

PLAN OF COMPROMISE OR ARRANGEMENT

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

BACKBAY RETAILING CORPRATION AND
GRAY'S APPAREL COMPANY LTD.

(Collectively the "Petitioners")

FILED MAY 30, 2008

**ARTICLE 1
DEFINITIONS & INTERPRETATION**

1.1 Definitions

In this Plan, unless otherwise stated or unless the context otherwise requires, the following words and phrases shall have the indicated meanings and grammatical variations of such words and phrases shall have corresponding meanings:

"Accepted Claim for Voting Purposes" of a Creditor means the Proven Claim of a Creditor unless the Proven Claim of the Creditor is not finally determined at the time of the applicable Meeting, in which case it means the Claim of the Creditor which is accepted for voting purposes as provided for in this Plan;

"Assets" means all present or future real property, personal property, licences, undertaking or other property of either of the Petitioners.

"Business Day" means any day (other than a Saturday or a Sunday) on which Schedule I Banks in Vancouver, British Columbia are generally open for business;

"CCAA" means the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as the same may be amended or re-enacted from time to time, or any successor legislation thereto;

"Chair" has the meaning ascribed thereto in Section 5.2 hereof;

"Claim" means a claim for an amount alleged by a person to be owed to it (as at the Date of Filing, or deemed by any Court Order to have been owing as at the Date of Filing) or any present or future right of a person to claim against the Petitioners or the Directors and Officers of the Petitioners in connection with any Indebtedness, Liability, Losses or obligation of the Petitioners of any kind or for which the Petitioners or the Directors and Officers of the Petitioners are liable,

whether or not reduced to judgement, liquidated, unliquidated, fixed, contingent, accrued, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by indemnity, guarantee, by surety or otherwise and whether or not such a claim or right is executory in nature and including, without limitation:

- (a) future rental or lease payments in respect of the real or personal property of the Petitioners;
- (b) any Indebtedness, Liability, Losses or obligation for which the Petitioners are liable either jointly or jointly and severally with another person or persons;
- (c) any Indebtedness, Liability, Losses or obligation which has been guaranteed by any of the Petitioners;
- (d) any Indebtedness, Liability, Losses or obligation for which the Petitioners are liable to any employee of the Petitioners, including severance obligations for any employee terminated on or before the Effective Time but after the Date of Filing. For greater certainty, employee claims for severance will not be a Post Filing Claim even if terminated after the Date of Filing;
- (e) any liability of the directors and officers of the Petitioners that relates to the obligations of the Petitioners where the directors or officers are by law liable as directors or officer for the payment of such obligations, including without limitation any obligations arising out of or in connection with liabilities of the Petitioners to employees pursuant to the *Employment Standards Act* (British Columbia); and
- (f) any Future Claim,

but excludes any such claim to the extent that it is secured by a Lien on assets of the Petitioners, up to the value of such assets, and for greater certainty excludes any statutory priority claim(s) that would be paid in priority to the claims of Unsecured Creditors in a bankruptcy of the Petitioners.

“Claims Bar Date” means 5:00pm (Vancouver time) on July 15, 2008, or such later date as the Court may set.

“Class” means all Creditors;

“Court” means the Supreme Court of British Columbia;

“Creditor(s)” means a person or persons having a Claim;

“Crown” means Her Majesty the Queen in Right of Canada or Her Majesty the Queen in Right of the Province of British Columbia, as the case may be;

“Date of Filing” means February 1, 2008, the date of the Initial CCAA Order;

“Effective Time” means 5:00 p.m. Vancouver time on (1) the day following the day on which the appeal period with respect to the Plan Approval Order has expired without an appeal or application for leave to appeal of such Order having been commenced, or (2) if such an appeal or

application for leave to appeal has been so commenced, then the day after the day on which such appeal or application for leave to appeal, and any further appeal or application for leave to appeal in relation thereto, is withdrawn or an Order has been made dismissing such appeal, application, further appeal or further application, as the case may be, and any applicable appeal period has expired without an appeal or application for leave to appeal with respect to such Order having been commenced;

“Future Claim” means a Claim for an amount owing by a Petitioner to a Creditor at a future date.

“GAAP” means generally accepted accounting principles so described and promulgated by the Canadian Institute of Chartered Accountants which are applicable as at the date of any financial statements referred to herein, as the case may be;

“Governmental Authority” means any federal, territorial, provincial, regional, municipal or local government, governmental authority, quasi-governmental authority, instrumentality, court, self-regulatory organization, commission, tribunal, board, Crown corporation or rule-making entity or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing including any entity or person exercising executive, legislative, judicial, regulatory or administrative functions;

“Indebtedness” means with respect to any person: (i) all indebtedness of such person for and in respect of borrowed money, including obligations with respect to bankers' acceptances, letters of credit and letters of guarantee; (ii) all indebtedness of such person for the deferred purchase price of property or services represented by a note or other evidence of indebtedness or other security; (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such person (even through the rights or remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (iv) all obligations under leases which, in accordance with GAAP (or accounting principles generally accepted in the jurisdiction of incorporation or organization of such person), are recorded as capital leases in respect of which such person is liable as lessee; (v) the aggregate amount at which any shares in the capital of such person which are redeemable or retractable at the option of the holder thereof may be retracted or redeemed; and (vi) the maximum amount which may be outstanding at any time of all indebtedness of such person of the kinds referred to in clauses (i) through (v) which is directly or indirectly guaranteed by such person or which such person agreed (contingently or otherwise) to purchase or otherwise acquire, or in respect of which such person has otherwise assured a creditor against loss by means of an indemnity, security or bond;

“Law” means any federal, territorial, provincial, municipal or local law, statute, rule, regulation, ordinance, treaty, order, writ, judgment, decree or other requirement applicable to that person, property, transaction or event and, whether or not having the force of law, any applicable official directive, rule, consent, approval, authorization, guideline, administrative interpretation, order and policy of any Governmental Authority having or purporting to have authority over that person, property, transaction or event;

“Liability” means with respect to any person, any liability or obligation of such person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such person;

“Lien” means any encumbrance, lien, assignment, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, right of occupation, any matter capable of registration against title, option, right of pre-emption, privilege or any contract to create any of the foregoing;

“Losses” means, in respect of any matter, all claims, demands, proceedings, losses, damages, liabilities, deficiencies, costs and expenses (including, without limitation, all legal and other professional fees and disbursements, interest, penalties and amounts paid in settlements) arising as a consequence of such matter;

“Meeting” means a meeting of the Class to consider and, if deemed advisable, approve this Plan, as the same may be amended at any such Meeting, and the compromise and arrangement constituted thereby, and any adjournment thereof;

“Monitor” means Deloitte & Touche Inc., Vancouver, British Columbia or any replacement thereof;

“Notice of Disallowance” means a notice in writing by the Petitioners to a Creditor advising of reasons for rejection or revision of a Proof of Claim;

“Notice of Dispute” means a notice in writing by a Creditor who disputes any Notice of Disallowance in respect of a Proof of Claim filed by such Creditor;

“Order” means any order of the Court made in the Proceeding;

“person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, labour union, association of workers or any other entity or association;

“Petitioners” has the meaning ascribed thereto in the recitals hereof;

“Plan” means this consolidated plan of compromise or arrangement under the CCAA as the same may from time to time be amended, modified or supplemented pursuant to an Order, an agreement among the Petitioners and any Creditor as provided for herein, or pursuant to any Meeting of the Class;

“Plan Approval Order” means the order of the Court sanctioning and approving the Plan;

“Plan Filing Date” means May 30, 2008, or such other date as the Plan is actually filed;

“Procedural Order” means the order of the Court made on May 30 directing the holding of the Meeting and providing such other directions as may be appropriate in the circumstances.

“Proof of Claim” means the form of document required to evidence the Claim of, or intercorporate debt owing to, a Creditor as established by an Order in the Proceeding prior to the date of the Meeting;

“Proven Claim” means in respect of Creditors, the amount of the Claim of any Creditor finally determined in accordance with this Plan and any applicable Order;

“Stakeholders” means any individual or organization with a legitimate interest in the Petitioners.

“Unsecured Creditors” means, collectively those Creditors who:

- (a) do not have a lien or charge on any assets of the Petitioners as security for all or a part of their Claim; or
- (b) have been granted or are entitled to a Lien on the Assets of any of the Petitioners that due to the relative priority of such Lien, would in a bankruptcy of the Petitioners result in (i) such Creditor failing to realize any value or recovery from the liquidation of such Asset or Assets or (ii) such Creditor suffering a shortfall in the recovery of its secured claim (such shortfall being the amount of its unsecured claim);

1.2 Accounting Terms

All accounting terms not otherwise defined in this Plan shall have the meanings ascribed thereto in accordance with GAAP. Any question or dispute with respect to the content of GAAP shall be determined by the Monitor, in its sole discretion.

1.3 Article and Section References

The terms "this Plan", "hereof", "hereunder", "herein" and similar expressions refer to this Plan, amendments to this Plan, and not to any particular article, section, subsection, paragraph or clause of this Plan and include any instrument supplemental hereto. In this Plan, a reference to an article, section, subsection, clause or paragraph shall, unless otherwise stated, refer to any article, section, subsection, paragraph or clause of this Plan.

1.4 Extended Meanings

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

1.5 Interpretation not Affected by Headings

The division of this Plan into articles, sections, subsections, paragraphs and clauses 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.

1.6 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.

ARTICLE 2
PURPOSE AND EFFECT OF THE PLAN

2.1 Purpose of the Plan

The purpose of the Plan is to facilitate an orderly liquidation of the Petitioners' Assets, on a consolidated basis, and to address the Indebtedness and Liabilities of the Petitioners and all Claims of Creditors. The Petitioners expect that an orderly wind-up of the business will result in a greater recovery to the Stakeholders than would result from the bankruptcies of the Petitioners.

2.2 Overview of Plan

This Plan provides for the compromise, satisfaction, discharge and release of the Claims of Creditors on the terms set out in this Plan.

2.3 Claims Affected

The Claims of all Creditors are to be affected by this Plan. All Claims will be compromised and arranged in accordance with the terms hereof and the compromise and arrangement of such Claims shall be binding upon each Creditor affected by this Plan and its heirs, executors, administrators, successors and assigns.

2.4 Binding Effect

Subject to any Order, this Plan will be binding upon the Petitioners and all Creditors in accordance with its terms.

ARTICLE 3
CREDITOR CLASSIFICATION AND PAYMENTS

3.1 Classification of Creditors

For the purpose of considering and voting upon this Plan, Creditors shall be classified in a fashion which treats them as though the Petitioners were in bankruptcy, and shall be grouped into a single Class, each Creditor being a member of the Class for the amount of its Unsecured Claim.

For greater certainty, Creditors that have been granted or are entitled to a Lien on the Assets of any of the Petitioners that due to the relative priority of such Lien, would in a bankruptcy of the Petitioners result in such Creditor failing to realize any value or recovery from the liquidation of such Asset or Assets, or would result in such Creditor suffering a shortfall on the recovery of its secured claim), shall be Unsecured Creditors under this Plan on the basis that such Creditor is effectively unsecured with respect to the total or a portion of the value of its Claim.

3.2 Unsecured Creditors

The Indebtedness of the Petitioners to the Unsecured Creditors shall be settled, compromised and extinguished as set forth in this Plan. Each Unsecured Creditor will receive a *pro rata* distribution from all net proceeds of the sale of or realization on the Petitioners' assets, to the

maximum amount of their Proven Claim. Further, the amount available to creditors will be dependent on the claims filed and proved against the Petitioners including any contingent claims.

The timing of a distribution to the Unsecured Creditors with Proven Claims is dependent upon the Petitioners realizing upon their assets pursuant to the terms of the agreements reached with Maynard's Industries Ltd. and 656750 Ontario Limited, and is also dependent upon the timing of the Petitioners' recovery of the claim of Mariposa Stores Limited Partnership against Charles F. Berg Inc., an affiliated US corporation that is in proceedings under Chapter 11 of the *United States Bankruptcy Code*.

ARTICLE 4

FILING OF PROOFS OF CLAIMS

4.1 Filing of Proofs of Claim

Each Creditor shall file its Proof of Claim for review by the Monitor and the Petitioners in accordance with the terms of the Procedural Order, and in any event prior to the Claims Bar Date.

4.2 Failure to file Proofs of Claim prior to the Meeting

If a Creditor fails to file a Proof of Claim with the Monitor prior to 5:00 p.m., on the day before the date set by the Court for the first Meeting of Creditors, such Creditor shall have no right to vote in respect of the Plan.

4.3 Failure to file Proofs of Claim prior to Claims Bar Date

If a Creditor fails to file a Proof of Claim prior to the Claims Bar Date, that Creditor shall be disentitled from receiving any amounts payable hereunder unless the Court otherwise orders, but the Companies shall nevertheless be released from any claims, liabilities or obligations to such Creditor.

4.4 Disputed Proofs of Claim

In the event that the Petitioners dispute any Proof of Claim as to entitlement to participate as an Unsecured Creditor or as to amount of the Claim set out in the Proof of Claim, the Petitioners may:

- a) allow the Proof of Claim for voting and distribution purposes in such amount as it determines appropriate; or
- b) allow the Proof of Claim as presented for the purpose of voting at the Meeting but disallow the Proof of Claim for distribution purposes; or
- c) disallow the Proof of Claim.

If the Petitioners disallow a Proof of Claim for any reason or allow the Proof of Claim for an amount less than that set out in the Proof of Claim, the Creditor shall be deemed to accept the determination of the Petitioners unless the Creditor:

- d) within 10 days of the date on which the Notice of Disallowance is forwarded to the Creditor by the Petitioners, delivers to the Petitioners a Notice of Dispute; and
- e) within 30 days of the date on which the Notice of Disallowance is forwarded to the Creditor by the Petitioners, files and serves on legal counsel for the Petitioners a Notice of Motion seeking to determine that portion of the Creditor's claim that was disallowed by the Petitioners.

4.5 Extinguishment, Compromise or Arrangement of Claims

All Claims and Liens against or in relation to the Petitioners or claims and causes of action against their directors, officers, employees, advisors or agents will be settled, compromised, cancelled, extinguished, arranged and discharged at the Effective Time. All agreements or other arrangements, whether written or oral, among the Petitioners and any Creditor will, by operation of this Plan, be amended to provide that, notwithstanding any provisions thereof to the contrary, the Indebtedness, Liabilities, Losses and obligations, and Liens therefore, of the Petitioners to any Creditor thereunder will be settled and compromised as set forth in this Plan. Except as otherwise set forth herein, the Claim of any Creditor who has not submitted a Proof of Claim in accordance with the Procedural Order will be cancelled, extinguished and discharged.

ARTICLE 5

MEETING

5.1 Meetings of Creditors

A Meeting of the Class shall be held for the purpose of presenting this Plan to the Unsecured Creditors for their approval in accordance with the provisions of the Procedural Order and this Plan.

5.2 Chair of Meetings of Creditors

The Monitor shall preside as the Chair of the Meeting and shall decide all matters relating to the conduct of the Meeting.

5.3 Persons Entitled to Vote

The persons entitled to attend the Meeting are: (i) the Monitor or a person designated by the Monitor; (ii) officers, directors, auditors and advisors of the Petitioners; (iii) those persons with Accepted Claims for Voting Purposes in respect of the Meeting (including the holders of proxies); and (iv) legal counsel of any person entitled to attend the Meeting.

5.4 Adjournment of Meetings of Creditors

The Petitioners may, pursuant to an Order of the Court, postpone the Meeting on such terms and conditions as the Court may impose. The Chair may, with the approval of Creditors holding a majority in value of the Accepted Claims for Voting Purposes of the Creditors entitled to attend

the Meeting, adjourn the Meeting on such terms and conditions (as to notice of the adjourned Meeting and otherwise) as the Chair may prescribe, subject to any further Order of the Court.

5.5 Creditor Approval

In order that the Plan be binding on the Creditors in accordance with the CCAA, it must first be accepted by the Class (as prescribed by this Plan) by both:

- (a) a majority in number of the Class who actually vote upon the Plan (in person or by proxy) at the Meeting; and
- (b) Unsecured Creditors, representing two-thirds in value of the Accepted Claims for Voting Purposes of the Class who actually vote upon the Plan (in person or by proxy) at the Meeting.

5.6 Valuation of Claims

The Petitioners may, in their discretion, seek the assistance of the Court in valuing the Claim of any Creditor (pursuant to the provisions set out in the BIA for valuation of claims), ascertaining the result of any vote by the Creditors, determining the amount to be distributed, if any, to a Creditor under the Plan, or any other matter related to this Plan.

5.7 Voting

Each Creditor who is entitled to vote shall be entitled to (a) for purposes of Section 5.5(a) of the Plan, one vote in respect of its Accepted Claim for Voting purposes, and (b) for purposes of Section 5.5(b) of the Plan, one vote at the Meeting for each \$1.00 of such Creditor's Accepted Claim for Voting Purposes. In the event that the Proven Claim of a Creditor is not finally determined prior to the date of the Meeting in accordance with this Plan, or the Procedural Order or any Order of the Court, the Creditor shall be entitled to vote at the Meeting based on its Accepted Claim for Voting Purposes, without prejudice to the Petitioners' or the Creditor's rights to require the final determination of the Creditor's Proven Claim, which Proven Claim is the Creditor's entitlement to payment of its claim under the Plan. In the event any Creditor's Claim is an Accepted Claim for Voting Purposes, but is not yet a Proven Claim, and the outcome of the vote in respect of the Plan may be affected by such Creditors' Claim or Claims, the Petitioners will not seek approval of the Plan from the Court until such Claims have been finally determined in accordance with this Plan and the Procedural Order.

5.8 Effect of Plan Generally

At the Effective Time, the treatment of Claims as set forth in this Plan will be final and binding on the Petitioners and all Creditors (and their respective heirs, executors, administrators, legal representatives, successors and assigns) and this Plan will constitute:

- (a) full, final and absolute settlement, compromise and arrangement of all Claims of all Unsecured Creditors;
- (b) full, final and absolute settlement, compromise and arrangement of all rights in connection with or pursuant to all Claims of Creditors hereunder; and

- (c) an absolute release, discharge and extinguishment of all Claims of Creditors against the Petitioners.

ARTICLE 6

AMENDMENTS AND MODIFICATIONS

6.1 Amendment of Plan

The Petitioners reserve the right to amend the Plan at any time and re-submit it to the Creditors, and the Plan may be amended among the Petitioners and the Creditors at the Meeting. Any amended Plan must be approved by the Monitor before resubmitting to the Creditors.

6.2 Modification of Plan

After the Meeting, the Plan may be modified by the Court at any time on application of the Petitioners or the Monitor and upon notice to those determined by the Petitioners to be directly affected by the proposed modification, whether a Creditor or not. On such application, the Plan may be modified as may be reasonably necessary to ensure the successful wind down of the business of the Petitioners in accordance with the purposes of the Plan.

6.3 Waivers

A Creditor may, with the consent of the Monitor, waive any provision of the Plan by which it is directly affected.

ARTICLE 7

APPLICATION FOR PLAN APPROVAL ORDER

7.1 Application for Plan Approval Order

If, upon the conclusion of the Meeting, the Plan has been approved by the requisite majorities of the Unsecured Creditors with respect to both the numbers of Creditors and the dollar amounts of Claims of Creditors, as established under the CCAA, and upon satisfaction of the conditions precedent set forth in section 7.3 (except for the sanction of the Court), the Petitioners will forthwith apply to the Court for the Plan Approval Order.

7.2 Effect of Plan Approval Order

In addition to sanctioning this Plan, the Plan Approval Order will, among other things:

- (a) declare that the compromises or arrangements, wind-up and liquidation plan, as the case may be, effected hereby are approved, binding and effective as herein set out upon all Creditors affected by this Plan;
- (b) declare that, subject to the performance by the Petitioners of their respective obligations under this Plan and except to the extent, if any, expressly contemplated by this Plan or the Plan Approval Order, all arrangements or agreements under which any Petitioner is a party, is liable or has an obligation on

the Plan Filing Date will be and remain in full force and effect (notwithstanding, where applicable, the assignment of any such arrangements or agreements by consent or by order of the Court), unamended as at the Effective Time and no person who is party to any such arrangement or agreement shall, following the Effective Time, accelerate, terminate, cancel, rescind, refuse to perform or otherwise repudiate its obligations thereunder, or enforce or exercise any right (including any right of set-off, any right or option to acquire or dispose of any securities or assets of the Petitioners or any other remedy) or make any demand under or in respect of any such arrangement or agreement, by reason of: (i) any event(s) which occurred on or prior to the date of the date of this Plan which would have entitled any other person who is a party thereto to enforce those rights or remedies (including defaults or events of default arising as a result of the financial condition or insolvency of any of the Petitioners); or (ii) the fact that the Petitioners have sought or obtained relief under this Plan; or (iii) the effect on the Petitioners of the completion of any of the transactions contemplated by this Plan; or (iv) any restructuring, compromises or arrangements effected pursuant to this Plan; and

- (c) stay any and all steps or proceedings, including administrative orders, declarations or assessments, commenced, taken or proceeded with or that may be commenced, taken or proceeded with against the Petitioners and any of their respective past, present and future directors and officers in respect of any Claim as at the Effective Time.

7.3 Conditions Precedent to Plan

This Plan will be conditional upon the fulfillment or waiver of the following conditions, any of which may be waived by the Petitioners at any time:

- (a) *Approval of Petitioners*

Each of the Petitioners will have taken all corporate actions and proceedings which in the opinion of the Petitioners, acting reasonably, are necessary to approve this Plan and to enable each of them to execute and deliver, and perform their respective obligations under, this Plan.

- (b) *Approval of Plan*

Approval of this Plan by the Creditors, and the Court in form and substance satisfactory to the Petitioners.

- (c) *Expiry of Appeal Period*

The appeal period with respect to the Plan Approval Order will have expired without an appeal of the Plan Approval Order having been commenced or, in the event an appeal is commenced or an application for leave to appeal is filed, an Order will have been made by the applicable appellate tribunal dismissing the appeal or application for leave to appeal.

(d) *Delivery of Instruments*

The Petitioners will have executed and delivered all such agreements, indentures, documents and other instruments which, in the opinion of the Petitioners, acting reasonably, are necessary to be executed and delivered by them in order to implement this Plan and perform their respective obligations hereunder.

(e) *Delivery of Documents*

All relevant persons will have executed, delivered and filed all documentation which in the opinion of the Petitioners, acting reasonably, are necessary to give effect to all material terms and provisions of this Plan.

ARTICLE 8

GENERAL PROVISIONS

8.1 Paramountcy

From and after the Effective Time, any conflict between this Plan and the terms, conditions, covenants, representations, warranties, provisions or obligations, expressed or implied, of any contract, credit document, agreement for sale, arrangement, constating or organizational documents of any of the Petitioners, lease or other agreement, written or oral and any and all amendments or supplements thereto existing among one or more of the Creditors and any of the Petitioners as at the Effective Time will be deemed to be governed by the terms, conditions and provisions of this Plan and the Plan Approval Order, which will take precedence and priority in respect thereof.

8.2 Compromise Effective for all Purposes

The payment, compromise or other satisfaction of any Claim of an Unsecured Creditor under this Plan, if sanctioned and approved by the Court will, be binding on such Creditor and such Creditor's heirs, executors, administrators, legal personal representatives, successors and assigns, for all purposes.

8.3 Consents, Waivers and Agreements

From and after the Operative Time, each Creditor will be deemed to have consented and agreed to all of the provisions of this Plan in its entirety. In particular, each Creditor will be deemed to have:

- (a) Executed and delivered to the Petitioners all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Plan in its entirety;
- (b) Waived any and all defaults by the Petitioners arising on or prior to the Effective Time in respect of every representation, warranty, term, provision, covenant, 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 or arrangement,

written or oral, in respect of any Claim, and any governmental authorization, licences or permits, except for any obligations of the Petitioners under or contemplated by this Plan which may be in default. Without limiting the generality of the foregoing, such waiver shall extend to and include any provision in any agreement among such Creditor and the Petitioners which provides that the Petitioners are in default, or the Creditor has a remedy or right, and which arises or results from any change in control, or deemed change in control, of any of the Petitioners resulting from this Plan or any change in the directors of any of the Petitioners, which has taken place up to and including the Effective Time, or which has occurred on or prior to the Effective Time, or any assignment of any agreement (by consent or by Court Order) in the CCAA proceedings of the Petitioners. Any and all notices of default or demand for payment under any instrument, including, without limitation, any guarantee, shall be deemed to have been rescinded and cancelled, provided that nothing in this paragraph shall be construed as affecting any Creditor's rights against any third party where such rights may be dependant upon the existence of a default by the Petitioners;

- (c) Agreed that, in the event there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between any Creditor and any of the Petitioners as at the Effective Time (other than those entered into by any of the Petitioners after, or with effect from, the Effective Time) and the provisions of this Plan, the provisions of this Plan shall take precedence and priority and the provisions of such agreement or other arrangement will be deemed to be amended accordingly;
- (d) Rescinded and cancelled any and all notices of default or demand for payment under any instrument, including, without limitation, any guarantee; and
- (e) Released the Petitioners in respect of any and all payments or other distributions to be made to such Creditor pursuant to the provisions of this Plan, so long as all such payments or distributions are made as provided herein.

8.4 Releases

At the Effective Time, the Petitioners and each and every present and former officer, director, employee, auditor, financial advisor, legal counsel and agent of each of the Petitioners and the Monitor, acting in such capacities, will be released and discharged from any and all Claims of Creditors, demands, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, Liens and other recoveries on account of any Liability, obligation, demand or cause of action of whatever nature which any person may be entitled to assert, including any and all Claims of Creditors in respect of potential statutory Liabilities of the former, present and future directors and officers of any of the Petitioners for which an Order authorized the granting of security, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act, omission, transaction, dealing or other occurrence existing or taking place at or prior to the Effective Time relating to, arising out of or in connection with such Claims, the business and affairs of the Petitioners, and this Plan, except that this release will not apply in respect of the obligations of the Petitioners under this Plan. If any Creditor has filed or registered a Lien in respect of that Creditor's Claims, then the Petitioners may require as a condition of the release of the payments to be issued to such Creditor that such Creditor release and discharge such Lien and provide evidence of such release and discharge to the Petitioners and to the

Monitor. The Petitioners shall have the right to apply to the Court, or a court of competent jurisdiction in another jurisdiction, to require the release of such Lien at the cost and expense of such Creditor.

8.5 Deeming Provisions

The deeming provisions contained in this Plan are not rebuttable and are conclusive and irrevocable.

8.6 Notices

Any notice or communication to be delivered hereunder will be in writing and may, subject as hereinafter provided, be made or given by personal delivery or by fax addressed to the respective parties as follows:

- (a) if to the Petitioners:

Mariposa Stores Limited Partnership
c/o Borden Ladner Gervais
1200 Waterfront Centre, 200 Burrard Street
PO Box 48600
Vancouver, BC V7X 1T2

Attention: Magnus Verbrugge
Fax: (604) 640-622-5898

- (b) if to a Creditor:

to the known address (including fax number) for such Creditor or the address for such Creditor specified in the Proof of Claim filed by such Creditor in the Proceedings.

- (c) if to the Monitor:

Deloitte & Touche Inc., CCAA Monitor of
Mariposa Stores Limited Partnership
2800 – 1055 Dunsmuir Street
PO Box 49279
Vancouver, BC, V7X 1P4

Attention: Kwame Moloko
Fax: (604) 899-7005

All such notices and communications which are delivered will be deemed to have been received on the date of delivery. All such notices and communications which are faxed will be deemed to be received on the date faxed if sent before 5:00 p.m. on a Business Day and otherwise will be deemed to be received on the Business Day next following the day upon which such fax was sent. Any notice or other communication sent by mail will be deemed to have been received on the fourth Business Day after the date of mailing. The unintentional failure by any of the Petitioners to give a notice contemplated hereunder will not invalidate any action taken by any person

pursuant to this Plan. The unintentional failure by the Petitioners to give a notice contemplated hereunder to any particular Creditor will not invalidate this Plan or any action taken by any person pursuant to this Plan.

8.7 Date of Any Action

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

8.8 Time

All times expressed in this Plan are references to local time in Vancouver, British Columbia unless otherwise expressly stipulated.

8.9 Currency

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

8.10 Further Assurances

Notwithstanding that the transactions and events set out in this Plan will be deemed to occur without any additional act or formality other than as set out herein, each of the persons affected hereby will make, do and execute or cause to be made, done or executed all such further acts deeds, agreements, transfers, assurances, instruments, documents or discharges as may be reasonably required by the Petitioners in order to better implement this Plan.

8.11 Successors and Assigns

This Plan will be binding upon and will enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any person named or referred to in, or subject to, this Plan.

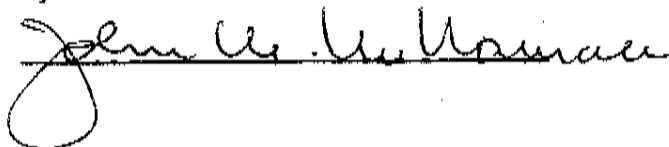
8.12 Governing Law

This Plan will be governed by and construed in accordance with the laws of British Columbia and the federal laws of Canada applicable therein. All questions as to the interpretation of or application of this Plan and all proceedings taken in connection with this Plan and its provisions will be subject to the exclusive jurisdiction of the Court.

THIS PLAN IS PRESENTED THE DAY OF MAY 30, 2008.

BACKBAY RETAILING CORPORATION

By:



GRAY'S APPAREL COMPANY LTD.

By:

John W. McLanahan

MARIPOSA STORES LIMITED PARTNERSHIP

By its General Partners:

BACKBAY RETAILING CORPORATION

By:

John W. McLanahan

GRAY'S APPAREL COMPANY LTD.

By:

John W. McLanahan