

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF EXTREME FITNESS, INC.**

**APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**MOTION RECORD
(returnable May 9, 2013)**

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**ONTARIO
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**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF EXTREME FITNESS, INC.**

**APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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TAB 1

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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EXTREME FITNESS, INC.**

**APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**NOTICE OF MOTION
(returnable May 9, 2013)**

Extreme Fitness, Inc. (the "**Applicant**") will make a motion to a judge presiding over the Commercial List on Thursday, May 9, 2013 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

1. **THE MOTION IS FOR** an Order, among other things:
 - (a) abridging the time for service and filing of this notice of motion and the motion record and dispensing with further service thereof;
 - (b) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Campbell granted on February 7, 2013 in these proceedings (the "**Initial Order**")) to and including July 12, 2013;
 - (c) approving the Third Report of FTI Consulting Canada Inc. (the "**Third Report**"), in its capacity as the Court-appointed monitor of the Applicant (in such capacity, the "**Monitor**"), and approving the actions of the Monitor described therein; and

- (d) such further and other relief as counsel may advise and this Court may permit.

2. **THE GROUNDS FOR THE MOTION ARE:**

- (a) the Applicant was a leading operator of fitness clubs in the greater Toronto area and surrounding region;
- (b) on February 7, 2013, the Applicant made an application under the CCAA seeking court protection from its creditors, which protection was granted pursuant to the Initial Order;
- (c) on March 7, 2013, upon a motion by the Applicant, this Court granted an order, among other things: (i) extending the Stay Period to and including April 5, 2013; (ii) approving the key employee retention plan (the “**KERP**”) offered by the Applicant to certain employees deemed critical to complete the proposed transaction with GoodLife Fitness Centres Inc. (“**GoodLife**”); and (iii) approving the First Report of the Monitor dated February 26, 2013 (the “**First Report**”), and approving the actions of the Monitor described therein;
- (d) on March 27, 2013, upon a motion by the Applicant, this Court granted orders, among other things: (i) extending the Stay Period to and including May 10, 2013; (ii) approving the Asset Purchase Agreement between the Applicant and GoodLife dated March 19, 2013 (the “**APA**”), and vesting the Applicant’s right, title and interest in and to the Purchased Assets (as defined in the APA) in GoodLife; (iii) approving the assignment of a certain lease (the “**Danforth Lease**”) to GoodLife pursuant to the APA; (iv) authorizing the Monitor to make interim distributions from the proceeds of the APA to Golub Capital Incorporated, as agent, on behalf of the DIP Lender (as defined in the Initial Order), the Applicant, Golub Capital Incorporated, as agent, on behalf of the lenders under the Priority Credit Agreement (as defined in the affidavit of Alan Hutchens sworn February 7, 2013 (the “**February 7 Affidavit**”)) and National Bank of Canada, as agent, on behalf of the lenders under the National Bank Credit Agreement (as

defined in the February 7 Affidavit); and (v) approving the Second Report of the Monitor dated March 22, 2013 (the “**Second Report**”) and the Supplemental Report to the Second Report of the Monitor dated March 26, 2013 (the “**Supplemental Report**”), and approving the actions of the Monitor described therein;

- (e) the transactions contemplated in the APA (the “**Transaction**”) provided for the sale or assignment of substantially all of the Applicant’s assets to GoodLife (except the Excluded Assets, as that term is defined in the APA), including, without limitation, contracts regarding the Applicant’s Members and Persons subject to Personal Training Contracts (as those terms are defined in the APA), personal property used in the Applicant’s business and substantially all of the equipment leases and real property leases;
- (f) the Transaction closed at 11:59 p.m. on March 31, 2013 and the Effective Time (as defined in the APA) was 12:01 a.m. on April 1, 2013;
- (g) the consummation of the Transaction resulted in the preservation of approximately 70% of the jobs of the Applicant’s employees, and provided for continued supplier relationships and continued business activity at all the locations from which the Applicant operated;
- (h) pursuant to the Endorsement of the Honourable Justice Morawetz dated March 27, 2013, CDN\$430,000 from the proceeds from the Transaction was required to be held by the Monitor pending a hearing to determine, among other things, the amount owing by the Applicant with respect to the Danforth Lease;
- (i) the aforementioned hearing is scheduled to be held on May 28, 2013;
- (j) pursuant to paragraph 14 of the Initial Order, the Stay Period expires on May 10, 2013;

- (k) the Applicant requires an extension of the Stay Period to and including July 12, 2013 in order to permit it to resolve the dispute with respect to the Danforth Lease and wind-up the business affairs of the Applicant;
- (l) the eleven-week cash flow projection, reviewed with the Monitor and filed with this Court, projects that the Applicant will have sufficient funding during the extended Stay Period;
- (m) based on the information available, creditors of the Applicant will not be materially prejudiced by an extension of the Stay Period to and including July 12, 2013;
- (n) the Applicant has acted, and continues to act, in good faith and with due diligence, and circumstances exist that make granting an extension of the Stay Period to and including July 12, 2013 appropriate;
- (o) the Applicant's senior secured creditors, Golub and NBC, support the relief being sought by the Applicant;
- (p) the Monitor will file with the Court its Third Report outlining, among others things: (i) the actions of the Monitor since the date of its Second Report; and (ii) the Applicant's financial situation;
- (q) the Monitor supports the extension of the Stay Period being sought by the Applicant;
- (r) the other grounds set out in the Third Report;
- (s) section 11.02 of the CCAA and the inherent and equitable jurisdiction of this Court;
- (t) rules 1.04, 2.03, 3.02, 16.08 and 37 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and

(u) such further and other grounds as counsel may advise and this Court may permit.

3. **THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the motion:

(a) the affidavit of Alan Hutchens sworn May 1, 2013;

(b) the Third Report; and

(c) such further and other material as counsel may submit and this Court may permit.

Date: May 1, 2013

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TO: ATTACHED SERVICE LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF EXTREME FITNESS, INC.

Court File No. CV-13-10000-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

NOTICE OF MOTION

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TAB 2

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE) THURSDAY, THE 9TH DAY
JUSTICE) OF MAY, 2013

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
EXTREME FITNESS, INC.**

**APPLICATION UNDER THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

**ORDER
(Re: Stay Extension)**

THIS MOTION, made by Extreme Fitness, Inc. (the "**Applicant**"), for an order, *inter alia*: (a) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Campbell granted on February 7, 2013 in these proceedings (the "**Initial Order**")) to and including July 12, 2013; and (b) approving the Third Report of FTI Consulting Canada Inc., in its capacity as the Court-appointed monitor of the Applicant (in such capacity, the "**Monitor**"), dated May <*>, 2013 (the "**Third Report**"), and approving the actions of the Monitor described therein, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Alan Hutchens sworn May 1, 2013 and the Third Report and on hearing the submissions of counsel for the Applicant, counsel for the Monitor, counsel for GoodLife, counsel for Golub Capital Incorporated and counsel for National Bank of Canada, no

one appearing for any other person on the service list, although duly served as appears from the affidavit of Eunice Baltkois sworn May 1, 2013, filed,

1. **THIS COURT ORDERS** that the time for service and filing of the notice of motion and the motion record is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that the Stay Period, as defined in paragraph 14 of the Initial Order, be and is hereby extended to and including July 12, 2013.

3. **THIS COURT ORDERS** that the Third Report and the actions of the Monitor described therein be and are hereby approved.

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF EXTREME FITNESS, INC.**

Court File No. CV-13-10000-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**ORDER
(Re: Stay Extension)**

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TAB 3

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
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**APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AFFIDAVIT OF ALAN HUTCHENS
(sworn May 1, 2013)**

I, Alan Hutchens, of the Town of Oakville, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the Interim Chief Financial Officer of Extreme Fitness, Inc. (the "**Applicant**"). As such, I have personal knowledge of the matters to which I hereinafter depose in this Affidavit. Where I do not have personal knowledge of the matters set out herein, I have stated the source of my information and, in all such cases, believe it to be true.

I. NATURE OF MOTION AND RELIEF SOUGHT

2. This Affidavit is sworn in support of a motion by the Applicant under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), for an order, among other things:

- (a) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Campbell granted on February 7, 2013 in these proceedings (the "**Initial Order**")) to and including July 12, 2013; and
- (b) approving the Third Report (the "**Third Report**") of FTI Consulting Canada Inc. ("**FTI**"), in its capacity as the Court-appointed monitor of the Applicant (in such

capacity, the “**Monitor**”) and approving the actions of the Monitor described therein.

II. BACKGROUND

3. The Applicant was a leading operator of fitness clubs in the greater Toronto area and surrounding region.

4. On February 7, 2013, the Applicant made an application under the CCAA seeking court protection from its creditors, which protection was granted pursuant to the Initial Order.

5. I swore an affidavit on February 7, 2013 (the “**February 7 Affidavit**”) in support of the Initial Order, a copy of which (without exhibits) is attached as **Exhibit “A”** to this Affidavit. The February 7 Affidavit sets out the background of these CCAA proceedings, including the business of the Applicant and its financial difficulties, an overview of the Applicant’s major stakeholders and the proposed sale of substantially all of the Applicant’s assets, properties and undertakings to GoodLife Fitness Centres Inc. (“**GoodLife**”).

6. On March 7, 2013, upon a motion by the Applicant, this Court granted an order, among other things: (i) extending the Stay Period to and including April 5, 2013; (ii) approving the key employee retention plan (the “**KERP**”) offered by the Applicant to certain employees deemed critical to complete the proposed transaction with GoodLife; and (iii) approving the First Report of the Monitor dated February 26, 2013 (the “**First Report**”), and the actions of the Monitor described therein.

7. On March 27, 2013, upon a motion by the Applicant, this Court granted orders, among other things: (i) extending the Stay Period to and including May 10, 2013; (ii) approving the Asset Purchase Agreement between the Applicant and GoodLife dated March 19, 2013 (the “**APA**”), and vesting the Applicant’s right, title and interest in and to the Purchased Assets (as defined in the APA) in GoodLife; (iii) approving the assignment of a certain lease (the “**Danforth Lease**”) to GoodLife pursuant to the APA; (iv) authorizing the Monitor to make interim distributions from the proceeds of the APA to Golub Capital Incorporated, as agent, on behalf of the DIP Lender (as defined in the Initial Order), the Applicant, Golub Capital Incorporated, as agent, on behalf of the lenders under the Priority Credit Agreement (as defined

in the February 7 Affidavit) and National Bank of Canada, as agent, on behalf of the lenders under the National Bank Credit Agreement (as defined in the February 7 Affidavit); and (v) approving the Second Report of the Monitor dated March 22, 2013 (the “**Second Report**”) and the Supplemental Report to the Second Report of the Monitor dated March 26, 2013 (the “**Supplemental Report**”), and approving the actions of the Monitor described therein.

8. The transactions contemplated in the APA (the “**Transaction**”) provided for the sale or assignment of substantially all of the Applicant’s assets to GoodLife (except the Excluded Assets, as that term is defined in the APA), including, without limitation, contracts regarding the Applicant’s Members and Persons subject to Personal Training Contracts (as those terms are defined in the APA), personal property used in the Applicant’s business and substantially all of the equipment leases and real property leases.

9. The Transaction closed at 11:59 p.m. on March 31, 2013 and the Effective Time (as defined in the APA) was 12:01 a.m. on April 1, 2013.

10. Extreme is currently in the process of finalizing the accounting records for the month ending March 31, 2012. Once complete, Extreme will begin work on calculating the amount of the Additional Consideration and the Adjustment Amount (as such terms are defined in the APA), if any, and will provide its calculations to GoodLife for review.

11. The consummation of the Transaction resulted in the preservation of approximately 70% of the jobs of the Applicant’s employees, and provided for continued supplier relationships and continued business activity at all the locations from which the Applicant operated.

12. Pursuant to the Endorsement of the Honourable Justice Morawetz dated March 27, 2013, CDN\$430,000 from the proceeds from the Transaction was required to be held by the Monitor pending a hearing to determine, among other things, the amount owing by the Applicant with respect to the Danforth Lease.

13. The aforementioned hearing is scheduled to be held on May 28, 2013.

III. THE STAY PERIOD

14. Pursuant to paragraph 14 of the Initial Order, the Stay Period expires on May 10, 2013.

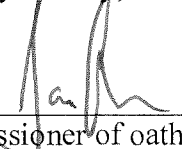
15. The extension of the Stay Period to and including July 12, 2013 is necessary while the Applicant, with the assistance of the Monitor, works diligently on resolving the dispute with respect to the Danforth Lease and winding-up the business affairs of the Applicant.

16. The eleven-week cash flow projection, reviewed with the Monitor and attached as **Exhibit "B"** hereto, projects that the Applicant will have sufficient funding during the extended Stay Period.

17. Since the issuance of the Initial Order, the Applicant has acted, and continues to act, in good faith and with due diligence, and circumstances exist that make granting an extension of the Stay Period to and including July 12, 2013 appropriate.

18. I understand that the Monitor supports the motion to extend the Stay Period and the Applicant is unaware of any creditor who opposes this relief being granted. I do not believe that any creditor of the Applicant will suffer any material prejudice if the Stay Period is extended to and including July 12, 2013.

SWORN BEFORE ME at the City of)
Toronto, in the Province of Ontario,)
this 1st day of May, 2013.)



A commissioner of oaths, etc.)

IAN AVERSA



ALAN HUTCHENS

TAB "A"

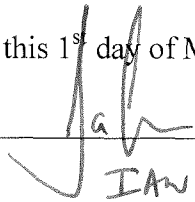
Attached is Exhibit "A"

Referred to in the

Affidavit of Alan Hutchens

Sworn before me

this 1st day of May, 2013



IAN AVORSA

Commissioner for taking Affidavits, etc

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
EXTREME FITNESS, INC.**

**APPLICATION UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AFFIDAVIT OF ALAN HUTCHENS
(sworn February 7, 2013)**

I, Alan Hutchens, of the Town of Oakville, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am the Interim Chief Financial Officer of Extreme Fitness, Inc. ("**Extreme**", the "**Company**" or the "**Applicant**"). As such, I have personal knowledge of the matters to which I hereinafter depose in this Affidavit. Where I do not have personal knowledge of the matters set out herein, I have stated the source of my information and, in all such cases, believe it to be true.

I. NATURE OF APPLICATION AND RELIEF SOUGHT

2. This Affidavit is sworn in support of an application by the Applicant under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), for an order, among other things:

- (a) staying all proceedings and remedies taken or which might be taken in respect of the Applicant or any of its property, except upon the leave of the Court being granted, or as otherwise provided;
- (b) authorizing the Applicant to prepare and file with the Court a plan of compromise or arrangement with its creditors;

- (c) appointing FTI Consulting Canada Inc. ("**FTI**") as monitor of the Applicant (in such capacity, the "**Monitor**");
- (d) authorizing debtor-in-possession ("**DIP**") financing for the Applicant;
- (e) authorizing an administration charge (the "**Administration Charge**") over the assets of the Applicant to the benefit of the Monitor, Monitor's counsel, the Applicant's counsel and Alvarez & Marsal Canada ULC ("**A&M**") in its capacity as the Applicant's financial advisor (in such capacity, the "**Advisor**") and in its capacity as the Applicant's Interim Chief Financial Officer and Interim Controller (in such capacities, the "**Interim Officers**") to secure their fees and disbursements; and
- (f) indemnifying the Applicant's directors, officers and Interim Officers for obligations and liabilities they may incur as directors and officers of the Applicant after the commencement of the CCAA proceedings and authorizing a charge over the assets of the Applicant as security for such indemnity.

3. The principal objectives of this proceeding are: (i) to ensure the ongoing operations of Extreme; (ii) to ensure the Company has the necessary availability of working capital funds to maximize the ongoing business of Extreme for the benefit of its stakeholders; and (iii) to complete a sale and transfer of substantially all of Extreme's assets and business as a going concern.

4. In connection with the potential sale of Extreme's assets and business, Extreme entered into a letter of intent with GoodLife Fitness Centres Inc. ("**GoodLife**"). The transaction is subject to the satisfaction of certain conditions, as described in greater detail below, and contemplates the completion of a transaction by March 31, 2013. The proposed transaction would involve the retention of most of Extreme's staff.

5. The anticipated scenario in this proceeding is a going concern sale of the Applicant's fitness facilities to GoodLife as set out herein. However, there is also the possibility that there could be a restructuring of the Applicant's business. Protection under the CCAA will allow for a

sale to happen, if possible, under the supervision of the Court for the benefit of all stakeholders and, if necessary, will also allow for the prospect of a restructuring.

II. BACKGROUND OF THE APPLICANT AND ITS BUSINESS

6. The Applicant is a privately held corporation formed by articles of amalgamation under the laws of the Province of Alberta on June 16, 2006. The Applicant is registered to carry on business in the Province of Ontario and all of its assets are located in Ontario. A copy of a corporation information report for Extreme is attached as **Exhibit "A"** to this Affidavit.

7. Through acquisitions and greenfield expansions, Extreme currently operates 13 fitness facilities in the GTA and surrounding region with approximately 57,500 members.

8. The Applicant's ownership structure as at October, 2012 is set out in the organizational chart, attached as **Exhibit "B"** to this Affidavit. On June 15, 2006, Falconhead Capital, LLC ("**Falconhead**"), a New York based private equity firm, purchased the Extreme business which, at the time, operated four fitness facilities in the greater Toronto area (the "**GTA**"). Falconhead is the Applicant's largest shareholder, directly or indirectly holding approximately 80% of the outstanding share capital of the Company.

9. As of the date of this Affidavit:

- (a) the Applicant's directors are David Gubbay, Darko Pajovic and Taso Pappas (collectively, the "**Directors**"); and
- (b) the Applicant's officers are Taso Pappas, President, Alan Hutchens, Interim Chief Financial Officer and Greg Karpel, Interim Controller (collectively, the "**Officers**"). Messrs. Hutchens and Karpel were appointed as Interim CFO and Interim Controller, respectively, effective May 1, 2012, pursuant to an engagement letter between the Applicant and A&M of even date.

10. The Applicant's former CFO and former Controller were placed on administrative leave effective April 26, 2012. The Applicant's former CEO resigned effective June 8, 2012. On the same date, Taso Pappas was appointed President of the Applicant.

11. DBP Maintenance (“**DBP**”) is an independent contractor owned by, among others, Darko Pajovic. DBP currently provides janitorial and general maintenance services to Extreme’s 13 fitness facilities.

12. The Applicant’s revenues are comprised primarily of membership and personal training fees. The Applicant operates its 13 fitness facilities from the following leased locations:

- (a) 80 Bloor Street West, Toronto (“**Bloor**”);
- (b) 3495 Lawrence Avenue East, Scarborough (“**Cedarbrae**”);
- (c) 635 Danforth Avenue, Toronto (“**Danforth**”);
- (d) 1521 Yonge Street, Toronto (“**Delisle**”);
- (e) 319 Yonge Street, Toronto (“**Dundas**”);
- (f) 110 Eglinton Avenue East, Toronto (“**Dunfield**”);
- (g) 90 Interchange Way, Vaughan (“**Interchange**”);
- (h) 4950 Yonge Street, Toronto (“**North York**”);
- (i) 1755 Pickering Parkway, Pickering (“**Pickering**”);
- (j) 267 Richmond Street West, Toronto (“**Richmond**”);
- (k) 8281 Yonge Street, Thornhill (“**Thornhill**”);
- (l) 111 Wellington Street West, Toronto (“**Wellington**”); and
- (m) 75 Consumers Drive, Whitby (“**Whitby**”).

13. The Applicant’s registered office is 600, 12220 Stony Plain Road, Edmonton, Alberta. Its head office is located at 8281 Yonge Street, Thornhill, Ontario.

14. The Applicant has a 75% interest in the share capital of Halsa Studio Inc. (“**Halsa**”), a corporation incorporated pursuant to the laws of the Province of Ontario. Halsa previously

operated as a laser hair removal clinic at the Thornhill location, Halsa ceased operations on or about 2002.

15. The Applicant also has a 51% interest in the share capital of Juice (Whitby) Inc. ("**Juice**"), a corporation incorporated pursuant to the laws of the Province of Ontario. Juice previously operated as a juice bar located at the Whitby location. Juice ceased operations on or about 2007.

16. Nutrition (Whitby) Inc. ("**Nutrition**"), a corporation incorporated pursuant to the laws of the Province of Ontario, is a wholly-owned subsidiary of the Applicant. Nutrition previously operated as a nutritional supplements retailer at the Whitby location. Nutrition ceased operations on or about 2007.

17. As of the date of this Affidavit, none of Halsa, Juice and Nutrition have any material assets and are dormant companies. Accordingly, it is not currently contemplated that Halsa, Juice or Nutrition will be applicants in these proceedings.

III. THE APPLICANT'S FINANCIAL SITUATION

18. In early April, 2012, Extreme's former CEO became aware that the Company was experiencing liquidity difficulties and that certain discrepancies and irregularities existed in the Company's books and records. Accordingly, the Applicant took immediate steps to investigate the situation by, among other things, engaging A&M on April 9, 2012, to provide consulting services in connection with, among other things, efforts to improve the Company's financial and operating performance and to assist in evaluating difficulties with the Company's accounting, financial and operating reporting.

19. In mid-April, 2012, in order to address the Company's liquidity needs, certain of its stakeholders, with the cooperation of National Bank of Canada (the Applicant's senior secured lender), extended the Applicant a priority credit facility, as further detailed below.

20. The Company and A&M worked throughout April and May, 2012 to identify, review and assess the impact of the discrepancies and irregularities that existed in the Company's books and records. As this work progressed, it became evident that the Company's financial statements for

the fiscal years ending December 31, 2010 and 2011, and its monthly financial statements for January to April, 2012 required restatement. The primary financial statement items that had been misstated, included, but were not limited to:

- (a) personal training revenue, accounts receivable and deferred revenue;
- (b) allowance for doubtful accounts;
- (c) membership revenues; and
- (d) GST/HST liabilities.

21. The financial statement restatement work was concluded in mid-June, 2012 which entailed, but was not limited to:

- (a) restatement of the Applicant's financial statements for the fiscal years ending December 31, 2010 and December 31, 2011 and its balance sheet as at December 31, 2009;
- (b) reconciliation of the Applicant's personal training records for fiscal years 2009 to 2011;
- (c) recalculation and restatement of the Applicant's bad debt expense for fiscal years 2010 and 2011;
- (d) filing the Applicant's amended 2010 income tax return; and
- (e) restating the Applicant's GST/HST liability in conjunction with the filing of amended returns under the Canada Revenue Agency's Voluntary Disclosures Program ("VDP"), as further described herein.

22. Attached hereto as **Confidential Exhibit "C"** to this Affidavit is a copy of the Applicant's unaudited financial statements for the fiscal year ended December 31, 2011 and copy of the Applicant's unaudited third-quarter financial statements for the period ended September 30, 2012 (the "**2012 Q3 Financials**"). The 2012 Q3 Financials reflect a loss from operations of

\$7,072,813. The Applicant is requesting a sealing of this exhibit as it contains commercially sensitive information, the release of which could prejudice the stakeholders of the Company.

23. The Applicant's liabilities total approximately \$57 million, \$44 million of which are secured (including capital lease obligations).

IV. STAKEHOLDERS

(a) National Bank of Canada

24. The Applicant and National Bank of Canada ("**National Bank**") are parties to a credit agreement dated May 20, 2011 (the "**National Bank Credit Agreement**"), pursuant to which National Bank agreed to provide a revolving term credit facility in the principal amount of \$3,000,000, a non-revolving term loan facility in the principal amount of \$15,000,000, a non-revolving term loan facility in the principal amount of \$7,000,000 and a Business MasterCard facility in the principal amount of \$500,000 (collectively, the "**National Bank Facilities**"). A copy of the National Bank Credit Agreement is attached as **Exhibit "D"** to this Affidavit.

25. The Applicant executed and delivered a general security agreement in favour of National Bank dated May 20, 2011 (the "**National Bank GSA**"), registration in respect of which was made pursuant to the *Personal Property Security Act* (Ontario) (the "**PPSA**") on March 25, 2011, pursuant to financing statement number 20110325 0910 1862 5333 and reference file number 668533329. A copy of the National Bank GSA is attached as **Exhibit "E"** to this Affidavit.

26. As further security to support the National Bank Credit Agreement, the Applicant executed and delivered a securities pledge agreement in favour of National Bank (the "**National Bank SPA**") and a fixed and floating charged debenture in the principal amount of \$50,000,000 (the "**National Bank Debenture**").

27. The Applicant was in default of certain of its obligations under the National Bank Credit Agreement and, accordingly, entered into a forbearance letter agreement with National Bank dated April 18, 2012 (as amended, the "**National Bank Forbearance Agreement**"). The National Bank Forbearance Agreement operated to forbear enforcement of National Bank's security until October 31, 2012, conditional on certain terms and conditions as set out in the

National Bank Forbearance Agreement. Through a series of extensions to the National Bank Forbearance Agreement, the forbearance date was extended to January 31, 2013. A copy of the National Bank Forbearance Agreement is attached as **Exhibit "F"** to this Affidavit.

28. The total indebtedness of the Applicant to National Bank outstanding as at the date hereof is approximately \$18,734,943, including a \$300,000 letter of credit provided by National Bank as security for the Applicant's lease of the Interchange location.

(b) Golub Capital Incorporated

29. The Applicant and Golub Capital Incorporated ("**Golub**"), as agent for the benefit of itself and the lenders described in the agreement, are parties to an amended and restated credit agreement dated May 20, 2011 (the "**Golub Credit Agreement**"), pursuant to which Golub agreed to provide a term facility to the Applicant in the principal amount of \$16,500,000 (the "**Golub Facility**"). A copy of the Golub Credit Agreement is attached as **Exhibit "G"** to this Affidavit.

30. The Applicant executed and delivered a general security agreement in favour of Golub (the "**Golub GSA**"), registration in respect of which was made pursuant to the PPSA on June 5, 2006, pursuant to financing statement number 20060605 1112 1862 3005 and reference file number 625817394, as amended by financing statement numbers 20110426 0803 1862 7632 and 20110513 1051 1862 9118. This registration has been postponed by operation of financing statement number 20110511 0950 1862 8866 in favour of National Bank's PPSA registration against the Applicant under financing statement number 20110325 0910 1862 5333 and reference number 668533329. A copy of the Golub GSA is attached as **Exhibit "H"** to this Affidavit.

31. The Applicant was in default of certain of its obligations under the Golub Credit Agreement and, accordingly, executed a forbearance letter agreement with Golub, as agent for the benefit of itself and the lenders described therein, dated April 18, 2012 (as amended, the "**Golub Forbearance Agreement**"). The Golub Forbearance Agreement operated to forbear enforcement of Golub's security to October 31, 2012, conditional on certain terms and conditions substantively similar to those set out in the National Bank Forbearance Agreement.

Through a series of extensions to the Golub Forbearance Agreement, the forbearance date was extended to February 15, 2013. A copy of the Golub Forbearance Agreement is attached as **Exhibit "I"** to this Affidavit.

32. The total indebtedness of the Applicant to Golub under the Golub Credit Agreement outstanding as at December 31, 2012 is approximately USD\$18,728,587, including amounts owing for accrued interest.

Priority Credit Facility

33. As stated above, in order to address its liquidity difficulties, the Applicant entered into a priority credit facility agreement with Golub, as agent for the benefit of itself and the lenders described therein (the "**Priority Lenders**"), dated April 18, 2012 (as amended, the "**Priority Credit Agreement**"), under which the Priority Lenders agreed to provide a credit facility in the principal amount of USD\$6,000,000, to be increased up to a maximum amount of USD\$8,000,000 at the discretion of the Priority Lenders. The Priority Credit Agreement was provided to the Applicant expressly to provide liquidity sufficient to satisfy certain of its payroll and other operating expenses pursuant to approved cash flow statements. As of the date of this Affidavit, the Applicant has drawn the aggregate of USD\$8,000,000 under the Priority Credit Agreement. A copy of the Priority Credit Agreement is attached as **Exhibit "J"** to this Affidavit.

34. The Applicant executed and delivered, as an acknowledgment party, an intercreditor agreement between Golub, in its joint capacities as agent for itself and on behalf of each of the senior creditors and junior creditors (as defined therein) dated April 18, 2012 (the "**Golub Intercreditor**"), under which the Applicant's obligations to Golub and the junior creditors under the Golub Credit Agreement were subordinated in favour of those of Golub and the senior creditors under the Priority Credit Agreement up to an amount equal to USD\$8,000,000, plus interest and costs. A copy of the Golub Intercreditor is attached as **Exhibit "K"** to this Affidavit.

35. The Applicant executed and delivered, as an acknowledgment party, an intercreditor agreement between Golub, as agent for and on behalf of the senior creditors (as defined therein), and National Bank, as agent for and on behalf of the junior creditors (as defined therein), dated April 18, 2012 (the "**National Bank / Golub Intercreditor**"), under which the Applicant's

obligations to National Bank and the junior creditors under the National Bank Credit Agreement were subordinated in favour of those of Golub and the senior creditors under the Priority Credit Agreement up to an amount equal to USD\$8,000,000, plus interest and costs. A copy of the National Bank / Golub Intercreditor is attached as **Exhibit "L"** to this Affidavit.

36. Other than the creditors described above and RBC (as defined and described below), I am not aware of any other creditors with general security over the Applicant's assets.

(c) Other Secured Creditors

37. Each of CIT Financial Ltd., Life Fitness International Sales, Inc., Heffner Leasing Limited, Heffner Auto Sales and Leasing Inc., Heffner Auto Finance Corp., Coinamatic Commercial Laundry Inc., Indcom Leasing Inc., Essex Capital Leasing Corp., CLE Leasing Enterprises Ltd., DSM Leasing Ltd., Enercare Solutions Limited Partnership, Dell Financial Services Canada Limited, BMW Canada Inc. and De Lage Laden Financial Services Canada Inc. have made PPSA security registrations against the Applicant in respect to specific leased equipment and motor vehicles, as applicable.

38. A summary of PPSA registrations made against the Applicant is attached as **Exhibit "M"** to this Affidavit.

(d) Cash Management System / Payment Processors: National Bank of Canada, Royal Bank of Canada and Chase Paymentech Solutions

39. The Applicant maintains the following bank accounts:

- (a) two accounts with its primary operating bank, National Bank, being one Canadian dollar account and one U.S. dollar account (together, the "**National Bank Accounts**"); and
- (b) 14 accounts with Royal Bank of Canada ("**RBC**"), being one account for each of the Applicant's 13 fitness facilities and one master account (collectively, the "**RBC Bank Accounts**").

40. The Canadian dollar National Bank account (the "**CAD National Bank Account**") is the Applicant's primary operating account where Visa and Master Card credit card payments and Interac direct deposit payments made in favour of the Applicant are deposited. Approximately 76.5% of the Company's aggregate cash receipts are deposited into the CAD National Bank Account, including cash and cheque payments received directly at the Applicant's 13 fitness facilities and delivered to the Company's head office for deposit. The Company utilizes the cash in the CAD National Bank Account to fund its payroll and to pay all of its landlord, supplier and other Canadian dollar obligations. The U.S. dollar National Bank account (the "**USD National Bank Account**") is used periodically to pay the Applicant's U.S. dollar obligations. Funds are electronically transferred by management of the Applicant from the CAD National Bank Account to the USD National Bank Account on an as-needed basis.

41. The RBC Bank Accounts are the Applicant's secondary operating accounts where pre-authorized debits ("**PADs**") and American Express credit card payments made in favour of the Applicant are deposited. Approximately 23.5% of the Company's aggregate cash receipts are deposited into the RBC Bank Accounts. The funds held in the RBC Bank Accounts are periodically aggregated into the RBC master account and subsequently transferred at the request of management of the Applicant from the RBC master account to the CAD National Bank Account on an as-needed basis. The Applicant does not make any other disbursements to any other parties from the RBC Bank Accounts.

42. As security for its services and the obligations of the Applicant under its agreement with RBC, the Company is required to maintain a minimum aggregate cash balance in its RBC accounts of \$500,000. RBC has a PPSA registration against the Applicant by way of financing statement number 20080709 1945 1531 7923 and reference file number 646777251 over inventory, equipment, accounts, other and motor-vehicle.

43. The Applicant also has an existing agreement with Chase Paymentech Solutions, for itself and on behalf of The Bank of Nova Scotia and First Data Loan Company, Canada (collectively, "**Paymentech**"), dated February 2, 2011 (the "**Paymentech Agreement**"), pursuant to which Paymentech provides processing services for Visa and Master Card credit card payments and Interac direct deposit payments made in favour of the Applicant. Paymentech

currently processes approximately 70% of all cash receipts of the Company. As security for its services and the obligations of the Applicant under the Paymentech Agreement, the Applicant has provided to Paymentech a cash deposit in an amount of \$900,000. A copy of the Paymentech Agreement (without schedules) is attached as **Exhibit "N"** to this Affidavit.

(e) Landlords

44. The Applicant has existing lease agreements with the following landlords:

- (a) Krugarand Corporation, in respect to the Bloor location;
- (b) First Capital (Cedarbrae) Corporation, in respect to the Cedarbrae location;
- (c) 1079268 Ontario Inc., in respect to the Danforth location;
- (d) 1521 Yonge Street Limited, in respect to the Delisle location;
- (e) 10 Dundas Street Ltd., in respect to the Dundas location;
- (f) 110 Eglinton Avenue East Inc., in respect to the Dunfield location;
- (g) 2748355 Canada Inc., in respect to the Interchange location;
- (h) Redbourne Madison Property Inc. and Redbourne Madison LP Inc., in respect to the North York location;
- (i) Pickering Brock Centre Inc., in respect to the Pickering location;
- (j) Festival Hall Developments Inc., in respect to the Richmond location;
- (k) 2079843 Ontario Inc. and 2044922 Ontario Ltd., in respect to the Thornhill location and corresponding parking lot lease;
- (l) 2125879 Ontario Inc., in respect to the Wellington location; and
- (m) Whitby Entertainment Holdings Inc., in respect to the Whitby location.

(f) Government of Canada / Canada Revenue Agency

45. On April 23, 2012, the Company's legal counsel wrote to the CRA to initiate a voluntary disclosure under CRA's VDP relating to under reported GST/HST collections and overstated input tax credits for fiscal years 2009, 2010 and 2011. In a letter dated May 10, 2012, CRA assigned a VDP case number to Extreme and confirmed that the effective date of the voluntary disclosure was April 23, 2012.

46. On July 20, 2012, the Company's legal counsel wrote to CRA to submit amended monthly GST/HST returns prepared by the Company for fiscal years 2009, 2010 and 2011. The amended returns show an aggregate GST/HST liability for those years of approximately \$3.4 million, subject to assessment by CRA. In addition, while the Company did not file amended returns for January and February, 2012, the combined liability of approximately \$624,000 for those months has not been paid to CRA.

47. The Company received Notices of Re-Assessment (the "NORAs") from CRA dated January 11, 2013, which delineated the Applicant's HST obligations flowing from the amended tax returns filed under the VDP. The aggregate HST liability owing pursuant to the NORAs is \$4,548,819, including the above-noted liabilities for January and February, 2012 and interest and penalties of \$369,845.

(g) Employees

48. The Applicant presently employs approximately 160 full-time employees, 700 part-time employees, and 30 independent contractors in Ontario. The 30 independent contractors provide services related to group fitness classes at each of the Applicant's 13 fitness facilities. The Applicant's employees are not unionized and do not have a collective bargaining agent. Wages and benefits total approximately \$1,700,000 per month.

49. Based on the Applicant's current cash position, its pro-forma cash flows and its access to the DIP Credit Facility (as defined herein), it has sufficient cash to continue to pay wages to its remaining employees, contractors and its other obligations arising post-filing until the completion of the proposed sale transaction or restructuring.

50. As of the date of this Affidavit, all source deductions related to the Applicant's employees were current, including, without limitation, income tax withholdings, employee health tax, worker's compensation, Canada Pension Plan and employment insurance.

51. The Applicant has no pension plans.

(h) Trade Creditors

52. As at February 5, 2013, the Applicant's other unsecured liabilities, including trade debt, totalled approximately \$850,000, which amount does not include outstanding February rent payments of approximately \$890,000. Since the Applicant's business does not require significant consumable supplies or services, its trade creditor debt is generally small and is usually satisfied in the ordinary course of business.

V. PRIOR MARKETING AND SALE PROCESS

53. On July 4, 2012, the Company engaged Integrity Square LLC ("ISQ"), a specialty financial advisory firm based in New York that focuses on the fitness and wellness sector, to provide financial advisory services with respect to a sale of the Company or certain of its 13 fitness facilities.

54. Commencing in mid-August, 2012, ISQ contacted numerous potential purchasers that either already had operations in the fitness facility sector or that ISQ believed would have interest in Extreme. Of these parties, several executed non-disclosure agreements and received the confidential information memorandum prepared by ISQ, which memorandum described Extreme's business.

55. Several parties subsequently accessed the confidential electronic data room established to assist with due diligence. October 10, 2012 was set as the date for potential purchasers to submit written non-binding indications of interest that were to include, among other things, information regarding purchase price, form of consideration, financing sources and due diligence requirements.

56. The Applicant and ISQ concluded that the potential realizations from the offers generated by the solicitation process described above were insufficient and, accordingly, no offers were

accepted. A financial summary of the offers tendered under the ISQ sale process is attached hereto as **Confidential Exhibit "O"**. The Applicant is requesting a sealing of this exhibit as it contains commercially sensitive information, the release of which could prejudice the stakeholders of the Company.

VI. SALE UNDER CCAA PROTECTION

57. Based on the information set out above and attached hereto, the Applicant is insolvent as the aggregate of its property is not, at a fair valuation, sufficient, or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all its obligations, due and accruing due.

58. In addition, without the additional financing made available under the Priority Credit Agreement, the Applicant would be unable to meet its obligations as they fell due.

59. In order for the Applicant to ensure the best possible recovery for its stakeholders, including, without limitation, its creditors, employees, customers and landlords, the Applicant has determined that a sale of its business is required.

60. On January 18, 2013, the Applicant entered into a letter of intent (the "**LOI**") with GoodLife. A copy of the LOI is attached hereto as **Confidential Exhibit "P"**. The Applicant is requesting a sealing of this exhibit as it contains confidential, competitively sensitive information that, if disclosed, could harm the Applicant and its stakeholders. The LOI contemplates the sale of substantially all of the Applicant's assets for an aggregate amount greater than any one or more of the other offers proffered under the ISQ sales process and maximizes value for all stakeholders.

61. The sale transaction contemplated in the LOI must, according to its terms, close on or before March 31, 2013 or such other date as the parties thereto agree. Certain conditions precedent must be satisfied prior to the conclusion of the sale, including, but not limited to:

- (a) GoodLife concluding its due diligence with respect to the Applicant on or before March 4, 2013;

- (b) the execution of a binding asset purchase agreement in respect of substantially all of the Applicant's assets (the "APA") by no later than March 18, 2013; and
- (c) approval of the APA by the Court.

62. Pursuant to the LOI, until the earlier of: (i) the date on which the APA is executed; and (ii) the date on which GoodLife terminates negotiations under the LOI, the Applicant, the Applicant's shareholders, National Bank and Golub are precluded from directly or indirectly soliciting or engaging in discussions or negotiations with any third party seeking to purchase the Applicant's assets.

63. The parties to the LOI are diligently working towards satisfying the conditions set out in the LOI and, to the extent that such conditions are satisfied, will enter into an APA, return to Court to seek approval of the APA and ultimately distribute the realizations from said transaction to the Applicant's creditors entitled thereto in accordance with their priority assuming the transaction closes.

VII. STAY OF PROCEEDINGS

64. A CCAA stay of proceeding is needed to ensure that the Applicant's business can be sold in an efficient and orderly way under the protection of the Court without the threat of proceedings or discontinuation of essential services. A stay of proceedings will restrain temporarily the exercise of rights and remedies under the various agreements to which the Applicant is a party, preserve the status quo, and restrain existing creditors from taking unfair advantage in the circumstances. Importantly, a stay of proceedings will allow the Applicant to fulfil its obligations related to GoodLife's due diligence review of the Applicant under the terms and conditions of the LOI with the view of ultimately entering into and completing the APA.

65. The Applicant believes that a stay of proceedings will not materially prejudice any of the existing creditors when compared to the consequences if a stay of proceedings is not granted. Golub, as agent for the benefit of itself and three lenders (collectively, in such capacity, the "DIP Lender") has agreed to provide the Applicant with the DIP Facility and has agreed to continue funding necessary post-filing expenses during the CCAA proceedings, the details of which are

set out below. I believe that the alternative to a stay of proceedings is the forced sale and/or liquidation of the Applicant and its assets.

VIII. THE PROPOSED MONITOR

66. FTI has been serving as a consultant to National Bank with respect to its lending arrangements with Extreme and has assisted the Applicant in preparing for this CCAA application, including reviewing the cash flow projections of the Applicant for the next 9 weeks, assuming the relief sought is granted (the "**Cash Flow Projection**"). The amounts set out in the Cash Flow Projection reflect, among other things, the minimum payments required to maintain the Applicant's business during the initial thirty day stay period and to the anticipated closing of a sale transaction, as well as professional fees. A copy of the Cash Flow Projection together with a report containing the prescribed representations of the Applicant regarding the preparation of the Cash Flow Projection is attached as **Exhibit "Q"** to this Affidavit.

67. Management believes that it is in the best interests of all stakeholders if this Court appoints FTI as the Court-appointed monitor of the Applicant. As a result of FTI's involvement with the Applicant and certain of its major stakeholders, including, but not limited to, National Bank, in advance of and in preparation for this filing, FTI has gained insight into the Applicant's business and will be in a position to perform the monitoring duties effectively and without delay.

68. FTI has consented to act as monitor of the Applicant in accordance with the requirements of the CCAA, subject to the Court's approval. A copy of FTI's consent is included in the Application Record in these proceedings.

IX. FINANCING DURING CCAA PROCEEDINGS

69. The DIP Lender will provide the Applicant with financing during these proceedings through a new credit facility (the "**DIP Facility**") allowing for one or more advances to a maximum amount of USD\$2,000,000 pursuant to a DIP Credit Agreement dated February 7, 2013 (the "**DIP Credit Agreement**"), a copy of the form of which is attached as **Exhibit "R"** to this Affidavit. The repayment date under the DIP Credit Agreement is the earlier of: (i) the date of demand by the DIP Lender; (ii) the date on which all or substantially all of the assets of the Applicant are sold; and (iii) March 31, 2013. The original scheduled repayment date of March

31, 2013 may be extended at the discretion of the DIP Lender. The Cash Flow Projection demonstrates that, with the funding available under the DIP Facility, the Applicant will have sufficient cash flow to fund the Applicant's operations for the initial 9 week period, the anticipated period to complete a sale transaction.

70. The Applicant has been offered the DIP Facility from certain of its existing lenders under the Priority Credit Agreement and on what the Applicant views as reasonable terms in the circumstances. In addition, National Bank has consented to the DIP Facility. As a result, the Applicant did not canvas the market for other potential lenders. Because this offer for the DIP Facility does not require any alteration of the Company's accounts, the Applicant believes that there was no commercial advantage to pursuing other possible providers of a DIP Facility. In addition, the DIP Lender is already familiar with Extreme's business and financial profile as well as its restructuring options. Any other offer from other lenders would require a great deal of time and expense to pursue, could require a new cash management system and would have to deal with the security granted in connection with the credit facilities provided by Golub and National Bank.

71. As provided in the DIP Credit Agreement, the DIP Facility is conditional on the Applicant obtaining, as part of the initial Order sought in these proceedings (the "**Initial Order**"), a charge in favour of the DIP Lender (the "**DIP Charge**") over all of the Applicant's assets, ranking first in priority to any existing security other than the Administration Charge and the D&O Charge (as defined below). The Service List includes all parties with a security interest registered under the PPSA.

72. The Applicant believes that the terms of the DIP Facility are favourable to it having regard to the circumstances and that the amount of the DIP Facility is necessary and reasonable in the circumstances to ensure the Applicant has a prudent and responsible level of liquidity to meet its post-filing obligations as they become due for the period of the initial stay and to complete the proposed sale. The Applicant will not be able to continue its operations or initiate going-concern sale efforts without access to the DIP Facility.

X. PAYMENTS DURING THE CCAA PROCEEDINGS

73. During the course of these CCAA proceedings, the Applicant intends to make payments for goods and services supplied post-filing in the ordinary course as set out in the Cash Flow Projection described above and as permitted by the Initial Order.

74. It is also contemplated by the Cash Flow Projection that: (a) employee wage obligations relating to active employment will be paid in the ordinary course, whether such obligations are incurred pre-filing or post-filing; and (b) outstanding and future amounts owing to independent contractors may be paid in the ordinary course, if in the opinion of the Company and the Monitor, the individual contractor is critical to Extreme's business and ongoing operations.

75. In addition, the Cash Flow Projection contemplates payment of scheduled interest payments under the Priority Credit Agreement.

XI. ADMINISTRATION CHARGE

76. The Applicant's legal counsel, the Monitor, the Monitor's legal counsel and A&M have indicated that their respective ongoing involvement is conditional upon the granting of an order under the CCAA which grants the Administration Charge on the Applicant's property, assets and undertaking in the maximum amount of \$500,000 to secure their professional fees and disbursements.

77. I believe that that the following factors support the granting of the Administration Charge:

- (a) the beneficiaries of the Administration Charge will provide essential legal and financial advice and support to the Applicant throughout the CCAA proceedings;
- (b) the roles of the Applicant's legal counsel, the Monitor, the Monitor's legal counsel and A&M are distinct and there is no anticipated unwarranted duplication; and
- (c) the Administration Charge does not purport to prime any secured party who has not received notice of this motion.

78. Accordingly, I believe that this is an appropriate case in which to grant the Administration Charge. Each of the proposed beneficiaries of the Administration Charge will play a critical role in the Applicant's restructuring and proposed sale, and it is unlikely that the above-noted advisors will participate in these CCAA proceedings unless the Administration Charge is granted to secure their fees and disbursements.

XII. DIRECTORS' AND OFFICERS' CHARGE

79. The Directors, Officers and Interim Officers have indicated that their respective ongoing involvement is conditional upon the granting of an order under the CCAA which grants a charge on the Applicant's property in the maximum amount of \$2,880,000 (the "**D&O Charge**"), approximately equal to 4 weeks wages plus accrued vacation pay plus 2 months of estimated HST obligations, as security for the Applicant's indemnification for possible liabilities which may be incurred by such Directors, Officers and Interim Officers, which would rank second in priority behind the Administration Charge.

80. The Applicant maintains a Management Liability Insurance policy with Lloyd's Underwriters (the "**Policy**"). The Policy provides coverage to the Applicant, any subsidiary or joint-venture of the Applicant, the Directors and Officers, the Interim Officers and the retired directors and officers of the Applicant. The aggregate limit of liability coverage provided for under the Policy is \$5,000,000.

81. Management of the Applicant has made inquiries with the Applicant's current insurance broker and am advised that a comparable level of insurance coverage is not available through any other insurance provider at rates more favourable than those in place as of the date of this Affidavit.

82. The Policy contains several exclusions and limitations to the coverage it provides and there is a potential for there to be insufficient coverage in respect of the potential liabilities for which the Directors, Officers and Interim Officers may be found responsible.

83. The D&O Charge is required in order to provide a level of protection to the Directors, Officers and Interim Officers with respect to the possible liabilities imposed on individuals in their capacity as directors and officers of the Applicant. I believe that the request of the

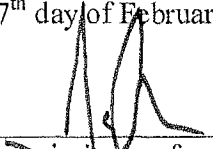
Directors, Officers and Interim Officers to receive adequate protection in the form of the D&O Charge is fair and reasonable and advances the integral need of the Applicant to have fully functional, experienced and qualified advisors, board of directors and officers.

XIII. CONCLUSION

84. It is in the best interests of all stakeholders of the Applicant for this Court to grant the relief sought by the Applicant. It will allow the Applicant, with the support of the DIP Lender and the Monitor, to realize upon the business in a way that maximizes value for all stakeholders. I believe this is preferable to the Applicant's assets becoming subject to bankruptcy or receivership proceedings.

85. This Affidavit is sworn in support of the relief requested by the Applicant and for no other or improper purposes.

SWORN BEFORE ME at the City of)
Toronto, in the Province of Ontario,)
this 7th day of February, 2013.)



A commissioner of oaths, etc.)

IAN AVERSA



ALAN HUTCHENS

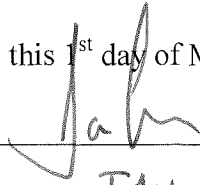
TAB "B"

Attached is Exhibit "B"

Referred to in the
Affidavit of Alan Hutchens

Sworn before me

this 1st day of May, 2013



IAN AVERSA

Commissioner for taking Affidavits, etc

Extreme Fitness, Inc.
11-Week CCAA Cash Flow Forecast
(Unaudited, in '000s CAD)

Week Ending Friday:	Notes	Week 13 5/3/2013	Week 14 5/10/2013	Week 15 5/17/2013	Week 16 5/24/2013	Week 17 5/31/2013	Week 18 6/7/2013	Week 19 6/14/2013	Week 20 6/21/2013	Week 21 6/28/2013	Week 22 7/5/2013	Week 23 7/12/2013	Total
Receipts													
Chargebacks	2	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)	(55.0)
Holdback and deposit returns	3	-	300.0	-	-	-	-	150.0	500.0	-	-	50.0	950.0
Total Receipts		(5.5)	294.5	(5.5)	(5.5)	(5.5)	(5.5)	144.5	494.5	(5.5)	(5.5)	44.5	895.0
Disbursements													
Payroll and related amounts	4	-	105.6	5.0	7.5	-	-	-	-	-	-	-	118.1
Facility costs	5	54.9	-	-	-	-	-	-	-	-	-	-	54.9
Operating costs	6	70.0	37.5	40.0	-	5.0	10.0	-	-	5.0	10.0	-	177.5
Professional fees	7	25.0	230.0	15.0	50.0	25.0	85.0	10.0	35.0	25.0	70.0	15.0	585.0
Financing charges		-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements		149.9	373.1	60.0	57.5	30.0	95.0	10.0	35.0	30.0	80.0	15.0	935.6
Net Cash Flow		(155.4)	(78.6)	(65.5)	(63.0)	(35.5)	(100.5)	134.5	459.5	(35.5)	(85.5)	29.5	(40.6)
Opening Cash Balance		700.5	545.1	466.4	400.9	337.9	302.4	201.9	336.4	795.9	760.4	674.9	700.5
Net Cash Flow		(155.4)	(78.6)	(65.5)	(63.0)	(35.5)	(100.5)	134.5	459.5	(35.5)	(85.5)	29.5	3.9
Advances Under DIP Facility		-	-	-	-	-	-	-	-	-	-	-	-
Funds from Sale Proceeds		-	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance After New Advances		545.1	466.4	400.9	337.9	302.4	201.9	336.4	795.9	760.4	674.9	704.4	704.4

Notes:

- 1) The purpose of this cash flow forecast is to determine the liquidity requirements of the Applicant during the forecast period.
- 2) Chargebacks relate to refunds and other amounts returned to gym members by the credit card processor, and are forecast based on credit card chargeback history.
- 3) Holdback and deposit returns relate to amounts pledged to or held by third parties as collateral against pre-authorized payment returns and credit card chargebacks. Receipts are forecast based on return dates that have either been agreed to or that continue to be negotiated.
- 4) Payroll and related amounts includes salaries, wages and other benefits.
- 5) Facility costs include premise lease payments and associated operating costs to March 31, 2013.
- 6) Forecast operating costs are based on current payment terms and historical analysis.
- 7) Estimated professional fees are based on advisor-level estimates of fees that may be incurred during the forecast period.

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF EXTREME FITNESS, INC.

Court File No. CV-13-10000-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

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

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OF EXTREME FITNESS, INC.

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**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**MOTION RECORD
(returnable May 9, 2013)**

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