



American Apparel Retail Canada Inc. & American Apparel Canada Wholesale Inc.

Employees Questions and Answers

On November 9th, 2016, **American Apparel Canada Retail Inc. and American Apparel Canada Wholesale Inc.** (Collectively the “Companies” or the “Canadian operations”), each filed a Notice of Intention to Make a Proposal to its Creditors (“NOI”) under the Bankruptcy and Insolvency Act (“BIA”).

In addition, KPMG Inc., was appointed by the Quebec Superior Court as interim receiver of the assets and inventory of the Companies, so as to oversee the process described below.

We have prepared this document, presented in a Q & A form, to inform you of the impact of the NOI on the Companies’ activities and on you personally.

1. Why are the Companies placed under the protection of the Bankruptcy and Insolvency Act?

Despite extensive restructuring measures implemented in the last couple of years in the United States, the American affiliates of the Companies continue to face the consequences of unfavourable market conditions and important changes in the retail market sector in North America. This meant that various operational and personnel-related initiatives implemented in the context of the restructuring process were insufficient to overcome these unprecedented market conditions.

Despite the efforts during the last couple of months, the U.S. Affiliates have not succeeded in finding viable strategic partners or acquirers for the business.

Therefore, in the interests of their stakeholders and in order to ensure an orderly and transparent wind-down of operations, the Companies decided to file for protection from its creditors under the BIA. This will also ensure the continuation of operations while a plan is implemented. This legal process has been initiated by the Companies and the interim receivership has been approved by the Court because it is considered to be in line with the best interests of the Companies’ employees, customers and suppliers and a preferable alternative.

2. What is a Notice of Intention?

The Notice of Intention is a process in the law (the BIA) which initially provides the Companies with a 30-day “protection” period during which the Companies can work on making a proposal to its Creditors. The proposal determines how the various amounts owed to creditors will be settled. It is eventually subject to approval by the creditors and then by the Court.

Although the Companies can request that the Court grant extensions (totaling no more than 6 months from the date of the filing of the NOI) in order to submit a proposal to its creditors, the Companies’ intentions and instructions are to work as diligently as possible so as to emerge from these proceedings as quickly as possible.

The filing of the Notice of Intention has the following effects:

- It suspends (stays) all legal proceedings against the Companies and it prevents anyone from taking legal actions against the Companies in relation to unpaid debts (i.e. all accounts payables are “frozen” as at the date of the filing of the NOI);
- Nevertheless, the Companies must still pay for current purchases and delivery of merchandise,

current expenses, wages and other expenses incurred after the filing of the NOI;

- It precludes the cancellation of contracts, leases and other agreements by suppliers, lessors and any other party;
- KPMG Inc. was appointed as trustee (“Trustee”) to the NOI. KPMG’s role is essentially a supervisory/monitoring role.

3. Does this mean that the Companies are bankrupt?

No. The Notice of Intention will allow the Companies to sell its inventory in an orderly fashion, under the direction of its own management, while suspending payments for past due amounts.

4. Will I continue to be paid?

Yes – payroll and benefits will continue to be paid in the normal course of business.

5. What about my vacation?

In addition to salaries, employees will be paid the vacation pay that they earned up to the date of termination.

6. What happens to my existing insurance coverage?

It is maintained as long as you are working for either of the Companies.

7. How many positions will be eliminated during the restructuring?

Some positions have already been eliminated. It is too early in the process to determine the exact timing of the other terminations.

8. What will happen to our suppliers?

All amounts owed to the creditors as at the date of the filing of the NOI are stayed (“frozen”) and will not be paid until a proposal is submitted to them and voted upon by the creditors. In the meantime, we will keep them informed of the process and developments as much as possible and as required.

9. Can suppliers, equipment lessors or landlords remove goods?

No. Under no circumstances are suppliers, equipment lessors or landlords entitled to remove any inventory, equipment or other Companies assets during this process. You are to verbally refuse such efforts and immediately notify us at the number or email address below if such an attempt is made

- KPMG – Toll Free 1-888-229-2262 / Local 514-940-8596
- KPMG – americanapparel@kpmg.ca

If the efforts to remove assets continue, the police should be called. Do not attempt to physically interfere.

10. If I am asked questions, who should I be referring them to?

All inquiries from suppliers and media should be directed to KPMG. We strongly recommend that you refrain from representing and voicing any opinions regarding the Companies by responding to any

external enquiries, rather, we ask that you forward any calls or emails directly to KPMG.

Toll free number: 1-888-229-2262 or local (Montreal): 514-940-8596

You can also find additional information on the KPMG web site:

- In English: www.kpmg.ca/americanapparel-en
- In French Web: www.kpmg.ca/americanapparel-fr