

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
(IN BANKRUPTCY AND INSOLVENCY)**

**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
COTTON GINNY INC., CG OPERATIONS (H/O) LIMITED, CG OPERATIONS I
LIMITED, CG OPERATIONS II LIMITED**

**THIRD REPORT OF THE MONITOR
(Dated as of March 27, 2008)**

1. This is the Third Report prepared by Mintz & Partners Limited (the "**Monitor**"), in its capacity as the monitor of Cotton Ginny Inc. ("**Cotton Ginny**" or the "**Company**"), CG Operations (H/O) Limited ("**H/O**"), CG Operations I Limited and CG Operations II Limited (collectively, the "**Companies**") appointed pursuant to section 11.7 of the *Companies' Creditors Arrangement Act* (the "**CCAA**") by an Order of Mr. Justice Morawetz dated February 21, 2008 (the "**Initial Order**").
2. The First Report of the Monitor dated February 29, 2008 (the "**First Report**") was prepared pursuant to paragraph 26(b) of the Initial Order which directed the Monitor to report to the Court "... eight (8) days from the date of this Order, which Report shall include a schedule for subsequent reporting by the Monitor, a description of the nature of such reporting and an updated thirteen (13) week cash flow."
3. The Monitor's Second Report to the Court dated as of March 12, 2008 (the "**Second Report**") sought approval for, among other things, a Claims Procedure to be conducted by the Monitor.

4. On March 14, 2008, the Honourable Mr. Justice Morawetz granted an order (the "**March 14th Order**") that, among other things, approved the Claims Procedure and extended the stay under the CCAA Proceedings to April 24, 2008. The Endorsement issued by the Honourable Mr. Justice Morawetz that day in support of the March 14th Order states that "The Affidavit and the 2nd Report make reference to inventory levels increasing in the near term. This issue is material and the Monitor should keep stakeholders updated in this area. While the Monitor proposes on reporting on inventory and cash flow every 15 days, it would also be helpful if the stakeholders were kept advised of material develops (sp) on a more timely basis. An example would be a brief report confirming when the bulk of the \$4.8 million of inventory referenced at Paragraph 30 is released to Cotton Ginny."
5. Further to the above-referenced Endorsement, the purpose of this Third Report of the Monitor (the "**Third Report**") is to provide the Court with a brief update on the status of \$4.8 million of inventory reference at paragraph 30 of the Second Report.

I. Landed Inventory Status

6. In the Second Report, the Monitor reported that it had "... been advised that previously ordered inventory with a cost of approximately \$4.8 million has arrived in Canada. Management is currently working on the terms for payment and release of the inventory to Cotton Ginny and hopes to have the bulk of this inventory released to its warehouse shortly."
7. The Monitor has been advised that Cotton Ginny has arranged payment terms with its vendors for the \$4.8 million of inventory ("**Landed Inventory**").
8. Of the Landed Inventory, original bills of lading totaling approximately \$2.3 million have been received and this inventory has been released to Cotton Ginny ("**Released Inventory**").
9. The Monitor has been advised by the Company that the Released Inventory is being held in two bonded warehouses in the Toronto area. Approximately \$584,000 of the Released Inventory is to be transferred to Cotton Ginny's warehouse in Mississauga, Ontario on March 27, 2008, with a further \$238,000 scheduled for transfer on either March 28, 2008

or March 31, 2008. The remaining Released Inventory will be transferred based on receiving and shipping capacity through the warehouse and cash flow availability to fund duty and demurrage costs. As will be discussed in the Monitor's next report to the Court, the Company's cash flow was impacted last week by the closure of many Company stores due to the Good Friday and Easter Sunday holidays, and the requirement to fund payroll and rent that week.

10. With respect to the remaining \$2.5 million of Landed Inventory, the Company expects to receive the original bills of lading shortly, following which the inventory will be transferred to the Company's warehouse over the next two to three weeks, the timing of which will be based on warehouse capacity as well as cash flow availability to fund duty and demurrage costs.
11. Cotton Ginny has advised that once transferred to the warehouse, the Released Inventory should be transferred to stores within 1 to 4 days.

II. In-Transit Inventory Status

12. In the Second Report, the Monitor reported that Cotton Ginny had "... approximately \$1.3 million of inventory at cost is in transit from overseas." Cotton Ginny has advised that of the \$1.3 million of inventory in transit ("**In-Transit Inventory**"), \$260,000 has now arrived in Vancouver, B.C. and has been released to Cotton Ginny. The remaining \$1.0 million remains in-transit and is expected to arrive in Canada on or before April 6, 2008.

III. Further Reporting by the Monitor

13. As set out in the First Report, the Monitor proposed to report on or about the 15th and 30th day of each month on cash flow results and inventory status. In view of the fact that March 30, 2008 falls on a Sunday, there would not be sufficient time for the Monitor to receive, analyze and report on March 31, 2008 on cash flow and inventory information for the prior period ending March 30, 2008. Consequently, in order to provide the Court with more timely information on cash flow results and inventory for the immediately

preceding week, the Monitor proposes to issue its next report on or about April 2, 2008, which report will include information up to the week ending March 30, 2008.

ALL OF WHICH is respectfully submitted this 27th day of March, 2008

MINTZ & PARTNERS LIMITED in its capacity as the Monitor of Cotton Ginny Inc., CG Operations (H/O) Limited, CG Operations I Limited and CG Operations II Limited and not in its personal capacity

Per



DANIEL WEISS
SENIOR VICE PRESIDENT