

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re	)	
	)	Chapter 15
The Aldo Group Inc., <i>et al.</i> ¹	)	Case No. 20-11060 (KBO)
	)	
Debtors in Foreign Proceedings.	)	(Joint Administration Requested)
	)	

**DECLARATION OF DAVID GALARNEAU
IN SUPPORT OF THE DEBTORS’ CHAPTER 15 PETITIONS
AND FIRST DAY PLEADINGS IN FOREIGN PROCEEDINGS**

I, David Galarneau, declare as follows:

1. I am the Vice President of Finance and Corporate Controller of The Aldo Group Inc. (“Aldo Canada” or the “Foreign Representative”). Aldo Canada is the duly authorized foreign representative of Aldo Canada, Aldo U.S. Inc. (“Aldo U.S.”), Southwest Capital Holdings Inc. (“Southwest”), Aldo Marketing LLC, Aldo Shoes West Forty Second, LLC, Aldo 1125 Third Ave. Corp, Aldo 250 West 125 Inc., and 1230 Avenue of the Americas LLC (together with Aldo Canada, the “Debtors”), in jointly administered reorganization proceedings (the “CCAA Proceedings”) under the Canadian Companies’ Creditors Arrangement Act, R.S.C. 1985, c. C-36 (as amended, the “CCAA”) pending before the Superior Court, Commercial Division, in and for the Judicial District Of Montréal, Canada (the “Canadian Court”). The CCAA Proceedings were commenced on May 7, 2020 and, that same day, the Canadian Court entered its Initial Order (the “Initial Order”), a true copy of which is attached hereto as **Exhibit 1**, granting the Debtors certain relief under the CCAA and appointing Aldo Canada as

¹ The Debtors in these chapter 15 cases and the last four digits of their U.S. Federal Employer Identification Numbers or other unique identifier are as follows: The Aldo Group Inc. (2186); Southwest Capital Holdings Inc. (8248); Aldo U.S. Inc. (6704); Aldo Marketing LLC (1748); Aldo Shoes West Forty Second, LLC (2610); Aldo 1125 Third Ave. Corp. (2110); Aldo 5th Ave. Inc. (2112); Aldo 250 West 125 Inc. (2324); and 1230 Avenue of the Americas LLC (6704). The Debtors’ principal offices are located at 2300 rue Émile-Bélanger, Montréal, Canada H4R 3J4.

the “foreign representative” authorized to apply for recognition of the CCAA Proceedings as foreign proceedings within the United States. The Initial Order also appointed Ernst & Young, Inc. (“EY” or the “Monitor”) as monitor of the Debtors in the CCAA Proceedings and authorized the joint administration of the CCAA Proceedings.²

2. Contemporaneously with the filing of this declaration, Aldo Canada caused to be filed, on behalf of the Debtors as authorized Foreign Representative of the Debtors, petitions for recognition of the CCAA Proceedings in the United States under chapter 15 of title 11 of the United States Code (the “Bankruptcy Code”), thereby commencing the Debtors’ chapter 15 cases (the “Chapter 15 Cases”). Aldo Canada also caused to be filed the *Verified Petition for (I) Recognition of Foreign Main Proceeding, (II) Recognition of Foreign Representative, (III) Recognition of Initial Order and Amended Initial Order and (IV) Related Relief under Chapter 15 of the Bankruptcy Code* (together with the chapter 15 petitions, the “Petitions for Recognition”) and the *Motion of the Foreign Representative for an Order Granting Certain Provisional Relief* (the “Provisional Relief Motion”).

3. This declaration is filed in support of the Petitions for Recognition, the Provisional Relief Motion and other “first day” relief requested by the Foreign Representative. I am making this declaration in accordance with section 1515 of the Bankruptcy Code and Rule 1007(a)(4) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

4. In my role as Vice President of Finance of Aldo Canada, I am familiar with the Debtors’ history, day-to-day operations, assets, financial condition, business affairs, and books and records. I am fully aware of, and closely involved in, the financial affairs and overall restructuring of Aldo Canada’s international corporate group that is operated in various countries

² The *Petition for the Issuance of an Initial Order and an Amended and Restated Initial Order* is attached hereto as **Exhibit 12**.

by Aldo Canada's affiliates (the "Aldo Corporate Group"). Except as otherwise indicated, all statements in this declaration are based upon (a) my personal knowledge, (b) my review of the Debtors' books and records, relevant documents and other information prepared or filed in connection with the CCAA Proceedings and the Chapter 15 Cases, (c) information supplied to me by the officers, sole director, and employees of Aldo Canada or other professionals retained by the Debtors, or (d) my experience and knowledge of the Aldo Corporate Group's operations and financial condition. Where I have been informed by others, I have relied upon the officers, sole director, employees or advisors accurately recording, preparing or collecting such documentation and other information, and the information is true to the best of my knowledge and belief.

5. If called to testify as a witness, I could and would competently testify to each of the facts set forth herein based upon my personal knowledge, review of documents, or opinion. I am authorized to submit this declaration on behalf of the Debtors.

OVERVIEW OF THE ALDO CORPORATE GROUP

A. Aldo Corporate Group Operations

6. The Aldo brand dates back to 1972 when the predecessor of Aldo Canada opened its first store in Montréal. Since its creation, the Aldo Corporate Group has gradually expanded and evolved into a global leader in footwear fashion apparel, and is known for its brands, product expertise and leadership in digital commerce. Today, the Aldo Corporate Group operates stores in more than 100 countries, all from its corporate headquarters in Montréal, Canada.

7. As an industry-recognized wholesale distributor and third-party sourcing provider of fashion footwear and accessories, the Aldo Corporate Group has sold more than 46 million pairs of shoes from its stores all over the world. Of the Aldo Corporate Group's roughly 3,000

points of sale, approximately 700 stores are directly operated by the Aldo Corporate Group and the remaining stores are franchises. Out of the stores that the Aldo Corporate Group directly operates, 289 are located in Canada and approximately 429 are located in the United States.

8. To maintain the company's expansive retail locations and global operations, the Aldo Corporate Group employs more than 8,000 employees with approximately 1,200 employees at the corporate headquarters in Montréal, 2,900 employees working for Aldo Canada in the various Canadian retail stores and 3,300 employees working for Aldo U.S. in the United States.

9. The Aldo Corporate Group's operations in the United States were instrumental in the company's climb to global recognition. Aldo U.S. opened the first Aldo branded store in the United States in 1993. Since then, Aldo U.S. has entered into wholesale distribution relationships with a variety of retailers across the country, and, as stated above, maintains a significant number of retail stores.

B. Aldo Corporate Group Structure

10. Aldo Canada is a corporation incorporated under the *Canada Business Corporation Act* and is headquartered in Montréal, Québec. A true and correct copy of the corporate registry for Aldo Canada is attached hereto as **Exhibit 2**. 2300 Investment Holdings Inc. ("2300") directly owns 95% of Aldo Canada and indirectly owns the remaining 5% through its subsidiary 4126050 Canada Inc. 2300 also owns Southwest, which has its headquarters at 2300 rue Émile-Bélanger, in Montréal, province of Québec, H4R 3J4. A true and correct copy of the corporate registry for Southwest is attached hereto as **Exhibit 3**.

11. Aldo Canada wholly owns Aldo U.S. Aldo U.S. was incorporated and registered with the Delaware Secretary of State on January 8, 1991. A certificate of good standing from the

Delaware Secretary of State is attached hereto as **Exhibit 4(a)** and a true and correct copy of Aldo U.S.'s corporate articles are attached hereto as **Exhibit 5(a)**. Aldo U.S. wholly owns the remaining Debtors, each of which was formed and operates for a single, particular purpose. Aldo Marketing LLC operates and manages a gift card program for merchandise sold by Aldo U.S. in the United States. Aldo Shoes West Forty Second, LLC, Aldo 1125 Third Ave. Corp., Aldo 5th Ave. Inc., Aldo 250 West 125 Inc., and 1230 Avenue of the Americas LLC are each nominees of Aldo U.S. under leases at different strategic locations in the United States. Certificates of good standing from the respective each of these subsidiaries' Secretary of State is attached hereto as **Exhibit 4(b) – (g)** and a true and correct copy of each of these subsidiaries corporate articles or operating agreements, as the case may be, are attached hereto as **Exhibit 5(b) – (g)**.³ These remaining Debtors are each headquartered at, and operate out of, Montréal, Canada.

12. Aldo Canada also wholly owns European Investment Holdings SARL (“European Holdings”). European Holdings is incorporated under the laws of Luxembourg. European Holdings is included as an impleaded party in the CCAA Proceedings and is not seeking relief under chapter 15 in the United States. As detailed in the organizational chart below, European Holdings has various wholly-owned subsidiaries, all of which are either (i) closed and in the process of winding down or (ii) intended to be closed in an orderly manner through the restructuring to be effected in the CCAA Proceedings.

13. Aldo Group International AG (“AGIA”), one of European Holdings’ subsidiaries, is incorporated under the laws of Switzerland and maintains its headquarters at

³ 1230 Avenue of the Americas is a disregarded entity which takes the EIN of its sole member Aldo U.S. and does not have an LLC operating agreement.

Schochenmühlestrasse 6, 6340 Baar, Switzerland. AGIA manages inventory purchases for the Aldo Corporate Group, including Aldo U.S.

14. An organizational chart showing the organization structure of the foregoing entities and their affiliates is attached hereto as **Exhibit 6**.

DEBT AND SECURITY STRUCTURE

A. Secured Debt

15. Aldo Canada's largest secured creditor is Southwest. On May 30, 2003, Aldo Canada issued CDN\$100,000,000 pursuant to that certain Fifth Amended and Restated Debenture Deed of Specialty Debt (the "Debenture") in favor of the Aldo Group Holdings Inc., which was subsequently assigned to Southwest. The Debenture has subsequently been amended on several occasions. The Debenture is secured by, among other things, (a) a Deed of Hypothec in an amount of CDN\$120,000,000 dated September 19, 2003 granted by Aldo Canada in favor of Narbo Investment Corporation *fondé de pouvoir* for Southwest, (b) a Pledge and Security Agreement dated December 15, 2005 granted by Aldo Canada in favor of Southwest and pursuant to which Aldo Canada pledged the shares of Aldo U.S. in favor of Southwest, (c) a Security Agreement dated December 16, 2005 granted by Aldo U.S. in favor of Southwest, (d) a Deed of Hypothec in an amount of CDN\$120,000,000 dated October 11, 2011 granted by Aldo Canada in favor of Southwest, (e) a General Security Agreement dated December 15, 2017 by Aldo Canada in favor of Southwest, and (f) a Deed of Hypothec in an amount of CDN\$120,000,000 dated August 31, 2017 granted by Aldo Canada in favor of Southwest. The Debenture becomes payable on December 31, 2024.

16. Southwest is also indemnified under that certain Second Amended and Restated Indemnity Agreement by and among Aldo Canada, Aldo U.S., AGIA and Southwest, dated

August 29, 2019 (the “Indemnity Agreement”), pursuant to which Aldo Canada, Aldo U.S. and AGIA agree to indemnify Southwest for amounts that Southwest has to pay to the Agent under the Southwest Guarantee in connection with the Syndicated Loan (each as defined below). The Indemnity Agreement is secured by (a) a Deed of Hypothec granted by Aldo Canada in favor of Southwest in an amount of \$400,000,000 dated December 16, 2005, (b) a Pledge Agreement dated January 30, 2013 granted by Aldo Canada in favor of Southwest pursuant to which Aldo Canada pledged the shares of European Investments Holdings S.á r.l., (c) a Deed of Hypothec granted by Aldo Canada in favor of Southwest in an amount of \$800,000,000 dated August 31, 2017, (d) a General Security Agreement dated December 15, 2017 by Aldo Canada in favor of Southwest, (e) an Intellectual Property Pledge Agreement dated August 29, 2019 granted by AGIA in favor of Southwest, (f) a Receivables Security Assignment Agreement dated August 29, 2019 granted by AGIA in favor of Southwest, and (g) a Movable Hypothec On Claims granted by AGIA in favor of Southwest in an amount of \$800,000,000 dated August 29, 2019.

17. Aldo Canada’s second largest secured creditor is Investissement Quebec (“IQ”). On February 19, 2014, Aldo Canada executed a loan agreement with IQ for an amount of CDN\$40,000,000 (the “IQ Loan”) to finance the transformation of the Aldo Corporate Group’s information technology infrastructure. The IQ Loan was payable 60 months after the initial disbursement over several months.

18. Aldo U.S.’s largest secured creditor is Southwest pursuant to that certain Security Agreement, dated December 16, 2005 granted by Aldo U.S. in favor of Southwest in connection with the Debenture. Southwest perfected its interest in all assets of Aldo U.S. by filing a UCC-1 financing statement with the Delaware Secretary of State on December 28, 2005, as subsequently amended and continued on July 22, 2010, and continued on June 29, 2015. A copy of the UCC-1

financing statement is attached hereto as **Exhibit 7**. As stated above, Aldo U.S. is also bound by the obligations and liabilities set forth in the Indemnity Agreement.

19. The remaining Debtors do not have any secured creditors.

B. Unsecured Funded Debt

20. The Debtors' largest unsecured creditor is the Bank of Montréal. On December 15, 2017, Aldo Canada and Aldo U.S., as co-borrowers, and the Bank of Montréal, on its own behalf and as agent of a banking syndicate (the "Agent"), entered into that certain Second Amended and Restated Credit Agreement (as amended, the "Syndicated Loan Agreement"), pursuant to which the Agent established an unsecured loan for a maximum amount of CDN\$300,000,000 (the "Syndicated Loan"). The Syndicated Loan is guaranteed by Southwest under the terms of that certain Amended and Restated Guarantee, dated December 15, 2017, issued by Southwest to the Agent (the "Southwest Guarantee"). AGIA and European Holdings have also guaranteed the obligations of Aldo Canada and Aldo U.S. under the Syndicated Loan Agreement, each pursuant to the terms of a certain Amended and Restated Guarantee, dated December 15, 2017, issued by AGIA and European Holdings, separately and individually, in favor of the Agent. At this time, the Syndicated Loan is fully drawn and there is no further availability under said loan.

C. Trade Creditors and Debt

21. The Debtors have unpaid trade and other unsecured debt accrued in the normal course of business, including potential liabilities to customers under Aldo Canada's and Aldo U.S.'s customer programs. As of May 7, 2020, the Aldo Corporate Group owes approximately CDN\$113,300,000 to various trade creditors. Of this amount, Aldo Canada owes approximately CDN\$76,300,000 and Aldo U.S. owes approximately USD\$27,800,000.

22. Aldo Canada and Aldo U.S. have a potential liability of approximately CDN\$4,300,000 under certain customer programs, including a gift card program. Such commitments represent, according to the Aldo Group's calculation, a potential liability of approximately CDN\$2,200,000 for Aldo Canada and CDN\$2,100,000 for Aldo U.S.

23. As a result of the COVID-19 pandemic, Aldo Canada and Aldo U.S. have also not paid obligations owed under their various lease agreements for the months of April and May 2020. To the extent due and owing and absent disclaimer in the CCAA Proceedings, Aldo U.S. has total lease obligations of approximately USD\$9,829,653 for the month of April and an estimated total of approximately USD\$9,680,607 for the month of May.

24. Finally, Aldo U.S. owes approximately \$35,000,000 to Aldo Canada for various services rendered and approximately \$31,000,000 to AGIA for inventory that AGIA provided to Aldo U.S.

FINANCIAL POSITION OF THE ALDO CORPORATE GROUP

A. The Aldo Corporate Group's Declining Financial Performance

25. Over the past few years, the Aldo Corporate Group has declined in profitability and regularly reported losses. For instance, for the twelve month period ending February 1, 2020, Aldo Canada posted a net loss from operations of approximately CDN\$74,800,000 and Aldo U.S. posted a net loss of approximately USD\$52,800,000. Taking into consideration year-end write-offs of amounts due from subsidiaries and affiliated and write-offs of future tax benefits that were recorded as an asset, Aldo Canada posted a net loss of approximately CDN\$170,300,000 and Aldo U.S. posted a net loss of approximately USD\$97,300,000.

26. In an effort to improve its financial performance, the Aldo Corporate Group initiated a large-scale transformation plan in late 2019. This transformation plan had two primary objectives: (1) decrease the share of business of brick and mortar stores while growing

e-Commerce, wholesale and franchise channels, and (2) replace the credit facility with an asset-based lending structure that would allow the Aldo Corporate Group the opportunity to gain the necessary working capital to restructure the company. Initially the transformation was on track and delivering as expected; however, the COVID-19 pandemic has dismantled the transformation plan, leaving the Aldo Corporate Group with no choice but to turn to the Canadian Court and seek ancillary relief from this Court.

27. The COVID-19 crisis has had an unprecedented impact on the Aldo Corporate Group's operations. Notably, as a result of the COVID-19 pandemic, the Aldo Corporate Group has been forced to, among other things, (1) close all stores in several countries, (2) manage a radical fifty percent (50%) decrease in e-commerce sales in addition to major declines in sales volumes across the board from wholesale customers and franchise partners, (3) cope with production delays in China, (4) halt the ongoing process to replace the credit facility and raise capital, and (5) anticipate expected decrease of royalties from international franchise partners in the next few months.

28. The unparalleled impact of the COVID-19 pandemic and, more generally, the challenges that the retail sector has faced in recent years, leaves the Aldo Corporate Group facing a significant liquidity crisis and serious financial difficulties. In response to COVID-19, the Aldo Corporate Group has focused on protecting its employees and customers and adjusting its operating models during this time, including by taking aggressive actions to cut costs and delay expenses, maximizing franchise and wholesale revenues through aggressive mitigation of the crisis and proactive business development for future seasons, and leveraging its world-class e-commerce platform to capture the increasing customer shift toward digital sales. Despite the Aldo Corporate Group's proactive response to the COVID-19 pandemic, the Aldo Corporate

Group cannot fully absorb the loss of sales resulting from the crisis. Without the ability to restructure its operations, the Aldo Corporate Group's financial projections for 2020 reflect that the company will not have the liquidity and capital base necessary to ensure viability of its operations. A 13-week cash flow projection prepared by EY is attached hereto as **Exhibit 8**.

B. The Debtors' Assets

29. As of February 1, 2020, the following Debtors' respective balance sheets reflect assets with an approximate net book value of:

- a. Aldo Canada: CDN\$475,900,000, including inventory of CDN\$72,600,000, fixed assets of CDN\$45,700,000, intangible assets of CDN\$138,200,000 (primarily computer software), an investment in Aldo U.S. of CDN\$200,300,000, and other smaller assets, such as cash, prepaid rent, and accounts receivable, of CDN\$19,100,000.
- b. Aldo U.S.: \$166,300,000, including trade and accounts receivable of \$23,500,000, inventory of \$84,200,000, fixed assets of \$42,100,000, and other smaller assets, such as cash and prepaid rent, of \$16,500,000.
- c. Southwest: \$75,600,000, including the amount payable by Aldo Canada under the Debenture.
- d. Aldo Marketing: \$3,200,000, including an amount payable by Aldo Canada for gift cards provided to customers of Aldo Canada.

30. The remaining Debtors have no significant assets or liabilities.

C. The Need for Protection Pursuant to the CCAA and Chapter 15 of the Bankruptcy Code

31. Absent a restructuring of its operations, the Aldo Corporate Group recognizes that its ability to operate as a going concern business will be in jeopardy and value for its

stakeholders will diminish. Through the restructuring process effectuated by the CCAA Proceedings, the Aldo Corporate Group intends to right-size its operating members, including Aldo Canada, Aldo U.S., and various international members of the Aldo Corporate Group. This effort will involve evaluation of the profitability of the stores, a global review of the Aldo Corporate Group's leases and other contractual obligations, world-wide negotiations with landlords, and termination of those leases and contracts that are determined to be disadvantageous. If successful, the Aldo Corporate Group intends to restructure its obligations under the Syndicated Loan Agreement and emerge from the jointly administered CCAA Proceedings under a single CCAA plan of arrangement that allows each member of the Aldo Corporate Group to operate profitably and to the advantage of its affiliates and shareholders.

32. Aldo U.S. is a critical component of the Aldo Corporate Group restructuring. If the Aldo Corporate Group is unable to restructure the debt obligations of Aldo U.S.—which has existing contractual obligations that have resulted in massive losses—the Aldo Corporate Group will be unable to survive as a going concern. Thus, it is imperative that the Debtors obtain relief from this Court under chapter 15 of the Bankruptcy Code to effectuate the protection granted by the Canadian Court in the CCAA Proceedings.

RECOGNITION AND OTHER RELIEF REQUESTED

A. Recognition of the CCAA Proceedings as a Foreign Main Proceeding

33. I am informed that in order to be recognized as a “foreign main proceeding,” a proceeding must be pending in the country where the debtor has its “center of main interests,” which I understand to be the functional equivalent of a headquarters, principal place of business or “nerve center.” I believe that the CCAA Proceedings meet this requirement. As described

above, all of the Debtors are headquartered in Canada where all of their executive and strategic functions occur and where management of the Aldo Corporate Group is located.

34. In other words, as set forth below, Canada is where the Debtors' principal place of business and "nerve center" is located:

- a. The Debtors' headquarters and the location where general supervision and management of the Debtors takes place is Montréal, Québec, Canada;
- b. All strategic and operational decisions for the Debtors, including Aldo U.S. and its subsidiaries, are made in Canada;
- c. All accounting, purchasing and cash management functions for the Debtors occur in Canada;
- d. The Debtors' accounting, financing and other operational books and records are located in Canada;
- e. All corporate services for the Debtors, including tax support, legal services (excluding U.S. restructuring counsel), and issuance of checks for accounts payable are rendered in Montréal, Canada;
- f. All terms of employment and related policies and procedures for the Debtors' employees are established and directed out of the corporate headquarters in Canada;
- g. None of the Debtors maintain an office, apart from a statutorily required registered agent address for receiving legal process, in the United States;
- h. The Debtors' largest creditors, including the Agent, Southwest, and IQ are located in Québec and the various loan arrangements are governed by the laws of Québec;

- i. Most of the guarantee agreements, including the Southwest Guarantee, are governed by the laws of Québec;
- j. The ultimate shareholders of the Debtors are located in Canada; and
- k. The majority of the logistical and intellectual property agreements necessary to operate the Debtors' businesses are made with Aldo Canada, but are used by the entire corporate group.

Indeed, Aldo U.S. and its subsidiaries are merely the U.S. sales arm of the Aldo Corporate Group with all "never center" functions conducted in Canada.

35. Although Aldo U.S. has a significant number of U.S. creditors, because of the overwhelming centralization of the Debtors' operations in Canada, any U.S. creditor either knew or should have known that Aldo U.S. was operated and managed from Canada. Aldo U.S.'s Canadian locus is further demonstrated by the following:

- a. Aldo U.S.'s leases with U.S. landlords contain a Canadian address for sending notices to Aldo U.S. Certain of the leases further provide that Aldo U.S.'s records are maintained and accessible in Canada and the signatures of the individuals who executed the leases on behalf of Aldo U.S. were notarized in Canada. Because Aldo U.S. does not maintain a corporate office in the United States, it is highly probable that most, if not all, of the leases to which Aldo U.S. is a party were executed in Canada.
- b. On Aldo U.S.'s warehouse services agreement dated January 16, 2020, between Aldo U.S. and Performance Team LLC (the "Performance Team"), for warehouse facilities and certain inventory distributions services for warehouses in California and New Jersey, the signature of Aldo U.S.'s vice-president was notarized in

Montreal, Canada. Aldo U.S. also hosts half of the quarterly business reviews with the Performance Team in Canada, with the last review held in February 2020 in Montréal.

- c. Aldo U.S.'s wholesale contracts with U.S. retailers provide that Aldo U.S.'s records are maintained and accessible in Canada and list a Canadian address for sending notices to Aldo U.S. Most of these contracts further indicate that Aldo U.S. requires its customers to attend "concept meetings", to determine the next year's orders and to review fashion trends, at the Montréal headquarters.
- d. Many U.S. wholesale retailers travel to Canada to view sample merchandise at the Debtors' wholesale showrooms. The showrooms in Canada are maintained for Aldo U.S. because Aldo U.S. does not have any showrooms in the United States.
- e. Aldo U.S. contracts for freight forwarding services through its Canadian headquarters. These services are provided to Aldo U.S. in the United States.

Based on the foregoing, it is apparent that Canada is the Debtors' "nerve center."

B. Need for Provisional Relief

36. In addition to seeking recognition on a final basis, the Foreign Representative also requests certain provisional relief. Pending recognition of the CCAA Proceedings, the Foreign Representative seeks provisional relief to enjoin collection efforts against the Debtors and their assets, as well as to protect potentially valuable contractual relationships. This relief is necessary to avoid immediate and irreparable harm to the Debtors and their assets if U.S. creditors and contract parties begin a "race to the courthouse" or resort to other self-help remedies resulting in a piece-meal and preferential liquidation and distribution of assets, rather than an orderly realization and distribution of value according to legal priorities.

37. It is also necessary for all actions against the Debtors' director and officers, in their capacity as such, to be stayed on a provisional basis. The Debtors' sole director and officers are essential to managing the Debtors' business and ability to implement a successful restructuring. Moreover, the Debtors' sole director and officers have indemnification rights and have been granted a charge against the Debtors pursuant to the Initial Order, such that any judgment against them would be a *de facto* judgment against the Debtors and their assets—to the detriment of creditors.

38. As indicated by the 13-week cash flow projections prepared by EY (**Exhibit 8**), the Debtors expect to run out of cash to continue operations in the week ending June 5, 2020, and potentially earlier, unless additional, immediate funding is provided through the Interim Facility. The funding provided by the Interim Facility is therefore necessary to give vendors, employees and other critical parties who deal with the Debtors confidence that the Debtors have access to funds to meet their post-filing obligations to such parties.

39. To provide the necessary funding to sustain operations, the Debtors have entered into an interim facility (the "Interim Facility") pursuant to the terms of that certain DIP Financing Term Sheet, dated May 7, 2020 (the "DIP Term Sheet") between Aldo Canada as Borrower, and Aldo U.S. as Guarantor and National Bank of Canada (together with any institution party hereto from time to time as a lender as successor or assignee thereof, the "Interim Lenders"). The Interim Lenders have agreed to provide the Interim Facility upon the terms outlined in the DIP Term Sheet attached hereto as **Exhibit 9**. The terms of the DIP Term Sheet were negotiated, proposed and entered by the Debtors and the Interim Lenders without collusion, in good faith and at arm's length. Specifically, the Interim Facility provides, among other things, as follows: The Interim Loan is proposed to be secured by Court-ordered security

interests, hypothecs liens and charges on all of the present and futures assets, property and undertakings of the Petitioners. The Interim Loan will not secure any obligation that exists before the issuance of the proposed First Initial Order. The terms and conditions of the Interim Loan are more fully detailed in the DIP Term Sheet (**Exhibit 9**) and more fully described in the Monitor's Report.

40. Aldo U.S. and Aldo Canada will pledge assets to secure the Interim Facility, which will be secured by a lien on all assets of each of these Debtors. Southwest is the only secured creditor holding an interest in these assets of the Debtors located in the U.S. Southwest consents to the priority of the Interim Lender's interest in such assets over its own and does not request relief in the form of adequate protection under section 361 of the Bankruptcy Code or any other form of protection of its interest.

41. The Foreign Representative further requests provisional relief to grant the Debtors' lenders certain protections under the Bankruptcy Code. This relief is necessary to prevent the lenders from refusing the Debtors access to the interim financing approved by the Canadian Court. Without the protections afforded to lenders under the Bankruptcy Code, there is a material risk that the Debtors will be unable to obtain the requisite financing to continue their business operations and fund their restructuring proceedings, which will significantly impair and potentially result in irreparable damage to the value of the Debtors' assets.

42. In addition, the Foreign Representative requests that the Debtors have authority, on a provisional basis, to disclaim, resiliate (*i.e.*, cancel), reject their leases and contracts, subject to the notice procedures and other requirements of the CCAA (including employment contracts). Any delay in disclaiming, resiliating, or rejecting leases for premises located in the United States could cause the Debtors to incur substantial additional post-filing rent obligations to the extent

due and owing that will further diminish funds available to unsecured creditors and thus negatively affect recoveries for unsecured creditors outside of the United States.⁴ Moreover, certain employment contracts must also be terminated without delay to ensure that the Debtors will be able to survive the unprecedented impact of the COVID-19 pandemic and move forward with their restructuring.

43. It is further necessary for the Debtors to continue to honor and comply with their customer deposits, prepayments and similar programs (including gift card programs) (the “Customer Programs”). At this critical juncture in the Debtors’ restructuring process, it is vital for the Debtors to maintain their customers’ confidence and loyalty to support future sales and the going concern value of the Debtors’ business.

44. This provisional relief is consistent with the Initial Order, which, among other things, stays all creditor collection actions against the Debtors, their assets and their directors and officers (paragraphs 7 and 8), prohibits contract counterparties from terminating contracts with the Debtors (paragraph 12), authorizes the Debtors to enter into and perform under the Interim Facility and grants the Lenders a charge in connection therewith (paragraphs 17 and 20), grants the Debtors’ directors and officers a charge against the Debtors’ assets for the Debtors’ indemnification obligations owed to the directors and officers (paragraph 27), grants the Monitor, the Monitor’s professionals and the Debtors’ (including the Foreign Representative’s) professionals and advisors a charge for professional fees and expenses incurred in connection with the CCAA Proceedings and Chapter 15 Cases (paragraph 40), authorizes the Debtors to honor and comply with its Customer Programs (paragraph 41), and grants the Debtors authority to reject their leases and contracts (paragraph 29), and, subject to approval of the Monitor, grants

⁴ Additional details concerning the legal effect of disclaiming leases pursuant to the CCAA and the rights of claimants and contract counterparties is set forth in the *Declaration of Denis Ferland Pursuant to 28 U.S.C. § 1746*, filed contemporaneously herewith.

the Debtors authority to transfer, assign or otherwise dispose of property outside the ordinary course of business, provided that the price falls within a specified aggregate amount (paragraph 29).

45. Finally, it is necessary for this Court to recognize and approve, upon entry by the Canadian Court and on a provisional basis, the relief requested in the anticipated amended initial order, a copy of which in its anticipated form is attached hereto as **Exhibit 10** (the "Amended Initial Order"). The Foreign Representative anticipates that the Amended Initial Order will authorize the same or substantially similar relief as set forth above in paragraph 44. The Amended Initial Order is also expected to establish certain sale guidelines to allow the Debtors to proceed with the sale of certain retail inventory located in certain stores as well as all of the furnishings, fixtures and equipment located in those stores. It is necessary for this Court to approve the sale guidelines for the sale of assets located in U.S. stores to prevent potential disputes with certain landlords, which could interfere with the Debtors' sale process and result in disparate treatment of the Debtors' creditors. Approval of the sale guidelines will allow the Debtors to proceed with a fair and efficient sale process to maximize value for the benefit of all of the Debtors' creditors and parties in interest.

46. The Report of the Proposed Monitor, dated May 6, 2020, which was provided to the Canadian Court in order "to provide the Court with information relevant to the Debtors' application for the Initial Order" is attached hereto as **Exhibit 11** (excluding any attachments ordered confidential by the Canadian Court).

47. For the foregoing reasons, I believe that the provisional relief requested is necessary and appropriate and is in the best interests of the Debtors, their creditors, and other parties in interest.

C. Noticing Procedures

48. The Foreign Representative has also filed a motion requesting that the Court schedule a final recognition hearing and approve related noticing procedures (the “Notice Procedures Motion”). I can attest that the Debtors have thousands of creditors, potential creditors, and other parties in interest, all of whom need to be provided with, among other things, notice of the entry of the provisional order, the proposed final order, the recognition objection deadline, and the recognition hearing. The Foreign Representative has prepared a form of notice advising of these and related matters (the “Recognition Hearing Notice”), a copy of which is annexed to the Notice Procedures Motion.

49. Under the facts and circumstances of the Debtors’ Chapter 15 Cases, I submit that service of the Recognition Hearing Notice in the manner proposed in the Notice Procedures Motion will provide those parties identified as the Notice Parties in the Notice Procedures Motion with due and sufficient notice of the relief requested in the Recognition and Relief Motion and associated objection deadline and hearing dates.

50. Therefore, I believe that the relief requested in the Notice Procedures Motion is necessary and appropriate and is in the best interests of the Debtors, their creditors, and other parties in interest.

D. Joint Administration and Consolidated Rule 1007(a)(4) List

51. The Foreign Representative has also filed, contemporaneously herewith, a motion seeking entry of an order directing joint administration of these Chapter 15 Cases for procedural purposes only and authorizing the Foreign Representative to consolidate and maintain a list (the “Consolidated 1007(a)(4) List”) of foreign proceeding administrators, parties to litigation

pending in the United States involving any of the Debtors, and all persons and entities against whom the Debtors seek provisional relief pursuant to section 1519 of the Bankruptcy Code.

52. I believe that joint administration of these Chapter 15 Cases is warranted because the Debtors' financial affairs and business operations are closely related, and because it will ease the administrative burden of these cases on the Court and interested parties. I can confirm that the Foreign Representative anticipates that the various notices, motions, hearings, orders, and other pleadings in these cases will affect all of the Debtors.

53. I believe that the relief requested with respect to the Consolidated 1007(a)(4) List is also necessary and appropriate and is in the best interests of the Court, the Debtors, their creditors, and other parties in interest. As the provisional and final relief sought in each of these cases is substantially similar, and any additional relief sought is likely to impact most or all of the Debtors, most, if not all, motions, notices, hearings, orders and other papers filed in these cases will likely affect most or all of the Debtors. Under these circumstances, filing and maintaining separate lists under Bankruptcy Rule 1007(a)(4) would result in unnecessary confusion and wasteful duplication of effort and service. Moreover, in light of the volume of the several thousand creditors and parties in interest on the Consolidated 1007(a)(4) List, the Foreign Representative has requested authority to maintain the Consolidated 1007(a)(4) List with its noticing agent, who will provide the list to creditors and parties in interest upon request.

[Signature Page Follows]

I certify under penalty of perjury under the laws of the United States that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: May 7, 2020

/s/ David Galarneau

David Galarneau

Vice President of Finance and Corporate Controller
of The Aldo Group Inc., in its capacity as Foreign
Representative