

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, as amended**

AND

IN THE MATTER OF THE BUSINESS CORPORATIONS ACT, R.S.B.C 2002 c. 57

AND

**IN THE MATTER OF BACKBAY RETAILING CORPORATION, and
GRAY'S APPAREL COMPANY LTD.**

MONITOR'S REPORT ON THE PLAN

Introduction

Backbay Retailing Corporation and Gray's Apparel Company Ltd., both corporate entities (collectively the "Petitioners") filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act* ("CCAA") on February 1, 2008. Although not a petitioner, the Initial Order also applies to Mariposa Stores Limited Partnership (collectively the "Company"). The Initial Order which was granted stayed creditors from taking or continuing any proceedings against the Company, thus permitting the Company to remain in control of their assets and to continue carrying on business during the restructuring period.

On February 29, 2008, a further Court Order was granted which continued to stay creditors from taking or continuing any proceedings against the Company until May 31, 2008. This further Court Order was to allow the Company sufficient time to prepare its Plan of Arrangement ("Plan") to its creditors. On May 29, 2008, the Company filed its Plan with the Court. The Plan calls for an orderly windup of the Company's operations and for it to realize upon its assets.

Background

The Company operates a retail women's clothing chain whose primary market is women aged 18-34. The Company has been operating retail clothing stores since 1979 and has, as of the date of this report, 65 locations across the country. The stores are located in retail mall complexes which are situated in the following provinces:

- British Columbia;
- Alberta;
- Saskatchewan;
- Manitoba; and
- Ontario.

For a number of years the Company has been experiencing financial difficulties, which is a result in part, of the Company not having access to sufficient working capital. As a result the Company has been unable to: retain or hire sufficient qualified store operations personnel; secure varied merchandise; order sufficient quantities of current merchandise; update or renovate stores; and retain sufficient personnel for its head office operations.

The Petitioners are the two general partners of the Company and the sole limited partner of the Company is Bronte Enterprises Ltd. ("Bronte"). Backbay Retailing Corporation is wholly-owned by Mr. John McNamara and Gray's Apparel Corporation Ltd. and Bronte are indirectly wholly-owned by Mr. H.U. Cloppenburg of Germany.

Mr. McNamara is the President and Chief Executive Officer of the Company and he manages the Company's day to day operations. Mr. McNamara is supported by Ms. Kal Bains who is the Vice-President, Real Estate and Administration and by Mr. Douglas Bowley who is the Vice-President, Finance and Logistics.

Charles F. Berg Inc. ("Berg"), which is indirectly owned by the same principals who own the Petitioners, is a United States retail clothing store which sells the same or similar products as the Company. Berg filed for protection in the United States under Chapter 11 of the *US Bankruptcy Code*. The Chapter 11 filing occurred on February 8, 2008.

Restructuring Progress

Since the Initial Order was obtained the Company has continued to operate all of its store locations with the exception of three, which the Company closed at the end of February. The Company has reduced its costs but continues to operate on a negative cash flow basis. The Company has been able to maintain a net positive cash position through the use of the Debtor In Possession ("DIP") borrowed funds.

In order for the Company to create a return for its creditors, the Company engaged Richter Consulting Inc. ("Richter") to assist them in marketing and selling the business as a going concern or alternatively to locate a purchaser for the Company's assets. Richter's also worked with the Company to obtain offers from liquidators to address the excess inventory owned by the Company.

The Company engaged Maynard's Industries Ltd. ("Maynard's"), upon receipt of Court approval, to conduct an orderly liquidation of its inventory at 20 of the Company's locations as well as to liquidate the inventory at the Company's Vancouver warehouse by the end of August 2008. The terms of sale also allows Mariposa to retain the services of Maynard's to manage the liquidation of up to an additional 20 Mariposa locations during the months of June to August 2008.

With respect to the sale of the Company's business, the Company has reached an agreement with 656750 Ontario Limited ("656") to sell the following assets for approximately \$5 million:

- assign Mariposa's interest in 23 of its leased locations ("Purchased Locations");
- 656 will assume the employment of the employees and managers at the 23 Purchased Locations;
- fixtures and point of sale equipment, at all of Mariposa's leased locations;
- supplies; and
- Canadian Trade-Marks for Mariposa Rack, Mariposa Design and Mariposa.

Further, the Company will consign inventory of at least \$1.5 million to 656 from the closing transition date to August 31, 2008. Proceeds from the inventory sales will be split 50% to the Company and 50% to 656. Prior to August 31, 2008, the parties will determine whether any unsold inventory is to be returned to the Company or whether the Company will sell the remaining inventory to 656.

Through these sales agreements, with Maynard's and 656, the Company will effectively sell all of its assets and the proceeds from the sales will be used to repay the DIP lender and provide a return to the Company's creditors.

The Plan

The Petitioners have been permitted by the Court to file a Consolidated Plan. The Petitioners believe that this will be most appropriate for all stakeholders as:

- the business of the Petitioners was operated on a consolidated basis and carried on as a single entity;
- all activity of the Petitioners were operated as Mariposa; and
- the cost of preparing separate Plans would be complex and would involve considerable increased costs, to the prejudice of the stakeholders of the Petitioners.

As Monitor we agreed with the Petitioners assessment that the benefit of filing a Consolidated Plan will outweigh any potential prejudice, given the interaction between the entities and the assets being held in Mariposa.

The Petitioners' Plan considers an orderly wind-up of the Company and distribution of the proceeds to the creditors. Through an orderly wind-up of the Company's assets, the Petitioners and the Company expect to achieve a greater recovery for their stakeholders than would result from the bankruptcy of the Company. The agreements which have been reached with 656 and Maynard's require the Company to continue to provide inventory and office services to August 2008.

The Petitioners' Plan contemplates one class of creditors all of whom are unsecured. Each unsecured creditor will receive a pro-rata distribution from all funds received and/or held by the Petitioners, after repayment of the DIP lender and any deemed trust or priority creditors, to the maximum amount of their proven claim. Distribution would occur to the unsecured creditors once all assets have been realized upon.

In order to participate in the Plan, the creditors must complete the attached Proof of Claim form and include the documentation required to support the claim. The Petitioners must receive the Proof of Claim form no later than the **Claims Bar Date of 5:00pm PDT on July 15, 2008.**

A Meeting of Creditors ("Meeting") will be held to consider and Vote on the Plan. To be entitled to Vote at the Meeting a Proof of Claim form, and as necessary a Proxy, must be submitted prior to the commencement of the Meeting. The Meeting will be held on **Friday, July 25, 2008 at 10:00am PDT** at:

Borden Ladner Gervais LLP
1200 – 200 Burrard Street
Vancouver, BC V7X 1T2

If you cannot attend the Meeting, we encourage you to complete and submit not only the Proof of Claim form, but also the Proxy and the Voting Letter. All documents must be submitted to the Petitioners prior to the commencement of the Meeting. The forms are to be submitted to:

Mariposa Stores Limited Partnership
88 First Avenue West
Vancouver, BC V5Y 3K8

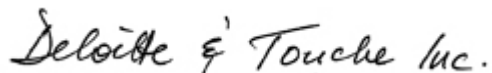
Fax: (604) 873-4561
Attention: Douglas R. Bowley

Should you have any questions regarding completion of the forms, please contact Mr. Kwame Moloko of Deloitte & Touche Inc. at (604) 640-4903.

Monitor's Recommendation

The Monitor believes the Petitioners' Plan is in the best interest of all of the Petitioners' stakeholders and recommends the creditors accept the Petitioners' Plan.

Dated at Vancouver, BC this 5th day of June, 2008



DELOITTE & TOUCHE INC.

In its capacity as Court Appointed Monitor of
Mariposa Stores Limited Partnership
and not in its personal capacity.