
CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: 01-MONTREAL
S.C.: 500-11-051625-164
500-11-051624-167

SUPERIOR COURT
(Commercial Division)

IN THE MATTERS OF THE NOTICES
OF INTENTION AND OF THE
INTERIM RECEIVERSHIP OF:

AMERICAN APPAREL CANADA RETAIL INC.

- and -

AMERICAN APPAREL CANADA WHOLESALE INC.

Debtors

- and -

KPMG INC.

Trustee/Interim Receiver

Second Report of the Trustee pursuant to section 50.4(7) of the Bankruptcy and Insolvency Act (“BIA”) and Report of the Interim Receiver pursuant to section 47.1(2) of the BIA on his administration to date (“Second Report of the Trustee and the Interim Receiver”).

I, Dev A. Coossa, CIRP, LIT, of KPMG Inc., in my capacity as Trustee under the Notices of Intention filed in respect of each of the Debtors and as Interim Receiver of the Debtors, report to this honorable Court as follows.

INTRODUCTION

1. American Apparel Canada Retail Inc. ("**AA Retail**") and American Apparel Canada Wholesale Inc. ("**AA Wholesale**", and, together with AA Retail, the "**Company**" or "**American Apparel**"), each filed on November 9, 2016, a Notice of Intention to make a Proposal ("**NOI**") under the provisions of the BIA, and KPMG Inc. was named as Trustee to the NOI (in such capacity, the "**Trustee**").
2. On November 11, 2016, the Debtors filed a Motion for the Appointment of an Interim Receiver of the Debtors' assets (the "**I/R Motion**"), by which the appointment of KPMG Inc. as interim receiver was sought, the whole pursuant to section 47.1 of the BIA. On the same date, an appointment order ("**Order**") was issued by the Court naming KPMG Inc. as Interim Receiver to the Debtors' assets (in such capacity, the "**Interim Receiver**").
3. The Interim Receiver was appointed mainly to support the Company during its proceedings as American Apparel's US affiliates (collectively, "**American Apparel US**") became unable to provide important administrative support to the Company on or around the time the NOI was filed. We refer to the First Report and the I/R Motion for additional background on the Interim Receiver's appointment.
4. On December 8, 2016, in support of the Company's motion for the First Extension Period, KPMG Inc. filed its Report of the Trustee pursuant to s. 50.4(7) of the BIA and Report of the Interim Receiver pursuant to s. 47.1(2) of the BIA on his administration to date (the "**First Report**"). In addition, the Company (with the assistance of the Interim Receiver and Merchant Retail Solutions ULC ("**MRS**") prepared and filed its projected cash flow statement for the period December 4, 2016 to January 28, 2017 (the "**First Extension Cash Flow**"). Following the initial stay period, on December 6, 2016, the Company filed a motion seeking an order to extend the deadline for the filing of a proposal to January 23, 2017 (the "**First Extension Period**").
5. On December 9, 2016, the Court made an order extending the deadline to file a proposal through to the end of the First Extension Period.
6. On January 18, 2017, the Company filed a motion ("**Motion**") seeking an order extending the initial deadline for the filing of a proposal to March 9, 2017 (the "**Second Extension Period**").
7. Reference is made to the Motion for additional background and other information on the Company and its proceedings.
8. The purpose of this Second Report of the Trustee and the Interim Receiver is to provide the Court with information on the following:
 - a) The Company's activities since the date of the First Report;
 - b) The Interim Receiver's actions since the date of the First Report;
 - c) The status of the Company's Store Wind Down (as defined below and in the First Report)
 - d) The Company's actual cash flows between December 4, 2016 and January 14, 2017, compared to the projected amounts;
 - e) The Company's projected cash flows for the period commencing January 15, 2017 until March 11, 2017;

- f) The reasons for which the Trustee/Interim Receiver supports the relief sought by the Company in the context of the Motion;
 - g) The recommendations of the Trustee/Interim Receiver.
9. Since KPMG Inc.'s appointment, its responsibilities and activities as Trustee and as Interim Receiver have been comingled. Therefore, for the purpose of this report and to facilitate the reading thereof, we refer jointly to the Trustee and the Interim Receiver as the Interim Receiver.

THE COMPANIES' ACTIVITIES SINCE THE DATE OF THE FIRST REPORT

American Apparel US

- 10. As noted in the First Report, shortly before the filing of the NOI, American Apparel US, which was historically the Company's sole inventory supplier and provided it with corporate administrative services, advised American Apparel that it was no longer able to continue supplying inventory and providing administrative services. In light of this, it was determined by the Debtor that the best course of action for the benefit of its creditors was to undertake an orderly wind-down of the Canadian stores, and to appoint the Interim Receiver.
- 11. Prior to the NOI filing, American Apparel US sent the Company a notice cancelling the license allowing the usage of the trade marks in Canada. However, the licence holder advised in writing that it would take no action against the Company if it continued using the trade marks to dispose of the inventory on hand for a period of 90 days (ending February 9, 2017). The Company, with the assistance of the Interim Receiver, devised its inventory monetisation plan bearing in mind the limitations on the usage of the trade marks in Canada.
- 12. On November 14, 2016, American Apparel US filed for protection under Chapter 11 of Title 11 of the United States Bankruptcy Code ("**Chapter 11 Proceedings**"), and implemented a sales process for all of its operations and assets ("**Sale Process**").
- 13. On November 13, 2016, Montreal based Gildan Activewear SRL ("**Gildan**") made a "stalking horse" bid in the Chapter 11 Proceedings with a stated intention of purchasing certain American Apparel US' assets, including intellectual property and inventory (the "**Gildan Bid**"). The Sale Process culminated in the acceptance and Court approval on January 12, 2017 of the Gildan Bid.
- 14. The Gildan Bid includes American Apparel US's inventory and intellectual property (including the aforementioned trade marks), but does not include any Canadian stores or operations. Consequently, the Interim Receiver, following the acceptance of the Gildan Bid, will be completing the liquidation of the Canadian operations as there is no longer any benefit in attempting to preserve some of the Canadian "goodwill" for a possible global transaction.

Canadian operations

15. On December 1, 2016, the Interim Receiver sent Notices to Disclaim or Resiliate Leases pursuant to section 65.2 of the BIA ("**Lease Disclaimers**") with an effective date of December 31, 2016, to the Company's landlords for 8 stores. Those stores were vacated on December 31, 2016 and any remaining inventory was deployed in the other remaining stores. All employees from those stores have been terminated.
16. American Apparel has continued to wind down its remaining open stores, which currently totals 20, under the supervision of the Interim Receiver, and with the assistance of the Interim Receiver's agent, MRS. Additional details on the store wind-down process is provided in sections below.
17. As noted in greater detail below, the Company, with the assistance of the Interim Receiver and MRS, has continued since the date of the First Report, to restructure its operations by reducing the number of stores and employees, deploying its inventories in an optimal manner and executing its merchandising strategy (marketing, discounting etc.).

THE INTERIM RECEIVER'S ACTIONS SINCE THE DATE OF THE FIRST REPORT

Safeguarding of assets and statutory matters

18. As noted in the First Report, immediately after being appointed by the Court, the Interim Receiver took various measures to stabilize the activities of the Company, implement control measures to safeguard the assets under its supervision, manage communications with American Apparel's stakeholders, and develop reporting metrics to monitor the Company's operations and results, in particular its Store Wind Down process (as defined in the First Report and below).
19. Since its appointment, the Interim Receiver took (and, as applicable, continues to take) the following actions relating to the safeguarding of assets and communications with stakeholders:
 - a) Obtaining on a daily basis, the Company's sales and inventory figures directly from the Company's systems;
 - b) Reconciliation of daily sales with the deposits made in the Company's operating bank accounts, including the deposits resulting from electronic payment processing by the Company's payment processing provider, Global Payments;
 - c) Investigating any variances between the Company's sales and deposits, in particular with Global Payments and taking measures to recover any short deposits or other unfavorable variances;
 - d) Following up with store managers to ensure deposits are made on a timely basis;
 - e) Responding to queries received on the dedicated hot-line and email address from the Company's stakeholders (employees, customers, suppliers and landlords);
 - f) Performing periodic test inventory counts, as appropriate, at most stores to validate the inventory quantities and evaluate internal controls over stock keeping, and supervising re-counts as necessary;
 - g) Continuing to monitor the Company's disbursements and approving proposed disbursements;

- h) Communicating with third parties to recover deposits made by the Company prior to the date of the NOI, for services which are no longer required;
- i) Assisting the Company in making its statutory sales tax declarations and making the payments of sales taxes owing to the various government entities (Federal and Provincial);
- j) Reviewing accounts receivable collections on a daily basis;
- k) Communicating with the Company's utility providers to secure the continuity of service to the Company's various locations;
- l) Reviewing on a weekly basis the Company's actual cash flows compared to the First Extension Cash Flow.

Store Wind Down

- 20. As noted in the First Report, on November 17, 2016, the Interim Receiver engaged MRS to support the Company's store wind-down process ("**Store Wind-Down**") in light of its operating parameters, namely the lack of fresh supply of inventory and of certain merchandising support historically provided by American Apparel US.
- 21. Since its appointment, the Interim Receiver has taken the following actions in relation to the Store Wind-Down:
 - a) Attending update calls (three times per week) with representatives of MRS and with the District Managers to address operating issues such as staffing, sales and stock availability;
 - b) Attending weekly update calls with representatives of MRS to discuss strategic matters such as weekly sales and discounts, liquidation timeline and financial results;
 - c) Continually monitoring the gross margins generated by various inventory categories to evaluate the results of the adopted merchandising strategy, particularly discount levels;
 - d) Continuing to monitor, in conjunction with MRS, each store's inventory levels and sales performance to determine and update a store collapse strategy ("**Store Closure Timeline**");
 - e) Based on the Store Closure Timeline the Interim Receiver prepared and sent to various lessors, the following Lease Disclaimers:
 - i) On January 5, 2017, Lease Disclaimers in respect of 16 stores that are scheduled to be vacated on February 4, 2017 (the "**February 4 Stores**");
 - ii) On January 9, 2017, Lease Disclaimers in respect of ancillary storage locations related to two of the February 4 Stores;
 - iii) On January 11, 2017, a Lease Disclaimer in respect of one store that is scheduled to be vacated on February 10, 2017 (the "**February 10 Store**"); and
 - iv) On January 12, 2017, Lease Disclaimers in respect of three stores that could be vacated on February 11, 2017, but for which the Interim Receiver has negotiated with the landlord a "per-diem" occupancy arrangement described in the next following paragraph.

- f) In respect of three stores which are each located in a major metropolitan area (Vancouver, Toronto, Montreal), the Interim Receiver has negotiated an agreement with the landlord, whereby a Lease Disclaimer would be sent to formally terminate the lease, but the Interim Receiver would have the option to occupy the premises on a per-diem basis following the effective date of the Lease Disclaimer (the “**Per-Diem Stores**”). This arrangement was entered into by the Interim Receiver as a contingency measure in the event the Company would be left with some inventories to sell beyond the expected Store Closure Timeline.
- g) Following the sending of the Lease Disclaimers for the February 4 Stores and the February 10 Store, the Interim Receiver notified the store employees of their termination effective January 31, 2017 (which is the date by which the stores are expected to cease their selling activities), all in accordance with the applicable provincial labor laws and regulations. The Interim Receiver has not notified the employees of the Per-Diem Stores as the date of termination is not yet determined;
- h) Following the sending of the Lease Disclaimers for the February 4 Stores and the February 10 Store, the Interim Receiver prepared and sent several Notices by Debtor to Disclaim or Resiliate an Agreement (section 65.11 of the BIA) to cancel any agreements for services performed at those stores;
- i) Throughout this process, the Interim Receiver has communicated with the Company’s landlords as required to keep them apprised of the situation;
- j) In conjunction with representatives of MRS and of American Apparel, and based on sales and inventory levels, the Interim Receiver has continued to develop an “inventory store transfer” matrix to determine the optimal transfer of goods between stores and thus enhance each store’s product mix and offering.
- k) In conjunction with representatives of MRS, the Interim Receiver has performed a cost-benefit analysis of transferring certain excess inventories (the “**Warehouse Goods**”) that were located in two outside warehouse locations (one in Vancouver and one in Toronto) to the February 10 Store and the Per-Diem Stores. Based on the analysis, the Interim Receiver began arranging for the deployment of the Warehouse Goods to the appropriate locations.

Landlord Matters

- 22. The Interim Receiver notes that for four of the Company’s stores which are leased from the same landlord, namely Cadillac Fairview (the leases for 3 of those locations have been disclaimed effective December 31, 2016), the monthly lease charge includes an amount for the prepayment of 2017 property taxes (the “**2017 Prepaid Tax**”). The Interim Receiver does not expect the Company to occupy these stores in the period covered by the 2017 Prepaid Tax charge.
- 23. The Interim Receiver is of the view that the 2017 Prepaid Tax portion of the monthly lease charge does not represent a charge for current services rendered after the date of the NOI and consequently has deducted the 2017 Prepaid Tax portion from the following rent payments:
 - a) In the case of 4 stores, from the December 2016 payment; and
 - b) In the case of the one store that was not disclaimed effective December 31, 2016, from the January 2017 rent payment.

24. Cadillac Fairview's legal counsel has advised the Interim Receiver that it took a different view of the 2017 Prepaid Taxes, namely that it is a current obligation by virtue of it being part of the rent payment for a period in which the Company continues to occupy the related premises.
25. Following certain discussions between the Interim Receiver and Cadillac Fairview's legal counsel, on or around December 9, 2016, it was agreed by the two parties that the Interim Receiver would, pending resolution of this disagreement, reserve for the amount of 2017 Prepaid Taxes deducted from the monthly rent payments made by the Interim Receiver (the "**2017 Prepaid Tax Reserve**"). The 2017 Prepaid Tax Reserve totals approximately \$37,000.
26. The funds related to the 2017 Prepaid Tax Reserve have since been transferred by the Interim Receiver into an escrow bank account which was set up solely for that purpose. The Interim Receiver will continue in constructive dialogue with Cadillac Fairview in an attempt to resolve this matter consensually, and may seek this Court's advice and direction if such a consensual resolution is not achieved.

STATUS OF THE STORE WIND DOWN

27. As noted above, since mid-November 2016, the Company, has been executing its Store Wind Down with the assistance of the Interim Receiver and MRS. To date, and as noted below in the review of the Company's actual cash flows, the Store Wind Down has generated better than the expected results.
28. The Company is presently in the process of deploying the Warehouse Goods to its stores and determining, with the assistance of the Interim Receiver and MRS, the appropriate price points at which to merchandise these goods. Once this exercise is completed, the inventory deployment will be finalized.
29. As at the date of this report, the Interim Receiver expects that the Company will have vacated the February 4 Stores and the February 10 Store by the end of January 2017 as a significant portion of the inventory has been sold. In the event that any inventory remains in these stores, they will be transferred to the Per Diem Stores as appropriate.
30. Although the Interim Receiver is hopeful that the Company will be in a position to vacate the Per Diem Stores by the beginning of February, 2017, there is nevertheless the flexibility for the Company to use the Per Diem Stores as an outlet to monetize any remaining inventories if appropriate.

CASH FLOW RESULTS RELATIVE TO PROJECTIONS

31. Cash receipts and disbursements for the six week period ended between December 4, 2016 and January 14, 2017 as compared to the First Extension Cash Flow, are summarized in the following table.

American Apparel Canada Wholesale Inc. & American Apparel Canada Retail Inc. (collectively, the "Company")			
Variance Analysis (Actuals vs. Projected Cash Flows)			
For the period starting on December 4, 2016 and ending January 14, 2017			
in CAD \$000's			
	Actuals	Forecast	Variance
Cash Receipts			
Retail Sales Collections	6,004	5,180	824
Accounts Receivable Collections - Wholesale	105	50	55
Total Receipts	6,110	5,230	880
Cash Disbursements			
Payroll and Benefits	902	870	(32)
Occupancy Costs	446	919	473
Operating Costs	580	976	396
Security Deposits	20	100	80
Restructuring Fees	762	805	43
Sales Tax Remittances (Refund)	170	390	220
Transfer of 2017 prepaid tax reserve	37	-	(37)
Total Disbursements	2,917	4,059	1,143
Net Cash Flow	3,193	1,170	2,022
Cash Position			
Opening Cash Position (Net of Outstanding Cheques)	1,399	1,399	0
Net Cash Flow	3,193	1,170	2,022
Closing Cash Position	4,592	2,569	2,022

32. As at January 14, 2017, the Companies' cash balance (on a book basis) was approximately \$4.59 million, net of checks in circulation and accruals of approximately \$481,000, primarily related to restructuring fees and operating costs (MRS's fees).
33. The net cash flow during the period was approximately \$2 million higher than projected. The primary reasons for the favourable net cash flow variance are summarized below.
- a) Total cash receipts during the period were approximately \$880,000 higher than projected primarily due to higher than expected sales by the stores;
 - b) Total cash disbursements during the period were approximately \$1.143 million lower than projected, mainly due to favorable differences for occupancy costs, operating expenses and sales tax remittances. Any timing differences expected to reverse have been reflected in the Second Extension Cash Flow (as defined below).

34. The Company has paid, and continues to pay for any goods and services received subsequent to the date of filing of the NOI, including rent (except for the 2017 Property Taxes, which have been reserved for), payroll and related deductions, as well as earned vacation pay.

UPDATED CASH FLOW PROJECTIONS

35. The Interim Receiver, with the assistance of the Company and MRS, has prepared the updated cash flow projections for the period commencing January 14, 2017 and ending on March 11, 2017 (the “**Second Extension Cash Flow**”). The Second Extension Cash Flow is summarized in the following table. A copy of the notes to the Second Extension Cash Flow as well as the statutory reports of the Interim Receiver and the Company are attached hereto as Appendix A.

American Apparel Canada Wholesale Inc. & American Apparel Canada Retail Inc. (collectively, the "Company") Summary Consolidated Cash Flow Projections For the period January 15, 2017 to March 11, 2017 in CAD \$000's	
Projected Cash Receipts	
Retail Sales Collections	584
Total Receipts	584
Projected Cash Disbursements	
Payroll and Benefits	649
Occupancy Costs	290
Operating Costs	428
Restructuring Fees	529
Sales Tax Remittances (Refund)	38
Total Disbursements	1,934
Projected Net Cash Flow	(1,350)
Cash Position	
Opening Cash Position (Net of Outstanding Cheques)	4,592
Projected Net Cash Flow	(1,350)
Projected Closing Cash Position	3,242

To be read in conjunction with the attached Summary of Notes and Assumptions

36. The Interim Receiver notes the following with respect to the Second Extension Cash Flow:
- a) The Company’s cash balance as at January 14, 2017 was \$4.59 million, net of checks in circulation and accruals of approximately \$481,000, primarily related to restructuring fees and operating costs (MRS’s fees);
 - b) The Projected Cash Flow reflects that during the reference period, the Company will have total receipts of approximately \$584,000, which consist of retail sales collections;
 - c) The projected disbursements during the same period total approximately \$1.93 million and reflect all timing related variances, as well as the payment of post-filing expenses, including occupancy costs and payroll.

- d) The negative projected net cash flows over the period total \$1.35 million and is consistent with the Interim Receiver's expectations as the Company is now in the final stages of the Store Wind Down. Furthermore, the Company expects to catch up on its timing differences in disbursements from the First Extension Cash Flow period.
37. Based on the Projected Cash Flow, the Company has sufficient liquidities to fund its operating activities during the Second Extension Period.

REQUEST FOR AN EXTENSION OF THE DELAY

38. The Company is seeking a 45-day extension to file its proposal, as it continues its restructuring process. In particular, it is seeking an order for the Second Extension Period to allow it to:
- a) Complete the Store Wind Down;
 - b) Collect any remaining accounts receivable;
 - c) Resolve the dispute with respect to the 2017 Prepaid Taxes;
 - d) Assert its claim in the American Apparel US Chapter 11 proceedings (the "**Chapter 11 Claim**");
 - e) Determine claims against the Company, in particular by its landlords and employees following the various restructuring measures taken by the Company;
 - f) Determine the terms of a proposal to its creditors, if applicable.
39. The Company and the Interim Receiver are of the view that the ongoing Store Wind Down is the best way to optimize the realisation value of the remaining garment inventory, especially given the fact that the process has been successful to date.
40. The Company is current on its payment of sales taxes, occupation rent (except for the 2017 Property Taxes) and salaries, and has the liquidity to fund ongoing taxes occupation rent, salaries and professional fees through the Second Extension Period.
41. The Interim Receiver, a Court appointed officer, has control over the Company's business and operations, including the control over the receipts and disbursements.
42. The Company and the Interim Receiver are of the view that no creditors are expected to be materially prejudiced by the granting of the Second Extension Period.
43. There is no apparent benefit to the creditors in the case of an immediate bankruptcy in the event the Second Extension Period is not granted. However, there would be some prejudice in the form of lost wages, rents and a likely deterioration in the realizable value of the remaining inventory.
44. The Company has conducted itself in good faith and with due diligence.

CONCLUSIONS AND RECOMMENDATIONS

45. The Interim Receiver supports the relief sought by the Company in its Motion, for the following reasons:
 - a) The Company has and continues to act in good faith and with due diligence;
 - b) Without such relief, it will not be in a position to make a viable proposal in due course;
 - c) No creditor would be materially prejudiced should the Motion be granted.
46. Conversely, there is no advantage to any of American Apparel's creditors in the event of a bankruptcy, which in fact would deprive certain stakeholders, such as landlords and employees, of amounts that would otherwise be received for current services.

All of which is respectively submitted this 20th of January, 2017.

KPMG INC., in its capacity
of Trustee and Interim Receiver
of American Apparel Canada Retail Inc.
and American Apparel Canada Wholesale Inc.

A handwritten signature in blue ink, consisting of a large, stylized 'C' followed by a horizontal line and a vertical line extending downwards.

Per: Dev A. Coossa, CIRP, LIT
Partner

**APPENDIX A NOTES TO THE PROJECTED CASH FLOW AND STATUTORY
REPORTS OF THE INTERIM RECEIVER AND THE COMPANY**

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
DIVISION: 01-MONTREAL
S.C.: 500-11-051625-164
SUPER.: 41-2186921

SUPERIOR COURT
COMMERCIAL DIVISION

IN THE MATTER OF THE PROPOSAL OF:

AMERICAN APPAREL CANADA RETAIL INC., body
politic and corporate, duly incorporated according to
Law, and having its head office at 1550 Metcalfe Street,
Suite 1500, in the city of Montreal, province of Quebec
H3A 1X6.

American Apparel Canada Wholesale Inc. & American Apparel Canada Retail Inc. (collectively, the "Company") Summary Consolidated Cash-Flow Projections For the period January 15, 2017 to March 31, 2017 in CAD \$000's	
Projected Cash Receipts	
Retail Sales Collections	584
Total Receipts	<u>584</u>
Projected Cash Disbursements	
Payroll and Benefits	649
Occupancy Costs	290
Operating Costs	428
Restructuring Fees	529
Sales Tax Remittances (Refund)	38
Total Disbursements	<u>1,934</u>
Projected Net Cash Flow	<u>(1,350)</u>
Cash Position	
Opening Cash Position (Net of Outstanding Cheques)	4,592
Projected Net Cash Flow	<u>(1,350)</u>
Projected Closing Cash Position	<u>3,242</u>

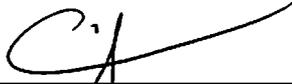
To be read in conjunction with the attached Summary of Notes and Assumptions

Dated January 20, 2017

AMERICAN APPAREL CANADA RETAIL INC.


By: Bennett Nussbaum

KPMG INC.


By: Dev A. Coossa, CIRP, LIT

AA
LM
LEGAL

**American Apparel Canada Wholesale Inc. & American Apparel Canada Retail Inc.
(collectively, the "Company")
Consolidated Cash Flow Projections
Summary of Notes and Assumptions**

1. The Consolidated Cash Flow Projections (the "Cash Flow") have been prepared by the Company, with the assistance of KPMG Inc. ("KPMG") acting in its capacity of Trustee under the Notice of Intention to Make a Proposal (the "NOI") and Interim Receiver of the Company. The Company has prepared the Cash Flow on a consolidated basis due to the nature of their operations which are comingled and intertwined.
2. On November 9, 2016, the Company filed an NOI under the *Bankruptcy and Insolvency Act*. On November 11, 2016, pursuant to a motion filed by the Company, KPMG has been appointed as Interim Receiver over the assets and affairs of the Company.
3. The Cash Flow is based on unaudited information, solely for the purpose of projecting the cash receipts and disbursements of the Company during the NOI, which commenced on November 9, 2016. The Cash Flow is presented for the period January 15, 2017 to March 11, 2017 (the "Cash Flow Period").
4. The Cash Flow has been prepared primarily based on historical trends. The actual timing and amount of receipts and disbursements may vary from the Cash Flow and the variances may be material. The Cash Flow is presented in thousands of Canadian dollars.
5. Payroll and Benefits relate to the Company's sales and administrative employees and include the necessary remittances and fringe benefits.
6. Occupancy Costs include rent payments (including common area maintenance and taxes) for the leased premises and stores, as well as utility costs.
7. Operating Costs include insurance, freight, advertising, credit card fees, store supervision costs, and other miscellaneous operating expenses.
8. Tax remittances include HST and other Provincial taxes, accrued subsequent to the commencement of the NOI.
9. Restructuring fees include payments to the Company's legal counsel and other advisors, the NOI Trustee, the Interim Receiver and its counsel, as well as the agent retained to assist in the liquidation of inventory.
10. The Cash Flow does not include payment of accounts payable arrears for the period before the filing of the NOI.

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC

DIVISION: 01-MONTREAL
S.C.: 500-11-051624-167
SUPER.: 41-2186924

SUPERIOR COURT
COMMERCIAL DIVISION

IN THE MATTER OF THE PROPOSAL OF:

AMERICAN APPAREL CANADA WHOLESALE INC.,
body politic and corporate, duly incorporated
according to Law, and having its head office at 1550
Metcalfe Street, Suite 1500, in the city of Montreal,
province of Quebec H3A 1X6.

American Apparel Canada Wholesale Inc. & American Apparel Canada Retail Inc. (collectively, the "Company") Summary Consolidated Cash Flow Projections For the period January 15, 2017 to March 11, 2017 in CAD \$000's	
Projected Cash Receipts	
Retail Sales Collections	584
Total Receipts	584
Projected Cash Disbursements	
Payroll and Benefits	649
Occupancy Costs	290
Operating Costs	428
Restructuring Fees	529
Sales Tax Remittances (Refund)	38
Total Disbursements	1,934
Projected Net Cash Flow	(1,350)
Cash Position	
Opening Cash Position (Net of Outstanding Cheques)	4,592
Projected Net Cash Flow	(1,350)
Projected Closing Cash Position	3,242

To be read in conjunction with the attached Summary of Notes and Assumptions

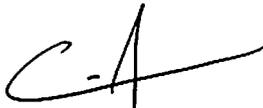
Dated January 19, 2017

AMERICAN APPAREL CANADA WHOLESALE INC.



By: Bennett Nussbaum

KPMG INC.



By: Dev A. Coossa, CIRP, LIT

A A
LM
LEGAL

**American Apparel Canada Wholesale Inc. & American Apparel Canada Retail Inc.
(collectively, the "Company")
Consolidated Cash Flow Projections
Summary of Notes and Assumptions**

1. The Consolidated Cash Flow Projections (the "Cash Flow") have been prepared by the Company, with the assistance of KPMG Inc. ("KPMG") acting in its capacity of Trustee under the Notice of Intention to Make a Proposal (the "NOI") and Interim Receiver of the Company. The Company has prepared the Cash Flow on a consolidated basis due to the nature of their operations which are comingled and intertwined.
2. On November 9, 2016, the Company filed an NOI under the *Bankruptcy and Insolvency Act*. On November 11, 2016, pursuant to a motion filed by the Company, KPMG has been appointed as Interim Receiver over the assets and affairs of the Company.
3. The Cash Flow is based on unaudited information, solely for the purpose of projecting the cash receipts and disbursements of the Company during the NOI, which commenced on November 9, 2016. The Cash Flow is presented for the period January 15, 2017 to March 11, 2017 (the "Cash Flow Period").
4. The Cash Flow has been prepared primarily based on historical trends. The actual timing and amount of receipts and disbursements may vary from the Cash Flow and the variances may be material. The Cash Flow is presented in thousands of Canadian dollars.
5. Payroll and Benefits relate to the Company's sales and administrative employees and include the necessary remittances and fringe benefits.
6. Occupancy Costs include rent payments (including common area maintenance and taxes) for the leased premises and stores, as well as utility costs.
7. Operating Costs include insurance, freight, advertising, credit card fees, store supervision costs, and other miscellaneous operating expenses.
8. Tax remittances include HST and other Provincial taxes, accrued subsequent to the commencement of the NOI.
9. Restructuring fees include payments to the Company's legal counsel and other advisors, the Proposal Trustee, the Interim Receiver and its counsel, as well as the agent retained to assist in the liquidation of inventory.
10. The Cash Flow does not include payment of accounts payable arrears for the period before the filing of the NOI.

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC

Division N°: 01 - Montréal
Court N°: 500-11-051625-164
Estate N°: 41-2186921

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

AMERICAN APPAREL CANADA RETAIL INC., body politic and corporate, duly incorporated according to Law, and having its head office at 1550 Metcalfe Street, Suite 1500, in the city of Montreal, province of Quebec H3A 1X6.

TRUSTEE'S REPORT ON CASH-FLOW STATEMENT
(Paragraphs 50(6)(b) et 50.4(2)(b) of the Act)

The attached statement of projected cash flow of AMERICAN APPAREL CANADA RETAIL INC., as of the 20th day of January 2017, consisting of the period from January 15, 2017 to March 11, 2017, has been prepared by the management of the insolvent person for the purpose described in the Notes, using the probable and hypothetical assumptions set out in the Notes.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- a) the hypothetical assumptions are not consistent with the purpose of the projection;
- b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection 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. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in Note, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal, this 20th day of January 2017.

KPMG INC. - Trustee



Dev A. Coossa
600, de Maisonneuve Blvd. West, Suite 1500
Montréal (Québec) H3A 0A3
Phone : (514) 840-2100 Fax : (514) 840-2121

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC

Division N°: 01 - Montréal
Court N°: 500-11-051624-167
Estate N°: 41-2186924

SUPERIOR COURT
(Commercial Division)

IN THE MATTER OF THE PROPOSAL OF:

AMERICAN APPAREL CANADA WHOLESALE INC., body
politic and corporate, duly incorporated according to Law,
and having its head office at 1550 Metcalfe Street, Suite
1500, in the city of Montreal, province of Quebec H3A 1X6.

TRUSTEE'S REPORT ON CASH-FLOW STATEMENT
(Paragraphs 50(6)(b) et 50.4(2)(b) of the Act)

The attached statement of projected cash flow of AMERICAN APPAREL CANADA WHOLESALE INC., as of the 20th day of January 2017, consisting of the period from January 15, 2017 to March 11, 2017, has been prepared by the management of the insolvent person for the purpose described in the Notes, using the probable and hypothetical assumptions set out in the Notes.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects,

- a) the hypothetical assumptions are not consistent with the purpose of the projection;
- b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection 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. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in Note, and readers are cautioned that it may not be appropriate for other purposes.

Dated at Montreal, this 20th day of January 2017.

KPMG INC. - Trustee



Dev A. Coossa
600, de Maisonneuve Blvd. West, Suite 1500
Montréal (Québec) H3A 0A3
Phone : (514) 840-2100 Fax : (514) 840-2121