

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
CLOTHING FOR MODERN TIMES LTD.
A COMPANY DULY INCORPORATED IN THE PROVINCE OF ONTARIO WITH A
HEAD OFFICE IN THE CITY OF TORONTO
IN THE PROVINCE OF ONTARIO**

**SUPPLEMENTAL REPORT TO THE SECOND REPORT OF
THE MONITOR**

FEBRUARY 16, 2012

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PURPOSE OF THIS SUPPLEMENTAL REPORT

1. The purpose of this Supplemental Report to the Second Report of the Monitor (**“Supplemental Report”**) is to:

- a) advise the Court and comment on Clothing for Modern Times Ltd.’s (**“CMT”** or the **“Company”**) request for approval to self-liquidate inventory and fixtures at eight non-acquired stores (the **“Liquidation Stores”**);
- b) support the Company’s request to extend the key employee retention plan approved by the Order of the Honourable Madam Justice Hoy dated July 11, 2011 (the **“July 11 Order”**) to key employees employed at the Liquidation Stores;
- c) support the Company’s request to seek approval of the repayment by the Company of its loan to Roynat Asset Finance, a division of Roynat Inc. (**“Roynat”**) and declare that such repayment is no longer subject to the reimbursement provisions of the July 11 Order or the Initial Order; and
- d) support the Company’s request to extend the initial stay of proceedings granted by the Initial Order to March 27, 2012

DISCLAIMER

2. In preparing the Supplemental Report, the Monitor has relied upon the unaudited financial records and financial statements of CMT, as well as other information supplied by management, accountants, auditors and financial advisors to CMT. Our

procedures and enquiries did not constitute any audit or review engagement. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Supplemental Report or relied on in its preparation. Any use which any party, other than Court, makes of this Supplemental Report or any reliance on or a decision made based upon it is the responsibility of such party.

THE LIQUIDATION STORES

3. The Monitor provided a detailed description of the sales process (the “**Sales Process**”) in its Second Report dated February 13, 2012.
4. The Sales Process established that 2313329 Ontario Inc. (“**231**” or the “**Purchaser**”) submitted a going concern offer and after careful consideration of all the offers received, the Monitor, with the assistance of Ernst & Young Orenda Corporate Finance Inc., agreed to commence negotiations with the Purchaser for the sale of the remainder of the Company’s property, assets and undertakings.
5. The Monitor, subject to approval of this Honourable Court, and on the Company’s behalf, has entered in an agreement of purchase and sale (the “**Sale Agreement**”) with the Purchaser dated February 3, 2012.
6. The Sale Agreement includes the purchase of 33 leased store locations.
7. The Company is currently operating the Costa Blanca retail business from 40 store locations across Canada. Accordingly, the Purchaser determined that seven lease locations were supplemental to its ongoing requirements.

8. In addition to the seven supplemental locations, the Purchaser has recently advised the Monitor that one additional store (a total of eight Liquidation Stores) will no longer be acquired. Notwithstanding, the Purchaser has advised the Monitor that the purchase price in the Sale Agreement will not be adjusted.
9. The Sale Agreement is anticipated to close on March 2, 2012 (the “**Closing Date**”). Prior to the Closing Date, the Company wishes to disclaim the Liquidation Stores and self-liquidate the inventory.
10. In addition, the Company is seeking to apply the guidelines for liquidating and removal of fixtures in the Liquidation Stores as approved in the Order of the Honourable Madam Justice Hoy dated July 22, 2011.
11. The Monitor has been advised that the Company and the Purchaser have agreed, in principal, for CMT to continue to sell the Liquidation Stores inventory and fixtures following the Closing Date. The Company and the Purchaser are in the process of finalizing the terms of the agreement.
12. The Monitor supports the motion for the self-liquidation of inventory and fixtures at the Liquidation Stores, and supports the Company’s request to disclaim its interest in the Liquidation Stores.
13. The Company is seeking approval for the extension of a key employee retention plan for key employees of the Liquidation Stores as previously approved in the July 11 Order and subsequent orders in the proposal proceedings. The Monitor supports the

Company's request to extend the key employee retention plan to key employees of the Liquidation Stores.

ROYNAT INDEBTEDNESS

14. The Initial Order provides for all charges created pursuant to Orders granted in the proposal proceedings to remain in full force and effect in the CCAA proceedings.
15. Pursuant to the July 11 Order, the Court approved a charge in favour of Roynat to secure payment of any post-filing advances made by Roynat to the Company.
16. In addition, the Company was authorized to pay and perform all its indebtedness, interest, fees, liabilities and obligations to Roynat under the loan agreement between the Company and Roynat, provided that Roynat shall reimburse the Company any monies received by Roynat, which it may not have been entitled to pursuant to any liens, charges, security interests or other claims having priority over Roynat's security.
17. The Company's outstanding indebtedness to Roynat was repaid in full upon the closing of the UB transaction on or around January 18, 2012.
18. The Monitor in its capacity as Proposal Trustee in the Company's proceedings commenced under the Bankruptcy and Insolvency Act (the "BIA") received a favourable opinion on the Roynat Security. Roynat's Security rested in priority to each of the remaining second creditors' security, who do not dispute the repayment of the Roynat loan.

19. Accordingly, the Monitor supports the Company's motion to seek approval of the repayment by the Company of its loan to Roynat and declare that such repayment is no longer subject to the reimbursement provisions of the July 11 Order and the Initial Order.

EXTENSION OF THE STAY PERIOD

20. The Sale Agreement requires, as a condition, the Purchaser to obtain the necessary landlord consents for assignment of the leased premises or an Order obtained authorizing such assignments.

21. The Stay Period expires on February 27, 2012; and the Monitor requires additional time to complete the Sale Agreement. In addition, the Company requires additional time to complete its liquidation of the inventory and fixtures at the Liquidation Stores.

22. Accordingly, the Company is seeking an extension of the Stay Period to March 27, 2012.

23. The Monitor is satisfied that the Company has acted and is acting in good faith and with due diligence to assist it in the conclusion of the Sale Agreement and liquidation of the inventory and fixtures in the Liquidation Stores.

All of which is respectfully submitted this 16th day of February 2012.

**A. FARBER & PARTNERS INC.
IN ITS CAPACITY AS MONITOR OF
CLOTHING FOR MODERN TIMES LTD.**

A. Farber & Partners Inc.

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 Clothing For Modern Times Ltd. a
company duly incorporated in the province of Ontario with a head office in the city of Toronto in
the province of Ontario

Court File No: CV-11-9535-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE -
COMMERCIAL LIST**

Proceeding commenced at Toronto

**SUPPLEMENTAL REPORT TO THE
SECOND REPORT OF THE MONITOR
(dated February 16, 2012)**

Norton Rose Canada LLP
Royal Bank Plaza, South Tower, Suite 3800
200 Bay Street, P.O. Box 84
Toronto, Ontario M5J 2Z4 CANADA

Mario Forte LSUC#: 27293F
Tel: +1 416.216.4870
Fax: +1 416.216.3930

Lawyers for the Monitor