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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.: 500-11-

SUPERIOR COURT
Commercial Division
Designated tribunal under the Companies' Creditors Arrangement Act[1]

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT OF THE ALDO GROUP INC., SOUTHWEST CAPITAL HOLDINGS INC., ALDO US INC., ALDO MARKETING LLC, ALDO SHOES WEST FORTY SECOND LLC, ALDO 1125 THIRD AVE. CORPORATION, ALDO 5th AVE. INC., ALDO 250 WEST 125 INC., AND 1230 AVENUE OF THE AMERICAS LLC

REPORT OF THE PROPOSED MONITOR – May 6, 2020

INTRODUCTION AND BACKGROUND

1. The Aldo Group Inc. ("Aldo Canada"), Southwest Capital Holdings Inc. ("Southwest"), Aldo US Inc. ("Aldo US"), Aldo Marketing LLC ("Aldo Mktg"), Aldo Shoes West Forty Second LLC ("Aldo West"), Aldo 1125 Third Avenue Corporation ("Aldo 1125"), Aldo 5th Ave. Inc. ("Aldo Fifth"), Aldo 250 West 125 Inc. ("Aldo 250") and 1230 Avenue of the Americas LLC ("Aldo 1230") (collectively, the "Applicants") have brought a motion before this Honourable Court ("Court") to commence proceedings under the Companies' Creditors Arrangement Act[1] ("CCAA"), seeking an order ("Initial Order") containing a stay of proceedings in respect of the Applicants, the appointment of Ernst & Young Inc., a licensed insolvency trustee, as monitor ("EY" or the "Proposed Monitor") and various other relief measures.

2. The present report ("Report") is intended to provide the Court with information relevant to the Applicants' application for an Initial Order under the CCAA ("Motion"), based on the information that has been made available to the Proposed Monitor. The Report is presented under the following headings:

- Introduction and Background;
- Foreign proceedings;
- Appointment of monitor;
- Terms of Reference and Disclaimer;
- Financial position of the Applicants;
- Cash Flow Forecast;

1 Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended.

- Interim Financing;
- Financial Thresholds Contemplated;
- Upcoming Restructuring Measures; and
- Overall Comments and Conclusions.

3. The Applicants are part of a group of affiliated and related companies ("Aldo Group") which together comprise a retail chain of footwear fashion apparel stores under the names Aldo, Globo and Call It Spring, a franchise operation and related activities. A corporate organization chart showing the relationship amongst the various entities comprising the Aldo Group is attached to this Report as Appendix "A".[2] The activities of the entities comprising the Aldo Group and their incorporation jurisdiction is described in the Motion.[3] The activities of the entities comprising the Aldo Group can be summarized as follows:

   3.1. Aldo Canada is the main holding company for the other entities in the Aldo Group, except for Southwest which is a sister company to Aldo Canada. Aldo Canada provides management and administrative support to the other entities, coordinates the activities of the Aldo Group, and operates a retail footwear fashion apparel chain in Canada.

   3.2. Southwest is a company under common control with Aldo Canada and holds since 2005 a secured debenture from Aldo Canada in an amount of approximately $75M.[4] As holder of such debenture, Southwest has been asked to guarantee each financing of Aldo Canada since that date.

   3.3. Aldo US operates a retail footwear fashion apparel chain in the US, by itself and through its subsidiaries Aldo West, Aldo 1125, Aldo Fifth, Aldo 250, and Aldo 1230 (collectively, the "LeaseCos"). We understand these subsidiaries are the signatories to the leases for some of the store locations. Another subsidiary, Aldo Mktg, manages the Aldo Group's gift card program in the US.

   3.4. Aldo Group International AG ("AGIA") acts as the supply chain management entity and as such purchases most of the products intended for the Aldo Group. AGIA also manages the franchise operations in Europe. AGIA manages the European retail sales network through its subsidiaries and sister companies. AGIA owns the intellectual property of the Aldo Group outside of North America.

   3.5. European Investment Holdings s.a.r.l. is a holding company for the subsidiaries in Europe and Asia.

   3.6. Some of the subsidiaries in Europe operate or operated shoe stores.

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2 The organization chart appended to the report is thought to fully represent the Aldo Group's corporate structure, but some minor inaccuracies may exist. For example, some of entities that are listed may be inactive entities or may have been wound down and no longer exist.

3 The Motion can be accessed on the Proposed Monitor's website at www.ey.com/CA/Aldo.

4 Unless specified otherwise, all amounts herein are in US dollars.

3.7. Other subsidiaries in Europe assist in the operations of AGIA, by handling some purchases or supervising third party logistics services for the wholesale or franchise business or otherwise assisting in the procurement process.

3.8. Some of the subsidiaries in Asia assist in overlooking the franchise operations in Asia and the Orient and perform sourcing activities in Asia.

Overall, the Aldo Group employs approximately 8,000 employees; manages a retail chain of approximately 700 stores; has approximately 3,000 points of sale (owned and operated stores or franchises) in more than 100 countries; provides product sourcing and procurement activities; has a wholesale business; and distributes directly to customers through e-commerce.

4. Aldo Canada is a privately held company owned by 2300 Investment Holdings Inc., an entity that is ultimately owned by the founder of the Aldo Group, members of his family and a family trust.

5. For the past few years, the Aldo Group has had a decrease in profitability and has incurred losses. The Aldo Group has been analysing its activities with a view to improve its operations and modify its debt structure, to enhance profitability. This process was continuing and was expected to be implemented without a need to resort to any formal insolvency proceeding, when the Covid-19 pandemic arose. The Covid-19 pandemic has caused a sharp decrease in sales as stores have had to close to implement the physical distancing measures necessary to combat the coronavirus ("Virus") while continuing to incur fixed operating expenses. In addition, the slow down in activities as a result of the Virus occurred at a particularly inopportune time, since the pandemic affected the Aldo Group's normal procurement schedules, leaving it with Spring merchandise that is unsold and delaying the production and delivery of Fall merchandise ordered from suppliers in Asia.

6. The Covid-19 pandemic has affected all sectors of the Applicants' business, reducing store sales, causing store closures and wholesale volume, curtailing receipts of amounts due from franchisees and affecting the procurement process. As a result of the loss of revenues, the Aldo Group has been incurring substantial losses and is expecting to run out of liquidity imminently.

7. The Aldo Group's credit facility is fully drawn, and the Aldo Group's capital base and current prospects do not allow for additional loans, without substantial structural and operational changes. This stark reality led the Applicants to conclude that a formal restructuring process is necessary.

FOREIGN PROCEEDINGS

8. The Aldo Group has activities in many countries, but the principal activities are carried out primarily in North America (Canada and US), Europe and Asia. In view of the extent of the operations in foreign jurisdictions, the Aldo Group has determined the following with respect to the necessity to initiate recognition and companion proceedings with respect to the present CCAA proceedings:

8.1. North America: Subject to the issuance of the Initial Order in the proceedings under the CCAA as outlined in paragraph 1 above, Aldo Canada, Aldo US, and Southwest will also seek before the United States Bankruptcy Court for the District of Delaware an order under Chapter 15 of the US Bankruptcy Code[5] ("Chapter 15 Proceedings") in order, inter alia, to recognise the CCAA proceedings as the foreign main proceedings and obtain the required protection of their assets and operations in the United States during the restructuring process. The request for the assistance of foreign courts is therefore necessary in the circumstances.

8.2. Europe – AGIA: The Swiss entity AGIA is an important component of the Aldo Group's activities, as it coordinates the franchising business and some of the European operations and manages the supply chain for the Aldo Group's products. As such, many of the Aldo Group's trade creditors have claims against AGIA. We understand AGIA will imminently seek protection from its creditors under the laws of Switzerland.

8.3. Europe and Asia (except for AGIA): Except with respect to AGIA as mentioned above, the Applicants do not presently believe that companion or recognition proceedings be necessary in the European or Asian jurisdictions and none are contemplated at this time, although this may be reassessed from time to time.

APPOINTMENT OF MONITOR

9. As mentioned earlier in this Report, EY has been informed that the Applicants are seeking its appointment as monitor in the context of proceedings under the CCAA.

10. EY points out that while it fulfills the requirements of section 11.7(1) of the CCAA, it is subject to one of the restrictions set out in section 11.7(2) of the CCAA, in that Ernst & Young LLP, an affiliate of EY, has been acting as auditor of various companies within the Aldo Group, and more notably Aldo Canada, Aldo US and AGIA. Ernst & Young LLP is prepared to resign from the audit engagement if, as the case may be, a conflict situation arises with its capacity as monitor in the proceedings under the CCAA. The board of directors of Aldo Canada has been informed of this possibility and has accepted that EY act as monitor in this circumstance. EY and Ernst & Young LLP have put in place an ethical wall to prevent the inadvertent communication of information between the personnel involved with the audit engagement and the personnel involved in the proceedings under the CCAA.

11. In view of the restrictions set out in section 11.7(2) of the CCAA, the appointment of EY notwithstanding the prior existing relationship, must be specifically authorized by the Court.

12. With respect to this authorization, EY hereby confirms the following:

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[5] US Code, Title 11, as amended.

12.1. EY has put in place and will maintain an ethical wall to prevent the inadvertent communication of information between the audit team and the personnel assigned to the restructuring engagement;

12.2. EY is not aware of any actual conflict of interest or loss of independence arising from the previous relationship between the Aldo Group and Ernst & Young LLP as auditor.

12.3. EY has consented to act as monitor in these proceedings, if the Court chooses to appoint it as monitor.

13. It is noteworthy that the Applicants have retained Greenhill Consulting Group (“Greenhill”), an investment banking consultant, as their financial advisors to assist in the context of the envisaged restructuring.

14. McCarthy Tétrault has been retained to act as the monitor’s independent counsel in these CCAA proceedings if the Court chooses to appoint EY as monitor.

TERMS OF REFERENCE AND DISCLAIMER

15. In preparing this Report and making the comments herein, the Proposed Monitor has been provided with and has relied upon certain unaudited, draft and/or internal financial information, company records, management prepared financial information and projections, information from other third-party sources, and has engaged in discussions with the Applicants’ directors, senior management team (“Management”) and the Applicants’ legal advisors (collectively, the “Information”). Except as described in this Report:

15.1. The Proposed Monitor has assumed the integrity and truthfulness of the Information and explanations provided to it, within the context in which it was presented. To date, nothing has come to the attention of the Proposed Monitor that would cause it to question the reasonableness of this assumption.

15.2. The Proposed Monitor has requested that Management bring to its attention any significant matters which were not addressed in the course of its specific inquiries. Accordingly, this Report is based solely on the Information (financial or otherwise) provided by the Applicants.

15.3. The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance standards or generally accepted standards for review engagements and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance in respect of the Information.

15.4. In view of the purpose of the Report, some of the financial information therein may not comply with generally accepted accounting principles.

15.5. This Report does not take into account all future impacts of COVID-19 (SARSCoV-2) ("Covid-19", "Coronavirus" or "Virus") on the forecasts or projections or other actions taken by the Aldo Group as a result of the evolving Virus situation. Any references made to the impact of the Coronavirus on the Aldo Group in this Report are based on preliminary enquiries and are not to be interpreted as a complete commentary or as an accurate assessment of the full impact of the Virus. The potential for unknown ramifications on consumers, supply chains, commercial counterparties (both direct and indirect to the Aldo Group's operations), future decisions that the Aldo Group may make as a result of the evolving Virus situation and potentially adverse geopolitical outcomes, means that the forecasts or projections may be impacted by the Coronavirus. The full impact of the Virus is not capable of being qualitatively or quantitatively assessed at this time.

15.6. Some of the information referred to in this Report consists of forecasts and projections that were prepared based on Management's current estimates and assumptions. Such estimates and assumptions are, by their nature, not ascertainable and as a consequence, no assurance can be provided regarding any such forecasted or projected results. Actual results will vary from the forecasts or projections, even if the estimates and assumptions are accurate, and the variations could be significant.

16. This Report has been prepared by the Proposed Monitor in order to provide additional information to the Court in connection with the Applicants' motion for the issuance of the Initial Order and the current status of the Applicants' financial affairs and prospects. This Report may not be appropriate for any other purpose and consequently should not be used for any other purpose.

17. Unless otherwise stated all monetary amounts contained herein are expressed in US dollars.

FINANCIAL POSITION OF THE ALDO GROUP

18. The most recent available internally prepared consolidated financial statements are the statements as at April 4, 2020 and for the two months then ended.

19. The Applicants' current financial year ended on February 1, 2020.[6] A summary of the financial position of the main entities comprising the Aldo Group, as compiled from the internal financial statements at April 4, 2020, is presented in Appendix "B".

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6 The financial statements filed in support of the Motion for the year ended February 1, 2020 are the non consolidated financial statements of Aldo Canada (expressed in Canadian currency), and the financial statements of Aldo US (expressed in US currency), presented as a consolidation of the activities of Aldo US, Aldo Mktg and the LeaseCos. The financial statements referred to in this Report are the internally prepared consolidated results, before year-end adjustments identified through the audit of the financial statements, some of which are significant. The results presented on the non consolidated statements of Aldo Canada can be vastly different from the consolidated results.

20. EY will review the Applicants' financial position at a later date, if it is appointed as monitor in the CCAA proceedings. However, the following observations can be made from the financial statements:

20.1. The financial statements for the year ended February 1, 2020 indicate consolidated operating losses[7] of $108.1M for the year, on a sales volume of $1,276.6M (or 8.5%). These losses have continued in the 2 months ended April 4 2020, as the Aldo Group reports an additional $44.0M in operating losses on a sales volume of $117.8 M (or 37.4%). The results for the month of April 2020 are expected to reflect losses that are even higher, as the physical distancing required to combat the Covid-19 pandemic has caused a closure of the stores throughout the month.

20.2. The loss in the 2 months ended April 4, 2020 are substantially higher than for the same period last year, and the sales volume is substantially lower. For the first 2 months of last year, the Aldo Group reported an operating loss of $18.9M on a sales volume of $199.8M (or 9.5%). The loss for the first 2 months of this year are more than double the loss of the same period last year, while the revenues have decreased by more than 40%.

20.3. The financial statements at April 4, 2020 and for the two months then ended indicate that the Aldo Group's shareholders' equity is not completely depleted. The Aldo Group's financial statements indicate that the shareholders' equity decreased from $167.2M in January 2019, to $73.4M in January 2020 and $56.0M at April 4, 2020.[8] However, the financial statements do not yet take into consideration certain substantial adjustments that should be made to the carrying value of the assets, some of which were identified in the course of the audit of the financial statements[8] and some of which become necessary in view of the intended restructuring process, or liabilities that will arise as a result of the claims that can arise in the context of the restructuring process. For example, the Motion indicates that the Aldo Group intends to reduce substantially the number of stores in North America, to limit the stores to those locations that have a positive contribution to profits and are considered brand enhancing.

20.4. In view of the above, and the current economic conditions, it is likely that the financial statements' assets and liabilities require substantial adjustments, as the assets are overstated and liabilities understated in the current environment. This would suggest that the shareholder's equity as reported on the internally prepared financial statements at April 4, 2020 is overstated and has been completely eroded. The most significant adjustments that can be expected to the assets and liabilities would be as follows:

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7 Operating losses reflect the losses from regular operations, i.e. the losses before interest and taxes, and before non-operating income or loss items such as non-recurring items, foreign exchange gains or losses, etc.

8 We note that some significant adjustments and write-offs have been identified in the course of the audit of the financial statements, and these adjustments have not yet been processed through the Aldo Group's financial reporting system, such as for example the write-off of future tax benefits that had been recorded as an asset on the Aldo Group's balance sheet. These adjustments are sufficient to eliminate any remaining shareholders' equity and leave the Aldo Group with a sizeable shareholders' deficiency.

20.4.1. The store closures will result in writing off the unamortized value of leasehold improvements, a possible loss on the disposal of store furniture and equipment, and a claim for the loss sustained by the landlord as a result of the disclaimer of the lease. These can be significant, in particular in the current economic environment, as the leased premises will undoubtedly be difficult to re-let.

20.4.2. As well, some adjustments to the reported asset values may be necessary as a result of financial difficulties encountered by some of the franchisees, which would translate into a difficulty in collecting accounts receivable, or a bad debt expense.

20.4.3. A portion of the inventories represents merchandise purchased for the Spring season that could not be sold due to the store closure and now represents carryover merchandise that may have to be liquidated.

20.4.4. In view of the extent of the losses and the restructuring measures that are being implemented, there is a need to reassess the valuation of deferred or future income taxes recorded as an asset on the balance sheet.

21. In summary, the Aldo Group has incurred and is continuing to incur substantial losses from operations, and its capital base has likely been completely eroded, to the point where the Aldo Group is insolvent or will become insolvent imminently.

22. The Aldo Group has two secured creditors of note. The main secured creditor is Southwest, an affiliated company that has a loan of CDN$100M (approximately US$70.7M) receivable from Aldo Canada. This loan is secured in virtue of a debenture that encumbers substantially all of the assets and undertakings of Aldo Canada. The other secured creditor is Investissement Quebec (“IQ”), with a loan of CDN$40M (approximately US$25.3M) receivable from Aldo Canada. This loan was used to finance and is secured by information technology infrastructure.

23. The Aldo Group’s main operating lender is the Bank of Montreal (“BMO”), both on its own account and as agent for a lending syndicate. The lending syndicate has provided a credit facility (“Senior Credit Facility”), although the ability to draw against this credit facility is limited by financial thresholds. The amount currently due under the Senior Credit Facility is reported to be $207.4M and the facility is fully drawn. The Senior Credit Facility is unsecured, although the lending syndicate has received an indemnity agreement from Southwest and AGIA.

CASH FLOW FORECAST

24. The Applicants have prepared a statement of projected cash flow (the “Cash Flow Forecast”), on a weekly basis, for the 13 weeks ending July 31, 2020. The Cash Flow Forecast is accompanied by the representations of the Applicants as prescribed, and by notes outlining the significant assumptions made in preparing the Cash Flow Forecast. The Cash Flow Forecast, the

representations of the Applicants and the notes outlining the assumptions are attached to this Report as Appendix “C”.

25. The Cash Flow Forecast is presented on a consolidated basis for all of the Applicants. The Cash Flow Forecast, including the notes attached thereto for the 13-weeks ending July 31, 2020 has been prepared by the Applicants for the purpose described in the notes accompanying the Cash Flow Forecast, using probable and hypothetical assumptions set out in the said notes.

26. The Proposed Monitor’s review consisted of inquiries, analytical procedures and discussion related to information supplied by the Applicants. Since hypothetical assumptions need not be supported, the procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Forecast.

27. Based on this review, nothing has come to the Proposed Monitor’s attention that causes it to believe that, in all material respects:

    27.1. the hypothetical assumptions are not consistent with the purpose of the projection;

    27.2. as at the date of this Report, the probable assumptions developed by the Applicants are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or

    27.3. the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

28. Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. In particular, but without limiting the generality of the foregoing, the Proposed Monitor reiterates the note of caution stated in paragraph 15.5 of this Report.

29. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Cash Flow Forecast has been prepared solely for the purpose described in the notes accompanying the Cash Flow Forecast, and readers are cautioned that it may not be appropriate for other purposes.

30. While the Proposed Monitor does not express reservations regarding the cash flow statement as prepared by the Applicants, some components thereof are noteworthy and are addressed below.

Employee salaries and benefits

31. The projections indicate the work force will be curtailed substantially at the head office and in the various stores. Notwithstanding the employee terminations, the cash flow projections reflect the payment of the amounts owing to the employees in salaries and vacation pay.

Trade accounts payable

32. The Cash Flow Forecast contemplate continued payments to some of the suppliers for pre-filing amounts due, such as for example the payment of customs duties in the US, as the US customs office holds a letter of credit to secure the payment of amounts due and allowing it to draw on the letter of credit would interrupt the normal flow of clearing goods through customs. As well, the Cash Flow Forecast contemplates the continued payment of suppliers which may have a right of retention or a lien, such as third-party warehouses, freight companies, etc. The Cash Flow Forecast also contemplates the possibility that some payments of arrears may be required to obtain merchandise currently on order, in exceptional cases where the supplier cannot otherwise be compelled to deliver the merchandise, due to the supplier's own financial difficulties, or because it is impossible or impractical to obtain the merchandise without such payment of the arrear. These payments are not considered significant.

Projected receipts and disbursements

33. The Cash Flow Forecast suggests that the Applicants will run out of liquidity in approximately one month, in the week ending June 5, 2020.

Overall comments on the Cash Flow Forecast

34. As mentioned above, the Applicants contemplate a number of payments to employees, the continuation of certain benefits for employees and former employees, and certain residual amounts due to trade suppliers.

35. The Applicants justify this proposed continuation of such payments as a form of hardship payment and as a way to ensure that the resources (employees, suppliers) will be available.

36. The Proposed Monitor understands the rationale behind the proposed payments of these amounts and supports this decision, noting in particular considering that the contemplated payments are relatively insignificant in the context of the size and complexity of the business of the Aldo Group.

37. The Cash Flow Forecast suggests that the Aldo Group will run out of liquidity in early June 2020 and will need to borrow a substantial amount to keep the operations going, pay salaries and current expenses, and obtain merchandise in time for the upcoming Fall season. In this respect, the Applicants propose to borrow money through interim financing (colloquially referred to as "DIP" Financing) to provide the necessary funds.

INTERIM FINANCING

38. The statement of projected cash flow prepared by Management suggests that the Applicants will need to borrow funds imminently in the course of the proceedings under the CCAA. The projections indicate that although some cash is available to pay current obligations in the early days of the proceedings, additional borrowings will be required.

39. The Proposed Monitor has been informed that due to the particular circumstances of the Aldo Group, namely the obligation to close stores as a result of the Covid-19 pandemic, the rapidly accumulating operating losses and the impending liquidity crisis, the Applicants focused their search for interim financing to discussions with BMO and various other parties identified by Greenhill, an investment banking consultant retained by the Aldo Group to help in the search for new capital and assist in the discussions with BMO.

40. The parties approached to assess the interest in becoming the interim lender included BMO, IQ, the family that ultimately controls the Aldo Group and four other potential lenders. The parties other than those already familiar with the Aldo Group's operations (i.e. other than the family, IQ and BMO) were asked to sign a non-disclosure agreement ("NDA") after which they were given access to confidential information on the Aldo Group's financial statements, restructuring activities and short term cash liquidity requirements. Greenhill remained in communication with the prospective lenders to address their queries while they performed their due diligence process. This process led to the presentation of two offers to provide an interim financing facility, from BMO, and National Bank of Canada ("BNC").

41. After assessing the offers, the Applicants selected the financing offer presented by BNC. We understand that the interim financing offer presented by BMO provided for conditions that the Applicants' directors considered problematic, and that BMO and the Applicants were unable to agree on these key conditions.

42. The offer presented by BNC provides for a $60M revolving multiple draw credit facility, which is expected to meet the needs of the Applicants in the short to medium term. In substance, the interim financing offer provides for the following:

    42.1. A revolving loan facility totalling $60M. The drawings can be made upon request therefor by the Applicants, in an initial amount of no less than $10M and subsequent amounts of no less than $1M (and in increments of $200K).

    42.2. The Applicants need to report to the interim lender their performance as compared with the budget approved by the interim lender (initially, the Cash Flow Forecast). An unfavorable variance from the budget approved by the interim lender, if it exceeds a set threshold, would constitute an event of default.

42.3. The interim financing is intended to be secured by a charge over all assets and undertakings of Aldo Canada and Aldo US, ranking in priority to the existing security, subject only to the Administration Charge, the Directors' and Officers' Charge ("D&O Charge") and certain other specific provisions.

42.4. The interim financing offer is subject to an interest rate of the LIBOR[9] plus 5.5% for the first 9 months, and LIBOR plus 6.5% thereafter. An additional 2% applies where there is a default.

42.5. The interim financing also contemplates the following costs and fees:

42.5.1. A standby charge of 1.25% on amounts committed and not drawn;

42.5.2. A commitment fee of $600,000 payable in part on execution of the interim financing term sheet, and in part contemporaneously with the initial advance.

42.5.3. Reimbursement of the reasonable out-of-pocket expenses incurred by the interim lender (including legal fees) in connection with the restructuring proceedings and the on-going monitoring, administration and enforcement of the interim credit facility.

42.6. Barring an event of default, the interim financing facility is expected to be repaid by May 2021.

42.7. Based on the current LIBOR, the interest rate on the interim financing facility would be approximately 6.5% to 7.5% on the funds advanced, plus the standby charge, the commitment fee and the reimbursement of the expenses of the interim lender. The cost of the borrowings will vary depending on the amounts borrowed, the time of repayment of the interim facility and the quantum of the out-of-pocket expenses, however we estimate that the cost of the financing, including interest, standby charges and the commitment fee, would likely represent 8% to 12% of the borrowed amount over the term of the facility, if the LIBOR remains unchanged. This estimated cost does not take into consideration the out-of-pocket expenses of the interim lender, as they cannot presently be estimated.

43. Based on its reviews and discussions with Management and its review of recent interim financing transactions, the Proposed Monitor believes that:

43.1. The estimates made regarding the financing needs are reasonable in the circumstances;

43.2. The pricing and terms appear reasonable in the circumstances; and

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9 London Interbank Offered Rate ("LIBOR").

43.3. The Proposed Monitor has no reason to question the good faith character of the search for a potential interim lender and the negotiations between the Applicants and BNC as the proposed interim lender.

FINANCIAL THRESHOLDS CONTEMPLATED IN THE INITIAL ORDER

44. The draft Initial Order provides for a number of charges and financial thresholds that are described below.

Interim Lender's charge ("DIP" Charge)

45. The interim financing is intended to be secured by a charge over all assets and undertakings of Aldo Canada and Aldo US, ranking in priority to the existing security, subject only to the Administration Charge, the D&O Charge and certain other specific provisions.

    The draft Initial Order provides for a charge (referred to as the "DIP Charge") to secure the obligations of the Applicants under the financing (i.e. the advances, accrued interest and stand by charges, commitment fees, legal fees, etc.) to a maximum amount of CDN$6M for the first 10 days, and CDN$120M thereafter. The Proposed Monitor believes that such a charge is required and reasonable under the circumstances.

Administration Charge

46. The draft Initial Order provides for an Administration Charge for the Monitor, the Monitor's counsel, the Applicants' legal counsel and Greenhill, as security for the professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these proceedings, in addition to the retainers already provided. The Administration Charge as described in the draft Initial Order provides for an amount of CDN$920K for the fist 10 days and CDN$2.5M thereafter. The Administration Charge threshold has been established based on the various professionals' previous history and experience with large restructurings of similar magnitude and complexity. The Proposed Monitor believes that such a charge is required and reasonable under the circumstances.

D&O Charge

47. The draft Initial Order provides for a directors and officers' charge (the "D&O Charge") to secure the indemnity for the Applicants' directors and officers provided in the Initial Order. Pursuant to the proposed Initial Order, the Applicants' directors and officers shall be indemnified in respect of all liabilities and obligations which may arise on or after the date of the Initial Order provided that the liability relates to his or her capacity as director and/or officer and is not attributable to a gross negligence or wilful misconduct of the part of the director or officer. The draft Initial Order provides for a D&O Charge in the amount of CDN$2.35M for the first 10 days and CDN$7M thereafter.

48. It is noted that the Applicants' directors and officers benefit from an insurance policy that provides some measure of protection. The Applicants assert that the directors and officers insurance currently available is not sufficient to adequately protect the directors and officers against the liability they may incur in the context of the restructuring proceedings under the CCAA and that additional insurance would not be available or would be prohibitively expensive. The Proposed Monitor considers that this assertion is reasonable The D&O Charge is intended to offer additional protection beyond what is available under the insurance policy coverage. The Proposed Monitor believes that such charge is required and reasonable under the circumstances.

UPCOMING RESTRUCTURING MEASURES

49. At this preliminary stage, it is not possible to unveil a comprehensive restructuring strategy in respect of the Applicants, as further research, discussions and negotiations and still need to be held to determine if a going concern solution can be developed. However, the restructuring process is likely to include:

    49.1. Stabilize the operations, by concluding the interim financing agreements, ensuring the continued supply of merchandise of the Fall season and reopening the stores;

    49.2. Coordination of the proceedings in foreign jurisdictions;

    49.3. Negotiations with landlords to determine which leased locations will be retained and which will be subject to a disclaimer or resiliation;

    49.4. Undertake a liquidation process to wind down operations and vacate premises for the stores where leases will have been disclaimed.

    49.5. Undertake a claims process.

    49.6. Negotiations of the terms of settlement with the creditors;

    49.7. Implementation of a Plan.

OVERALL COMMENTS AND CONCLUSIONS

50. Although the Proposed Monitor has been provided full access and disclosure, it has only recently become involved. Based on the Proposed Monitor's review thus far, the Applicants have displayed diligence, good faith and proper intentions in pursuing these restructuring proceedings.

51. In view of the foregoing and the information received since its recent engagement, EY considers that the restructuring efforts implemented by the Applicants in the proceedings herein are reasonable. EY considers that the Applicants motion to obtain a stay under the CCAA is necessary and appropriate in the circumstances.

52. Further to its review of the proposed Initial Order, the Proposed Monitor supports the thresholds proposed in the Initial Order, including:

    52.1. An Interim Lender's Charge to a maximum amount of CDN$6M for the first 10 days and CDN$120M thereafter;

    52.2. An Administration Charge of CDN$920K for the first 10 days and CDN$2.5M thereafter; and

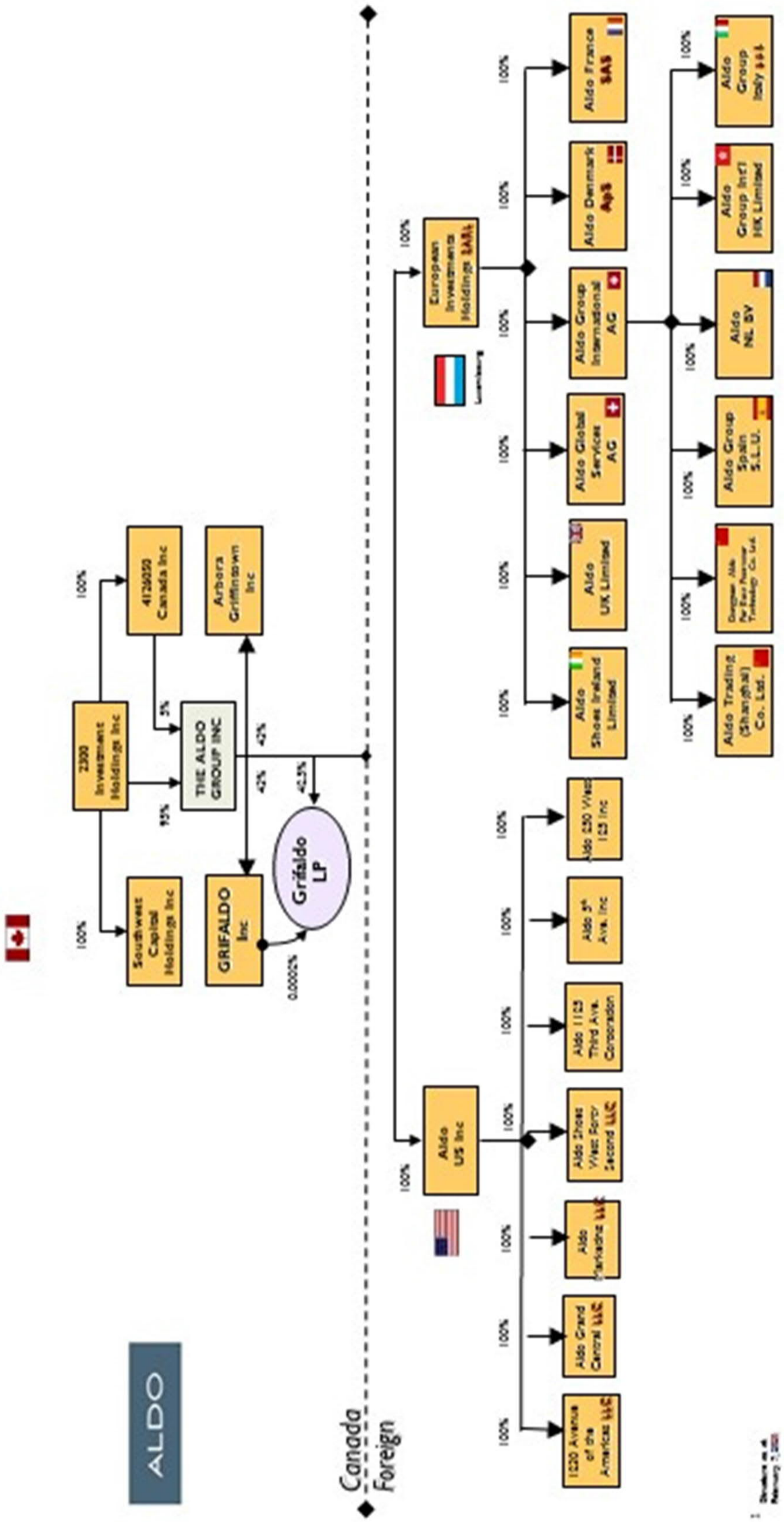
    52.3. A D&O Charge of CDN$2.35M for the first 10 days and CDN$7M thereafter.

All of which is respectfully submitted this 6th day of May, 2020.

ERNST & YOUNG INC.
Licensed Insolvency Trustee
In its capacity as the proposed monitor
in the matter of the proposed compromise and
arrangement of The Aldo Group Inc., Aldo US Inc.,
Southwest Capital Holdings Inc., and
Aldo Group International Ag.

Martin Rosenthal, CPA, CA, CIRP, LIT
Senior Vice President

Appendix A


ALDO
Canada
Foreign
Southwest Capital Holdings Inc
2300 Investment Holdings Inc
4129050 Canada Inc
THE ALDO GROUP INC
GRIFALDO Inc
Arbora Griffintown Inc
Grifaldo LP
100%
95%
5%
42%
42.5%
0.0002%
Aldo US Inc
European Investment Holdings SARL
1020 Avenue of the Americas LLC
Aldo Grand Central LLC
Aldo Parkedna LLC
Aldo Shoes West Boro Second LLC
Aldo 1123 Third Ave. Corporation
Aldo 5th Ave. Inc
Aldo 250 West 125 Inc
Aldo Shoes Ireland Limited
Aldo UK Limited
Aldo Global Services AG
Aldo Group International AG
Aldo Denmark ApS
Aldo France SAS
Aldo Trading (Shanghai) Co. Ltd.
Aldo Group Spain S.L.U.
Aldo NL BV
Aldo Group Int'l HK Limited
Aldo Group Italy s.r.l.

Appendix B

(filed under seal)

Appendix C

(filed under seal)