

EXTREME FITNESS, INC.

**SUPPLEMENTAL REPORT
TO THE SECOND REPORT
OF FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR OF
EXTREME FITNESS, INC.**

March 26, 2013

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.

SUPPLEMENTAL REPORT TO THE
SECOND REPORT OF FTI CONSULTING CANADA INC.,
in its capacity as Monitor of the Applicant

March 26, 2013

PURPOSE OF THIS SUPPLEMENTAL REPORT

1. The purpose of this Supplemental Report to the Second Report (the "**Supplemental Report**") is to supplement the Second Report of FTI Consulting Canada Inc. ("**FTI**"), in its capacity as the Court-appointed Monitor of the Applicant (the "**Monitor**"), dated March 22, 2013 (the "**Second Report**") by providing this Honourable Court with information in respect of the following:
 - a) the request of Extreme Fitness, Inc. (the "**Applicant**") for an Order, *inter alia*, authorizing the Monitor to distribute certain proceeds from the sale transaction (the "**Sale Transaction**") between the Applicant and GoodLife Fitness Centres Inc. ("**GoodLife**") contemplated by the asset purchase agreement (the "**APA**") entered into by the Applicant and GoodLife; and
 - b) the results of the Monitor's counsel's review of the security held by the Applicant's principal secured creditors, National Bank of Canada, as agent ("**National Bank**") and Golub Capital Incorporated, as agent ("**Golub**") in respect of the Applicant's assets.

TERMS OF REFERENCE

2. In preparing this report, FTI has relied upon unaudited financial information of the Applicant, the Applicant's books and records, certain financial information prepared by, and discussions with, the Applicant's management.
3. Capitalized terms not otherwise defined herein have the meaning given to them in the affidavit of Alan Hutchens sworn March 22, 2013 (the "**Hutchens Affidavit**"). This report should be read in conjunction with the Hutchens Affidavit as certain information contained in the Hutchens Affidavit has not been included herein in order to avoid unnecessary duplication. A copy of the Hutchens Affidavit is available on the Monitor's Website.
4. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars.

PROPOSED DISTRIBUTIONS

5. Upon closing of the Sale Transaction, the Monitor will have received sale proceeds payable under the APA (the "**Sale Proceeds**"), including the \$1.5 million deposit received by the Monitor on March 20, 2013, from GoodLife.
6. The Applicant is seeking an Order authorizing the Monitor to distribute on behalf of the Applicant certain amounts from the Sale Proceeds: (i) to Golub, as agent under the DIP Credit Agreement (in such capacity, the "**DIP Agent**"), on behalf of the DIP Lender the amounts advanced to the Applicant under the DIP Credit Agreement, plus interests and costs; (ii) to the Applicant an amount agreed to by the Monitor as is required to satisfy the Applicant's post-filing obligations, including, without limitation, the liabilities intended to be protected by the Administration Charge and the D&O Charge and any monetary defaults under the Leases at the time of their assignment, other than monetary defaults arising by reason only of the company's insolvency, the commencement of proceedings under the CCAA or the company's failure to perform a non-monetary obligation; (iii) to Golub on behalf of the lenders under the Priority Credit Agreement on

account of the Applicant's outstanding indebtedness for principal, interest and costs under the Priority Credit Agreement; and (iv) to National Bank on behalf of the lenders under the National Bank Credit Agreement on account of the Applicant's outstanding indebtedness for principal, interest and costs under the National Bank Credit Agreement.

7. The draft Order also contemplates granting the Monitor authority to make additional distributions without further Order of this Court to National Bank on behalf of the lenders under the National Bank Credit Agreement on account of the Applicant's outstanding indebtedness for principal, interest and costs from: (i) existing or additional sale proceeds received by the Monitor pursuant to the terms of the APA; and (ii) additional funds that come into the Monitor's possession in respect of the assets or property of the Applicant, up to the amount of the Applicant's indebtedness to the lenders under the National Bank Credit Agreement, subject to the Monitor maintaining an adequate reserve for any amounts secured by the Administration Charge and the D&O Charge.
8. As discussed in the Hutchens Affidavit, as of March 22, 2013, the Applicant has drawn US\$1,000,000 under the DIP Credit Agreement, and the Applicant intends to draw an additional US\$300,000 under the DIP Credit Agreement on March 26, 2013.
9. As discussed in the Affidavit of Alan Hutchens sworn February 7, 2013 (the "**February Affidavit**"), as of February 7, 2013, the Applicant has drawn US\$8,000,000 under the Priority Credit Agreement, and has a total indebtedness under the National Bank Credit Agreement of approximately \$18,734,943, including a \$300,000 letter of credit (the "**Letter of Credit**") provided by National Bank as security for the Applicant's lease in respect of one of its leased premises (the "**Interchange Lease**"), which Letter of Credit expires on May 31, 2013.
10. On March 18, 2013, National Bank indicated that it would not be extending the Letter of Credit beyond May 31, 2013. Pursuant to the APA, GoodLife will be assuming the Interchange Lease upon the closing of the Sale Transaction.

11. As discussed in the February Affidavit, as of December 31, 2012, the Applicant has a total indebtedness under the Golub Credit Agreement of approximately US\$18,728,587, including amounts owing for accrued interest.
12. The Monitor understands that each of the DIP Agent, Golub and National Bank will distribute the distributions made by the Monitor pursuant to the requested Order in accordance with the terms of the DIP Credit Agreement, the Priority Credit Agreement, the National Bank Credit Agreement and related security and intercreditor agreements.
13. Pursuant to the Initial Order, the DIP Lender is entitled to the benefit of the Court-ordered DIP Charge on the Property (each as defined in the Initial Order), which DIP Charge ranks in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise in favour of any Person (as defined in the Initial Order) and is subordinate in priority to the Administration Charge and D&O Charge.
14. The Monitor's counsel, Goodmans LLP (“**Goodmans**”) conducted a security review of the security granted by the Applicant in personal property to secure the amounts owing under the Priority Credit Agreement, the National Bank Credit Agreement, and the Golub Credit Agreement and rendered an opinion with respect to the validity and perfection thereof under the laws of the Province of Ontario. This opinion states that (subject to the assumptions and qualifications contained therein) the personal property security granted in favour of (i) Golub as agent for the lenders under the Priority Credit Agreement and as agent for the lenders under the Golub Credit Agreement; and (ii) National Bank as agent for the lenders under the National Bank Credit Agreement, is valid and enforceable and creates valid security interests in the personal property of the Applicant secured to which the *Personal Property Security Act* (Ontario) (the “**Ontario PPSA**”) applies.
15. The Monitor has reviewed the searches conducted against the Applicant set out in Schedule D to the Goodmans opinion for other registered security interests under the Ontario PPSA and the *Bank Act* (Canada). In accordance with intercreditor agreements relating to the National Bank Credit Agreement, the Golub Credit Agreement and the

Priority Credit Agreement (collectively, the “**Intercreditor Agreements**”) and pursuant to the laws of the Province of Ontario, subject to statutory and possessory liens, security interests perfected by possession or control, purchase money security interests and claims that have priority by operation of law and subject to certain registrations of secured parties made prior to the registration by National Bank, it appears as though (i) Golub, as agent for the lenders under the Priority Credit Agreement, has a first ranking security interest in the personal property of the Applicant secured to which the Ontario PPSA applies; (ii) National Bank, as agent for the lenders under the National Bank Credit Agreement has a second ranking security interest in the personal property of the Applicant secured to which the Ontario PPSA applies; and (iii) Golub, as agent for the lenders under the Golub Credit Agreement has a third ranking security interest in the personal property of the Applicant secured to which the Ontario PPSA applies.

16. Based on the nature of secured parties, collateral descriptions and acknowledgments and confirmations provided by certain secured parties, it appears that registrations under the Ontario PPSA registered against the Applicant prior in time to that of National Bank, other than the registration in favour of Royal Bank of Canada (“**RBC**”), are with respect to equipment or motor vehicle leases. As discussed in the February Affidavit, the Applicant has 14 bank accounts with RBC who, in connection with the obligations of the Applicant under its agreement with RBC, has a registration against the Applicant under the Ontario PPSA relating to collateral classifications in respect of inventory, equipment, accounts, other and motor vehicles.
17. A similar opinion was obtained by the Monitor from its Alberta agent under the laws of the Province of Alberta (the “**Alberta Opinion**”) with respect to the validity and perfection of personal property security granted by the Applicant to secure the amounts owing under the Priority Credit Agreement, the National Bank Credit Agreement, and the Golub Credit Agreement. The Alberta Opinion states that (subject to the assumptions and qualifications contained therein) the personal property security granted in favour of (i) Golub as agent for the lenders under the Priority Credit Agreement and as agent for the lenders under the Golub Credit Agreement; and (ii) National Bank, as agent for the

lenders under the National Bank Credit Agreement, is valid and enforceable and creates valid security interests in the personal property of the Applicant secured to which the *Personal Property Security Act* (Alberta) (the “**Alberta PPSA**”) applies.

18. The Monitor has reviewed the searches conducted against the Applicant set out in Schedule C to the Alberta Opinion for other registered security interests under the Alberta PPSA. In accordance with the Intercreditor Agreements and pursuant to the laws of the Province of Alberta, subject to statutory and possessory liens, security interests perfected by possession or control, purchase money security interests and claims that have priority by operation of law, it appears as though (i) Golub, as agent for the lenders under the Priority Credit Agreement, has a first ranking security interest in the personal property of the Applicant secured to which the Alberta PPSA applies; (ii) National Bank, as agent for the lenders under the National Bank Credit Agreement has a second ranking security interest in the personal property of the Applicant secured to which the Alberta PPSA applies; and (iii) Golub, as agent for the lenders under the Golub Credit Agreement has a third ranking security interest in the personal property of the Applicant secured to which the Alberta PPSA applies.
19. Goodmans also conducted a security review of the charges granted in the Applicant’s interests in its leased premises. This opinion states that (subject to the assumptions and qualifications contained therein) the charges against the Applicant’s interests in its leased premises granted in favour of (i) Golub as agent for the lenders under the Priority Credit Agreement and as agent for the lenders under the Golub Credit Agreement; and (ii) National Bank, as agent for the lenders under the National Bank Credit Agreement are valid and enforceable with respect to the leased premises in respect of which a Notice of Charge of Lease has been registered on title to such premises.
20. The Monitor has reviewed the summary of the real property subsearches conducted in respect of leases and leasehold security registered against the Applicant’s leased premises set out in Schedule E to the Goodmans opinion. Subject to the assumptions and qualifications contained in the opinion, including those relating to title, occupation or similar rights, statutory liens, instruments (including charges and mortgages) registered

on title and claims that have priority by operation of law, through the effect of the Intercreditor Agreements, the charges against the Applicant's interests in its leased premises granted pursuant to security documents and the Notices of Charge of Lease from the Applicant to Golub Capital Incorporated registered in respect of 12 of the 13 leased premises of the Applicant (the "**Charged Leased Premises**"), it appears as though: (i) Golub, as agent for the lenders under the Priority Credit Agreement, has a first ranking charge against the Applicant's interest in the Charged Leased Premises; (ii) National Bank, as agent for the lenders under the National Bank Credit Agreement ranks second in respect of the Applicant's interest in the Charged Leased Premises; and (iii) Golub, as agent for the lenders under the Golub Credit Agreement has a third ranking charge against the Applicant's interest in the Charged Leased Premises.

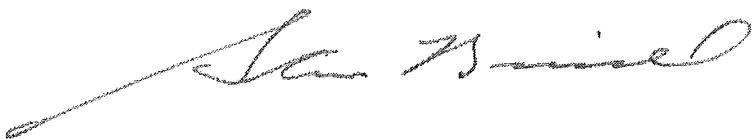
21. Based on the Court-ordered DIP Charge and the above-noted opinions given to the Monitor, the Monitor supports the Applicant's request to distribute from the Sale Proceeds: (i) an amount to the DIP Agent on behalf of the DIP Lender in respect of the amounts advanced to the Applicant under the DIP Credit Agreement, plus interest and costs; (ii) an amount agreed to by the Monitor to the Applicant as is required to satisfy the Applicant's post-filing obligations; (iii) an amount to Golub on behalf of the lenders under the Priority Credit Agreement in respect of the amounts advanced to the Applicant under the Priority Credit Agreement, plus interest and costs; and (iv) \$2,000,000 to National Bank on behalf of the lenders under the National Bank Credit Agreement in partial satisfaction of the Applicant's outstanding indebtedness to the lenders under the National Bank Credit Agreement for principal, interest and costs.
22. The Monitor also supports the Applicant's request for authorization to make further distributions without further Court order, but may seek approval of this Honourable Court for further distributions if it deems such approval appropriate or necessary.
23. A copy of the above-noted opinions given to the Monitor will be provided to the Court upon request and to any interested party requesting a copy of same who confirms in advance that: (a) such party is not the opinion giver's client and therefore is not entitled to rely upon the opinion and that the opinion giver has no liability or responsibility to

such party with respect to any loss, liability, damage or expense in connection with the provision to such party of the opinion or such party's review of contents thereof; (b) such party will not disclose the opinion to any other party; and (c) the provision of the opinion does not constitute a waiver of privilege.

All of which is respectfully submitted this 26th day of March, 2013.

FTI Consulting Canada Inc.,
in its capacity as the Monitor of Extreme Fitness, Inc.

Per

A handwritten signature in black ink, appearing to read "Steven Bissell". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the left.

Steven Bissell
Managing Director

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

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Proceeding commenced at Toronto

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SECOND REPORT OF FTI CONSULTING
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GOODMANS LLP
Barristers & Solicitors
333 Bay Street, Suite 3400
Toronto, Canada M5H 2S7

Melaney J. Wagner LSUC#: 44063B
Caroline Descours LSUC#: 58251A

Tel: (416) 979-4258
Fax: (416) 979-1234

Lawyers for the Monitor