the Bank of Canada on the Date of Filing.
- (2) For all other purposes of this Plan, Claims denominated in U.S. Dollars shall be converted to Canadian Dollars at the published noon rate of exchange thereof of the Bank of Canada on the Plan Implementation Date.

8.14 Further Assurances

Notwithstanding that the transactions and events set out in this Plan shall occur and be deemed to occur in the order set out herein without any act or formality, each of the Persons affected hereby shall make, do and execute, or cause to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by the Corporation in order to further document or evidence any of the transactions or events set out herein.

8.15 Dissenting Shareholders

Shareholders who have given a demand for payment which remains outstanding on the Plan Implementation Date in accordance with the rights of dissent in respect of the continuance of the Corporation under the OBCA and who:

- (i) are ultimately entitled to be paid for the Shares in respect of which they dissent in accordance with the provisions of the CBCA, whether by order of a court or by acceptance of an offer made pursuant to the CBCA, shall be deemed to have transferred such Shares to the Corporation for cancellation immediately after the continuance; or
- (ii) are ultimately not so entitled to be paid for the Shares in respect of which they dissent for any reason, shall not be reinstated as Shareholders but for purposes of receipt of consideration shall be treated as if they had participated in the Plan on the same basis as non-dissenting Shareholders and such Shareholders shall accordingly be entitled to receive such New Common Shares as such non-dissenting Shareholders are entitled to receive on the basis determined in accordance with Article IV.

SCHEDULE 1

RIGHTS, PRIVILEGES, CONDITIONS AND RESTRICTIONS ATTACHING TO THE NEW COMMON SHARES

The New Common Shares shall have attached thereto the following rights, privileges, conditions and restrictions:

1. **Voting.** The holders of the New Common Shares shall be entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Corporation (except where the holders of a specified class are entitled to vote separately as a class as provided in the Articles of the Corporation or the OBCA) and each New Common Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of the Corporation at which holders of New Common Shares are entitled to vote.
2. **Liquidation, Dissolution and Winding-up.** Subject to the prior rights of the holders of the Class One Preferred Shares, in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the holders of the New Common Shares shall be entitled to receive the remaining property of the Corporation.
3. **Dividends.** Subject to the prior rights of the holders of the Class One Preferred Shares, the holders of New Common Shares shall be entitled to receive dividends when declared by the Directors.

SCHEDULE 2

RIGHTS, PRIVILEGES, CONDITIONS AND RESTRICTIONS ATTACHING TO THE CLASS ONE PREFERRED SHARES

DIVIDENDS:	Fixed cumulative preferential cash dividends shall be payable on the Class One Preferred Shares quarterly on the last day of March, June, September and December in each year, out of moneys of the Corporation legally available for the payment of dividends, in priority to holders of any other shares of the Corporation at the rate of 2% per annum until the earlier of (i) the fifth anniversary of the Plan Implementation Date, and (ii) the redemption or purchase for cancellation of the Newco Preferred Shares issued to the holder and thereafter at an annual rate equal to the Bank Creditor's prime rate of interest plus 2%. The first dividend will be payable on September 30, 1993.
CONVERSION:	The Class One Preferred Shares will be convertible at the option of the holder into New Common Shares at any time prior to the close of business on the fifteenth anniversary of the Plan Implementation Date at a rate to be determined on the basis that if the right to convert is exercised in respect of all of the Class One Preferred Shares, the New Common Shares obtained on conversion will represent 78% of all New Common Shares then issued and outstanding on a fully diluted basis. The basis of conversion will be subject to adjustment in certain events, including the following: (a) subdivision, consolidation or other reorganization of the outstanding New Common Shares; (b) issue of any New Common Shares to holders of New Common Shares by way of stock dividends; (c) issue of rights, options or warrants to all or substantially all the holders of the New Common Shares entitling them to acquire New Common Shares or securities convertible into New Common Shares; and (d) distribution to all or substantially all the holders of the New Common Shares of shares of any other class or of rights, options or warrants (other than those referred to above) or of evidences of indebtedness or of assets (excluding cash dividends paid in the ordinary course). Appropriate adjustment will also be made in the event of (i) any classification, redesignation or change of the New Common Shares into other shares; (ii) an amalgamation, merger or arrangement between the Corporation and any other body corporate; and (iii) the transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another Corporation.
RETRACTION PRIVILEGE:	The Class One Preferred Shares will be redeemable at any time at the option of the holder, at a redemption price of \$1.00 per share plus all accrued and unpaid dividends provided however that such retraction privilege shall terminate in respect of All Class One Preferred Shares upon any transfer of any of such shares by the holder other than to an affiliate (as defined in the OBCA) of the holder.
REDEMPTION:	The Class One Preferred Shares will not be redeemable at the option of the Corporation prior to the fifteenth anniversary of the Plan Implementation Date. Thereafter, the Class One Preferred Shares will be redeemable in whole at any time or in part from time to time, at the option of the Corporation, at a redemption price of \$1.00 per share plus all accrued and unpaid dividends.
PURCHASE FOR CANCELLATION:	On or after the date on which the Corporation may redeem the Class One Preferred Shares, the Corporation may at any time purchase for cancellation any of the Class One Preferred Shares in the open market or by tender at a price per share not

exceeding \$1.00 plus all accrued and unpaid dividends to the date of purchase and the costs of purchase.

PRIORITY:

The Class One Preferred Shares will rank prior to all classes of shares of the Corporation with respect to the payment of dividends and with respect to the return of capital and payment of accrued and unpaid dividends in the event of liquidation, dissolution or winding-up, whether voluntary or involuntary. The Corporation may not, without the authorization of the holders of the Class One Preferred Shares, create or issue any shares ranking in priority to or on a parity with the Class One Preferred Shares.

VOTING RIGHTS:

Except as otherwise provided in the OBCA or hereafter under the headings "Election of Directors" and "Fundamental Changes", the holders of the Class One Preferred Shares will be entitled as such to receive notice of and attend, but not vote, at any meeting of the shareholders of the Corporation unless and until the Corporation shall have failed to pay twelve quarterly dividends on the Class One Preferred Shares, whether or not consecutive, after which time the holders of the Class One Preferred Shares will have the right to vote at any such meetings and to one vote for each Share held for so long as the Corporation is in default in payment of twelve quarterly dividends on the Shares.

ELECTION OF DIRECTORS:

The holders of the Class One Preferred Shares will be entitled at all meetings at which Directors are to be elected, voting separately and as a separate class, to elect in the aggregate one-third of the members of the board and will have, for the purpose of such election, one vote for each Share held. In the event of any vacancy on the board due to the death, resignation, ineligibility or inability for any other reason of any director elected by the holders of the Class One Preferred Shares in accordance with such provisions, such vacancy will be filled for the remainder of the term by such person as may be elected by the holders of the Class One Preferred Shares at a special meeting of such holders called for that purpose.

FUNDAMENTAL CHANGES:

The holders of the Class One Preferred Shares shall be entitled to vote separately as a class to approve and the Corporation shall not, without the prior approval of the holders of the Class One Preferred Shares, take any of the following actions:

- (a) any amendment of the articles or confirmation of any amendment to the by-laws of the Corporation;
- (b) any change in the number of directors of the Corporation or the number of directors to be elected at the annual meeting of shareholders of the Corporation;
- (c) any voluntary dissolution, liquidation, bankruptcy or winding-up of the Corporation;
- (d) any amalgamation, consolidation, reorganization or merger of the Corporation with any other corporation;
- (e) any continuance of the Corporation under the laws of another jurisdiction; or
- (f) any sale, lease or exchange of all or substantially all of the property, assets or undertaking of the Corporation.

TRANSFERABILITY:

The Class One Preferred Shares shall be freely transferable by the holder subject only to applicable securities laws and the provisions of the Bank Act.

FINANCIAL INFORMATION:

The Corporation shall provide to the holders of the Class One Preferred Shares copies of all financial statements, reports and other information which it provides or is required by applicable law or the by-laws of any stock exchange on which the New Common Shares are listed for trading to provide to the holders of the New Common Shares at the same time and in the same manner.

SCHEDULE 3

RIGHTS, PRIVILEGES, CONDITIONS AND RESTRICTIONS ATTACHING TO THE NEWCO PREFERRED SHARES

PRIORITY OF NEWCO PREFERRED SHARES:

The Newco Preferred Shares will rank prior to the common shares of Newco (the "Newco Common Shares") with respect to Dissolutions (as defined below) and any purchases for cancellation of Newco Common Shares. In addition, no dividends may be declared on or paid in respect of any Common Shares while any Newco Preferred Shares are outstanding.

DIVIDEND RATE:

Holders of Newco Preferred Shares will be entitled to (a) cumulative monthly preferential dividends to be paid at an annual rate equal to the aggregate of (i) 57% of the Bank Creditor's prime rate of interest plus (ii) 2% ("Regular Dividends") and (b) such other discretionary dividends as may be declared and paid on such shares ("Additional Dividends").

DIVIDEND PAYMENT DATES:

In the case of Regular Dividends, the last Business Day of each month. In the case of Additional Dividends, on the date that any such dividends are declared to be payable but, in any event, on the date that the Newco Preferred Shares are to be redeemed, such dividends to be paid immediately before such redemption and to be in respect of dividends that have accrued to such date on the Newco Preferred Shares, but which are unpaid.

DISSOLUTION:

In the event of a liquidation, dissolution or winding-up (a "Dissolution") of Newco, holders of Newco Preferred Shares will be entitled to receive an amount equal to the redemption price of such Newco Preferred Shares. The redemption price of each Newco Preferred Share will be \$1.00 (the "Preferred Share Redemption Price"). In addition, all accrued and unpaid dividends on the Newco Preferred Shares must be paid immediately prior to the distribution of such amounts.

RETRACTION:

Holders of Newco Preferred Shares will be entitled to retract all or any of such shares at any time and from time to time.

REDEMPTION:

(a) Optional:

Redemption of all or any of the Newco Preferred Shares will be at the option of Newco, at any time and from time to time. The price payable on any such redemption will be equal to the aggregate of the Preferred Share Redemption Prices of the Newco Preferred Shares to be redeemed. In addition, all accrued and unpaid dividends on the Newco Preferred Shares must be paid immediately prior to the redemption of such Newco Preferred Shares.

(b) Mandatory:

Newco will be required to redeem all of the Newco Preferred Shares on the last Business Day of the fifty-ninth month following the date of issuance of the Newco Preferred Shares. As well, Newco will be required to redeem, on an annual basis, the Newco Preferred Shares to the extent of Corporation's "excess cash flow" as defined in the Newco Preferred Share Documentation.

VOTING RIGHTS:

Except as provided under the OBCA, holders of Newco Preferred Shares will not be entitled to vote unless:

(i) certain events or defaults have occurred and are continuing; or

(ii) certain fundamental changes to Newco are being proposed, in which case each Newco Preferred Share will carry one vote per share at all meetings of shareholders.

SCHEDULE 4

UNAFFECTED OBLIGATIONS

1. The amount by which the Bank Creditor's Proven Claim exceeds \$100,000,000.
2. Interim Period Debt.
3. Claims by Creditors which the Corporation determines not to compromise under this Plan.
4. Indemnification of trustees for expenses in accordance with the Trust Indentures, the Deed of Trust and Mortgage, the EPP and DPSP.
5. Claims of legal, accounting and financial advisors to the Corporation for reasonable expenses incurred after the Date of Filing and at the direction of the Corporation or to be incurred for the purposes of reorganizing the Corporation's debt or equity, including, without limitation, this Plan.
6. Settlement arrangements made by the Corporation after the Date of Filing pursuant to Order by the Court, including, without limitation, with certain Landlords in respect of Abandoned Leases.
7. Claims for indemnity pursuant to indemnities provided by the Corporation to (i) Directors who were, at the Date of Filing or at the Plan Implementation Date, Directors of the Corporation but who were not at the Date of Filing officers of the Corporation; and (ii) officers of the Corporation who assumed offices with the Corporation after the Date of Filing and will be officers of the Corporation on the Plan Implementation Date.
8. Claims of Equipment Financiers.
9. Claims pursuant to the New Credit Agreement.
10. Any Claim pursuant to any consignment agreement to which the Corporation is a party at the Plan Implementation Date.
11. The Directors' and officers' charge as provided to survive and be continued pursuant to Section 7.2 of this Plan.
12. Carol Young, to the extent necessary to enable her (i) to assume title to the Texas Condominium; or (ii) to effect a sale of the Texas Condominium to a third party.
13. Obligations owed to the First Mortgage Bondholders and the Capital Lease Creditor, each in their capacities as members of the First Mortgage Bondholders' Class and the Capital Lease Creditor's Class, respectively, to the extent set out in Subsections 3.5(2) and 3.5(3), respectively, of the Plan.

APPENDIX B

SUMMARY OF ORDERS

Nineteen Orders have been granted by the Ontario Court of Justice (General Division) (the "Court"); the first by The Honourable Mr. Justice Blair on December 29, 1992 (the "Initial Order"), and the remainder by The Honourable Mr. Justice Houlden: on January 11, 1993 (two), February 22, 1993 (two), February 26, 1993, March 5, 1993, March 8, 1993, March 22, 1993, April 21, 1993, April 27, 1993, April 30, 1993, May 10, 1993, May 19, 1993, May 28, 1993, June 9, 1993, June 16, 1993, June 18, 1993 and June 23, 1993. They are summarized below. The Initial Order is reproduced in its entirety in Appendix C to the Circular. Mr. Justice Houlden's Orders of May 10, 1993 (number 13 below) and June 23, 1993 (number 19 below) are reproduced in their entirety in Appendix D and Appendix E to the Circular, respectively.

<u>Date</u>	<u>Order Granted</u>
1. December 29, 1992 . .	See Appendix C.
2. January 11, 1993	Restraining Peoples Jewellers Limited ("Peoples") from closing any stores other than the 43 stores referred to in the affidavit of Roman Doroniuk of January 11, 1993, without further Order of the Court; Requiring Peoples to comply with the terms and conditions of the Leases with certain Landlords, with respect to the operation of its business on their premises; Amending the Initial Order to permit Landlords to move on 4 days' notice to remove the stay with respect to premises where Peoples fails to pay occupation rent when due; Amending the Initial Order to require the Monitor to request from Peoples detailed records of sales on a location by location basis and to make those records available; Amending the Initial Order to require Peoples to pay occupation rent bi-weekly in advance; Amending the Initial Order to permit certain Landlords to exercise any options they may have to accelerate rent; and Amending the Initial Order to require the Monitor to provide certain financial information to certain Landlords.
3. January 11, 1993	Permitting The Bank of Nova Scotia (the "Bank Creditor") to make a demand for payment of all Indebtedness owing by Peoples to the Bank Creditor; Permitting the Bank Creditor to issue a notice of intention pursuant to the <i>Bankruptcy and Insolvency Act</i> (Canada) with respect to the Bank Creditor's intention to enforce all or any part of its security granted by Peoples, and to issue, in its discretion, those statutory notices which a creditor is required to issue in order to dispose of the collateral of a debtor; Directing that the notice periods in relation to the above will commence to run from the date of issue of the demand for payment and each of the notices; and Continuing the stay as provided for in the Initial Order, in relation to any proceedings taken or that might be taken in connection with the issue of any demand for payment and statutory notices by the Bank Creditor.
4. February 22, 1993	Authorizing Peoples and the Monitor to retain Deloitte & Touche for the purpose of conducting an investigation of Peoples' accounting and other financial records; Amending the Initial Order, <i>nunc pro tunc</i> , to recognize and take account of certain agreements between Peoples and Boulevard Consumer Credit Services Inc. in relation to payment of accounts receivable in respect of Peoples' credit card sales;

<u>Date</u>	<u>Order Granted</u>
	Authorizing Confederation Leasing Limited (the "Capital Lease Creditor") to issue a demand for repayment of the Indebtedness under a master lease agreement with Peoples;
	Authorizing the Capital Lease Creditor to issue an advance notice of intention to enforce security;
	Requiring Peoples to pay to the Capital Lease Creditor the proceeds of any dispositions, after December 29, 1992, of assets subject to leases in favour of the Capital Lease Creditor;
	Requiring Peoples to deliver to the Capital Lease Creditor, on demand, any assets subject to leases in favour of the Capital Lease Creditor;
	Authorizing the Capital Lease Creditor to enforce its rights against assets subject to its leases that are or were at any time closed or abandoned by Peoples; and
	Amending the Initial Order, <i>nunc pro tunc</i> , to require Peoples to make monthly rental payments to the Capital Lease Creditor.
5. February 22, 1993	Permitting Carol Young to accelerate payments on the promissory note made by Peoples in her favour on June 27, 1991, and to declare all principal outstanding together with all accrued interest at once due and payable;
	Amending the Initial Order to permit Carol Young, pursuant to a deed of trust and security agreement made on June 27, 1991, to declare the unpaid principal balance and earned interest on the note due; to request the trustee to foreclose the lien provided that Carol Young or her agent shall give notice of the foreclosure sale as provided by the <i>Texas Property Code</i> ; and to purchase the property at any foreclosure sale by offering the highest bid and then have the bid credited on the note; and
	Amending the Initial Order to permit the trustee to foreclose the lien provided that Carol Young or her agent shall give notice of the foreclosure sale as provided by the <i>Texas Property Code</i> ; and to purchase the property at any foreclosure sale by offering the highest bid and then have the bid credited on the note.
6. February 26, 1993	Extending the Plan filing date to March 8, 1993;
	Directing that the Monitor, <i>nunc pro tunc</i> , will not be responsible separately for reporting to the Court or to Peoples' Creditors on issues relating to inventory valuation and accounting irregularities, but shall only be required to permit Deloitte & Touche to complete their report with respect to these issues and to refer it to the Court; and
	Permitting Peoples to solicit non-binding letters of intent from potential purchasers of any or all of Peoples' property, assets and undertaking, such letters to be submitted to Peoples by 5 p.m. EST, March 5, 1993.
7. March 5, 1993	Permitting Peoples to sell five stores located in the Province of Quebec, as set out in the affidavit of Roman Doroniuk sworn March 3, 1993; and
	Permitting Peoples to close the store located in Centre Laval and granting Bramalea Limited leave to terminate the Lease for that store, to take possession of it and re-lease it.
8. March 8, 1993	Extending the Plan filing date to March 22, 1993; and
	Establishing a protocol for the solicitation of purchasers for the business or assets of Peoples.
9. March 22, 1993	Extending the Plan filing date to April 21, 1993;
	Extending the stay period until May 31, 1993;

<u>Date</u>	<u>Order Granted</u>
	Extending the date for the solicitation of non-binding letters of intent from potential purchasers until April 21, 1993; and
	Retaining W. D. Chambers of Fraser & Beatty to provide an independent legal opinion to the Court with respect to the security held by Peoples' Creditors.
10. April 21, 1993	Allowing Peoples to file its plan of arrangement and compromise; and
	Permitting Peoples, on or before May 5, 1993, to seek an interim order providing a claims procedure and scheduling Meetings of Creditors and Shareholders to be held pursuant to the plan and to file an updated and amended plan to reflect the comments, if any, of its constituents.
11. April 27, 1993	Temporarily increasing the Monitor's first charge and security interest, to permit Peoples to purchase additional inventory.
12. April 30, 1993	Granting Peoples leave to sell its property at 1855 Scarth Street, Regina, Saskatchewan.
13. May 10, 1993	See Appendix D.
14. May 19, 1993	Authorizing Peoples to enter into the proposed settlement of a class action in the United States District Court, regarding The Zale Corporation.
15. May 28, 1993	Extending the time to seek the Court's approval for the management proxy circular (the "Circular"), to June 9, 1993.
16. June 9, 1993	Authorizing Peoples to execute and deliver the Fifth Supplemental and Amending Agreement with the Bank Creditor;
	Declaring the Fifth Supplemental and Amending Agreement valid, binding and enforceable;
	Authorizing an amendment to the Credit Agreement or Restated Agreement (as defined in the June 9, 1993 Order) with respect to a new \$15-million credit facility and declaring such amendment valid, binding and enforceable;
	Extending the date to seek approval for the Circular to June 16, 1993; and
	Extending the date for sending disallowances to June 16, 1993.
17. June 16, 1993	Extending the date to seek approval for the Circular to June 23, 1993;
	Amending the Initial Order, <i>nunc pro tunc</i> , to permit Peoples to settle and/or compromise certain claims against former employees subject to the approval of the Monitor and the Court; and
	Extending the date for sending a disallowance to Zale Corporation to June 23, 1993.
18. June 18, 1993	Order sealed.
19. June 23, 1993	See Appendix E.

APPENDIX C

INITIAL ORDER

Court file no. B367/92

ONTARIO COURT OF JUSTICE
(GENERAL DIVISION)

COMMERCIAL LIST

THE HONOURABLE
MR. JUSTICE R. A. BLAIR }

TUESDAY, THE 29TH
DAY OF DECEMBER, 1992.

IN THE MATTER OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985,
C-44;

AND IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36;

AND IN THE MATTER OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, c. C-43, as
amended;

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE
CREDITORS AND SHAREHOLDERS OF PEOPLES JEWELLERS LIMITED

PEOPLES JEWELLERS LIMITED

APPLICANT

and

(Court Seal)

THE BANK OF NOVA SCOTIA, MONTREAL TRUST COMPANY OF CANADA as
Trustee under certain Trust Indentures relating to the issue of unsecured Debentures by Peoples
Jewellers Limited, and NATIONAL TRUST COMPANY, by its agent The R-M Trust
Company, as Trustee under a certain Deed of Trust and Mortgage relating to the issue of First
Mortgage Bonds by Peoples Jewellers Limited

RESPONDENTS

ORDER

THIS APPLICATION, made by the Applicant Peoples Jewellers Limited ("Peoples") in connection with an arrangement under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 and under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 for an Order abridging the time for service of notice of this application, a declaration that Peoples is a corporation to which both the CBCA and the CCAA apply, and for an order:

- (a) authorizing the Applicant to file a plan of compromise or arrangement;
- (b) authorizing the Applicant to call meetings of secured and/or unsecured creditors and/or shareholders of the Applicant to consider any proposed plan of compromise or arrangement;
- (c) staying proceedings against the Applicant; and
- (d) granting certain other ancillary relief;

was heard the 29th day of December, 1992 at the Court House at Osgoode Hall, Toronto.

ON READING the Notice of Application, the Affidavit of Roman Doroniuk sworn December 29th, 1992 and on hearing the submissions of counsel for the Applicants, counsel for the Bank of Nova Scotia (the "Bank"), and on being advised that none of the other persons who might be interested in these proceedings were served with the Notice of Application;

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record in respect of this Application be and it is hereby abridged and that the Application is properly returnable today and, further that the requirement for service of the Notice of Application and the Application Record upon interested parties other than the Bank is hereby dispensed with.

APPLICATION

2. **THIS COURT DECLARES** that the Applicant is a corporation to which the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the "CCAA") applies.
3. **THIS COURT DECLARES** that the Applicant is a corporation to which the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "CBCA") applies.

PLAN OF ARRANGEMENT

4. **THIS COURT ORDERS** that the Applicant is hereby authorized and permitted to file with this Court, on or before February 26, 1993 a plan of compromise or arrangement ("Plan") between the Applicant and one or more classes of its secured and/or unsecured creditors and/or shareholders as it deems appropriate.
5. **THIS COURT ORDERS** that the Applicant may file its Plan with this Court by way of Affidavit sworn by any one of its authorized officers.
6. **THIS COURT ORDERS** that the Applicant shall remain in possession of its property, assets and undertaking (the "Property") and, pending any further order of this Court, shall continue to carry on business in the ordinary course except as otherwise specifically authorized or directed by this order or as this Court may in future authorize or direct.
7. **THIS COURT ORDERS** that the Applicant shall have the right to:
 - (a) proceed with an orderly liquidation of such of its Property, including its inventory and equipment, as it deems appropriate in order to facilitate the downsizing of its business and operations ("Downsizing");
 - (b) terminate the employment of such of its employees or temporarily lay off such of its employees, as it deems appropriate in order to facilitate the Downsizing;
 - (c) terminate such of its supplier arrangements or agreements as it deems appropriate;
 - (d) close stores and abandon leases or subleases as it deems appropriate;
 - (e) pursue offers for its Property, in whole or in part;

so long as all plans and procedures for implementation of the foregoing have been reviewed and authorized by the Monitor (as hereinafter defined).

8. **THIS COURT ORDERS** that, in order to facilitate the Downsizing, the Applicant shall be permitted, subject to existing security interests, to dispose of any or all of its inventory and equipment wherever situate through its retail outlets and facilities and otherwise without interference of any kind from third parties, including its landlords or Confederation Leasing Limited and notwithstanding the provisions of any contract, lease other instrument or law affecting or limiting the rights of the Applicant to move either inventory or equipment from leased premises and, for greater certainty, the Applicant shall have the right to:
 - (a) remove equipment which the Applicant does not own but which the Applicant has arranged with third parties to supply to various of its leased premises and to relocate such equipment to other stores or return such equipment to the third party owning it as the Applicant deems suitable or desirable for the purposes of carrying on its business, provided that such removal and return may be made without the consent of the third party and, notwithstanding anything in paragraph 7, without the consent of the Monitor and such removal and return shall be made without prejudice to any claims or rights of such third party against the Applicant in respect of such action and provided further that the Applicant and the Monitor shall give notice to such third party of the Applicant's intention to return such equipment not less than two business days prior to the Applicant abandoning the leased premises where such equipment is located or the date on which the Applicant shall have ceased to pay occupation rent, whichever is earlier; and
 - (b) realize upon its inventory, equipment and other assets in such a manner and at such locations as the Applicant deems suitable or desirable for the purposes of maximizing the proceeds of recovery therefrom.
9. **THIS COURT ORDERS** that all cash receipts realized by the Applicant, including the gross proceeds of the Downsizing, be deposited in the normal course by the Applicant into its operating accounts (the "Operating Accounts") domiciled with the Bank, and, notwithstanding any other provisions of this Order, from the close of business December 30, 1992, all sums deposited in the Operating Accounts shall be retained in such Operating Accounts and applied solely for the payment of obligations as set out in paragraph 27 hereof, except that the Bank shall be entitled to zero balance the Operating Accounts as of the end of business day subsequent to the date of filing.
10. **THIS COURT ORDERS** that the Applicant be and is hereby directed until further order of this Court:
 - (a) to make its best efforts to collect any outstanding accounts receivable and to deposit all monies and other sums received by it either in the normal course of business or as a result of the sale of any assets to its credit in the Operating Accounts;
 - (b) other than as specifically provided in paragraph 9 and 27 hereof, to make no payments either for principal or interest on account of amounts owed by it to its creditors as of this date and to make no other payments;
 - (c) to grant no mortgages, charges or other security upon or in respect of its Property or become a guarantor or surety or otherwise become liable in any manner with respect to any other person or entity without leave of this Court other than as specifically provided in paragraph 27 hereof;
 - (d) to grant credit only to the customers of its business and then only for goods or services actually supplied and on payment terms ordinarily granted by it in the usual course of its business;
 - (e) not to transfer, assign, sell or dispose of any of the Property of the Applicant out of the ordinary course of business except as specifically provided otherwise in this Order or as this Court may in future authorize or direct; and
 - (f) to incur no capital expenditures during the Stay Period except with leave of: (a) the Monitor for such expenditures up to \$250,000 in aggregate; or (b) this Court for any such expenditures in excess of \$250,000.

APPOINTMENT OF MONITOR

11. **THIS COURT ORDERS** that Ernst & Young Inc. (the "Monitor") be and is hereby appointed an officer of this Court to monitor the Property of the Applicant as well as the conduct of the business and affairs of the

Applicants until discharged by this Court. Notwithstanding any of the other terms in this order, the Monitor shall:

- (a) ensure that the Applicant makes payment for all goods delivered and services supplied after the date of this Order subject to paragraph 14 makes payments from the Operating Accounts in the manner directed in paragraph 27 of this Order;
- (b) review the overhead expenses of the Applicant and make recommendations to the Applicant as to steps which should be taken during the Stay Period (as defined in paragraph 22 herein) to reduce such overheads and, in the event that the Applicant does not implement such recommendations in a timely fashion, to report promptly to the Court thereon;
- (c) review any significant proposed compromises between the Applicant and its creditors and approve such arrangements as it deems to be in the best interests of the Applicant subject to existing security interests; and
- (d) conduct an ongoing review of expenses incurred during the Stay Period in order to ensure that the Applicant is not incurring any non-critical expenses, as determined by the Monitor.

12. **THIS COURT ORDERS** that the Applicant, its shareholders, officers, directors, employees, servants, solicitors and attorneys, agents and representatives cooperate with the Monitor in the performance of its duties pursuant to this Order, in particular, provide the Monitor with such of the books, documents, contracts, papers, computer tapes and programs and records of every nature and kind whatsoever relating to the Applicant and, without limiting the generality of the foregoing, all information as to the Property of the Applicant, including monies held or on deposit, accounts receivable and accounts payable, securities, deeds, leases, deposit books and account statements.

13. **THIS COURT ORDERS** that the Applicant and the Monitor shall each be at liberty to retain and employ such agents, servants, solicitors and other assistants as it deems necessary or desirable for the purpose of carry out the terms of this Order. The reasonable fees and disbursements payable by the Monitor are a disbursement of the Monitor for the purposes of this Order. The Monitor's appointment under this order shall not disqualify its associated firm Ernst & Young from continuing to act as auditor of the Applicant, subject to any further order of this Court in that regard.

14. **THIS COURT ORDERS** that, notwithstanding any other provisions of this Order other than paragraph 29, the Monitor shall have a first charge and security interest subject only to the charge provided for in paragraph 29 herein in an amount of \$2,000,000 on the Property of the Applicant, including the Operating Accounts, in priority to any encumbrances, security or security interest now outstanding in order to pay, firstly, its remuneration and disbursements and to discharge its obligations pursuant to subparagraph 11(a) hereof to ensure that the Applicant pays for all goods and services delivered or supplied after the date of this Order to the extent that these obligations are not met by the Applicant.

15. **THIS COURT ORDERS** that either of the Applicant or the Monitor may from time to time apply to this Court for advice or direction in the discharge of its powers and duties hereunder or in carrying out the provisions of this Order on notice only to the Respondents, the Monitor and/or the Applicant, as the case may be.

16. **THIS COURT ORDERS** that liberty is reserved to any interested person to apply to this Court on four (4) days notice to the Applicant, the Monitor and the Respondents for such further Order of this Court or for variation or setting aside of this Order or otherwise as may be advised.

17. **THIS COURT ORDERS** that the Monitor is hereby directed and empowered generally to assist the Applicant in the development of the Plan and to observe and report to the Bank, the other Respondents and, if requested by the Applicant or this Court, other creditors of the Applicant as to the financial and business affairs of the Applicant based on information to be provided by the Applicant to the Monitor and consistent with the efforts of the Applicant to carry on its business, complete the Downsizing and reorganize and restructure its affairs and the Monitor is hereby directed to provide the following information to the Bank and, if requested by the Applicant or this Court, the other secured or unsecured creditors of the Applicant:

- (a) reports on a periodic basis (coinciding with the Applicant's internal reporting system) based on information provided by the Applicant, as to the cash and non-cash receipts and disbursements of the

Applicant, with an analysis of merchandise purchased and commitments to purchase, disbursements, sales, inventory balances, accounts receivable and accounts payable or credit granted; and

- (b) reports following every fiscal monthly period based on information provided by the Applicant, as to the status of all amounts owing to the federal or provincial Crown including, without limitation, any amounts owing in respect of income taxes, excise taxes, goods and services tax, employer health taxes, workers' compensation payments and employee source deductions.

18. **THIS COURT ORDERS** that the Monitor shall, except as specifically otherwise provided in this Order, incur no liability or obligation as a result of the making of this Order, the appointment of the Monitor or the carrying out of the provisions of this Order, save and except that the Monitor shall be liable for negligence or wilful misconduct on its part.
19. **THIS COURT ORDERS** that neither the Monitor nor the Bank shall be liable for any liabilities to third parties, however or whenever incurred, of the Applicant or the Monitor, in the case of the Monitor to the extent that the Monitor incurs liability to third parties in the course of carrying out its mandate, in the event that the Operating Accounts and the proceeds of disposition of the Property covered by the first charge in favour of the Monitor are insufficient to meet such liabilities.
20. **THIS COURT ORDERS** that the Monitor is not hereby empowered to take possession of the Property of the Applicant or to manage any of the business and affairs of the Applicant.
21. **THIS COURTS ORDERS** that the appointment of the Monitor shall not constitute the Monitor to be an employer or a successor employer within the meaning of any legislation governing employment or labour standards or any other statute, regulation or rule or equity for any purpose whatsoever and, further, that the Monitor shall be deemed not to be in possession or control of the Property of the Applicant or of its business and affairs whether pursuant to any legislation enacted for the protection of the environment or any other statute, regulation or rule of law or equity for any purpose whatsoever.

STAY OF PROCEEDINGS

22. **THIS COURT ORDERS** that:
 - (a) any and all proceedings wherever initiated or taken or that might be taken by any of the Applicant's creditors, customers or suppliers or any other person, firm, corporation or entity wherever situate or domiciled against or in respect of the Applicant, whether pursuant to the *Bankruptcy and Insolvency Act*, S.C. 1992, c. 27 or otherwise, shall be stayed until March 31, 1993 or until further Order of this Court (the "Stay Period");
 - (b) the right of any person, firm, corporation or other entity to realize upon or otherwise deal with any property, right, encumbrance, lien, charge, mortgage, or other security held by that person, firm, corporation or other entity on, or in respect of, or any trust attaching to, the Property of the Applicants, including, without limiting the generality of the foregoing, extra-judicial proceedings such as distress and the right of any creditor to take any step in asserting or perfecting any right to the revindication of any goods supplied to the Applicants whether taken in the Province of Quebec or elsewhere, is hereby restrained during the Stay Period or until further Order of this Court provided that this subparagraph shall not prevent any third party supplier or its authorized agent from recovering possession on 21 days written notice to the Applicant and the Bank for its own use of any personal property including, without limitation, racking, which has been supplied to the Applicant, whether pursuant to a formal consignment agreement, or purchase money security interest, if such personal property was on the date of this Order the property of such supplier or its authorized agent and if such personal property, excluding inventory, has become surplus to the Applicant as a result of the closing or abandoning of stores in connection with the Downsizing;
 - (c) no suit, action or other proceeding shall be proceeded with or commenced against the Applicant during the Stay Period except with the leave of this Court; and
 - (d) save and except as provided in 9 and 27(j) and by the Bank in the normal course operation of the cash concentration system, all persons, firms, corporations and other entities are restrained during the Stay Period from exercising any right of set-off or combination or consolidation of accounts in relation to amounts due or accruing due in respect of or arising from any indebtedness or obligation of the Applicant,

provided that suppliers of goods or services, or both, shall be entitled to set-off volume rebates and advertising, merchandising, performance or other similar allowances or credits which were accrued and unpaid on the date of this Order by the suppliers or their agents against any amount owing and unpaid by the Applicant as of the date of this Order in respect of goods or services, or both, supplied prior to the date of this Order and the suppliers of the Applicant shall, with respect to goods or services supplied after the date of this Order continue to pay volume rebates and advertising, merchandising, performance or similar allowances or credits with respect to such goods or services in accordance with the particular supplier's established volume rebate and allowance practices from time to time generally based on the future level of sales to the Applicant applied on a basis consistent with other customers of the suppliers and the Applicant shall not be considered a new customer of such suppliers but rather such rebates will be calculated on a continuing basis.

23. **THIS COURT ORDERS** that all persons, firms, corporations and other entities having agreements with the Applicant, whether written or oral, for the supply of goods or services to the Applicant (including, without limitation, leases of goods, contracts of supply, distribution agreements, dealer agreements, inventory financing agreements, sales agency agreements and all other sales and support service contracts) are hereby restrained from accelerating, terminating, determining or cancelling such agreements without the written consent of the Applicant, which consent shall have been reviewed and ratified by the Monitor, or the leave of this Court and that all such persons, firms, corporations and entities shall continue to supply goods or services pursuant to the provisions of such agreements or otherwise on terms currently provided so long as the Applicant pays the normal prices or charges for such goods or services incurred after the date of this Order in accordance with the payment terms negotiated by the Applicant from time to time and, without limiting the generality of the foregoing, that all persons, firms, corporations and other entities are hereby restrained under further Order of this Court from discontinuing, interfering with or cutting off any utility (including telephone service at present numbers used by the Applicant whether such telephone services are listed in the name of the Applicant or in the name of some other party), the furnishing of oil, gas, water, heat or electricity, the supply of equipment or other services so long as the Applicant pays the normal prices or charges for such goods and services incurred after the date of this Order, as the same become due in accordance with the payment terms negotiated by the Applicant from time to time.
24. **THIS COURT ORDERS** that all persons, firms, corporations and other entities having other agreements with the Applicant are hereby restrained from accelerating, terminating, determining or cancelling such agreements without the written consent of the Applicant, which consent shall have been reviewed and ratified by the Monitor, or leave of this court and that all such persons, firms, corporations and other entities shall continue to perform and observe the terms, conditions and provisions contained in such agreements on their part to be performed or observed and, without limiting the generality of the foregoing, all persons, firms, corporations and other entities be and they are hereby restrained until further Order of this Court from terminating, cancelling or otherwise withdrawing any licences, dealerships, permits, approvals or consents, and from disturbing or otherwise interfering in any way with the present or future occupation by the Applicant of any premises leased or subleased by the Applicant and the landlords of premises leased or subleased by the Applicant are hereby specifically restrained from taking any step to terminate any lease or sublease to which the Applicant is a party whether by notice or termination or otherwise, unless the leave of this Court so to do has been first obtained.
25. **THIS COURT ORDERS** that the Applicant pay occupation rent for any leased or subleased premises which the Applicant occupies for the period commencing with the date of this Order during which the Applicant enjoys actual occupation of such leased or subleased premises (said payments to be made on a bi-weekly basis); however, with respect to leased or subleased premises for which the lease or sublease has been abandoned by the Applicant and for which no occupation rents are being paid by the Applicant, the landlord shall have the right to take possession of the leased or subleased premises and to enter into new lease arrangements.
26. **THIS COURT ORDERS** that with respect to leased or subleased premises for which the lease or sublease has been or is proposed to be abandoned by the Applicant, the Applicant and affected sub-lessee, if any, shall have the right to negotiate with the affected landlord in order to maintain or resume possession of the leased or subleased premises and the Applicant shall be at liberty, subject to the approval of the Monitor, to facilitate such arrangements by, inter alia:

- (a) negotiating the sale of its fixed assets, inventory and equipment in such leased or subleased premises on such terms as it considers advisable subject to existing security interests;
- (b) allowing such dealers, sublessees or franchisees to make future rental payments directly to the relevant landlord;
- (c) compromising its own claims and liabilities on such terms as it considers advisable; and
- (d) if necessary, attempting to obtain such third party consents and releases as may be appropriate and advisable including the compromise of claims that said third parties may otherwise have against the Applicant.

PAYMENTS MANDATED

27. **THIS COURT ORDERS** that, pending further order of this Court, the Applicant may pay from the Operating Accounts all of the following:

- (a) the reasonable fees and disbursements of the Monitor including the fees and disbursements, if any, of counsel retained by the Monitor;
- (b) the reasonable fees and disbursements of counsel retained by the Applicant or the Bank in respect of these proceedings whenever incurred and the professional advisers and agents retained by the Applicant and by the Bank to assist in the divestiture of assets and restructuring of the Applicant, whenever incurred;
- (c) for goods or services actually delivered or supplied to the Applicant following the date of this Order including goods or services purchased under the authorization of the Monitor and including in respect of outstanding documentary credits;
- (d) in the ordinary course all existing and future employee wages, pension benefits or contributions, benefits and vacation pay accruing due as well as any existing or future priority claims of the federal or provincial Crown in respect of the Applicant including, without limitation, amounts owing in respect of federal or provincial sales tax (including GST), amounts owing in respect of source deductions on account of employee income tax payable, Canada Pension Plan contributions payable, unemployment insurance premiums payable, amounts payable to any workers' compensation authority whether as premiums, assessments or reassessments, and amounts owing on account of federal excise tax and any other amounts deducted from employee compensation;
- (e) amounts due for repairs, whether before or after the date of this Order, to repairmen or entities to which the Applicant has sent either its goods or customer return goods for repair;
- (f) occupation rent in the amounts currently being paid for leased premises which the Applicant continues to occupy in accordance with paragraph 25 herein;
- (g) all outstanding gift certificates and warranty claims, accept the return of merchandise in exchange for cash or credit and grant credit for existing customer layaways in accordance with the Applicant's normal business policies and consumer legislation in relation to retail sales which existed prior to or after the date of this Order;
- (h) interest or fees owing to the Bank as the same becomes due and payable;
- (i) all expenses reasonably necessary for the preservation of the Property, including, without limitation, payments on account of insurance and security;
- (j) to Boulevard Consumer Credit Services Inc. ("Boulevard") all amounts received both before and after the date of this Order from the Applicant's customers on account of credit card payments and to otherwise perform the terms of the agreement between the Applicant and Boulevard dated May 1, 1990;
- (k) all amounts due by the Applicant under any credit card arrangements involving Visa, Master Card or American Express;
- (l) all amounts owing under formal and true consignment arrangements existing as of the date of the Order; and

- (m) an amount approximating market rent for the head office premises should the Applicant determine to continue to occupy the premises.
- 28. **THIS COURT ORDERS** that the Applicant be permitted to indemnify its directors and officers and each of them with respect to any personal liability they might incur as directors or officers of the Applicant under any legislation or at law.
- 29. **THIS COURT ORDERS** that notwithstanding any other provisions of this Order the directors and officers of the Applicant shall have a first charge and security interest in an amount of \$5,000,000 on the Property of the Applicant in priority to any encumbrances, security or security interest now outstanding in order to:
 - (a) secure payment from time to time of outstanding statutory vacation pay owed to employees of the Applicant;
 - (b) secure the current payroll obligations to the employees of the Applicant including estimated commissions, wages, benefits, pension benefits and other obligations including, *inter alia*, obligations under the *Employment Standards Act* R.S.O. 1990 E. 14 and other and similar statutes in other provinces and remittances in connection therewith pursuant to *inter alia*, the *Income Tax Act* S.C. 1970-71-72 c. 63 as amended, the *Canada Pension Plan Act* R.S.C. 1985, c. C-8 as amended, and the *Unemployment Insurance Act* R.S.C. 1985, c. U-1, as amended, amounts payable to any workers' compensation authority whether as premiums, assessments or reassessments, as those amounts are earned from time to time;
 - (c) to secure the statutory obligations for federal or provincial sales or excise tax (including GST) in relation to sales of the Applicant.

PROVIDED THAT this paragraph and the indemnity provided for in paragraph 28 shall not constitute a contract of insurance in any form and shall not constitute other valid and collectible insurance as such term may be used in any existing policy of insurance issued in favour of the Applicant and/or its officers and directors.

- 30. **THIS COURT ORDERS** that, notwithstanding other provisions in this Order, and without limiting the Applicant's ability to deal with its present U.S. interests, the Applicant shall be at liberty to negotiate as to and deal, subject to existing security interests, with its U.S. interests which are held by its 50% directly and indirectly owned interest in Jewelers Holding Corporation and the Applicant shall be at liberty, subject to the review and approval of the Monitor, to:
 - (a) sell, assign, dispose of or transfer the U.S. investment as the Applicant deems appropriate; and
 - (b) where necessary, pay all reasonable fees and disbursements related to the U.S. investment, whenever incurred.
- 31. **THIS COURT ORDERS** that, notwithstanding paragraph 27 hereof, nothing in this Order shall be construed as requiring the Bank to advance further credit above the levels authorized by the existing credit facility pending further Order of this Court. Amounts advanced to the Applicant by the Bank to make the payments provided for in paragraphs 27 or 14 are secured under the Bank's existing credit facility.
- 32. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order, this Order is made without prejudice to the ability of the Bank to bring a motion at any time on four (4) business days notice to the Applicant, for leave of this Court to appoint a Receiver or a Receiver and Manager (whether by a private act or a Court Order) or to otherwise act on, or exercise its rights under, its security, or to commence proceedings for the enforcement of its security in respect of the Applicant by way of the appointment of a Receiver and/or Receiver and Manager of the Applicant or otherwise.

EXECUTION OF THIS ORDER

- 33. **THIS COURT ORDERS** that the Applicant is at liberty to serve this Order, any other Orders in these proceedings, the Plan and any notices of meetings of creditors and shareholders in these proceedings by mailing true copies thereof by prepaid post addressed to the Applicant's creditors and shareholders at their addresses as last shown on the records of the Applicant, and that any such service or notice shall be deemed to be received four (4) business days following the date of the mailing thereof.

34. **THIS COURT ORDERS** that the Applicant shall, in due course, and prior to the filing of any application to sanction the Plan, render to this Court an affidavit verifying the actions taken and any decisions reached at each meeting of creditors, which affidavit may be sworn by an officer of the Applicant, a representative of the Monitor, or by any chairperson of the meetings appointed by this Court.
35. **THIS COURT ORDERS** that, notwithstanding any other provision of the Order, the Applicant is hereby granted leave to file a voluntary assignment in bankruptcy or a commercial proposal pursuant to the provisions of the *Bankruptcy and Insolvency Act* or, alternatively, to make application for an Order of this Court that the Applicant be wound up pursuant to the provisions of the *Winding-Up Act*, R.S.C. 1985, c.W-10, as amended, if, as and when the Applicant deems appropriate.
36. **THIS COURT ORDERS** that this Order and any other Orders in these proceedings shall have full force and effect in all Provinces and Territories in Canada. This Court seeks and requests the aid and recognition of any court or administrative body in any Province of Canada, and any Canadian federal court or administrative body and federal or state court or administrative body in the United States of America to assist the Applicant to carry out the terms of this Order.

“M. Kane” [Registrar]

APPENDIX D

MAY 10, 1993 ORDER

Court File No. B367/92

**ONTARIO COURT OF JUSTICE
(GENERAL DIVISION)**

COMMERCIAL LIST

THE HONOURABLE
MR. JUSTICE HOULDEN }

MONDAY, THE 10TH
DAY OF MAY, 1993

IN THE MATTER OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985,
C-44;

AND IN THE MATTER OF THE ONTARIO BUSINESS CORPORATIONS ACT, R.S.O.
1990, c. B.16;

AND IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36;

AND IN THE MATTER OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, c. C-43, as
amended;

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE
CREDITORS AND SHAREHOLDERS OF PEOPLES JEWELLERS LIMITED

B E T W E E N :

PEOPLES JEWELLERS LIMITED

APPLICANT

– and –

**THE BANK OF NOVA SCOTIA, MONTREAL TRUST COMPANY OF CANADA as
Trustee under certain Trust Indentures relating to the issue of unsecured Debentures by Peoples
Jewellers Limited, and NATIONAL TRUST COMPANY, by its agent The R-M Trust
Company, as Trustee under a certain Deed of Trust and Mortgage relating to the issue of First
Mortgage Bonds by Peoples Jewellers Limited**

RESPONDENTS

ORDER

THIS MOTION, made this day by the Applicant for an Order abridging the time for service of the Notice of Motion and Motion Record, an Order respecting the timetable for delivery of and voting on a plan of arrangement and compromise, and an Order sanctioning a claims valuation and dispute resolution mechanism in respect of claims of secured and unsecured creditors of the Applicant as well as voting and other procedures at meetings of classes of creditors and shareholders, and for an Order varying the Order of the Honourable Mr. Justice Blair dated December 29, 1992 as amended, was heard this 10th day of May, 1993 at Osgoode Hall, Toronto.

ON READING the Notice of Motion and Affidavit of Roman Doroniuk sworn May 4, 1993 and on hearing submissions of counsel for the Applicant and counsel for various of the creditors of Peoples Jewellers Limited:

SERVICE

1. **THIS COURT ORDERS** that the time for service of the within Notice of Motion and Motion Record be and it is hereby abridged and that the motion is properly returnable on Monday, May 10, 1993 and, further, that the requirement for service of the Notice of Motion and Motion Record upon interested parties other than those set out in the service list attached as Schedule "A" to the Notice of Motion be and the same is hereby dispensed with.

MOTION

2. **THIS COURT ORDERS** that Peoples Jewellers Limited ("Peoples" or the "Applicant") is authorized to seek the approval of its plan of arrangement and compromise in the manner set forth herein.

CREDITORS

3. **THIS COURT ORDERS** that the Applicant is authorized to hold meetings of the creditors of the Applicant (the "Meetings") on one or more dates during the period between June 28 and July 9, 1993 inclusive to vote on the plan of arrangement and compromise attached as Exhibit "A" to the Affidavit of Roman Doroniuk dated April 21, 1993 (the "Plan") or substantially in the form of the Plan as may it be amended either before or at the Meetings and that the Meetings take place in the City of Toronto at such places and times as the Applicant may determine and may be adjourned from time to time and place to place as the Applicant may consider appropriate or necessary.
4. **THIS COURT ORDERS** that David Richardson or, in the alternative, Harold Reiter of Ernst & Young Inc. (the "Monitor") or, in the alternative, David Murray of Deloitte & Touche, be appointed to act as claims officer (the "Claims Officer").
5. **THIS COURT ORDERS** that the relevant classes of creditors of Peoples for the purpose of voting to approve the Plan are the classes as defined in Section 3.1 of the Plan.

PROOFS OF CLAIM/DISPUTE RESOLUTION

6. **THIS COURT ORDERS** that the Applicant send to each of the creditors known to it on or before May 17, 1993 a proof of claim in the form attached hereto as Schedule "A" setting out the details of the claim that the Applicant proposes to recognize solely for voting purposes (the "Voting Claim").
7. **THIS COURT ORDERS** that, for purposes of voting at the Meetings:
 - (a) subject to subparagraph 7(b), all creditors of the Applicant having claims shall be shown on Voting Claims for voting under the Plan substantially in the form of the Voting Claim attached hereto as Schedule "A" provided that the Applicant shall not be obliged to provide the estimated value of the security, if any, securing such claim in the manner contemplated in such form or to provide any other assessment of the value of the security in such form;
 - (b) where debentures or bonds (collectively "Debentures") have been issued by the Applicant pursuant to the terms and provisions of one of the trust indentures or deeds of trust and mortgage referred to in Schedule "B" hereto (a "Scheduled Trust Deed"), or where the Applicant has created an employee benefit or pension plan (collectively "Plans") referred to in Schedule "B" hereto (a "Scheduled Plan"), the Applicant shall forward to the trustee under the Scheduled Trust Deed or the Scheduled Plan, as the case may be, (the "Trustee") a Voting Claim in respect of all of the outstanding Debentures issued

pursuant to the Scheduled Trust Deed or on behalf of all of the beneficiaries of the Scheduled Plan, as the case may be, thus relieving the Applicant from forwarding Voting Claims to each individual registered or beneficial holders of Debentures thereunder or to each beneficiary of the Plans, as the case may be (the "Affected Debentureholders" and "Affected Beneficiaries");

- (c) notwithstanding subparagraph 7(b), each Affected Debentureholder and Affected Beneficiary shall be entitled to vote its claim at the Meeting called for the Class of which such Affected Debentureholder or Affected Beneficiary is a member. For the purpose of determining the amount of such claims, the relevant Trustee shall file with the Applicant prior to June 1, 1993 (1) a separate statement in respect of each Scheduled Trust Deed identifying the portion of the aggregate claim thereunder which is allocable to each Debenture which is in registered form, identified by the name of the registered holder of such Debenture and (2) a separate statement in respect of each Scheduled Plan identifying the portion of the aggregate claim thereunder which is allocable to each Affected Beneficiary.
- 8. **THIS COURT ORDERS** that a Trustee shall incur no liability or obligation as a result of its receipt of a Voting Claim on behalf of the Affected Debentureholders under a Scheduled Trust Deed or on behalf of the Affected Beneficiaries under a Scheduled Plan, or as a result of its determination, for voting purposes, of the claims of Affected Debentureholders or Affected Beneficiaries, save for gross negligence or wilful misconduct on its part.
- 9. **THIS COURT ORDERS** that, notwithstanding the Voting Claim form attached as Schedule "A" or any advertisement in a newspaper relating to a call for claims, any person who does not receive a Voting Claim from the Applicant and considers that he or she is a creditor of the Applicant may file with the Applicant a Notice of Objection in the form set forth in Schedule "C" hereto on or before June 2, 1993 unless otherwise agreed to by the Applicant and subject to further order of this Court.
- 10. **THIS COURT ORDERS** that, upon receipt of a completed Voting Claim, unless a creditor takes the steps set forth in paragraph 11 of this Order on or before June 2, 1993, the creditor is conclusively deemed to have accepted the Voting Claim for voting purposes and for purposes of distribution upon acceptance of the Plan and approval by this Honourable Court.
- 11. **THIS COURT ORDERS** that if the creditor considers its claim to be understated in the Voting Claim, the creditor may file with the Applicant a Notice of Objection, in the form set forth in Schedule "C" hereto, on or before June 2, 1993. Where a Notice of Objection filed with the Applicant on or before June 2, 1993, asserts a claim which is less than or equal to 110% of the Voting Claim, the Applicant is entitled to treat the Voting Claims as conclusive for voting purposes only. If the Applicant does not receive a Notice of Objection in response to a Voting Claim, the creditor shall be deemed to have accepted as binding the claim set out in the Voting Claim for both voting and distribution purposes. A creditor who is deemed to accept a Voting Claim or who files a Notice of Objection is hereafter referred to as a "Claimant".
- 12. **THIS COURT ORDERS** that, upon receipt of a completed Notice of Objection, the Applicant shall either accept, revise or reject the amount of the Voting Claim set forth in the Notice of Objection for the purposes of voting at Meetings. The Applicant shall, as soon as possible after receipt of a Notice of Objection but, in any event, no later than June 9, 1993, advise each Claimant in writing whose Notice of Objection has been revised or rejected and the reasons therefor (the "Disallowance"). The notice advising of the Disallowance will indicate the manner in which a Claimant may dispute the Applicant's determination of its claim for voting purposes and the address and telecopier number of the Claims Officer for notification of a dispute.
- 13. **THIS COURT ORDERS** that a Claimant who intends to dispute a Disallowance shall, within five (5) business days of being advised of such Disallowance, notify both the Claims Officer and the Applicant in writing (the "Dispute Notice") that it does not accept the Applicant's determination of its claim. Any Claimant who does not so notify the Claims Officer and the Applicant within such five (5) business day period shall, unless otherwise agreed by the Applicant and subject to further Order of this Court, be deemed to have accepted, as final and binding, the Applicant's determination of its claim for purposes of voting on the Plan. Any notification to the Claims Officer and to the Applicant pursuant to this paragraph may be effected by facsimile transmission.
- 14. **THIS COURT ORDERS** that upon receipt of a Dispute Notice, the Claims Officer shall attempt to resolve the dispute between the Applicant and such Claimant, and the Claims Officer shall, within seven (7) days of

his receipt of the Dispute Notice, or such other period as the Claims Officer shall determine after taking into account the timetable for the holding of Meetings set by this Court determine and, subject to the direction of this Court, notify the Applicant and such Claimant of the amount of the Claimant's claim for voting purposes. The Claims Officer shall also report to this Court any determinations of claims made by him pursuant to this Order.

15. **THIS COURT ORDERS** that, subject to the direction of this Court, the Claims Officer shall determine the manner, if any, in which evidence may be brought before him by the parties as well as any other procedural matters which may arise in respect of his determination of a Claimant's claim.
16. **THIS COURT ORDERS** that either a Claimant or the Applicant may, within five (5) business days of notification of the Claims Officer's determination of such Claimant's claim, appeal such determination to this Court, in default of which such determination shall, subject to further Order of this Court, be final and binding on the Applicant and the Claimant for purposes of voting at Meetings.
17. **THIS COURT ORDERS** that the Applicant, by June 23, 1993, shall establish and maintain at its head office a list (the "Class Creditors' List") setting forth the names, addresses and the claims, for voting purposes, of each Claimant in the Class, including the Applicant's allocation of the amount of the claim, if any, that each Claimant shall vote in separate classes. The Applicants are to make the Class Creditors' List available to any Claimant or creditor upon request in writing.
18. **THIS COURT ORDERS** that notwithstanding the terms of any trust deed or trust indenture entered into by an Applicant, all Meetings shall be conducted by the Claims Officer and the Applicant and all claims shall be delivered in accordance with the provisions of this Order, the *Companies Creditors' Arrangement Act*, R.S.C. 1985, C-36, and any further Order which may be issued by this Court in respect of the procedure governing Meetings to be held for purposes of voting on the Plan and that a trustee under any trust deed or indenture shall incur no liability or obligation in connection with the calling or holding of the Meetings or the voting on the Plan.
19. **THIS COURT ORDERS** that the Claims Officer or a person designated by him shall preside as the chairman of each creditors' Meeting and shall decide all matters relating to the conduct of the Meeting. The Monitor shall provide scrutineers for the supervision and tabulation of the attendance at, quorum at and votes to be conducted at the Meetings and the Monitor shall report to this Court on the results of such votes by way of affidavit filed in these proceedings. A person designated by the chairman of the relevant Meeting shall act as secretary at the respective Meeting. The chairman shall be entitled to adjourn and further adjourn any Meeting of creditors at the Meeting or adjourned Meeting.
20. **THIS COURT ORDERS** that the Applicant on or before June 2, 1993 shall seek the Court's approval as to the form and content of a management proxy circular, which circular need not include the Class Creditors' List, to be delivered to creditors in connection with the calling of Meetings to consider the Plan and the Court's directions for the mailing and publication thereof and which will include a provision for at least fourteen (14) days notice of the Meetings after mailing of the management proxy circular. The circular shall contain, *inter alia*, rules and directions as to proxies.

SHAREHOLDERS

21. **THIS COURT ORDERS** that the relevant classes of holders of shares of Peoples for the purposes of voting to approve the Plan are:
 - (a) all holders of Class A Non-Voting Shares ("Class A Non-Voting Shareholders"), voting together as one class;
 - (b) all holders of Common Shares ("Common Shareholders"), voting together as one class; and
 - (c) all holders of First Preferred Shares ("First Preferred Shareholders"), voting together as one class;and that the approval required from each such class to pass a resolution in favour of the Plan is the affirmative vote of at least two-thirds of the votes cast by the holders of the class present and voting either in person or by proxy at the meeting.
22. **THIS COURT ORDERS** that Peoples call, hold and conduct a special meeting on or before July 9, 1993 of the Class A Non-Voting Shareholders to consider, and, if deemed advisable, to pass, a special resolution to approve

the Plan. The said special meeting shall be called, held and conducted in accordance with the relevant corporate law and the articles and by-laws of the Applicant, subject to what may be provided herein.

23. **THIS COURT ORDERS** that Peoples call, hold and conduct a special meeting on or before July 9, 1993 of the Common Shareholders to consider and, if deemed advisable, to pass, a special resolution to approve the Plan. The said special meeting shall be called, held and conducted in accordance with the relevant corporate law and the articles and by-laws of the Applicant, subject to what may be provided herein.
24. **THIS COURT ORDERS** that Peoples call, hold and conduct a special meeting on or before July 9, 1993 of the First Preferred Shareholders to consider and, if deemed advisable, to pass a special resolution to approve the Plan. The said special meeting shall be called, held and conducted in accordance with the relevant corporate law and the articles and by-laws of the Applicant, subject to what may be provided herein.
25. **THIS COURT ORDERS** that the only persons entitled to notice of or to attend the special meeting of the Class A Non-Voting Shareholders shall be the Class A Non-Voting Shareholders (and, for purposes of attendance, their proxyholders) and the Monitor, directors, officers, Peoples' counsel and the auditors of Peoples, and that the only persons entitled in person or by proxy to vote at the said special meeting shall be the registered Class A Non-Voting Shareholders as at the close of business on the record date for the said special meeting as established by the directors of Peoples, subject to the provisions of the relevant corporate law with respect to persons who become registered Class A Non-Voting Shareholders after that date.
26. **THIS COURT ORDERS** that the only persons entitled to notice of or to attend the special meeting of the Common Shareholders shall be the Common Shareholders (and, for purposes of attendance, their proxyholders) and the Monitor, directors, officers, Peoples' counsel and the auditors of Peoples, and that the only persons entitled in person or by proxy to vote at the said special meeting shall be the Common Shareholders as at the close of business on the record date for the said special meeting as established by the directors of Peoples, subject to the provisions of the relevant corporate law with respect to persons who become registered Common Shareholders after that date.
27. **THIS COURT ORDERS** that the only persons entitled to notice of or to attend the special meeting of the First Preferred Shareholders shall be the First Preferred Shareholders (and, for purposes of attendance, their proxyholders) and the Monitor, directors, officers, Peoples' counsel and the auditors of Peoples, and that the only persons entitled in person or by proxy to vote at the said special meeting shall be the registered First Preferred Shareholders as at the close of business on the record date for the said special meeting as established by the directors of Peoples subject to the provisions of the relevant corporate law with respect to persons who become registered First Preferred Shareholders after that date.
28. **THIS COURT ORDERS** that copies of all Disallowances, Class Creditors' Lists, Dispute Notices and determinations by the Claims Officer shall be filed by the Applicant, on a timely basis, with the Monitor and be available for inspection to any creditor upon request in writing.
29. **THIS COURT ORDERS** that, for purposes of the Voting Claim, notices or other written communication shall be deemed to have been received:
 - (a) if transmitted by telecopier or delivered, on the day of transmission or delivery; and
 - (b) if sent by ordinary mail, three (3) business days after mailing.

SERVICE

30. **THIS COURT ORDERS** that a copy of this Order together with notice(s) of Meeting or special meeting, as the case may be, and forms of proxy, in such form(s) as the Applicant may determine, and a management proxy circular in such form as approved by the board of directors of the Applicant and by this Court by subsequent Order, shall be sent to the creditors, Class A Non-Voting Shareholders, Common Shareholders and First Preferred Shareholders of Peoples and to the directors and the auditors of Peoples, to the Trustees, the Zale Trustee and to the Directors under the CBCA and OBCA, by mailing the same at least fourteen (14) days prior to the relevant meeting, excluding the date of mailing and excluding the date of such meeting, by prepaid ordinary mail to such persons at their registered addresses as they appear on the books and records maintained or caused to be maintained by the Applicant or the Trustee (and, in the case of the Directors under the CBCA and OBCA, to the Director's official office address) and that the period of notice for the holding of the special meetings of shareholders as provided in the articles of the Applicant be abridged accordingly. If the

Applicant becomes aware of any further claims of persons not known currently by it to be creditors, notice of the Meetings, a management proxy circular and form(s) of proxy shall be forthwith distributed to such persons but the entitlement of each such person to receive fourteen (14) days notice shall be abridged to the date notice is actually received by each such person.

31. **THIS COURT ORDERS** that Peoples on or before a date that is not less than thirty (30) days prior to the date of the Meetings publish in the national edition of *The Globe & Mail* newspaper notice of the Meetings including notice that any unknown creditor must provide written notice to the Applicant of its claim prior to the Meetings and in accordance with this Order setting forth the full name and address of such creditor and the amount and nature of its claim.
32. **THIS COURT ORDERS** that mailing of a copy of this Order together with notice(s) of Meeting or special meeting, as the case may be, together with the management proxy circular as set out in paragraph 20 hereof shall constitute good and sufficient service of this Order, the notice of Meeting or special meeting, and the management proxy circular upon all who may wish to appear in these proceedings and no other form of service need be made on such persons and, further, such service shall be effective on the third business day after the copy of this Order, the notice of Meeting or special meeting and the management proxy circular are mailed.
33. **THIS COURT ORDERS** that subparagraph 22(a) of the Order of the Honourable Mr. Justice Blair dated Tuesday, December 29, 1992, as amended by the Order of the Honourable Mr. Justice Houlden dated Monday, March 22, 1993, be and is hereby amended by deleting the words "May 31, 1993" and substituting therefor "July 31, 1993".
34. **THIS COURT ORDERS** that the Applicant is authorized to seek the approval of this Honourable Court to the Plan on or after July 22, 1993 and to file with the Court in connection therewith a record by class, dollar amount and number of creditors of the voting at the Meetings.
35. **THIS COURT ORDERS** that notwithstanding any other provision of this Order, any interested person may apply to this Court to seek relief upon four (4) days notice to the Applicant and to any other party likely to be affected by this Order or upon such other notice, if any, as this Court may Order.

"Mr. Justice Houlden"

SCHEDULE "A"

PEOPLES JEWELLERS LIMITED

PLAN OF ARRANGEMENT AND COMPROMISE
PURSUANT TO THE
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)

VOTING CLAIM

Please read carefully the information contained in this Voting Claim.

Full Name of Creditor: _____ (the "Creditor")

Full Mailing Address of Creditor: _____

(All notices and correspondence regarding
your Claim will be forwarded
to this address)

Telecopier No. _____

Telephone No. _____

Attention: _____

[Supplier Number per Peoples Jewellers Limited Creditor Listing]: _____

Summary of Claim: Class:

First Mortgage Bondholders \$ _____

Capital Lease Creditor \$ _____

Zale Claimants \$ _____

Debentureholders \$ _____

Unsecured Creditors \$ _____

Landlords \$ _____

Trade Creditors \$ _____

Employee Creditors \$ _____

Bank Creditor \$ _____

Total Claim Amount:

(as at December 29, 1992)

\$ _____

1. A Creditor by the name of _____ appears on the books and records of the Applicant. (state position or title)
2. Each Schedule attached hereto sets out:
 - (a) the amount of the Claim;
 - (b) a description of the transaction or agreement giving rise or relating to the Claim;
 - (c) the name of any guarantors which have guaranteed the Claim;
 - (d) a description of the security, if any, granted to the Creditor in respect of the Claim;
 - (e) the estimated value of the security, if any, granted to the Creditor in respect of the Claim; and
 - (f) the method of calculation of the Claim under the Plan for voting purposes.

DATED at _____, this _____ day of _____, 1993.

If you wish to object to this Voting Claim, a duly completed Notice of Objection together with all Schedules and accompanying documents must be returned to Peoples Jewellers Limited no later than June 2, 1993 to the following addresses:

Peoples Jewellers Limited
c/o Ernst & Young Inc.
Ernst & Young Tower
222 Bay Street, 22nd Floor
P.O. Box 251
Toronto-Dominion Centre
Toronto, Ontario
M5K 1J7

Telecopier No: (416) 943-3300
Attention: Harold Reiter

PEOPLES JEWELLERS LIMITED

**PLAN OF ARRANGEMENT AND COMPROMISE
PURSUANT TO THE
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)**

SCHEDULE TO VOTING CLAIM

Amount of Claim: _____

Description of Transaction or Agreement giving rise or relating to the Claim:

Names of any guarantors which have guaranteed the Claim:

Description of Security, if any, granted to the Creditor in respect of the Claim:

Estimated Value of Security
(if applicable): _____

Method of Calculation of Claim under the Plan:

SCHEDULE "B"
PEOPLES JEWELLERS LIMITED

SCHEDULED TRUST DEEDS AND SCHEDULED PLANS

1. Trust indenture dated as of July 11, 1985 between the Applicant and Montreal Trust Company of Canada, as successor trustee, as supplemented from time to time, relating to the 14.25% Retractable Debentures due July 2, 1995 of the Applicant.
2. Trust indenture dated as of June 30, 1986 between the Applicant and Montreal Trust Company of Canada, as successor trustee, as supplemented from time to time, relating to the 12.5% Senior Unsecured Debentures due July 2, 1996 of the Applicant.
3. Trust indenture dated as of June 29, 1990 between the Applicant and Montreal Trust Company of Canada, as trustee, as supplemented from time to time, relating to the 13.75% Senior Unsecured Debentures due June 29, 1995 of the Applicant.
4. Deed of trust and mortgage dated as of December 15, 1988 between the Applicant and National Trust Company, by its agent The R-M Trust Company, relating to the 11.75% First Mortgage Bonds, Series A, due December 15, 2008 of the Applicant.
5. Deferred Profit Sharing Plan of the Applicant.
6. Executive Pension Plan of the Applicant.

SCHEDULE "C"

PEOPLES JEWELLERS LIMITED

**PLAN OF ARRANGEMENT AND COMPROMISE
PURSUANT TO THE
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)**

NOTICE OF OBJECTION

NOTE TO CREDITORS: For those Creditors filing Notices of Objections to claims ascribed in Voting Claims, consideration will be given only to those claims that exceed 10% of the claim as set out in the Voting Claim.

Full name of Creditor:

_____ (the "Creditor")

Full mailing Address of Creditor:
(if different from that appearing on
Voting Claim, or if Creditor did not
receive Voting Claim)

Telecopier No. ()

Telephone No. ()

Attention:

TO: **Peoples Jewellers Limited**
c/o Ernst & Young Inc.
Ernst & Young Tower
22nd Floor, 222 Bay Street
P.O. Box 251
Toronto-Dominion Centre
Toronto, Ontario
MSK 1J7

Attention: Harold Reiter
Fax No. (416) 943-3300

Pursuant to the terms of the Order of the Honourable Mr. Justice Houlden dated Monday, May 10, 1993, in Ontario Court (General Division) Commercial List File No. B367/92, notice is hereby given to you by the Creditor of its

- (i) objection to the claim ascribed to it with the Voting Claim; or
- (ii) its claim.

The Creditor states that its claim should be as follows:

CLASS	AMOUNT
First Mortgage Bondholders	\$
Capital Lease Creditor	\$
Zale Claimant	\$
Unsecured Creditors	\$
Landlords	\$
Employee Creditors	\$
Bank Creditor	\$
Trade Creditor	\$
Debentureholder	\$
TOTAL CLAIM AMOUNT	\$

The following Schedules and Documentation are attached hereto, in support of this claim: **[Insert List of Schedules and Documentation]**

DATED at _____, this _____ day of _____, 1993.

APPENDIX E

INTERIM ORDER

Court File No. B367/92

ONTARIO COURT OF JUSTICE
(GENERAL DIVISION)

COMMERCIAL LIST

THE HONOURABLE }
MR. JUSTICE HOULDEN }

WEDNESDAY, THE 23RD
DAY OF JUNE, 1993

IN THE MATTER OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985,
C-44, as amended;

AND IN THE MATTER OF THE BUSINESS CORPORATIONS ACT (ONTARIO),
R.S.O. 1990, c. B-16, as amended;

AND IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36;

AND IN THE MATTER OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, c. C-43, as
amended;

AND IN THE MATTER OF A PROPOSED PLAN OF ARRANGEMENT FOR THE
CREDITORS AND SHAREHOLDERS OF PEOPLES JEWELLERS LIMITED

BETWEEN:

PEOPLES JEWELLERS LIMITED

APPLICANT

- and -

THE BANK OF NOVA SCOTIA, MONTREAL TRUST COMPANY OF CANADA as
Trustee under certain Trust Indentures relating to the issue of unsecured Debentures by Peoples
Jewellers Limited, and NATIONAL TRUST COMPANY, by its agent The R-M Trust
Company, as Trustee under a certain Deed of Trust and Mortgage relating to the issue of First
Mortgage Bonds by Peoples Jewellers Limited

RESPONDENTS

AMENDED AND RESTATED ORDER

THIS MOTION, made this day by Peoples Jewellers Limited (the "Applicant" or "Peoples") for an Order abridging the time for service of the Notice of Motion and Motion Record, an amended and restated Order respecting the timetable for delivery of and voting on a plan of arrangement and compromise, an amended and restated Order sanctioning a Claims valuation and dispute resolution mechanism in respect of Claims of secured and unsecured Creditors of the Applicant as well as voting and other procedures at meetings of Classes of Creditors and Shareholders, and in respect of certain other related matters, and for an Order varying the Order of the Honourable Mr. Justice Blair dated December 29, 1992, as amended, was heard this 23rd day of June, 1993 at Osgoode Hall, Toronto.

ON READING the Notice of Motion and Affidavit of Roman Doroniuk sworn June 23, 1993 (the "Affidavit") and on hearing submissions of counsel for the Applicant and counsel for various Creditors of Peoples and, it further appearing that prior to the proposed Plan (as hereinafter defined) being considered by the Shareholders and Creditors of the Applicant as herein ordered, the Applicant intends to call, hold and conduct an Annual and Special Meeting of its Shareholders for the purposes of, among other things, considering, and if thought fit, passing with or without variation, a special resolution authorizing the Applicant to apply to be continued under the OBCA and, upon which authorization having been obtained by the Applicant, intends to apply for a certificate of continuance pursuant to section 188 of the OBCA:

SERVICE

1. **THIS COURT ORDERS** that the time for service of the within Notice of Motion and Motion Record be and it is hereby abridged and that the motion is properly returnable on Wednesday, June 23, 1993 and, further, that the requirement for service of the Notice of Motion and Motion Record upon interested parties other than those set out in the service list attached as Schedule "A" to the Notice of Motion be and the same is hereby dispensed with.

MOTION

2. **THIS COURT ORDERS** that Peoples is hereby authorized to seek approval in the manner set forth herein of its plan of arrangement and compromise filed with this Court on April 21, 1993, as amended and restated on June 23, 1993, a copy of which, as so amended and restated, is attached as Exhibit "A" to the Affidavit, and as the same may be revised, amended, modified or supplemented from time to time after the date hereof in accordance with the terms thereof, and which is herein referred to as the "Plan". The capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

CREDITORS' MEETINGS

3. **THIS COURT ORDERS** that Peoples call, hold and conduct special meetings of the Classes of its Creditors (the "Creditors' Meetings") on or before July 30, 1993 for the purpose of considering, and, if thought fit, passing with or without variation, a resolution to approve the Plan and that the Creditors' Meetings take place in the City of Toronto at such places and times as the Applicant may determine in the respective notices of such Meetings. The Creditors' Meetings shall be called, held and conducted in accordance with the provisions of this Interim Order and otherwise as the Applicant may determine.

4. **THIS COURT ORDERS** that the relevant Classes of Creditors of Peoples for the purpose of voting to approve the Plan are as follows:

- (a) the First Mortgage Bondholders;
- (b) the Capital Lease Creditor;
- (c) the Unsecured Creditors;
- (d) the Landlords;
- (e) the Zale Claimants; and
- (f) the Bank Creditor;

as such Classes of Creditors may be designated and defined pursuant to the Plan, and that the approval required from each such Class to pass a resolution in favour of the Plan is the affirmative vote of a majority in

number of the Creditors having a Claim in the Class and representing not less than three-quarters in value of the Claims of Creditors in such Class who are present and voting either in person or by proxy at the Creditors' Meeting of such Class. Creditors of any Class may pass the resolution in respect of approval of the Plan by a resolution in writing signed by Creditors having Claims in such Class representing a majority in number of Creditors having Claims in such Class and not less than three-quarters in value of the Claims of such Class in lieu of passing such resolution at a Creditors' Meeting for such Class.

5. **THIS COURT ORDERS** that, as soon as practicable after the date hereof but not later than 21 days prior to the date of the relevant Creditors' Meeting, the Applicant send or give to the Creditors, in the manner hereinafter prescribed, notice of the Creditors' Meetings substantially in the forms contained in the draft management proxy circular annexed as Exhibit "B" to the Affidavit together with forms of proxy, substantially in the forms annexed as Exhibit "C" to the Affidavit, respectively, to the address of each Creditor as shown on the records maintained or caused to be maintained by the Applicant.
6. **THIS COURT ORDERS** that David Richardson or, in the alternative, Harold Reiter of Ernst & Young Inc. (the "Monitor") or, in the alternative, David Murray of Deloitte & Touche, be appointed to act as claims officer (the "Claims Officer") in connection with the Plan and the Claims valuation and dispute resolution mechanism in respect thereof.
7. **THIS COURT ORDERS** that the quorum required at any Creditors' Meeting shall be a Person or Persons, present in person (or by proxy), holding or representing in the aggregate more than 5% by value of the Accepted Claims for Voting Purposes in respect of the Class for which the Creditors' Meeting has been called.
8. **THIS COURT ORDERS** that if no quorum is present at any Creditors' Meeting, such Meeting shall stand adjourned to a day, determined by the chairman of such Meeting, which is not less than seven days and not more than 21 days thereafter. At such adjourned Creditors' Meeting, the Creditors of such Class present in person or represented by proxy shall constitute a quorum for such adjourned Meeting.
9. **THIS COURT ORDERS** that notwithstanding the terms of the Scheduled Trust Deeds (as hereinafter defined), all Creditors' Meetings shall be conducted by the Claims Officer and the Applicant, and all Voting Claims (as hereinafter defined) shall be delivered, in accordance with the provisions of this Order, the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36, and any further Order which may be issued by this Court in respect of the procedure governing the Creditors' Meetings to be held for purposes of voting on the Plan.
10. **THIS COURT ORDERS** that the Claims Officer or, failing the Claims Officer, some other person designated by the Applicant shall preside as the chairman of each Creditors' Meeting and shall decide all matters relating to the conduct of such Meeting. The Monitor shall provide scrutineers for the supervision and tabulation of the attendance at, quorum at and votes to be conducted at the Creditors' Meetings and the Monitor shall report to this Court on the results of such votes by way of affidavit filed in these Proceedings. A Person designated by the chairman of each Creditors' Meeting shall act as secretary at such Creditors' Meeting. The chairman shall be entitled to adjourn from time to time and place to place any Creditors' Meeting at such Meeting or adjourned Meeting as the chairman of such Meeting in his or her discretion may consider appropriate or necessary. In addition, the Applicant shall be entitled to adjourn or postpone from time to time and place to place any Creditors' Meeting or adjourned Meeting prior to such Creditors' Meeting or adjourned Meeting. The Applicant shall not be required to deliver any notice of the adjournment of any Creditors' Meeting or adjourned Meeting other than by announcing the adjournment at the Meeting or posting notice of the adjournment at the originally designated time and place of the Meeting being adjourned.
11. **THIS COURT ORDERS** that the Applicant shall send or deliver to each Creditor and Shareholder, together with the forms of notice and the forms of proxies herein referred to, a management proxy circular substantially in the form of the draft management proxy circular annexed as Exhibit "B" to the Affidavit, with such changes as counsel to the Applicant shall determine are necessary or advisable, (the "Circular") and which shall be filed with this Court on or prior to the date of the distribution of the notices, forms of proxy, and Circular to the Creditors and Shareholders provided that if the Circular is distributed on a non-Business Day the Circular may be filed with the Court on the next Business Day following.
12. **THE COURT ORDERS** that the only persons entitled to notice of or to attend and speak at a Creditors' Meeting shall be those Persons (including in respect of attendance and speaking, their proxyholders) entitled to

vote at the Creditors' Meeting, the Claims Officer, the Applicant's directors, officers, legal counsel and auditors, the appropriate Trustee (as hereinafter "defined") and the Director under the CBCA or OBCA. In addition, the Monitor shall provide scrutineers who may attend at any Creditors' Meeting for the purpose of supervising and tabulating attendance, the quorum and votes to be conducted at such Meeting. Any other Person may be admitted on invitation of the chairman of the Creditors' Meeting or with the consent of the Creditors at the relevant Creditors' Meeting.

13. **THIS COURT ORDERS** that any proxy which a Creditor wishes to submit in respect of the Creditors' Meetings must be delivered in sufficient time to ensure receipt by the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario M5K 1J7, Attention: Harold Reiter, not later than 5:00 p.m. (Toronto time) on July 28, 1993 or 48 hours (excluding non-Business Days) prior to the time on which any adjournment of the relevant Creditors' Meeting is to be held. Proxies may also be deposited with the chairman of the relevant Creditors' Meeting or any adjournment thereof prior to the commencement thereof.
14. **THIS COURT ORDERS** that any Person entitled to vote at a Creditors' Meeting who has given a proxy may revoke such proxy, at any time before it is exercised, by an instrument in writing executed by the appointor or the appointor's attorney duly authorized in writing or, where the appointor is a Corporation, by an officer or attorney thereof duly authorized and deposited either at the office of the Monitor, Ernst & Young Inc., Ernst & Young Tower, Toronto-Dominion Centre, P.O. Box 251, 22nd Floor, Toronto, Ontario M5K 1J7, Attention: Harold Reiter, by 5:00 p.m. (Toronto time) on the Business Day next preceding the date of the relevant Creditors' Meeting or on the Business Day next preceding the date of any adjournment of the relevant Creditors' Meeting or with the chairman at the relevant Creditors' Meeting or adjournment thereof.

PROOFS OF CLAIM/DISPUTE RESOLUTION

15. **THIS COURT ORDERS** that the voting claim sent to each of the Creditors known to the Applicant on or before May 17, 1993, substantially in the form attached hereto as Schedule "A" (the "Voting Claim"), setting out the details of the Claim of each such Creditor that the Applicant proposes to recognize for voting purposes shall be valid for the purposes of the Plan and this Interim Order, notwithstanding that the designation of the Classes of Creditors as set out therein may have been revised hereby or under the Plan subsequent to the aforesaid date.
16. **THIS COURT ORDERS** that, for purposes of voting at the Creditors' Meetings:
 - (a) subject to subparagraphs 16(b) and 16(c), all Creditors of the Applicant having Claims shall be shown on Voting Claims for voting under the Plan substantially in the form of the Voting Claim attached hereto as Schedule "A", provided that the Applicant shall not be obliged to provide the estimated value of the security, if any, securing such Claim in the manner contemplated in such form or to provide any other assessment of the value of the security in such form and provided that any Person not receiving a Voting Claim may, as hereinafter prescribed, file with the Applicant a Notice of Objection (as hereinafter defined) for purposes of establishing its status as a Creditor of the Applicant;
 - (b) where debentures or bonds (collectively, "Debentures") have been issued by the Applicant pursuant to the terms and provisions of one of the trust indentures or deeds of trust and mortgage referred to in Schedule "B" hereto (a "Scheduled Trust Deed"), or where the Applicant has created an employee benefit or pension plan (collectively "Plans") referred to in Schedule "B" hereto (a "Scheduled Plan"), the Applicant shall forward to the trustee under the Scheduled Trust Deed or the Scheduled Plan, as the case may be, (in each case, a "Trustee") one Voting Claim in respect of all of the outstanding Debentures issued pursuant to the Scheduled Trust Deed, or in respect of all of the beneficiaries of the Scheduled Plan, as the case may be, thus relieving the Applicant from being required to forward Voting Claims to each individual registered or beneficial holder of a Debenture thereunder or to each beneficiary of a Plan, as the case may be (the "Affected Debentureholders" and "Affected Beneficiaries", respectively);
 - (c) the Applicant shall forward to The Zale Corporation a Voting Claim in respect of all Zale Claimants;
 - (d) notwithstanding subparagraph 16(b), each Affected Debentureholder and Affected Beneficiary shall be entitled to notice of, to attend and to vote at the Creditors' Meeting called for the Class of Creditors of

which such Affected Debentureholder or Affected Beneficiary is a member. For the purpose of determining the amount of the Claims accepted for voting purposes of such Affected Debentureholders or Affected Beneficiaries, as the case may be, the relevant Trustee shall have filed with the Applicant on or before to June 2, 1993 (1) a separate statement in respect of each Scheduled Trust Deed identifying the portion of the aggregate Claim thereunder which is allocable to each Debenture in registered form, identified by the name of the registered holder of such Debenture and (2) a separate statement in respect of each Scheduled Plan identifying the portion of the aggregate Claim thereunder which is allocable to each Affected Beneficiary and each such Affected Beneficiary shall be deemed to be an individual Creditor for the purpose of notice of and attendance at the Unsecured Creditors' Meeting and voting on the Plan thereat. In the case of the EPP Trustee, such Trustee's Statement shall be the list of EPP Beneficiaries and the portion of the aggregate amount of the EPP Trustee's Claim allocable to each such EPP Beneficiary which has been approved by the Court for such purpose.

17. **THIS COURT ORDERS** that a Trustee shall incur no liability or obligation in connection with the calling, holding or conduct of the Creditors' Meetings or the voting on the Plan, including as a result of its receipt of a Voting Claim on behalf of the Affected Debentureholders under a Scheduled Trust Deed or on behalf of the Affected Beneficiaries under a Scheduled Plan, as the case may be, or as a result of its determination, for voting purposes, of the Claims of Affected Debentureholders or Affected Beneficiaries, as the case may be, save for gross negligence or wilful misconduct on its part.
18. **THIS COURT ORDERS** that, notwithstanding the form of Voting Claim attached as Schedule "A" hereto or any advertisement in a newspaper relating to a call on the part of the Applicant for Claims as hereinafter referred to, any Person who does not receive a Voting Claim from the Applicant, and considers that he, she or it is a Creditor of the Applicant, shall have filed with the Applicant a notice of objection in the form attached hereto as Schedule "C" (a "Notice of Objection") on or before June 2, 1993, (it being acknowledged that the designation of the Classes of Creditors as set out herein may have been revised hereby or under the Plan subsequent to the aforesaid date) unless otherwise agreed to by the Applicant, and subject to further Order of this Court.
19. **THIS COURT ORDERS** that the advertisement by the Applicant in *The Globe & Mail* (national edition), *The Wall Street Journal* (national edition) and the *Financial Times* (of London) newspapers between May 26 and 28, 1993, shall constitute good and sufficient service of notice upon all Persons of their respective entitlement to file with the Applicant Notices of Objection with respect to their respective Claims, if any.
20. **THIS COURT ORDERS** that, upon receipt of a completed Voting Claim, unless a Creditor takes the steps set forth in paragraph 21 of this Order on or before June 2, 1993, each such Creditor is conclusively deemed to have accepted the Voting Claim for voting purposes and for purposes of distribution upon acceptance of the Plan and approval by this Court.
21. **THIS COURT ORDERS** that if the Creditor considers its Claim to be understated in the Voting Claim, the Creditor shall file with the Applicant a Notice of Objection on or before June 2, 1993. Where a Notice of Objection filed with the Applicant on or before June 2, 1993 asserts a Claim which is less than or equal to 110% of the amount set forth in the Voting Claim in respect of the applicable Creditor, the Applicant shall be entitled to treat such Voting Claim as conclusive for voting purposes only. If the Applicant does not receive a Notice of Objection in response to a Voting Claim, the Creditor shall be deemed to have accepted as binding the amount of the Claim set out in the Voting Claim for both voting and distribution purposes. A Creditor who is deemed to accept a Voting Claim, or who files a Notice of Objection, as the case may be, is hereinafter referred to as a "Claimant".
22. **THIS COURT ORDERS** that, upon receipt of a completed Notice of Objection, the Applicant shall either accept, revise or reject the amount of the Voting Claim set forth in the Notice of Objection for the purposes of voting at the relevant Creditors' Meeting. The Applicant shall, as soon as possible after receipt of a Notice of Objection but, in any event, no later than June 16, 1993 (except in the case of The Zale Corporation, in which case the date shall be June 23, 1993), notify each Claimant in writing whose Notice of Objection has been revised or rejected and provide to such Claimant the reasons therefor (the "Disallowance"). The notice advising of the Disallowance shall indicate the manner in which a Claimant may dispute the Applicant's determination of its Claim for voting purposes and the address and telecopier number of the Claims Officer for notification of a dispute. In the event that the Applicant shall not send a notice advising of a Disallowance to

any Claimant in respect of such Claimant's Notice of Objection, the Applicant shall be deemed to have accepted the amount set forth in such Notice of Objection for voting and distribution purposes.

23. **THIS COURT ORDERS** that a Claimant who intends to dispute a Disallowance shall, within five (5) Business Days of being advised of such Disallowance, notify both the Claims Officer and the Applicant in writing (the "Dispute Notice") that it does not accept the Applicant's determination of its Claim. Any Claimant who does not so notify the Claims Officer and the Applicant within such five (5) Business Day period shall, unless otherwise agreed to by the Applicant and subject to any further Order of this Court, be deemed to have accepted, as final and binding, the Applicant's determination of its Claim for purposes of voting on the Plan.
24. **THIS COURT ORDERS** that upon receipt of a Dispute Notice, the Claims Officer shall attempt to resolve the dispute between the Applicant and such Claimant, and the Claims Officer shall, within five (5) Business Days of his receipt of the Dispute Notice, or such longer period as the Claims Officer may determine after taking into account the timetable for the holding of Creditors' Meetings established pursuant to this Order, determine and, subject to the direction of this Court, notify the Applicant and such Claimant of the amount of the Claimant's Claim for voting purposes. The Claims Officer shall also report to this Court any determinations of Claims made by the Claims Officer pursuant to this Order.
25. **THIS COURT ORDERS** that, subject to a further Order of this Court, the Claims Officer shall determine the manner, if any, in which evidence may be brought before the Claims Officer by the parties, as well as any other procedural matters which may arise in respect of the Claims Officer's determination of a Claimant's Claim.
26. **THIS COURT ORDERS** that either a Claimant or the Applicant may, within five (5) Business Days of notification of the Claims Officer's determination of such Claimant's Claim, appeal such determination to this Court, in default of which such determination shall, subject to further Order of this Court, be final and binding on the Applicant and the Claimant for purposes of voting on the Plan.
27. **THIS COURT ORDERS** that any Voting Claim or Notice of Objection, notices or other written communication may be served by telecopier or ordinary mail and shall be deemed to have been received:
 - (a) if transmitted by telecopier or delivered, on the day of transmission or delivery; and
 - (b) if sent by ordinary mail, three (3) Business Days after mailing.
28. **THIS COURT ORDERS** that the Applicant, on or before June 30, 1993, shall establish and maintain at its head office a list (the "Class Creditors' List"), for purposes of notice and otherwise, setting forth the names, addresses and the Claims, for voting purposes, of each Claimant in the Class, including the Applicant's allocation of the amount of the Claim, if any, that each Claimant shall vote in separate Classes. The Applicant shall make the Class Creditors' List available to any Claimant or Creditor upon request in writing.
29. **THIS COURT ORDERS** that copies of all Class Creditors' Lists, Trustee's Statements, Voting Claims, Notices of Objection, Disallowances, Dispute Notices and determinations by the Claims Officer and/or Peoples shall be filed by the Applicant, on a timely basis, with the Monitor and all such documents shall be made available for inspection by any Claimant upon request made to the Monitor or Peoples in writing.
30. **THIS COURT ORDERS** that for the purposes of voting to approve the Plan, the value of a Claim of a Creditor will be the amount prescribed by the Plan or established by the proofs of claim and dispute resolution process sanctioned by this Order, subject to any further order of this Court, except where there is a dispute as to the amount of the Claim or the entitlement to vote in a particular Class which has not been resolved in a final and binding manner before the date of the Creditors' Meeting at which the Creditor is to vote, the Applicant may either accept the determination of the Creditor or the Claims Officer, as the case may be, of the value of the Creditors' Claim or entitlement to vote in a particular Class solely for purposes of voting on the Plan, conduct the vote of the Class into which that Creditor falls or claims to fall subject to a final determination of its Claim or right to vote in that Class, or delay the vote of the Class into which that Creditor falls or claims to fall until a final determination of its Claim is made.

ZALE CLAIMANTS

31. **THIS COURT ORDERS** that The Zale Corporation shall have sole voting authority with respect to the Zale Claimants.

SHAREHOLDERS

32. **THIS COURT ORDERS** that the relevant Classes of Shareholders for the purposes of voting to approve the Plan are:

- all holders of Class A Non-Voting Shares ("Class A Non-Voting Shareholders"), voting together as a class;
- all holders of Common Shares ("Common Shareholders"), voting together as a class; and
- all holders of First Preferred Shares ("First Preferred Shareholders"), voting together as a class;

and that the approval required from each such Class to pass a special resolution in favour of the Plan is the affirmative vote of at least two-thirds of the votes cast by the holders of the Class present and voting either in person or by proxy at the Shareholders' Meeting of such Class, on the basis of one vote for each Share.

33. **THIS COURT ORDERS** that Peoples call, hold and conduct Meetings on or before July 29, 1993 of each of the Class A Non-Voting Shareholders, the Common Shareholders and the First Preferred Shareholders of the Applicant, each voting as a Class, (the "Shareholders' Meetings") for the purpose of considering, and, if thought fit, passing with or without variation, a special resolution to approve the Plan and that the Shareholders' Meetings take place in the City of Toronto at such places and times as the Applicant may determine in the respective notices of such Meetings. The said Shareholders' Meetings shall be called, held and conducted in accordance with the provisions of the CBCA and the articles and by-laws of the Applicant, subject to the provisions of this Order.

34. **THIS COURT ORDERS** that, as soon as practicable after the date hereof but not later than 21 days prior to the date of the relevant Shareholders' Meeting, the Applicant send or give to the Shareholders, in the manner hereinafter prescribed, notice of the Shareholders' Meetings substantially in the forms contained in the draft Circular annexed as Exhibit "B" to the Affidavit, together with forms of proxy, substantially in the forms annexed as Exhibit "D" to the Affidavit, respectively, to the address of each Shareholder as shown on the register maintained or caused to be maintained by the Applicant.

35. **THIS COURT ORDERS** that the quorum required at any Shareholders' Meeting shall be a Person or Persons present in person or by proxy holding or representing in the aggregate not less than 5% of the outstanding Shares enjoying voting rights at such Shareholders' Meeting.

36. **THIS COURT ORDERS** that if no quorum is present at a Shareholders' Meeting, such Meeting shall stand adjourned to a day, determined by the chairman of such Meeting, which is not less than seven days and not more than 21 days thereafter. At such adjourned Shareholders' Meeting, the Shareholders of such Class present in person or by proxy shall constitute a quorum for such adjourned Meeting.

37. **THIS COURT ORDERS** that the chairman of each of the Shareholders' Meetings shall be the Acting Chairman of the Board of Directors of the Applicant or any other Director or officer of the Applicant who shall be appointed by the Directors of the Applicant for that purpose. Such chairman shall decide all matters relating to the conduct of any such Meeting. The Transfer Agent shall provide scrutineers for the supervision and tabulation of the attendance at, quorum at and votes to be conducted at the Shareholders' Meetings and the Transfer Agent shall report to this Court on the results of such votes by way of affidavit filed in these Proceedings. A Person designated by the chairman of each Shareholders' Meeting shall act as secretary at such Shareholders' Meeting. The chairman shall be entitled to adjourn from time to time and place to place any Shareholders' Meeting at such Meeting or adjourned Meeting as the chairman of such Meeting in his or her discretion may consider appropriate or necessary. In addition, the Applicant shall be entitled to adjourn or postpone from time to time and place to place any Shareholders' Meeting or adjourned Meeting prior to such Shareholders' Meeting or adjourned Meeting. The Applicant shall not be required to deliver any notice of the adjournment of any Shareholders' Meeting or adjourned Meeting other than announcing the adjournment at the Meeting or posting notice of the adjournment at the originally designated time and place of the Meeting being adjourned.

38. **THIS COURT ORDERS** that the only persons entitled to notice of or to attend and speak at a Shareholders' Meeting are those Persons, (including, for purposes of attendance and speaking, their proxyholders) entitled to vote at the Shareholders' Meeting, the Monitor, the Applicant's directors, officers, legal counsel and auditors, and the Director under the CBCA and OBCA, and that the only Persons entitled in person or by proxy to vote

at the said Shareholders' Meetings shall be the registered Class A Non-Voting Shareholders, Common Shareholders and the First Preferred Shareholders, as the case may be, as at the close of business on June 28, 1993 or such other record date for the said Shareholders' Meeting as may be established by the Directors of the Applicant, subject to the provisions of the CBCA with respect to Persons who become registered Class A Non-Voting, Common Shareholders or First Preferred Shareholders, as the case may be, after that date. In addition, the Transfer Agent shall provide scrutineers who may attend at any Shareholders' Meeting for the purpose of supervising and tabulating attendance, the quorum and votes to be conducted at such Meeting. Any other Person may be admitted on invitation of the chairman of the Shareholders' Meeting or with the consent of the Shareholders at the relevant Shareholders' Meeting.

39. **THIS COURT ORDERS** that any proxy which a Shareholder wishes to submit in respect of the Shareholders' Meetings must be delivered in sufficient time to ensure receipt by the transfer agent of the Applicant, Montreal Trust Company of Canada, Proxy Department, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1, not later than 5:00 p.m. (Toronto time) on July 27, 1993 or 48 hours (excluding non-Business Days) prior to the time at which any adjournment of the relevant Shareholders' Meeting is to be held. Proxies may also be deposited with the chairman of the relevant Shareholders' Meeting or any adjournment thereof prior to the commencement thereof.
40. **THIS COURT ORDERS** that any Person entitled to vote at a Shareholders' Meeting who has given a proxy may revoke such proxy, at any time before it is exercised, by an instrument in writing executed by the appointor or the appointor's attorney duly authorized in writing or, where the appointor is a Corporation, by an officer or attorney thereof duly authorized and deposited either at the registered office of the Applicant, 1440 Don Mills Road, Don Mills, Ontario M3B 3M1, by 5:00 p.m. (Toronto time) on the Business Day next preceding the date of the relevant Shareholders' Meeting, or on the Business Day next preceding the date of any adjournment of the relevant Shareholders' Meeting, or with the chairman of the relevant Shareholders' Meeting or adjournment thereof or in any other manner permitted by law.

CONTINUANCE

41. **THIS COURT ORDERS** that the style of cause of this proceeding be and the same is hereby amended by adding the following:

AND IN THE MATTER OF THE BUSINESS CORPORATIONS ACT (ONTARIO) R.S.O. 1990,
c.B-16, as amended.
42. **THIS COURT ORDERS** that, upon obtaining by the Applicant of a certificate of continuance under the OBCA after the termination of its Annual and Special Meeting of Shareholders, no further notice, form of proxy, circular or other document need be given to Shareholders in respect of the Shareholders' Meetings and the proxies received by the management of Peoples in respect of the Shareholders' Meetings shall remain in full force and effect at the said Meetings, subject to the rights of revocation in respect thereof provided herein.
43. **THIS COURT ORDERS** that compliance by Peoples with the applicable requirements of the CBCA and of this Interim Order in relation to the Shareholders' Meetings and any adjournment thereof, and subject to the continuance of Peoples under the OBCA, shall be deemed conclusively to constitute compliance by the Applicant with the provisions of the OBCA relating to the Shareholders' Meetings and any adjournment thereof, as if Peoples had been governed by the OBCA on any effective date for the taking of any action by it and, for greater certainty, Peoples shall be so deemed conclusively to have complied with any notice, proxy, circular, mandatory proxy solicitation or other requirements of the OBCA.
44. **THIS COURT ORDERS** that the Shareholders' Meetings shall after the continuance of Peoples under the OBCA be conducted in accordance with the provisions of the OBCA, subject to the terms of this Order.

DISSENT

45. **THIS COURT ORDERS** that, subject to further Order of this Court, the rights available to Shareholders under the CBCA to dissent from the special resolution authorizing the continuance of the Applicant under the OBCA shall constitute the full and sufficient rights of dissent for the Shareholders with respect to the special resolution approving the Plan and the Shareholders shall not be entitled to any further rights of dissent with respect to the special resolution approving the Plan.

SERVICE

46. **THIS COURT ORDERS** that a copy of this Order together with notice(s), form(s) of proxy, and a Circular in such forms as contemplated by this Order, shall be sent to the Creditors and Shareholders of Peoples and to the directors and the auditors of Peoples, to the Trustees and to the Directors under the CBCA and OBCA, by delivering the same at least twenty-one (21) days prior to the date of the first Meeting, including the date of mailing and excluding the date of such Meeting, by prepaid ordinary mail, personal delivery or telecopy, or any combination thereof, as determined by the Applicant in its sole discretion, to such Persons at their registered addresses as they appear on the books and records maintained or caused to be maintained by the Applicant or the Trustees (and, in the case of the Directors under the CBCA and OBCA, to each Director's official office address) or as may be known otherwise to the Applicant. If the Applicant becomes aware of any further Claims of Persons not known currently by it to be Creditors, notice(s) of the Creditors' Meetings, form(s) of proxy and a Circular shall be forthwith distributed to such Persons, but the entitlement of each such Person to receive twenty-one (21) days' notice shall be abridged to the date notice is actually received by each such Person.
47. **THIS COURT ORDERS** that Peoples on or before a date that is not less than twenty-five (25) days prior to the date of the first Meeting publish in *The Globe & Mail* (national edition), *The Wall Street Journal* and the *Financial Times* (of London) newspapers notice of the Meetings.
48. **THIS COURT ORDERS** that delivering of a copy of this Order together with notice(s) of Creditors' Meetings and Shareholders' Meetings, as the case may be, together with the Circular as set out in paragraph 46 hereof, together with the publication of notice as provided in paragraph 47 hereof, shall constitute good and sufficient service and delivery of this Order, the notices of Creditors' Meetings and Shareholders' Meetings, the Circular and in respect of these Proceedings upon all Persons who may be entitled to receive notice thereof pursuant to this Order, wish to be present in person or by proxy at any of the Meetings or wish to appear in these Proceedings, and no other form of notice or service need be made on such Persons and no other document or materials need be served on such Persons in respect of these Proceedings unless such Person shall have filed and served a notice of intention to appear in accordance with paragraph 50 of this Interim Order. Such service shall be effective, in the case of mailing, on the third Business Day after the copy of this Order, the notice(s) of Creditors' Meetings and Shareholders' Meetings and the Circular are mailed and, in the case of personal delivery or telecopy, on the day of personal delivery or telecopying of same, or if such day is not a Business Day, on the immediately following Business Day.
49. **THIS COURT ORDERS** that, upon approval of the Plan by the Class A Non-Voting Shareholders, Common Shareholders, First Preferred Shareholders, Unsecured Creditors, Landlords, Zale Claimants and Bank Creditor, and subject to the terms of the Plan by the First Mortgage Bondholders and the Capital Lease Creditor, in the manner set forth in this Interim Order, the Applicant may apply at 9:00 a.m. on Thursday, the 5th day of August, 1993 to this Court for a Final Order approving the Plan and that, for greater certainty, service in accordance with paragraph 48 of this Interim Order shall constitute good and sufficient service of such application upon all persons who are entitled to receive same and no other form of service need be made and no other material need be served on such persons in respect of such application.
50. **THIS COURT ORDERS** that any Shareholder or Creditor or any other interested Person desiring to appear and present evidence supporting or opposing the motion for the Final Order is required to file with the Court and serve upon the Applicant on or before July 30, 1993, a Notice of Intention to Appear including such person's address for personal service in the Province of Ontario, together with any evidence or materials which such person intends to present to the Court. Service on the Applicant shall be effected by service upon the solicitors for the Applicant, Stikeman, Elliott, Suite 5300, Commerce Court West, Toronto, Ontario M5L 1B9, Attention: Peter F.C. Howard/David R. Byers. Service on a person filing and serving a Notice of Intention to Appear referred to above shall be effected by service on such person at the address for personal service in the Province of Ontario set forth in such notice of intention to appear.
51. **THIS COURT ORDERS** that, in the event that the motion for the Final Order is adjourned, only those persons who have filed and served a Notice of Intention to Appear on the application shall be served with notice of the adjourned date.
52. **THIS COURT ORDERS** that subparagraph 22(a) of the Order of the Honourable Mr. Justice Blair dated Tuesday, December 29, 1992, as amended by the Order of the Honourable Mr. Justice Houlden dated

Monday, March 22, 1993 and as further amended by the Order of the Honourable Mr. Justice Houlden dated Monday, the 10th day of May, 1993, be and is hereby amended by deleting the words "July 31, 1993" and substituting therefor "September 15, 1993".

53. **THIS COURT ORDERS** that notwithstanding any other provision of this Order, any interested Person may apply to this Court to seek relief upon four (4) days' notice to the Applicant and to any other party likely to be affected by this Order or upon such other notice, if any, as this Court may Order.

SCHEDULE "A"

PEOPLES JEWELLERS LIMITED

**PLAN OF ARRANGEMENT AND COMPROMISE
PURSUANT TO THE
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)**

VOTING CLAIM

Please read carefully the information contained in this Voting Claim.

Full Name of Creditor: _____ (the "Creditor")

Full Mailing Address of Creditor: _____
(All notices and correspondence regarding
your Claim will be forwarded
to this address) _____

Telecopier No. _____
Telephone No. _____
Attention: _____

Attention: _____

Creditor Listing]: _____

[Supplier Number per Peoples Jewellers Limited Creditor Listing]: _____

Summary of Claim: Class: _____

First Mortgage Bondholders \$ _____
Capital Lease Creditor \$ _____
Zale Claimants \$ _____
Debentureholders \$ _____
Unsecured Creditors \$ _____
Landlords \$ _____
Trade Creditors \$ _____
Employee Creditors \$ _____
Bank Creditor \$ _____

Total Claim Amount: \$ _____
(as at December 29, 1992)

1. A Creditor by the name of _____ appears on the books and records of the Applicant. (state position or title)
2. Each Schedule attached hereto sets out:
 - (a) the amount of the Claim;
 - (b) a description of the transaction or agreement giving rise or relating to the Claim;
 - (c) the name of any guarantors which have guaranteed the Claim;
 - (d) a description of the security, if any, granted to the Creditor in respect of the Claim;
 - (e) the estimated value of the security, if any, granted to the Creditor in respect of the Claim; and
 - (f) the method of calculation of the Claim under the Plan for voting purposes.

DATED at _____, this _____ day of _____, 1993.

If you wish to object to this Voting Claim, a duly completed Notice of Objection together with all Schedules and accompanying documents must be returned to Peoples Jewellers Limited no later than June 2, 1993 to the following addresses:

Peoples Jewellers Limited
c/o Ernst & Young Inc.
Ernst & Young Tower
222 Bay Street, 22nd Floor
P.O. Box 251
Toronto-Dominion Centre
Toronto, Ontario
M5K 1J7

Telecopier No: (416) 943-3300
Attention: Harold Reiter

PEOPLES JEWELLERS LIMITED

**PLAN OF ARRANGEMENT AND COMPROMISE
PURSUANT TO THE
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)**

SCHEDULE TO VOTING CLAIM

Amount of Claim: _____

Description of Transaction or Agreement giving rise or relating to the Claim:

Names of any guarantors which have guaranteed the Claim:

Description of Security, if any, granted to the Creditor in respect of the Claim:

Estimated Value of Security
(if applicable): _____

Method of Calculation of Claim under the Plan:

SCHEDULE "B"

PEOPLES JEWELLERS LIMITED

SCHEDULED TRUST DEEDS AND SCHEDULED PLANS

1. Trust indenture dated as of July 11, 1985 between the Applicant and Montreal Trust Company of Canada, as successor trustee, as supplemented from time to time, relating to the 14.25% Retractable Debentures due July 2, 1995 of the Applicant.
2. Trust indenture dated as of June 30, 1986 between the Applicant and Montreal Trust Company of Canada, as successor trustee, as supplemented from time to time, relating to the 12.5% Senior Unsecured Debentures due July 2, 1996 of the Applicant.
3. Trust indenture dated as of June 29, 1990 between the Applicant and Montreal Trust Company of Canada, as trustee, as supplemented from time to time, relating to the 13.75% Senior Unsecured Debentures due June 29, 1995 of the Applicant.
4. Deed of trust and mortgage dated as of December 15, 1988 between the Applicant and National Trust Company, by its agent The R-M Trust Company, relating to the 11.75% First Mortgage Bonds, Series A, due December 15, 2008 of the Applicant.
5. Deferred Profit Sharing Plan of the Applicant.
6. Executive Pension Plan of the Applicant.

SCHEDULE "C"

PEOPLES JEWELLERS LIMITED

**PLAN OF ARRANGEMENT AND COMPROMISE
PURSUANT TO THE
COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)**

NOTICE OF OBJECTION

NOTE TO CREDITORS: For those Creditors filing Notices of Objections to claims ascribed in Voting Claims, consideration will be given only to those claims that exceed 10% of the claim as set out in the Voting Claim.

Full name of Creditor: _____ (the "Creditor")

Full mailing Address of Creditor:
(if different from that appearing on
Voting Claim, or if Creditor did not
receive Voting Claim) _____

Telecopier No. () _____

Telephone No. () _____

Attention: _____

TO: Peoples Jewellers Limited
c/o Ernst & Young Inc.
Ernst & Young Tower
22nd Floor, 222 Bay Street
P.O. Box 251
Toronto-Dominion Centre
Toronto, Ontario
M5K 1J7

Attention: Harold Reiter
Fax No. (416) 943-3300

Pursuant to the terms of the Order of the Honourable Mr. Justice Houlden dated Monday, May 10, 1993, in Ontario Court (General Division) Commercial List File No. B367/92, notice is hereby given to you by the Creditor of its

- (i) objection to the claim ascribed to it with the Voting Claim; or
- (ii) its claim.

The Creditor states that its claim should be as follows:

CLASS	AMOUNT
First Mortgage Bondholders	\$
Capital Lease Creditor	\$
Zale Claimant	\$
Unsecured Creditors	\$
Landlords	\$
Employee Creditors	\$
Bank Creditor	\$
Trade Creditor	\$
Debentureholder	\$
TOTAL CLAIM AMOUNT	\$

The following Schedules and Documentation are attached hereto, in support of this claim: **[Insert List of Schedules and Documentation]**

DATED at _____, this _____ day of _____, 1993.

APPENDIX F
PEOPLES JEWELLERS LIMITED

**FORM OF SPECIAL RESOLUTION OF CLASS A NON-VOTING SHAREHOLDERS,
COMMON SHAREHOLDERS AND FIRST PREFERRED SHAREHOLDERS**

CONTINUANCE

BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT

1. The Corporation be and it is hereby authorized to make application to the Director under the *Business Corporations Act* (Ontario) for a certificate of continuance continuing the Corporation as if it had been incorporated under the *Business Corporations Act* (Ontario);
2. The Corporation be and it is hereby authorized to make application to the Director under the *Canada Business Corporations Act* for a letter of satisfaction to permit such continuance and for a certificate of discontinuance;
3. The articles of the Corporation be and they are hereby authorized to be amended to make any changes necessary to make the articles of continuance conform to the *Business Corporations Act* (Ontario);
4. Notwithstanding that this special resolution has been passed, the directors of the Corporation be and they are hereby authorized and empowered to revoke this special resolution and determine not to proceed with the applications hereby authorized, at any time prior to the issuance of a certificate of continuance, without further approval of the shareholders of the Corporation; and
5. Any officer or director of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute or cause to be executed, under corporate seal or otherwise, and to deliver or cause to be delivered, articles of continuance, in duplicate, to the Director under the *Business Corporations Act (Ontario)* and to execute or cause to be executed, under corporate seal or otherwise, and to deliver or cause to be delivered, all such documents, agreements and instruments and to do or cause to be done all such other acts and things as such officer or director shall determine to be necessary or desirable in order to carry out the intent of the foregoing paragraphs of this special resolution and the matters authorized thereby, such determination to be evidenced conclusively by the execution and delivery of such documents, agreements or instruments or the doing of such acts or things.

APPENDIX H
PEOPLES JEWELLERS LIMITED

**FORM OF RESOLUTION OF FIRST MORTGAGE BONDHOLDERS, CAPITAL LEASE CREDITOR,
UNSECURED CREDITORS, LANDLORDS, ZALE CLAIMANTS AND BANK CREDITOR**

PLAN OF ARRANGEMENT AND COMPROMISE

BE IT RESOLVED THAT:

1. The plan of arrangement and compromise (the "Plan") pursuant to section 182 of the *Business Corporations Act (Ontario)* and under the *Companies' Creditors Arrangement Act* (Canada) involving shareholders and creditors of the Corporation presented to the meeting be hereby authorized, approved and adopted;
2. Notwithstanding that this resolution has been passed and the Plan approved by the shareholders and creditors of the Corporation or that the Plan has been approved by the Ontario Court of Justice (General Division), the directors of the Corporation be and are hereby authorized and empowered to revoke this resolution and determine not to proceed with the Plan, at any time prior to the issuance of a certificate in respect of articles of arrangement filed to give effect to the Plan, without further approval of the shareholders or creditors of the Corporation;
3. Any director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute or cause to be executed, under corporate seal or otherwise, and to deliver or cause to be delivered, articles of arrangement giving effect to the Plan, in duplicate, to the Director under the *Business Corporations Act (Ontario)*; and
4. Any director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute or cause to be executed, under corporate seal or otherwise, and to deliver or cause to be delivered, all such documents, agreements and instruments and to do or cause to be done all such other acts and things as such director or officer shall determine to be necessary or desirable in order to carry out the intent of the foregoing paragraphs of this resolution and the matters authorized thereby, such determination to be evidenced conclusively by the execution and delivery of such documents, agreements or instruments or the doing of such acts or things.

APPENDIX I

SECTION 190 OF CBCA

190. (1) Right to dissent. — Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
- (b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
- (c) amalgamate with another corporation, otherwise than under section 184;
- (d) be continued under the laws of another jurisdiction under section 188; or
- (e) sell, lease or exchange all or substantially all its property under subsection 189(3).

(2) Further right. — A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) Payment for shares. — In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) No partial dissent. — A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) Objection. — A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.

(6) Notice of resolution. — The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.

(7) Demand for payment. — A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing

- (a) his name and address;
- (b) the number and class of shares in respect of which he dissents; and
- (c) a demand for payment of the fair value of such shares.

(8) Share certificate. — A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.

(9) Forfeiture. — A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) Endorsing certificate. — A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) **Suspension of rights.** — On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where

- (a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12),
- (b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or
- (c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),

in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).

(12) **Offer to pay.** — A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

- (a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or
- (b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) **Same terms.** — Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) **Payment.** — Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) **Corporation may apply to court.** — Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) **Shareholder application to court.** — If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) **Venue.** — An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) **No security for costs.** — A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) **Parties.** — On an application to a court under subsection (15) or (16),

- (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
- (b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.

(20) **Powers of court.** — On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

(21) **Appraisers.** — A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) **Final order.** — The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of his shares as fixed by the court.

(23) **Interest.** — A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) **Notice that subsection (26) applies.** — If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) **Effect where subsection (26) applies.** — If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation with thirty days after receiving a notice under subsection (24), may

- (a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or
- (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) **Limitation.** — A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

APPENDIX J

PEOPLES JEWELLERS LIMITED

1993 ANNUAL REPORT

PEOPLES JEWELLERS LIMITED

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Peoples Jewellers Limited are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Consolidated financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Peoples Jewellers Limited maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and a majority of its members are outside Directors. The Audit Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the Shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the Shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the Shareholders. Ernst & Young has full and free access to the Audit Committee.

“ROMAN DORONIUK”

Chief Financial Officer, Executive Vice President,
Finance and Administration,
and Acting Chief Operating Officer

“VERNE SOMERS”

Vice President, Finance and Administration

June 4, 1993

Auditors' Report

To the Shareholders of
PEOPLES JEWELLERS LIMITED

We have audited the consolidated balance sheets of Peoples Jewellers Limited as at March 31, 1993 and 1992 and the consolidated statements of income (loss), retained earnings (deficit) and changes in financial position for each of the years in the five year period ended March 31, 1993. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1993 and 1992, and the results of its operations and the changes in its financial position for each of the years in the five year period ended March 31, 1993 in accordance with generally accepted accounting principles.

Ernst & Young
Chartered Accountants
Toronto, Canada,
June 4, 1993

CONSOLIDATED BALANCE SHEETS
 (See basis of presentation — note 1)

	As at March 31	
	1993	1992
		(restated — note 4) (\$ thousands)
Assets		
Cash	\$ 51	\$ 70
Amounts receivable	892	4,043
Merchandise (notes 3 and 4)	59,785	111,467
Prepaid expenses	1,904	2,891
Mortgage and other loans to employees (note 5)	1,753	1,791
Fixed assets (note 6)	30,625	40,447
Other assets	4,160	7,582
	99,170	168,291
Liabilities		
Bank indebtedness (note 7)	103,132	105,070
Accounts payable and accrued expenses	43,648	24,250
Income, sales and other taxes payable	154	716
Debentures, mortgages and capital lease obligations (note 8)	58,779	59,158
Total liabilities	205,713	189,194
Contingent liabilities (note 15)		
Shareholders' deficiency		
Capital stock (notes 7 and 9)		
Issued:		
First Preferred Shares, Non-Voting Series B	526	526
First Preferred Shares, Non-Voting Series C	8,952	8,952
Class A Non-Voting Shares	97,041	97,041
Common Shares	207	207
	106,726	106,726
Employee share purchase plan loans (note 9)	(8,841)	(8,841)
	97,885	97,885
Deficit	(204,428)	(118,788)
Net shareholders' deficiency	(106,543)	(20,903)
	\$ 99,170	\$ 168,291

On behalf of the Board:

E. Duff Scott (Signed)
 Director

Robert W. Martin (Signed)
 Director

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
 (See basis of presentation — note 1)

	Year ended March 31				
	1993	1992	1991	1990	1989
Sales	\$167,058	\$ 196,855	\$212,143	\$216,631	\$201,810
Deduct:					
Cost of merchandise sold and all other expenses except those listed below (note 3)	200,524	177,661	181,176	185,651	175,195
Depreciation and amortization	7,883	8,629	8,082	7,192	6,475
Interest on debentures, mortgages and capital lease obligations (note 14)	8,411	452	509	569	466
Interest on bank indebtedness (note 14)	10,158	3,801	5,127	5,604	3,649
	226,976	190,543	194,894	199,016	185,785
Income (loss) before restructuring costs, income taxes and income (loss) relating to investment in Jewelers Holding	(59,918)	6,312	17,249	17,615	16,025
Restructuring costs (note 11)	25,392	5,500	—	—	—
Income (loss) before income taxes and income (loss) relating to investment in Jewelers Holding	(85,310)	812	17,249	17,615	16,025
Provision for income taxes (note 12)	330	665	5,250	7,500	7,400
Income (loss) before income (loss) relating to investment in Jewelers Holding	(85,640)	147	11,999	10,115	8,625
Income (loss) relating to investment in Jewelers Holding (net of Canadian income taxes: 1992 — nil; 1991 — \$1,600; 1990 — including \$3,200 recovery of income relating to Dutch limited partnership loss carry forwards) (note 10)	—	(149,555)	(10,991)	15,104	13,983
Allocation of interest on Peoples' debt relating to investment in Jewelers Holding (net of Canadian income taxes: 1992 — \$365; 1991 — \$3,400; 1990 — \$4,100; 1989 — \$4,000) (note 14)	—	(9,766)	(4,322)	(4,572)	(4,634)
Total income (loss) relating to investment in Jewelers Holding	—	(159,321)	(15,313)	10,532	9,349
Income (loss) before extraordinary item	(85,640)	(159,174)	(3,314)	20,647	17,974
Recovery of income taxes through utilization of losses carried forward	—	—	—	—	3,400
Net income (loss) for the year	(85,640)	(159,174)	(3,314)	20,647	21,374
Income (loss) per share:					
Net income (loss) for the year before extraordinary item	\$ (7.02)	\$ (13.06)	\$ (0.28)	\$ 2.13	\$ 1.75
Net income (loss) for the year	(7.02)	(13.06)	(0.28)	2.13	2.08

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)
 (See basis of presentation — note 1)

	Year ended March 31				
	1993	1992	1991	1990	1989
	(\$ thousands)				
Retained earnings (deficit), beginning of the year as previously reported	\$(106,288)	\$ 55,574	\$66,711	\$51,081	\$38,172
Adjustment of merchandise cost (note 4)	(12,500)				
Adjustment related to change in accounting for layaway sales				2,177	2,177
Retained earnings, beginning of year, as restated	(118,788)	55,574	66,711	53,258	40,349
Net income (loss) for the period	<u>(85,640)</u>	<u>(159,174)</u>	<u>(3,314)</u>	<u>20,647</u>	<u>21,374</u>
	<u>(204,428)</u>	<u>(103,600)</u>	<u>63,397</u>	<u>73,905</u>	<u>61,723</u>
Dividends paid:					
First Preferred Shares, Non-Voting Series B	—	12	27	38	58
First Preferred Shares, Non-Voting Series C	—	141	272	241	164
Class A Non-Voting Shares	—	2,340	4,681	3,596	3,531
Common Shares	—	195	382	382	347
	<u>—</u>	<u>2,688</u>	<u>5,362</u>	<u>4,257</u>	<u>4,100</u>
Expenses on issue of Class A Non-Voting Shares	—		2,461		
Difference between consideration paid and carrying value of shares purchased (note 9)	—	—	—	<u>(2,937)</u>	<u>(4,365)</u>
Retained earnings (deficit), end of the year, as previously reported	(204,428)	(106,288)	55,574	66,711	53,258
Adjustment of merchandise cost (note 4)	—	<u>(12,500)</u>			
Retained earnings (deficit), end of the year, as restated	<u>(204,428)</u>	<u>\$(118,788)</u>	<u>\$55,574</u>	<u>\$66,711</u>	<u>\$53,258</u>

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
 (See basis of presentation — note 1)

	Year ended March 31				
	1993	1992	1991	1990	1989
	(\$ thousands)				
Operating activities					
Income before non-cash items (note 13)	\$ (58,820)	\$ 11,076	\$ 22,593	\$ 17,307	\$ 18,500
Changes in non-cash operational working capital balances (note 13)	<u>69,956</u>	<u>17,302</u>	<u>(9,903)</u>	<u>(12,990)</u>	<u>(15,911)</u>
	11,136	28,378	12,690	4,317	2,589
Interest on debt and expenses related to investment in Jewelers Holding		(12,998)	(16,281)	(4,572)	(4,634)
Extinguishment of foreign exchange swap (note 7)	(6,267)				
Tax effect of Dutch limited partnership interest				3,200	
Dividends from Torcred Developments Limited				2,150	150
Dividend from Zale Holding	_____	_____	_____	5,347	5,347
Cash provided by (applied to) operating activities	<u>4,869</u>	<u>15,380</u>	<u>(3,591)</u>	<u>10,442</u>	<u>3,452</u>
Financing activities					
Repayment of debentures	—	(19,500)	(56)		
Customer accounts receivable (net)			25,983		
Increase in (repayment of) capital lease obligations	(379)	(1,142)	5,004		
Issue of mortgage bonds					15,000
Repayment of mortgage bonds		(72)	(61)	(4,434)	
Issue of capital stock (net of expenses)		20,789	5,550	564	
Purchases and redemption of capital stock	—	(212)	(2,041)	(6,649)	(9,531)
Dividend payments	—	(2,688)	(5,362)	(4,257)	(4,100)
Cash provided by (applied to) financing activities	<u>(379)</u>	<u>(23,542)</u>	<u>44,245</u>	<u>(5,417)</u>	<u>(2,501)</u>
Investing activities					
Net expenditures on fixed assets, investments and other assets	(2,609)	(6,863)	(9,365)	(14,716)	(11,891)
Subordinated advance to Jewelers Holding			(58,180)	—	—
Loans to employees, net	38	(392)	1,562	(4,272)	80
Cash applied to investing activities	<u>(2,571)</u>	<u>(7,255)</u>	<u>(65,983)</u>	<u>(18,988)</u>	<u>(11,811)</u>
Net increase (decrease) in cash during the year	<u>1,919</u>	<u>(15,417)</u>	<u>(25,329)</u>	<u>(13,963)</u>	<u>(10,860)</u>
Cash and bank indebtedness, beginning of year	<u>(105,000)</u>	<u>(89,583)</u>	<u>(64,254)</u>	<u>(50,291)</u>	<u>(39,431)</u>
Cash and bank indebtedness, end of year	<u><u>\$103,681</u></u>	<u><u>\$105,000</u></u>	<u><u>\$89,583</u></u>	<u><u>\$64,254</u></u>	<u><u>\$50,291</u></u>

The accompanying notes are an integral part of these consolidated financial statements

PEOPLES JEWELLERS LIMITED

Notes to Consolidated Financial Statements

1. Basis of presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles on a going concern basis which presumes carrying values of assets and liabilities based on their realization and discharge in the normal course of business.

Peoples Jewellers Limited (the "Corporation") incurred a loss of \$85,640,000 in 1993 and \$159,174,000 in 1992 and has not been able to discharge its obligations as they become due. As a result, the Corporation is in breach of certain debt covenants and is in default with respect to its debentures, mortgages and capital lease obligations (Note 8). On December 29, 1992 the Corporation sought and received the protection of the Ontario Court of Justice (the "Court") from its creditors under the Companies' Creditors Arrangement Act ("CCAA"). The ability of the Corporation to continue as a going concern is dependent upon the continuing support of its creditors, the satisfactory resolution of contingencies related to Zale Corporation ("Zale") and the other contingent liabilities referred to in Note 15 and on the approval of and successful implementation of a restructuring plan filed with the Court on April 21, 1993 (see Note 17) that would significantly alter its assets, liabilities and shareholders' deficiency. The resolution of these matters cannot be reliably predicted at this time.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Corporation not be able to continue as a going concern, or should a restructuring plan be implemented. These adjustments would relate to the amounts and classification of assets and liabilities and shareholders' deficiency.

The accompanying consolidated balance sheets are presented on an unclassified basis because of substantial disruptions to the Corporation's operating cycle arising as a consequence of its filing under the CCAA, its current inability to satisfy its obligations and the prospect of a restructuring plan that could significantly alter its assets, liabilities and shareholders' deficiency that have made the classification of current assets and liabilities meaningless.

2. Summary of accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Corporation and its subsidiaries. As discussed in Note 10, effective December 29, 1991, the Corporation changed the accounting for its investment in Jewelers Holding Corporation ("Jewelers Holding") from the equity basis to the cost basis. Jewelers Holding became the holding company for Zale Holding Corporation ("Zale Holding") effective May 21, 1991. Zale Holding's principal operations are conducted through wholly owned Zale and Gordon Jewelry Corporation ("Gordon"), which is wholly owned by Zale.

(b) Merchandise

Merchandise as at March 31, 1993 is stated at the lower of cost, determined on a first-in, first-out basis and net realizable value less normal profit margin. Merchandise for periods prior to December 26, 1992 is stated at the lower of cost determined on a first-in, first-out basis and net realizable value. (See Note 3.)

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation calculated on a straight-line basis over their estimated useful lives.

Leasehold interests and improvements are stated at cost less amortization on a straight-line basis over the term of the lease.

(d) Other assets

Other assets which comprise deferred system development costs and deferred credit card costs are stated at cost less amortization calculated on a straight-line basis over six years.

(e) *Foreign currency translation*

The income (loss) relating to the Corporation's equity share of Jewelers Holding income (losses) were translated into Canadian dollars at average exchange rates throughout the year.

3. Change in method of accounting for merchandise

At the end of the nine month period ended December 26, 1992, the Corporation changed its method of determining net realizable value for merchandise from estimated selling price less costs to sell to a basis upon which net realizable value provides for the maintenance of normal gross profits as well as estimated selling costs. As a result, net loss for the year ended March 31, 1993 is increased by \$8,500,000 (\$0.74 per share). This change in basis of accounting has been applied prospectively as the impact of this change on merchandise at March 31, 1992 cannot be reasonably determined. If the Corporation's previous policy had been applied, merchandise on the consolidated balance sheet would have been increased by \$8,500,000 and cost of merchandise sold decreased by \$8,500,000 as at and for the year ended March 31, 1993.

4. Adjustment of merchandise cost

During the year ended March 31, 1993, management initiated an investigation into the Corporation's accounting for merchandise. This investigation has indicated that the inappropriate application of accounting practices followed in prior periods has resulted in an overstatement of the cost of merchandise of \$12,500,000 as at March 31, 1992. Due to the nature of the Corporation's records, it has not been possible to make a definitive allocation of the amount to specific prior periods. As a result, prior period financial statements have not been restated except that merchandise has been reduced and the deficit has been increased by \$12,500,000 as at March 31, 1992.

5. Mortgages and other loans to employees

The Corporation's loans to employees are non-interest bearing and consist of mortgage loans and loans to assist with the purchase of shares of the Corporation.

Mortgage loans of \$622,000 (March 31, 1992 — \$718,000) are outstanding to certain officers, former officers, and employees, and are due in instalments to the year 2003.

Loans of \$1,131,000 (March 31, 1992 — \$1,073,000) are outstanding to two former senior officers who were also directors to assist with the carrying and repayment costs of loans incurred by them to purchase Class A Non-Voting Shares. These loans were repayable in annual amounts over nine years.

Upon termination of employment of the former officers in 1993, the repayment of their loans and mortgage loans was demanded in full. The Corporation has made an appropriate provision for its estimate of any uncollectible amounts and continues to pursue collection of amounts due.

6. Fixed assets

	Depreciation Rate	As at March 31, 1993		As at March 31, 1992	
		Cost	Accumulated Depreciation/Amortization (\$ thousands)	Cost	Accumulated Depreciation/Amortization
Buildings (note 8)	5%	\$11,847	\$ 4,330	\$11,833	\$ 3,969
Furniture, fixtures and equipment (1)	10-20%	55,323	42,321	60,676	40,582
Leasehold interests and improvements (2)		16,092	8,002	17,067	6,594
Land (note 8)		2,016	—	2,016	—
		85,278	\$54,653	91,592	<u>\$51,145</u>
			54,663		51,145
Net book value		<u>\$30,625</u>		<u>\$40,447</u>	

(1) Fixed assets include assets held under capital leases of \$5,684,000. Accumulated depreciation related to these assets amounts to \$1,526,000 (1992 — \$894,000).

(2) Leasehold interests and improvements are amortized over the terms of the leases which do not exceed fifteen years.

7. Bank financing

In May 1990, the Corporation:

- (a) entered into 18 month banking facilities to replace the facilities in place at March 31, 1990. These facilities included an operating line of \$115,000,000 and a bridge line of U.S. \$20,000,000. The terms of these facilities provide for various floating rate pricing options. From these proceeds the Corporation made a subordinated advance to Zale Holding of U.S. \$50,000,000 (\$58,180,000) as did the other 50% shareholder in Jewelers Holding;
- (b) sold its customer accounts receivable for proceeds of approximately \$26,000,000 to the private label service organization that has handled the Corporation's credit card operations. Concurrent with such sale, the Canadian dollar bank operating facility was reduced from \$115,000,000 to \$95,000,000;
- (c) completed an issue of 2,500,000 Class A Non-Voting Shares at a price of \$9.25. The net proceeds of \$22,225,000 were used to repay the U.S. dollar bridge facility referred to in (a) above.

On November 14, 1991, the Corporation refinanced its \$95,000,000 working capital facility with a \$90,000,000 facility maturing on August 31, 1992. The new facility required a repayment of \$5,000,000 which was made as scheduled on December 31, 1991. On February 14, 1992 the Corporation and its bank amended the November 14 credit agreement to increase the available line to \$87,500,000 for the remainder of its term.

On July 2, 1991, the Corporation refinanced the retraction of \$19,500,000 of debentures (see Note 8) with a term loan facility provided by its bank. This loan was subsequently converted to a demand loan and was to mature on August 31, 1992.

As at March 31, 1992, and June 30, 1992, the Corporation did not meet certain of the covenants under its banking facilities which breaches were waived by the bank.

Effective August 25, 1992, the bank renewed the \$87,500,000 working capital facility and \$19,500,000 facility referred to above and extended their terms to April 1, 1993. On October 19, 1992 the \$19,500,000 facility was increased by \$6,267,000 to \$25,767,000 to allow for the settlement on that date with the bank of a swap agreement originally entered into as a hedge of its net investment in Jewelers Holding. By December 29, 1992 that facility was reduced to \$18,097,000 through the payment to the bank under the terms of the facility of \$7,670,000 representing 20% of net revenue between December 1, 1992 and December 29, 1992.

In consideration of the revised facilities granted August 25, 1992, the Corporation has paid \$100,000 in cash, and has agreed to a further payment of \$900,000 due August 31, 1994, which is included in bank indebtedness. Also, it agreed to issue to the bank, at its request, subject to any required regulatory approvals, a new series of preferred shares, for no additional proceeds, convertible into Common Shares or Class A Non-Voting Shares representing not more than 9.9% of the equity of the Corporation. To effect this share issuance the bank was required to provide the Corporation with written notice no later than April 1, 1993. The Corporation has received no such notice.

As at December 29, 1992, the Corporation did not meet certain of the covenants under its banking facilities. The bank has delivered notices demanding repayments of these facilities but continues to provide a total line of credit of \$105,597,000.

These facilities are principally collateralized by inventory, amounts receivable, and the Corporation's investment in Jewelers Holding.

8. Debentures, mortgages and capital lease obligations

	As at March 31, 1993	As at March 31, 1992
	(\$ thousands)	
13.75% Senior unsecured debentures	\$17,000	\$17,000
14.25% Senior unsecured debentures	17,944	17,944
12.5% Senior unsecured debentures	5,550	5,500
11.75% First Mortgage bonds, Series A	14,685	14,773
Lease obligations	3,650	3,941
	<u>\$58,779</u>	<u>\$59,158</u>

Upon filing under the CCAA, the Corporation ceased paying interest on debentures, mortgages and capital lease obligations. As a consequence, the Corporation is in default and these obligations are due.

Pursuant to a retraction option, \$19,500,000 of the 11% debentures were retracted by the holders on July 2, 1991. The Corporation financed this retraction with the proceeds of a \$19,500,000 loan facility provided by its bank (see Note 7). Effective July 2, 1991 the interest rate on the remaining \$5,500,000 portion of these debentures was increased from 11% to 12.5%.

The 11.75% mortgage bonds are redeemable at the option of the Corporation any time on or before December 15, 2003. The head office land and building of the Corporation are pledged as collateral for the mortgage bonds.

In 1991 the Corporation entered into a capital lease program in order to acquire certain fixed assets. The future scheduled annual payments on such leases are \$1,295,000 through 1995.

9. Capital stock

The Corporation has authorized capital stock of an unlimited number of First Preferred, Junior Preferred, Class A Non-Voting and Common Shares. There are no Junior Preferred Shares outstanding.

Classes of shares issued and outstanding and changes therein, for the years ended March 31, 1993 and 1992, are as follows:

	First Preferred, Non-Voting Series B		First Preferred, Non-Voting Series C		Class A Non-Voting		Common Shares	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
(\$ thousands)								
Balance, March 31, 1991	56,450	\$549	551,800	\$8,473	10,638,675	\$97,041	874,750	\$207
Issue of shares in 1992	—	—	95,500	669	—	—	—	—
Purchases for cancellation in 1992	(2,400)	(23)	(13,600)	(190)	—	—	—	—
Balance, March 31, 1992 and								
March 31, 1993	<u>54,050</u>	<u>\$526</u>	<u>633,700</u>	<u>\$8,952</u>	<u>10,638,675</u>	<u>\$97,041</u>	<u>874,750</u>	<u>\$207</u>

Employee Share Purchase Loans of \$8,841,000 (March 31, 1992 — \$8,841,000) for First Preferred Shares, Non-Voting Series B and Non-Voting Series C are outstanding from certain officers and former officers (including directors) and employees. These loans are repayable over ten years from dividends paid on the shares issued with any balance outstanding at the end of ten years payable in full from the proceeds of redemption by the Corporation of any outstanding shares at their original issue price. Due to the Corporation's overall financial condition and the Corporation's share price, Employee Share Purchase Plan loans are classified as a reduction of capital stock on the consolidated balance sheet.

During the year ended March 31, 1992, 95,500 First Preferred Shares, Non-Voting Series C were issued under the Employee Share Purchase Plan, including 66,500 to officers of the Corporation. In addition, the Corporation purchased for cancellation 16,000 First Preferred Shares, Non-Voting Series B and Non-Voting Series C.

First Preferred Shares, Non-Voting Series B and Non-Voting Series C are convertible up to a maximum of 20% for each of the four years from their date of issue and thereafter 100% into Class A Non-Voting Shares on a one-for-one basis or, at the holder's option, are redeemable at any time prior to the eleventh anniversary date of the issue of the shares or on that date are to be redeemed by the Corporation. Redemptions by the holders and the Corporation are at an amount equal to the issue price of the shares. Due to its filing under CCAA, the Corporation is currently restricted from redeeming any First Preferred Shares, Non-Voting Series B and Non-Voting Series C.

First Preferred Shares rank above the Junior Preferred Shares as to dividends and claims against the Corporation's property at dissolution. Junior Preferred Shares are redeemable at \$0.01 per share and rank above the Class A Non-Voting Shares and Common Shares as to dividends and claims against the Corporation's property at dissolution. The First Preferred Shares are entitled to receive dividends per share equal to those paid on the Class A Non-Voting Shares. Class A Non-Voting Shares are participating and have a preference over Common Shares as to dividends to the extent of \$0.15 per share. After the Common Shares also receive \$0.15 per share, the two classes participate equally.

The bank holds an option for the purchase of 531,934 Class A Non-Voting Shares at \$6.50 per share at any time until August 23, 1995. The Corporation has agreed to use its best efforts to reduce the option price of such shares to \$0.39 per share. To date regulatory approval has been received to reduce the option price to \$0.50 per share.

The following table reflects the number, the carrying value and the amount paid in cash for Class A Non-Voting Shares purchased by the Corporation for cancellation. The amount paid in excess of the carrying value is deducted from retained earnings.

	<u>No. of Shares</u>	<u>Carrying Value</u>	<u>Amount paid</u>
			(\$ thousands)
March 31, 1990	385,051	\$3,490	\$6,427
March 31, 1989	558,400	\$5,062	\$9,427

10. Investment in Jewelers Holding

On January 1, 1992, a petition (consented to January 23, 1992) was filed that resulted in Zale and its operating subsidiaries coming under the supervision of the Bankruptcy Court pursuant to Chapter 11 of the United States Bankruptcy Code ("Chapter 11 filing"). Consequently the Corporation lost its ability to significantly influence the principal operating subsidiaries of Jewelers Holding, Zale and Gordon. Accordingly, as at December 28, 1991, the end of the Corporation's fiscal 1992 third quarter, the Corporation ceased to account for its investment in Jewelers Holding on the equity basis. Effective December 29, 1991 the Corporation commenced accounting for its investment in Jewelers Holding on the cost basis under which it will no longer record its equity share of income or loss of Jewelers Holding.

For the nine months ended December 28, 1991, the Corporation charged against income its equity share of loss related to its investment in Jewelers Holding an amount of \$133,746,000. The resulting carrying amount of the investment in Jewelers Holding at December 28, 1991 was \$9,666,000. In connection with the uncertainty related to the outcome of the Zale Chapter 11 filing, during the quarter ended March 31, 1992, the Corporation determined that its investment in Jewelers Holding should be written off. The write off and additional costs of the Corporation increased the loss relating to the investment in Jewelers Holding for the year ended March 31, 1992 to \$149,555,000.

For the nine months ended December 28, 1991 and the years ended March 31, 1991, 1990, and 1989, the income relating to the Corporation's investment in Zale Holding reflects its 50% equity interest in the operating results of Zale and Gordon net of the loss of Zale Holding (primarily interest costs payable on notes from Zale plus in fiscal 1991 and 1992 \$100,000,000 in subordinated advances from the partners), net of expenses of the Corporation relating to its investment in Zale Holding. The operating results are adjusted to conform to accounting principles generally accepted in Canada. Equity in earnings includes the Corporation's share of Zale's adjustments on settlement of certain preacquisition contingencies during these years, net of the write-off of Gordon's debt issue costs. The Corporation's share of such net amounts is: 1991 — \$6,761,000; 1990 — \$7,106,000.

In 1990, Zale changed its policy for the timing of the recognition of revenue and costs for layaway sales. Prior to March 31, 1989, such sales were recognized in the accounts when the final payment under the layaway contract was received. From April 1, 1989, Zale recognizes revenue, net of allowance for returns, and costs of layaway sales at the time the contract is entered into. This change was reflected in the Corporation's equity in the earnings of Zale Holding retroactively resulting in the restatement of the comparative consolidated financial statements. As a result of the change, the opening retained earnings for 1989 were increased by \$2,177,000. The impact on 1990 and 1989 income was not significant.

11. Restructuring costs

During the years ended March 31, 1993 and March 31, 1992, the Corporation implemented operational restructurings resulting in the closure of stores and the reduction of head office and other expenses. A restructuring provision aggregating \$25,392,000 (March 31, 1992 — \$5,500,000) was made to adjust the carrying value of assets that have been disposed of, or abandoned or impaired to their estimated net realizable values and to make a provision for obligations arising from the operational restructuring plan including claims arising from the termination of leases and, the severance of employees and estimates of certain costs including fees relating to the

CCAA proceedings and certain costs relating to Jewelers Holding. These costs, shown as restructuring costs in the statement of loss for the years then ended, are as follows:

	March 31, 1993	March 31, 1992
	(\$ thousands)	
Store closures	\$ 8,800	\$4,100
Professional fees	8,300	400
Other	8,292	1,000
	<u>\$25,392</u>	<u>\$5,500</u>

12. Income taxes

The provision for income taxes reflects an effective tax rate which differs from the combined statutory tax rates. The difference in the rate for 1993 arises from the tax benefit of losses not being recognized in income and in 1992 from the inclusion of large corporations tax in the tax provision.

The Corporation has total non-capital losses of \$76,600,000 available to offset future income for tax purposes which expire as follows:

Non-capital losses	Year of Expiry
(\$ thousands)	
\$ 2,600	1995
600	1998
18,400	1999
55,000	2000

The Corporation also has net capital losses of \$51,500,000 available to offset taxable capital gains realized in any future year. In addition, the future tax effect of the timing differences of \$44,000,000, resulting from expenses reflected in the statement of income but deferred for tax purposes, have not been recognized in the consolidated financial statements. The benefit of the non-capital and net capital losses and the timing differences will be recognized in income upon realization.

13. Consolidated statements of changes in financial position

	Year ended March 31				
	1993	1992	1991	1990	1989
			(\$ thousands)		
Income (loss) before non-cash items:					
Income (loss) before income (loss) relating to investment in Jewelers Holdings	\$(85,640)	\$ 147	\$ 11,999	\$ 10,115	\$ 8,625
Add items not involving a flow of cash:					
Depreciation and amortization	7,883	8,629	8,082	7,192	6,475
Utilization of tax loss carry forwards	—	—	2,512	—	—
Write-off of fixtures, leasehold improvements and other assets	7,970	2,300	—	—	—
Change in method of accounting for cost of merchandise	8,500	—	—	—	—
Extraordinary item-recovery of taxes	—	—	—	—	3,400
Provision for loss on extinguishment of foreign exchange swap	2,467				
	<u><u>\$ (58,820)</u></u>	<u><u>\$ 11,076</u></u>	<u><u>\$ 22,593</u></u>	<u><u>\$ 17,307</u></u>	<u><u>\$ 18,500</u></u>
Changes in the following non-cash operational items:					
Merchandise	\$ 43,182	\$ (4,065)	\$ (1,818)	\$ 2,429	\$ 11,516
Customer accounts receivable	—	—	—	(14,176)	(11,807)
Amounts receivable	23,198	13,163	(9,798)	2,216	(8,858)
Accounts payable and accrued expenses	3,151	7,876	1,886	(2,535)	(6,314)
Prepaid expenses and income, sales and other taxes	425	328	(173)	(924)	(448)
	<u><u>\$ 69,956</u></u>	<u><u>\$ 17,302</u></u>	<u><u>\$ (9,903)</u></u>	<u><u>\$ (12,990)</u></u>	<u><u>\$ (15,911)</u></u>

14. Interest and expenses relating to investment in Jewelers Holding

As a consequence of the write-off of the Corporation's investment in Jewelers Holding on March 31, 1992, effective April 1, 1992, the Corporation has included all interest on its debt and expenses relating to its investment in Jewelers Holding in the determination of income (loss) before income taxes. Previously, interest on the Corporation's debt and expenses relating to its investment in Jewelers Holding was included (net of Canadian income taxes) in the determination of total income (loss) from Jewelers Holding.

15. Contingent liabilities

(a) The Corporation has executed two separate agreements that may create liability respecting affiliates of Zale. The first, the Inter-Company Debt Support Agreement (the "Support Agreement") creates an obligation of the Corporation in favour of Zale Holding whereby under certain conditions the Corporation could be required to assist Zale Holding in repaying its obligations and indebtedness to Zale of up to US \$82,500,000 plus related interest. As indicated in Note 10, Zale is under the supervision of the Bankruptcy Court pursuant to Chapter 11 of the United States Bankruptcy Code. On and after May 15, 1992, Zale demanded from Zale Holding the repayment of all debt plus interest.

By an order dated May 20, 1993, the Bankruptcy Court confirmed a plan of reorganization (the "Zale Plan") for Zale and its affiliated debtors. The Zale Plan, among other things, provides for the cancellation of all stock of Zale held by Zale Holding, and provides for no distributions to Zale Holding in respect of such stock. One appeal of the order confirming the Zale Plan has been filed; no hearing date with respect to that appeal has been set. It is expected that the closing under the Zale Plan will occur between late June and the end of August 1993. On the closing, the claims against the Corporation held by all creditors of Zale and its affiliated debtors will be assigned to Reorganized Zale (as defined under

the Zale Plan), with the exception of the claims of the five parties who opted out of such assignment pursuant to the terms of the Zale Plan. On June 1, 1993, Zale filed a claim against the Corporation for US \$112,500,000; this claim is based on the Support Agreement, and alleged fraudulent conveyances regarding the amendments of or modifications to various predecessor guarantees to the Support Agreement.

Zale Holding has no ability to repay amounts due with respect to the Support Agreement due to its current financial condition and the cancellation of the Zale stock that it holds, assuming that the Zale Plan is consummated.

The second agreement is the Gordon Indemnity Agreement (the "Gordon Indemnity"), between the Corporation and the bankers for Gordon, which requires the Corporation to indemnify the banks for up to US \$47,000,000 to the extent their loan is not satisfied from their first priority security interest on Gordon's inventory or from any plan of reorganization or liquidation involving Gordon. As at March 31, 1992, Gordon reported inventory of approximately US \$121,635,000 at FIFO cost. The balance of the loan was US \$60,000,000. Under the Zale Plan, the banks will receive secured notes with an aggregate original principal amount of US \$60,017,000. Accordingly, it would appear that any liability arising under the Gordon Indemnity will not be material.

Unless the claims under the Support Agreement and the Gordon Indemnity are resolved in the Corporation's restructuring plan, it is anticipated that Reorganized Zale, as the holder of substantially all of the claims against the Corporation relating to Zale, will attempt to pursue these claims. There exist uncertainties at this time relating to the interpretation and enforceability of the agreements themselves, the amount of such claims, and any litigation relating to Reorganized Zale's pursuit of such claims.

In a restructuring plan filed with the Court on April 21, 1993, the Corporation has offered 5% of the new common stock of the Corporation, should it be restructured, in full and final settlement of all claims against and guarantee obligations of the Corporation and its affiliates, including the directors of Zale designated by the Corporation.

It is not possible at this time to estimate the amount of any loss which may result from any demands or claims made under these agreements or the value of any proposed settlement by the Corporation and accordingly no provision for loss has been made in the consolidated financial statements.

- (b) The Corporation has been named as one of the defendants in a class-action lawsuit seeking damages related to trading of the public indebtedness of Zale. The Corporation believes this lawsuit will be settled without any contribution being required by the Corporation.
- (c) The holders of the \$17,000,000 13.75% senior unsecured debentures have indicated that they believe they have the right to rescind the purchase of such debentures or, alternatively, a right of action for damages against the Corporation. The Corporation considers this belief to be without merit. The holders have commenced a lawsuit against certain parties involved in the sale of the debentures to the holders claiming damages of \$35,000,000. In turn, those parties have received leave from the Court to issue a third party claim against the Corporation and others for indemnification as against any liability pursuant to the holders' lawsuit. The third party claim is otherwise stayed pursuant to the CCAA proceedings. The likelihood of the debentures being rescinded or any possible lawsuit being successfully pursued is not determinable at this time and accordingly no provision for loss has been made in these consolidated financial statements.

16. Commitments

A number of the Corporation's store locations are leased under operating leases for periods from four to twenty years. Most of these leases are for minimum rentals and many contain percentage-of-sales clauses, and require the Corporation to pay certain occupancy costs. The Corporation is also committed to the purchase of computer-processing services for a period of ten years from the organization which acquired the Corporation's in-house computer-processing operations.

The minimum rentals payable under all such leases and other agreements currently in force for subsequent fiscal years are as follows (\$ thousands): 1994 — \$11,953; 1995 — \$11,295; 1996 — \$10,188; 1997 — \$8,534; 1998 — \$7,613 and for subsequent years in aggregate — \$19,932.

The actual rental payments charged to income amounted to (\$ thousands): 1993 — \$17,475; 1992 — \$18,511; 1991 — \$18,392; 1990 — \$17,429; and 1989 — \$16,263.

The Corporation has included a provision for estimated costs relating to its early termination of leases in its restructuring provisions.

17. Restructuring Proposal

On December 29, 1992, the Corporation sought and obtained an Order of the Court under the CCAA to provide protection from creditors. The Order authorized the Corporation to file a restructuring plan (the "Plan") and to enter into interim financing arrangements. The Plan, which is still subject to amendment and approval, was filed on April 21, 1993. Since December 29, 1992, the Corporation has not discharged certain of its obligations owing as of that date (including interest and principal repayments on debt and obligations to certain trade creditors).

If the Plan is accepted by the creditors and shareholders, the Corporation will undergo a financial restructuring. The more significant elements of the Plan are as follows:

- unsecured debts will be settled, in part, through the issuance of new common shares;
- the mortgage will be discharged in exchange for the head office land and building and through the issuance of new common shares;
- the unsecured debentures will be settled through the issuance of new common shares;
- bank indebtedness will, in substance, be converted to preferred shares of a subsidiary and convertible preferred shares of the Corporation;
- as indicated in note 15, Zale will receive new common shares; and
- existing equity holders will receive new common shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Background

The Corporation has been experiencing significant financial difficulties in recent times and is currently insolvent. In view of continuing economic weakness and resulting poor cash flow, the Corporation is in default of its obligations under the Credit Agreement and has been unable to meet interest obligations to Debentureholders or to pay its other Creditors on agreed upon terms. Since the Date of Filing, as permitted by Order of the Court, the Bank has demanded repayment of the Bank Secured Debt and has delivered to the Corporation notices of intention to enforce security under the BIA. If proceedings against the Corporation had not been stayed by the Initial Order made by the Court under the CCAA, management believes that the Bank would have sought to install a receiver or receiver and manager to realize upon its security in the Corporation's assets and undertaking. In order to avoid this, on the Date of Filing the Corporation applied to the Court seeking protection from its Creditors under the provisions of the CCAA. The Initial Order was granted staying all proceedings of Creditors against Peoples until March 31, 1993 pending preparation and filing by it of a plan of arrangement and compromise by February 26, 1993. By subsequent Orders of the Court, the date for filing a plan was extended to April 21, 1993, and the stay of proceedings has been extended to September 15, 1993.

The Steering Committee and other members of the Board of Directors together with management, and their financial and legal advisors, have been working to formulate, in consultation with the Corporation's principal constituents, a comprehensive financial restructuring plan of arrangement and compromise. Concurrently, and with the authorization of the Court, non-binding letters of intent were sought from potential purchasers of the Corporation's business and assets. This solicitation process did not result in the making of an acceptable offer. Peoples originally filed a plan of arrangement and compromise with the Court on April 21, 1993, as required by the Court. The terms of such plan have subsequently been revised and the Plan, as revised, was filed with the Court on June 23, 1993. On the same date, the Corporation obtained from the Court the Interim Order in amended and restated form.

The Plan represents a material component in the restructuring of the Corporation's business and affairs and follows or accompanies other measures intended to produce significant operational improvements, including the downsizing of operations and the sale or closure of certain under-performing stores. The objective of the Plan is to permit the Corporation to continue as a financially stable and economically viable operation over the long term in the expectation that all Persons with interests in the Corporation will derive a greater benefit from the continued operation of its business and affairs on such a basis than would result from the immediate forced liquidation of the Corporation's assets or a transfer of selected assets to a corporation to be incorporated by the Bank Creditor.

The Corporation commenced an operational restructuring in January 1992 which has continued in conjunction with the Corporation's filing for protection under the CCAA. This has resulted in the closure of 73 under-performing stores, a significant reduction in corporate overheads and a corresponding reduction in staff. The implementation of the Plan combined with the operating cost savings inherent in this business restructuring is intended to return the Corporation to satisfactory levels of profitability and to provide returns to stakeholders.

Business Plan

The Corporation has prepared a Business Plan including projections of operating cash flows for the five year period from 1993 to 1998. The implementation of the Business Plan, with its inherent operational cost savings, combined with the restructuring of the Corporation's capital pursuant to the Plan, is intended to return the Corporation to satisfactory levels of profitability and to provide ongoing returns to its stakeholders.

Plan

The Corporation has proposed the Plan to its Creditors and Shareholders as provided in the Interim Order under the CCAA and applicable business corporations legislation. Shareholder and Creditor approval will be sought at Meetings proposed to be held on July 29 and July 30, 1993.

The Plan envisages among other things:

- (1) The transfer by the Bank Creditor to Newco, a new wholly owned subsidiary of the Corporation of \$70,000,000 of Bank Indebtedness in exchange for 70,000,000 Newco Preferred Shares. The issue of

\$30,000,000 of Class One Preferred Shares in exchange for a covenant from the Bank which has the effect of eliminating the Corporation's obligation to repay \$30,000,000 of Bank indebtedness. On the Plan Implementation Date, the Bank Indebtedness will become non-interest bearing without maturity. The 30,000,000 Class One Preferred Shares will be convertible into 450,992,178 New Common Shares.

- (2) The repayment of \$40,444,000 of the Debentures plus accrued interest of \$2,792,000 by the issuance of approximately 52,443,000 New Common Shares.
- (3) The repayment of \$1,585,000 of amounts due under the Capital Lease Agreement by the issuance of approximately 1,923,000 New Common Shares. The remaining amount of \$1,912,000 will be repaid as to \$350,000 in cash on the Plan Implementation Date and as to the balance in monthly instalments with interest at a rate equal to 8% per annum commencing the first day of the sixth calendar month next following the Plan Implementation Date.
- (4) The repayment of \$6,500,000 under the First Mortgage Bonds by the transfer of the Head Office pledged as collateral therefor with a net book value of \$9,009,000 and on the repayment of the balance of \$8,185,000 by the issuance of approximately 9,928,000 New Common Shares.
- (5) The repayment of \$1,500,000 in cash in respect of the aggregate amount of \$6,000,000 of under \$5,000 claims of Unsecured Creditors and the repayment of \$17,711,000 of certain amounts due to Unsecured Creditors by the issuance of approximately 21,482,000 New Common Shares.
- (6) The repayment of approximately \$2,500,000 of the amounts due Landlords in three equal monthly instalments. The remaining \$556,000 of amounts due Landlords is repaid by the issuance of approximately 954,000 New Common Shares.
- (7) The repayment of the amount of the Zale Claimants' Proven Claim by the issuance of approximately 28,910,000 New Common Shares. The Directors of the Corporation have fixed the value ascribed to these New Common Shares at \$21,290,000. This amount is approximately equal to the values at which New Common Shares will be issued to Unsecured Creditors under the Plan.
- (8) The redemption of the First Preferred Shares issued under the Employee Stock Purchase Plan and the repayment of the loans under the Employee Stock Purchase Plan and the change of the existing 10,638,675 Class A Non-Voting Shares into one New Common Share per Class A Non-Voting Share, the existing 874,750 Common Shares into one New Common Share per Common Share and approximately 50,500 First Preferred Shares into one Class A Non-Voting Share per First Preferred Share which in turn will be changed into one New Common Share per Class A Non-Voting Share.
- (9) The reduction of the recorded value of Class One Preferred Shares and New Common Shares to a nominal amount by a reduction of \$220,448,000 in the accumulated deficit after adjustments pursuant to the Plan.

The Corporation has indicated that it will require approximately \$20,000,000 to \$30,000,000 of working capital financing to fund seasonal inventory and operating expenses subsequent to implementation of the Plan. The Bank has indicated its willingness to consider providing this financing subject to security and covenants appropriate to a transaction of this nature, assuming the Plan is approved and implemented.

Outlook

Assuming the Plan is implemented essentially as proposed, management believes that the Corporation will be in a position to continue to operate and produce acceptable financial results. The Plan will result in reduced occupancy costs both at head office and at stores, substantially reduced interest expense and the elimination of approximately \$130,000,000 of debt commitments.

Management feels that the Corporation has been successful in retaining its franchise and that with the return to more normal operating conditions, which include appropriate inventory levels, that sales volumes and margins should be attainable which will produce acceptable financial results. A level portfolio of stores is seen as the key to leveraging the head office costs and maximizing results.

The Corporation's balance sheet and cash flow will be improved substantially and the uncertainties dealt with regarding Zale.

Risks and Uncertainties

Peoples stated itself to be insolvent and sought and received protection from its Creditors under the CCAA on the Date of Filing. In conjunction with these actions, the Corporation suspended certain payments of interest, principal and other obligations. The March 31, 1993 consolidated financial statements have been prepared on the basis of a going concern. However, if protection from Creditors were to be removed without first obtaining the necessary approvals of the Plan, it is likely that Creditors would enforce their rights in respect of obligations in default with either a resulting liquidation of the assets of the Corporation or transfer of selected assets to a corporation to be incorporated by the Bank Creditor. In such event, Shareholders and Creditors (other than the Bank Creditor, the First Mortgage Bondholders and the Capital Lease Creditor) would be unlikely to receive any recovery while the Bank Creditor, the First Mortgage Bondholders and the Capital Lease Creditor would receive less than under the Plan.

The Corporation does not, at present, have adequate cash resources after the payment of operating expenses to pay interest or scheduled principal repayments on its secured debt or unsecured debt. However, based on the schedule for approval of the Plan, continued protection from Creditors under the CCAA and credit currently available, it is anticipated that Peoples will have sufficient resources to meet its operating obligations until the Plan Implementation Date.

	Fiscal year ended March 31,		
	1993	1992	1991
Sales	167,058	196,855	212,143
Percentage increase (decrease)	-15.1%	-7.2%	-2.1%
Cost of merchandise sold and all other expenses except those listed below, as a percentage of sales	120.0%	90.2%	85.4%
Depreciation and amortization, as a percentage of sales	4.7	4.4	3.8
Interest on all debt, as a percentage of sales	11.1	7.3	6.3
Income (loss) before restructuring costs, income taxes and income (loss) relating to investment in Jewelers Holding	(35.9)%	(1.9)%	4.5%

Comparison of Year ended March 31, 1993 with Year ended March 31, 1992

Statement of Earnings and Financial Position

Sales for Peoples were \$167,058,000 in fiscal 1993 compared to \$196,855,000 in fiscal 1992. This 15.1% decrease was due to the impact of continued low consumer confidence, a prolonged recession, the closure of 9 stores in the first quarter of fiscal 1993 and the closure or sale of 47 stores in the final quarter of the 1993 fiscal year.

The cost of merchandise sold and all other expenses except depreciation and interest increased 29.8% as a percentage of sales due to heavy competitive discounting among jewellers, increased discounting by the Corporation to clear older inventory and generate cash and an adjustment of \$8,500,000 to reflect a change in the method of accounting for merchandise.

Short-term interest on borrowing from the Bank Creditor increased during the year. This was as a result of higher levels of borrowing offset in part by lower average interest rates.

In addition, as a consequence of the write-off of the Corporation's investment in JHC on March 31, 1992, effective April 1, 1992, the Corporation has included all interest on its debt and expenses relating to its investment in JHC in the determination of income (loss) before restructuring costs and income taxes. Previously, interest on the Corporation's debt and expenses relating to its investment in JHC was included (net of Canadian income taxes) in the determination of total loss from JHC.

A charge for restructuring costs of \$25,400,000 was taken in fiscal 1993, relating to closing stores and reducing head office and store expenses, implementing the Plan and adjusting the carrying value of assets that have been disposed of or abandoned or impaired to their estimated net realizable values.

All of the above items combined to produce a net loss before the loss relating to JHC which was significantly worse than last year.

A 24.3% decrease in net fixed assets was due to the write-off of fixtures as stores were closed, and was partially offset by Peoples' program of essential store renovations. During the year, 56 stores were closed.

The Corporation has total non-capital losses of \$76,600,000 available to offset future income for tax purposes which expire as follows: \$2,600,000 in 1995, \$600,000 in 1998, \$18,400,000 in 1999 and \$55,000,000 in the year 2000. The Corporation also has net capital losses of \$51,500,000 available to offset taxable capital gains realized in any future year. In addition, debit timing differences of \$44,000,000 resulting from expenses reflected in the statement of income but deferred for tax purposes have not been recognized in the financial statements. The benefit of the non-capital and net capital losses and debit timing differences will be recognized in income upon realization.

Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding during the period. During the 1993 fiscal year, the weighted average of outstanding shares was 12,201,175 compared with 12,179,021 for the twelve months ended March 31, 1992. The loss per share for fiscal 1993 was \$7.02, as compared to a loss of \$13.06 in the prior year.

The Corporation paid two quarterly dividends of \$0.11 during the 1992 fiscal year on the Common Shares, Class A Non-Voting Shares and First Preferred Shares. In February 1992, the Board of Directors announced its decision to suspend dividend payments on all classes of Shares. No dividends were paid in fiscal 1993.

Comparison of Year ended March 31, 1992 with Year ended March 31, 1991

Statement of Earnings and Financial Position

Sales for Peoples were \$196,855,000 in fiscal 1992 compared to \$212,143,000 in fiscal 1991. This 7.2% decrease was due to the impact of continued low consumer confidence, a prolonged recession and reduced traffic in shopping malls. The closing of 17 stores in the final quarter of the fiscal year also reduced sales by an estimated \$500,000.

The cost of merchandise sold and all other expenses except depreciation and interest increased 4.8% as a percentage of sales due to heavy competitive discounting among jewellers and retailers in general.

Short-term interest on borrowing from the Bank Creditor decreased during the year. This was as a result of lower average interest rates paid in Canada and lower rates paid on a gold swap.

A charge for restructuring costs of \$5,500,000, relating to closing stores and reducing head office and store expenses, was taken in December 1991.

All of the above items combined to produce a net income from Canadian operations which was significantly lower than the prior year.

Amounts receivable decreased \$18,400,000 primarily because the prior year balance included a \$11,400,000 claim for a federal sales tax rebate, which was received in April 1991. The prior period balance also included a \$5,200,000 dividend receivable from JHC which was reclassified as investment in JHC in 1992.

A 9.6% decrease in fixed assets was due to the write-offs of fixtures as stores were closed, and was partially offset by Peoples' program of new stores and essential store renovations, the cost of which was reduced by Landlord assistance. During the year, nine new stores were opened, eight stores were renovated or relocated, and twenty stores were closed.

Investment in Jewelers Holding Corporation

As a result of equity accounting for Zale's losses through the Corporation's third quarter and the subsequent write-off of the Corporation's investment in JHC, and in light of the uncertain outcome of the Chapter 11 process, the carrying value of the JHC investment has been reduced to zero. The combination of the equity losses, related interest and other costs and the write-off resulted in a loss related to the investment in JHC of \$159,300,000 for the full year.

The equity in earnings of JHC to December 28, 1991 includes the Corporation's net-of-tax share of interest and other costs of JHC, which owns 94.5% of ZHC, which, in turn, owns 100% of Zale.

The 1992 interest related to the JHC investment is \$9,800,000, net of Canadian income taxes of \$365,000. The 1991 interest related to JHC was \$4,300,000, net of \$6,300,000 interest income due to Peoples on its subordinated advance of U.S. \$50,000,000, and Canadian taxes of \$4,100,000.

Liquidity and Capital Resources

Peoples' cash requirements consist principally of funding inventory requirements, capital expenditures for retail store expansion and renovations and scheduled payments of principal and interest on its outstanding debt. Peoples experiences wide seasonal swings in its working capital balances due to an inventory build-up in early fall in anticipation of the Christmas selling season.

The Corporation's consolidated balance sheets are presented on an unclassified basis because of substantial disruptions to the Corporation's operating cycle arising as a consequence of its filing under CCAA, its current inability to satisfy its obligations and the prospect of a restructuring plan that could significantly alter its assets, liabilities and shareholders' deficiency that have made the classification of current assets and liabilities meaningless.

The Corporation invested \$2,600,000 in fixed assets, investments and other assets during 1993 compared with \$6,900,000 in 1992 and is anticipating \$2,100,000 for 1994.

As previously noted the Corporation has stated that it is insolvent and sought and received protection from Creditors on December 29, 1992.

The Business Plan anticipates bulge financing of approximately \$20,000,000 - \$30,000,000 at peak requirements. The Bank Creditor has approved additional credit in an amount of up to \$15,000,000 and permitted a maximum consignment level of \$10,000,000 effective June 1993. It is anticipated that suppliers will provide the balance of goods on various short term agreements to allow the Corporation to provide a full product level.

