

Court File No. CV-23-00695619-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS
AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF NORDSTROM CANADA RETAIL, INC.,
NORDSTROM CANADA HOLDINGS, LLC AND
NORDSTROM CANADA HOLDINGS II, LLC**

**SEVENTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

DECEMBER 14, 2023

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- B Sixth Report of the Monitor dated September 22, 2023 (without appendices)

1.0 INTRODUCTION

- 1.1 On March 2, 2023 (the “**Filing Date**”), Nordstrom Canada Retail, Inc. (“**Nordstrom Canada**”), Nordstrom Canada Holdings, LLC and Nordstrom Canada Holdings II, LLC (together the “**Applicants**”) were granted protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an initial order (the “**Initial Order**”) of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”). The stay of proceedings and other protections and authorizations in the Initial Order were also extended to Nordstrom Canada Leasing LP (“**Canada Leasing LP**” and, collectively with the Applicants, the “**Nordstrom Canada Entities**”).
- 1.2 Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. was appointed as monitor of the Nordstrom Canada Entities (in such capacity, the “**Monitor**”) in these CCAA proceedings (the “**CCAA Proceedings**”).
- 1.3 The Initial Order, among other things:
- (a) granted a stay of proceedings in favour of the Nordstrom Canada Entities and a “Co-Tenancy Stay” during the Stay Period, which has been subsequently extended by the Court until and including December 22, 2023;
 - (b) granted a stay of proceedings against Nordstrom, Inc. (“**Nordstrom US**”) and its direct and indirect subsidiaries (other than the Nordstrom Canada Entities) relating to obligations or liabilities that are the primary liability of the Nordstrom Canada Entities, which stay of proceedings subsequently expired on September 30, 2023;

- (c) approved an employee trust agreement (the “**Employee Trust Agreement**”) among Nordstrom US, as settlor, the Monitor, as administrator (the “**Administrator**”), and Gale Rubenstein in her personal capacity as trustee (the “**Trustee**”), providing for the establishment of a trust funded by Nordstrom US for the benefit of employees of Nordstrom Canada (the “**Employee Trust**”);
- (d) approved the appointment of Ursel Phillips Fellows Hopkinson LLP as representative counsel (“**Employee Representative Counsel**”) to represent the interests of Nordstrom Canada employees other than: (i) non-store level employees eligible for a payment under the KERP (as defined below); (ii) directors and officers of the Nordstrom Canada Entities; and (iii) the Senior Vice President, Regional Manager for Canada (the “**Represented Employees**”); and
- (e) granted an Administration Charge and a Directors’ Charge over the Property (each as defined in the Initial Order).

1.4 On March 10, 2023, the Court granted an Amended and Restated Initial Order (the “**ARIO**”) which modified the Initial Order in certain respects. The ARIO, among other things:

- (a) approved the Applicants’ key employee retention plan (the “**KERP**”) and granted a charge over the Property in the maximum amount of \$2.6 million as security for the payments to be made in accordance with the KERP (the “**KERP Charge**”); and
- (b) increased the amount of the Administration Charge to \$1.5 million and increased the amount of the Directors’ Charge to \$13.25 million.

1.5 On March 20, 2023, the Court granted the Liquidation Sale Approval Order, which among other things:

- (a) approved an amended and restated consulting agreement (the “**Consulting Agreement**”) between Nordstrom Canada and Canada Leasing LP (together, the “**Merchant**”) and a contractual joint venture comprised of Hilco Merchant Retail Solutions ULC, Gordon Brothers Canada, ULC, Tiger Asset Solutions Canada, ULC and B. Riley Retail Solutions LLC (collectively, the “**Consultant**”);
- (b) approved the sale guidelines (the “**Sale Guidelines**”) for the orderly liquidation of Merchandise and FF&E (each as defined in the Liquidation Sale Approval Order) at each of the Merchant’s Stores (the “**Liquidation Sale**”); and
- (c) authorized the Merchant, with the assistance of the Consultant, to undertake the Liquidation Sale in accordance with the terms of the Liquidation Sale Approval Order, the Consulting Agreement and the Sale Guidelines.

1.6 On May 31, 2023, the Court granted the Claims Procedure Order, which:

- (a) approved a claims process for the identification, quantification and resolution of Claims (as defined in the Claims Procedure Order) against the Nordstrom Canada Entities and their respective current and former directors and officers (the “**Claims Process**”);
- (b) authorized the Nordstrom Canada Entities and the Monitor to perform their respective obligations under the Claims Procedure Order; and

(c) established the Claims Bar Date and the Restructuring Period Claims Bar Date (each as defined in the Claims Procedure Order).

- 1.7 On July 17, 2023, the Court granted two Approval and Vesting Orders approving assignment transactions in respect of certain of the Nordstrom Rack Leases (the “**Lease Assignment Transactions**”): (a) an Approval and Vesting Order approving the transaction contemplated by an Assignment and Assumption of Lease between Canada Leasing LP and G2MC Inc. in respect of the Heartland Lease, which transaction closed on July 20, 2023; and (b) an Approval and Vesting Order approving the transactions contemplated by an Assignment and Assumption of Leases between Canada Leasing LP and Winners Merchants International L.P. in respect of the Vaughan Mills Lease and the Deerfoot Meadows Lease (the “**Winners Agreement**”), which transactions are expected to close on February 1, 2024.
- 1.8 On August 3, 2023, the Monitor served on the Service List and filed with the Court the Fifth Report of the Monitor, which constitutes the “**Monitor’s Intercompany Claims Report**” for purposes of paragraph 44 of the Claims Procedure Order. A copy of the Monitor’s Intercompany Claims Report (without appendices) is attached as **Appendix “A”** hereto.
- 1.9 On September 27, 2023, the Court granted an Order: (a) extending the Stay Period to and including December 22, 2023; (b) authorizing the termination of the Employee Trust upon delivery by the Monitor of the Employee Trust Termination Certificate (as defined therein); and (c) terminating, releasing and discharging the KERP Charge.

1.10 The purpose of this report (the “**Seventh Report**”) is to provide the Court with information concerning, and where applicable the Monitor’s views on, the following matters:

- (a) an update on aspects of the wind-down of the Nordstrom Canada Entities, including the Final Reconciliation related to the Liquidation Sale and ongoing activities to complete the administration of the Employee Trust;
- (b) an update on the Claims Process;
- (c) the receipts and disbursements of the Nordstrom Canada Entities for the period September 17, 2023 to December 9, 2023, and the updated and extended cash flow forecast of the Nordstrom Canada Entities for the period December 10, 2023 to April 5, 2024;
- (d) the Applicants’ motion for an order (the “**Meeting Order**”), among other things:
 - (i) accepting the filing of the Consolidated Plan of Compromise and Arrangement in respect of the Nordstrom Canada Entities dated December 13, 2023 (the “**Plan**”);
 - (ii) authorizing the Nordstrom Canada Entities to establish one class of Affected Creditors (as defined below) for the purpose of considering and voting on the Plan (the “**Unsecured Creditors’ Class**”);
 - (iii) authorizing the Nordstrom Canada Entities to call, hold and conduct a virtual meeting of the Affected Creditors (the “**Creditors’ Meeting**”) to consider and vote on a resolution to approve the Plan, and approving the

procedures to be followed with respect to the calling and conduct of the Creditors' Meeting;

- (iv) setting the date for the hearing of the Nordstrom Canada Entities' motion seeking sanction of the Plan should the Plan be approved by the required majority of Affected Creditors at the Creditors' Meeting; and
- (v) extending the Stay Period (and by extension, the Co-Tenancy Stay) until and including April 5, 2024;
- (e) an update on the activities of the Monitor since September 22, 2023, being the date of the Sixth Report of the Monitor (the "**Sixth Report**"), a copy of which (without appendices) is attached as **Appendix "B"** hereto; and
- (f) the Monitor's views with respect to the Plan and the proposed Meeting Order and the Monitor's support for the granting of the Meeting Order in the form sought by the Nordstrom Canada Entities.

2.0 TERMS OF REFERENCE AND DISCLAIMER

- 2.1 In preparing this Seventh Report, the Monitor has been provided with, and has relied upon, unaudited financial information and books and records prepared or provided by Nordstrom US and its affiliates, including the Nordstrom Canada Entities (collectively, the "**Nordstrom Group**"), and has held discussions with management of the Nordstrom Group and the Nordstrom Canada Entities' legal counsel (collectively, the "**Information**"). Except as otherwise described in this Seventh Report, in respect of the Nordstrom Canada Entities' cash flow forecast:

- (a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (the “CAS”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under the CAS in respect of the Information; and
 - (b) some of the information referred to in this Seventh Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.
- 2.2 Future oriented financial information referred to in this Seventh Report was prepared based on the estimates and assumptions of the Nordstrom Group. Readers are cautioned that, since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
- 2.3 This Seventh Report should be read in conjunction with the affidavit of Misti Heckel, President of Nordstrom Canada, President and Treasurer of Nordstrom Canada Holdings, LLC and Nordstrom Canada Holdings II, LLC, and Vice President – Tax of Nordstrom US, sworn on December 13, 2023 (the “**Seventh Heckel Affidavit**”). Unless otherwise stated, capitalized terms used and not defined in this Seventh Report have the meanings given to them in the ARIO or the Seventh Heckel Affidavit, as applicable.

2.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

2.5 The reports of the Monitor and other Court-filed documents and notices in the CCAA Proceedings are available on the Monitor's case website at www.alvarezandmarsal.com/NordstromCanada (the "Monitor's Website").

3.0 UPDATE ON ASPECTS OF THE WIND-DOWN

Liquidation Sale

3.1 A full update on the Liquidation Sale, including the dates on which the Stores were closed and vacated and the financial results of the Liquidation Sale, was provided in the Fourth Report of the Monitor dated July 12, 2023.

3.2 As further described in the Sixth Report (attached as **Appendix "B"** hereto), total receipts generated from the Liquidation Sale were approximately \$103.7 million from the sale of Merchandise and approximately \$6.6 million from the sale of FF&E (after the 15% FF&E Fee payable to the Consultant). The Nordstrom Canada Entities also earned approximately \$580,000 (7.5% of gross proceeds) from the sale of Additional Consultant Goods.

3.3 As at the date of the Sixth Report, the Nordstrom Canada Entities, with the assistance of the Monitor, were in the process of finalizing the Final Reconciliation to determine the fees, expenses and other amounts payable or reimbursable under the Consulting Agreement. The Final Reconciliation was completed in October 2023 and all amounts due to the Consultant were subsequently paid. Accordingly, there are no remaining claims or obligations owing to the Consultant. Total Merchandise Fees (inclusive of Additional

Incentive Compensation) and FF&E Fees paid to the Consultant pursuant to the Consulting Agreement were approximately \$2.8 million and \$1.2 million, respectively. The Consultant was also reimbursed for third-party costs totalling approximately \$420,000 incurred in relation to the removal of FF&E and electrical, plumbing and painting decommissioning/repair work to ready the Stores for handover to landlords or purchasers, as applicable.

- 3.4 In summary, the total proceeds received by the Nordstrom Canada Entities from the Liquidation Sale, net of fees and costs paid to the Consultant, was approximately \$107.7 million.

Employee Trust

- 3.5 A full update on the status of the Employee Trust was provided in the Sixth Report.
- 3.6 Since the date of the Sixth Report, approximately \$6,000 has been reimbursed by the Employee Trust to Nordstrom Canada in connection with a final reconciliation of reimbursable amounts. No further reimbursements are anticipated to be made from the Employee Trust to Nordstrom Canada. The cumulative funding by Nordstrom US to the Employee Trust was \$15.2 million, and the Employee Trust has reimbursed a total of approximately \$14.6 million to Nordstrom Canada for Eligible Employee Claims (as defined in the Employee Trust Agreement) paid by Nordstrom Canada to employees. Any remaining balance in the Employee Trust following the payment of professional fees and the completion of remaining activities will be refunded to Nordstrom US in accordance with the Employee Trust Agreement.

- 3.7 The Trustee and Administrator have engaged MNP LLP to prepare tax returns and related tax reporting required in connection with the wind-up and termination of the Employee Trust and, with the assistance of the Monitor's counsel, are working toward the termination of the Employee Trust.

Lease Assignment Transactions

- 3.8 A full update on the disclaimed and assigned Leases was provided in the Sixth Report.
- 3.9 As described in the Sixth Report, the Lease Assignment Transactions approved by the Court on July 17, 2023 include the assignment of two Nordstrom Rack Leases (Vaughan Mills and Deerfoot Meadows) pursuant to the Winners Agreement. The assignment of those two Nordstrom Rack Leases is expected to occur on February 1, 2024 in accordance with the terms of the Winners Agreement. The Monitor expects to report on the same in its report to be served in advance of the Creditors' Meeting.

4.0 UPDATE ON THE CLAIMS PROCESS

- 4.1 Capitalized terms used but not defined in this section of the Seventh Report have the meanings ascribed to them in the Claims Procedure Order.
- 4.2 On May 31, 2023, the Court granted the Claims Procedure Order approving the Claims Process for the identification, quantification and resolution of Claims as against the Nordstrom Canada Entities and their respective current and former directors and officers.
- 4.3 Pursuant to the Claims Procedure Order, the deadline for the filing of:

- (a) Pre-Filing Claims, Pre-Filing D&O Claims and Notices of Dispute of Negative Notice Claims was August 4, 2023 (the “**Claims Bar Date**”); and
- (b) Restructuring Period Claims and Restructuring Period D&O Claims is the later of:
 - (i) 30 days after the date on which the Monitor sends a Negative Notice Claims Package or General Claims Package, as applicable, with respect to a Restructuring Period Claim or Restructuring Period D&O Claim; and (ii) the Claims Bar Date (the “**Restructuring Period Claims Bar Date**”).

Status of the Administration of Claims

- 4.4 The status of the Claims Process set out in this Seventh Report is reported as of December 11, 2023.
- 4.5 As of that date, 720 Claims have been filed with the Monitor, totalling approximately \$693 million, including 69 Claims totalling approximately \$2.8 million that were filed after the Claims Bar Date or Restructuring Period Claims Bar Date, as applicable (the “**Late Filed Claims**”).
- 4.6 As summarized in the tables below:
 - (a) 597 Claims have been: (i) reviewed, reconciled and allowed; or (ii) deemed allowed or disallowed as the time for a Claimant to object to a Notice of Revision or Disallowance (“**NORD**”) issued by the Monitor has expired, or the Claimant has expressly agreed with the NORD as issued (collectively, the “**Resolved Claims**”); and

- (b) 123 Claims are “**Unresolved Claims**”, comprised of:
- (i) 33 Claims that are under review by the Nordstrom Canada Entities and the Monitor, some of which are subject to ongoing settlement discussions with Claimants;
 - (ii) 68 Late Filed Claims, most of which have been reconciled and reviewed by the Nordstrom Canada Entities and the Monitor, and determinations of these Late Filed Claims will be communicated to Claimants in the near-term (one Late Filed Claim has been disallowed); and
 - (iii) 22 Claims where the Claimant’s 30-day objection period for the NORD has not yet expired.

4.7 A summary of Resolved Claims and Unresolved Claims as of December 11, 2023 is as follows:

RESOLVED CLAIMS

Filed Amount			Admitted			Deemed Disallowed	
Category	#	\$	#	Filed \$	Admitted \$	#	Filed \$
Landlord (1)	12	647,599,929	9	597,046,251	132,977,921	3	50,553,677
Vendor	476	35,582,047	468	35,484,089	33,356,163	8	97,958
Government	1	116,677	-	-	-	1	116,677
Litigation	-	-	-	-	-	-	-
Employee	96	1,297,725	95	1,296,882	1,296,882	1	843
Other	12	5,418	12	5,418	5,115	-	-
Total	597	684,601,795	584	633,832,640	167,636,080	13	50,769,156

(1) The Claims of Supporting Rack Landlords are estimated at approximately 17 months of rent in accordance with the Supporting Rack Landlord Settlement Agreements (defined below).

UNRESOLVED CLAIMS

Category	Filed Amount		Under Review		NORD Stage		NOD Stage	
	#	\$	#	Filed \$	#	Filed \$	Admitted \$	# Filed \$
Landlord	-	-	-	-	-	-	-	-
Vendor	92	7,572,833	71	5,256,010	21	2,316,823	2,368,652	-
Government	1	-	1	-	-	-	-	-
Litigation	3	631,408	2	620,320	1	11,089	-	-
Employee	14	463,432	14	463,432	-	-	-	-
Other	13	5,726	13	5,726	-	-	-	-
Total	123	8,673,399	101	6,345,487	22	2,327,912	2,368,652	-

Unresolved Claims

4.8 The Unresolved Claims relate primarily to:

- (a) Vendor Claims: of the 92 Unresolved Claims of vendors, 21 Claims are subject to a NORD where the Claimant's 30-day objection period has not yet expired, 16 Claims remain subject to reconciliation and review by the Nordstrom Canada Entities and the Monitor, and 55 are Late Filed Claims;
- (b) Government Claims: the one remaining Unresolved Claim filed by a government agency is a "marker" Claim filed by the Canada Revenue Agency (the "CRA") for any amounts owing to the CRA (the "**CRA Marker Claim**"), including any obligations identified through the CRA's ongoing audits. The Nordstrom Canada Entities and the CRA are engaged in ongoing discussions with respect to the status of the various audits. Given the ongoing nature of the CRA audit process, it was agreed that the CRA would file a "marker" claim in the Claims Process. The Nordstrom Canada Entities do not expect that the CRA Marker Claim will have a material effect on the projected unsecured creditor recoveries under the Plan, assuming the implementation of the CRA Agreement;

- (c) Litigation Claims: these three Unresolved Claims relate to litigation proceedings that were commenced by two former employees and a customer against the Nordstrom Canada Entities prior to the Filing Date. The Monitor has issued a NORD to the customer Claimant disallowing the Claim in full and the Claimant's 30-day objection period has not yet expired. The two Unresolved Claims involving litigation commenced by former employees are subject to ongoing settlement discussions; and
- (d) Employee Claims: the Nordstrom Canada Entities and the Monitor are engaged in discussions with Employee Representative Counsel with respect to the Unresolved Claims filed on behalf of Represented Employees. Agreements in principle have been reached regarding eight Employee Claims, subject to the execution of mutually agreeable documentation. The remaining Employee Claims are subject to ongoing discussions with Employee Representative Counsel with a view to resolving the Claims in an efficient and streamlined manner.

Late Filed Claims

- 4.9 Pursuant to paragraphs 28 and 31 of the Claims Procedure Order, Claims not filed and received by the Monitor by the Claims Bar Date or Restructuring Period Claims Bar Date (as applicable), or such later date as the Monitor, in consultation with the Nordstrom Canada Entities or the Directors and Officers or their counsel, as applicable, may agree in writing or the Court may otherwise direct, will be forever barred, estopped and extinguished. The Monitor, in consultation with the Nordstrom Canada Entities, has determined that it will be using its discretion pursuant to paragraph 8 of the Claims

Procedure Order to admit solely these Late Filed Claims received to date into the Claims Process, subject to validation and reconciliation of such Late Filed Claims. Proofs of Claim received after December 11, 2023 will not be summarily admitted and will be reviewed for the circumstances surrounding such further Late Filed Claims, including but not limited to obtaining satisfactory evidence that there was a valid and compelling reason for late filing.

Landlord Claims

- 4.10 Of the 651 Claims filed as of the Claims Bar Date, 12 Claims totaling approximately \$647.6 million were filed by landlords. Three of the 12 landlord Claims totalling approximately \$50.6 million are duplicative, in the sense that substantially identical claims were filed against more than one of the Nordstrom Canada Entities. If the duplicative claims are excluded for presentation purposes, an adjusted view is that nine claims totaling \$597.0 million were filed by landlords.
- 4.11 Under the Claims Process, Claims were asserted by Cadillac Fairview and its affiliates (collectively, “**Cadillac Fairview**”), the landlord of five of Nordstrom Canada’s former Full-Line Stores, and Oxford Properties Group (“**Oxford**”), the landlord of the former Yorkdale Full-Line Store (together, the “**FLS Landlords**”). The Claims asserted by the FLS Landlords against the Nordstrom Canada Entities (collectively, the “**FLS CCAA Lease Claims**”) were by far the largest Claims filed in the Claims Process.
- 4.12 The ARIO provides that any landlord claim pursuant to an indemnity, guarantee or surety executed by Nordstrom US shall be unaffected and shall not be released or affected in any way in any plan of compromise or arrangement filed by the Nordstrom Canada Entities in these CCAA Proceedings. As set out in the Initial Heckel Affidavit, Nordstrom US granted

indemnities to the FLS Landlords in connection with the six former leases (the “**FLS Leases**”) relating to the Full-Line Stores in Canada (the “**FLS Lease Indemnities**”).

Settlement Agreements with FLS Landlords

- 4.13 As described in the Seventh Heckel Affidavit, the Nordstrom Canada Entities and Nordstrom US entered into separate settlement agreements and termination and release agreements (collectively, the “**FLS Landlord Settlement Agreements**”) with each of the FLS Landlords for a resolution of the claims against Nordstrom US in respect of the FLS Lease Indemnities (the “**FLS Landlord Guarantee Claims**”) and to resolve all the issues between the FLS Landlords, the Nordstrom Canada Entities and Nordstrom US, respectively, in connection with the FLS Leases and the CCAA Proceedings.
- 4.14 The FLS Lease Claims were the largest claims filed against the Nordstrom Canada Entities in the Claims Process. The FLS Landlord Settlement Agreements are of substantial benefit to the CCAA Proceedings in that they have contributed significantly to the development of the Plan and the timely advancement of the proposed Creditors’ Meeting by avoiding the delays and costs that could otherwise have been incurred if the parties had become involved in protracted disputes regarding the FLS CCAA Lease Claims.
- 4.15 The key terms of the FLS Landlord Settlement Agreements include the following:
- (a) cash payments by Nordstrom US, directly or indirectly, to the FLS Landlords in the aggregate amount of \$174.7 million, exclusive of HST;

- (b) the FLS Landlord Guarantee Claims shall be fully and finally resolved and contractual releases will come into effect upon the receipt of all required payments under the FLS Landlord Settlement Agreements;
- (c) the FLS CCAA Lease Claims shall be accepted and proven in the Claims Process at an aggregate amount agreed to by Nordstrom US and the Nordstrom Canada Entities, with the consent of the Monitor;
- (d) in recognition of the payments made by Nordstrom US to the FLS Landlords under the FLS Landlord Settlement Agreements, an amount equal to any distribution ultimately received by a FLS Landlord from the Nordstrom Canada Entities in respect of its FLS CCAA Lease Claim, net of any HST/GST, shall be paid by such FLS Landlord to Nordstrom US; and
- (e) the FLS Landlords agree that they shall:
 - (i) either consent to or not oppose the Nordstrom Canada Entities' motion for the proposed Meeting Order;
 - (ii) vote all of their respective FLS CCAA Lease Claims in favour of the approval and adoption of the Plan to the extent permitted by applicable law; and
 - (iii) either consent to or not oppose any motion by the Nordstrom Canada Entities for Court sanction of the Plan (the "**Sanction Motion**").

- 4.16 The FLS CCAA Lease Claims of the FLS Landlords were subsequently accepted in the Claims Process, with the consent of the Monitor, at an amount equal to four and a half (4.5) years of rent under the applicable FLS Lease for an aggregate amount of Proven Claims of approximately \$121.6 million. Based on current modelling, between approximately \$86.8 and \$91.2 million is forecast to be paid under the Plan on account of FLS CCAA Lease Claims. Based on the range of estimated recoveries to Affected Creditors set out in section 7.0 of this Seventh Report, the aggregate amount paid by Nordstrom US to the FLS Landlords under the FLS Landlord Settlement Agreements, net of the Plan distributions on the FLS CCAA Lease Claims to be turned over to Nordstrom US pursuant to the FLS Landlord Settlement Agreements, is forecast to be in the range of \$83.5 million to \$87.9 million.

Settlement Agreements with Landlords of Nordstrom Rack Stores

- 4.17 At the commencement of the CCAA Proceedings, the Nordstrom Canada Entities operated seven Nordstrom Rack stores. During the course of the CCAA Proceedings, three of the Nordstrom Rack leases were disclaimed, one Nordstrom Rack lease was terminated by the landlord, and three of the Nordstrom Rack leases were or will be assigned to third-party purchasers pursuant to Court-approved assignment transactions. None of the Nordstrom Rack leases was subject to a continuing indemnity by Nordstrom US as of the Filing Date (certain indemnities previously given had been released in accordance with their terms, and certain reservations of rights have been resolved in connection with the settlements described below).

4.18 As described in the Seventh Heckel Affidavit, the Nordstrom Canada Entities have entered or will be entering into separate settlement agreements (each a “**Supporting Rack Landlord Settlement Agreement**”) with the three Nordstrom Rack landlords who had their leases disclaimed as part of the CCAA Proceedings, being the landlords of the One Bloor Street East, Willowbrook Langley, and South Edmonton Common Nordstrom Rack store locations (each a “**Supporting Rack Landlord**”), regarding a resolution of their claims against the Nordstrom Canada Entities in the CCAA Proceedings (the “**Rack Lease Claims**”).¹

4.19 The key terms of each of the Supporting Rack Landlord Settlement Agreements include the following:

- (a) the Rack Lease Claim of the Supporting Rack Landlord shall be accepted and proven in the Claims Process, with the consent of the Monitor, at an amount that shall result in the Nordstrom Canada Entities paying a cash distribution to the Supporting Rack Landlord under the Plan equivalent to one year of rent under the respective lease (the “**Rack Landlord Settlement Payment**”). Based on current modelling, the Nordstrom Canada Entities and the Monitor project that this will result in a Proven Claim for each of the Supporting Rack Landlords equal to approximately 17 months of rent under their respective leases;

¹ Although all substantive and economic terms have been agreed upon, one of the Supporting Rack Landlord Settlement Agreements has not yet been formally executed as the parties are finalizing certain technical aspects of the agreement.

- (b) the Nordstrom Canada Entities agree to pursue the completion of the settlement by way of the Plan and to file the Plan with the Court consistent with the terms of the Supporting Rack Landlord Settlement Agreements; and
- (c) each of the Supporting Rack Landlords agree that it shall: (i) consent to the Nordstrom Canada Entities' motion for the proposed Meeting Order; (ii) vote its Rack Lease Claims in favour of the approval and adoption of the Plan; and (iii) consent to the Sanction Motion.

Summary

4.20 In summary, as of the date of this Seventh Report:

- (a) the Nordstrom Canada Entities have resolved all of the Claims relating to the six FLS Leases disclaimed during the CCAA Proceedings. The FLS CCAA Lease Claims have been accepted as Proven Claims, with the consent of the Monitor, at an amount equal to 4.5 years of rent under the FLS Leases. The aggregate amount of accepted FLS CCAA Lease Claims is approximately \$121.6 million. Indemnity claims were resolved outside of the estate as required by the Initial Order;
- (b) the Nordstrom Canada Entities have resolved all of the Claims relating to the three Nordstrom Rack Leases disclaimed during the CCAA Proceedings. The Supporting Rack Landlord Settlement Agreements provide that the Rack Lease Claims are accepted in the Claims Process at an amount that will result in each Supporting Rack Landlord receiving under the Plan a Rack Landlord Settlement Payment equivalent to one year of rent under the respective lease. Based on current modelling, it is projected that this will result in a Proven Claim for each of the

Supporting Rack Landlords equal to approximately 17 months of rent under the respective lease for aggregate Proven Claims of approximately \$11.4 million;

- (c) 597 Claims have been resolved and are Proven Claims in the aggregate amount of \$167.6 million (including the FLS CCAA Lease Claims and Rack Lease Claims described above);
- (d) 123 Claims in the aggregate asserted amount of \$8.7 million are Unresolved Claims, which are at various stages of administration as described above; and
- (e) the Monitor currently estimates that aggregate Proven Claims following the determination of Unresolved Claims will be in the range of approximately \$194.0 million² to \$198.0 million, subject to resolution of the CRA Marker Claim.

Director & Officer Claims

- 4.21 Two Pre-Filing D&O Claims were filed totalling approximately \$311,000. Both D&O Claims have been disallowed in full and the time for the Claimant to object to the disallowance has passed. As a result, all potential D&O Claims have been barred and extinguished pursuant to the Claims Procedure Order.

CRA Agreement

- 4.22 As described in the Seventh Heckel Affidavit, the CRA has issued assessments against NCH for non-resident withholding taxes for the tax years 2014 to 2021 related to interest

² The \$194.0 million of aggregate Proven Claims is the sum of: (a) \$180.1 million of “Total Estimated Allowable Unsecured Claims” from the Illustrative Recoveries Analysis set forth in section 7.1 of this Seventh Report; (b) estimated Convenience Class Claims of \$2.5 million; and (c) estimated aggregate Proven Claims of Supporting Rack Landlords of \$11.4 million.

paid by NCH to Nordstrom International Limited (“**NIL**”) on the Canada Expansion Loan (the “**CRA NCH Assessments**”). The total amounts assessed under the CRA NCH Assessments are estimated to total approximately \$36 million as of June 27, 2023. NCH disagrees with the CRA NCH Assessments and has filed Notices of Objection with respect to the assessments.

4.23 In order to resolve the CRA NCH Assessments as against NCH for purposes of advancing the CCAA Proceedings, NIL, NCH and the Minister of National Revenue (the “**Minister**”) have entered into an agreement (the “**CRA Agreement**”) whereby the Minister will vacate the CRA NCH Assessments as against NCH, and instead assess and accept security from NIL, a subsidiary of Nordstrom US that is not an Applicant in the CCAA Proceedings.

4.24 The key terms of the CRA Agreement include:

- (a) by no later than January 5, 2024, NIL will deliver to the Minister an original irrevocable standby letter of credit in the amount of \$39,298,779 (the “**Interim ISLC**”), which will secure the NIL Assessments (as defined below);
- (b) the Minister will make reasonable efforts to issue Notices of Assessment to NIL by January 22, 2024, assessing non-resident withholding tax, arrears interest, and applicable penalties on substantially the same basis as the CRA NCH Assessments (the “**NIL Assessments**”);
- (c) the Minister will take all necessary steps to vacate the CRA NCH Assessments and make reasonable best efforts by no later than 15 business days after receipt of the Interim ISLC to withdraw and vacate the CRA NCH Assessments or issue zero

dollar reassessments, such that there will be no further claims or new assessments against NCH in respect of the potential claims reflected in the CRA NCH Assessments;

- (e) the Minister agrees not to draw-down on the Interim ISLC or, if applicable, a substituted letter of credit posted by NIL in a revised amount (the “ISLC”) except in certain specified circumstances;
- (f) nothing in the CRA Agreement limits NIL’s right to challenge the NIL Assessments on their merits (including by way of objection or appeal) or to seek relief from the competent authorities of Canada and/or the United States under the *Canada-United States Tax Convention*; and
- (g) provided that the Minister receives the Interim ISLC or ISLC, the Minister agrees that no distributions in the CCAA proceedings will be made to the Receiver General for Canada in respect of the CRA NCH Assessments nor will the Minister have any further recourse against NCH on account of the CRA NCH Assessments.

4.25 It is a condition precedent to the implementation of the Plan that the Minister shall have withdrawn and vacated the CRA NCH Assessments as contemplated by the CRA Agreement.

4.26 The effect of the CRA Agreement is to remove a substantial potential tax liability from the Nordstrom Canada Entities’ estate in order to facilitate the advancement of the Plan, the Creditors’ Meeting and, if the Plan is approved and sanctioned by the Court, distributions to Affected Creditors on a timely basis.

5.0 CASH FLOW RESULTS RELATIVE TO FORECAST AND UPDATED AND EXTENDED CASH FLOW FORECAST

5.1 Receipts and disbursements for the cumulative 12-week period from September 17, 2023 to December 9, 2023 (the “**Reporting Period**”), as compared to the summarized cash flow table that was included in Sixth Report (the “**Cash Flow Forecast**”), are summarized in the table below.

Cash Flow Variance Reporting (CAD \$000s, Unaudited)	Cumulative 12-Week Period Ended Dec 9, 2023		
	Actual	Forecast	Variance
Receipts	1,402	\$ 1,120	\$ 282
Disbursements			
Salaries and Benefits	99	170	71
Occupancy & Other Costs	1,459	1,541	83
Logistics, Transportation and Customs	10	50	40
Liquidation Costs	1,936	1,700	(236)
Professional Fees	4,174	4,976	802
Shared Service Payments - Intercompany	368	600	232
Total Disbursements	\$ 8,047	\$ 9,037	\$ 990
Net Cash Flow	\$ (6,645)	\$ (7,917)	\$ 1,273
Opening Cash Balance	88,723	88,723	-
Net Cash Flow	(6,645)	(7,917)	1,273
Closing Cash Balance	\$ 82,078	\$ 80,806	\$ 1,273

5.2 During the Reporting Period, the Nordstrom Canada Entities’ total receipts were approximately \$282,000 greater than projected in the Cash Flow Forecast due to higher than forecast interest income.

5.3 During the Reporting Period, the Nordstrom Canada Entities’ total disbursements were approximately \$990,000 less than projected in the Cash Flow Forecast. The net positive variance is primarily attributable to:

- (a) lower than forecast professional fees (by approximately \$802,000), which is primarily a permanent variance during the Reporting Period with a relatively small portion expected to reverse in future weeks;
 - (b) lower than forecast shared services (by approximately \$232,000), which is primarily timing and expected to reverse in future weeks; and
 - (c) the above positive variances were partially offset by higher than forecast liquidation costs (by \$236,000), which is due to the timing of receipt of refunds on taxes paid on the Consultant's invoice.
- 5.4 The closing cash balance as of December 9, 2023 was approximately \$82.1 million, as compared to the forecast cash balance of approximately \$80.8 million.

Updated and Extended Cash Flow Forecast

- 5.5 The Applicants have prepared an updated and extended cash flow forecast (the “**Updated Forecast**”) for the 17-week period from December 10, 2023 to April 6, 2024 (the “**Cash Flow Period**”). At this stage of the CCAA Proceedings, the Nordstrom Canada Entities are forecast to have relatively low receipts and disbursements activity during the Cash Flow Period, as summarized in the table below.

Cumulative 17-Week Period Ending April 6, 2024	
<i>(CAD \$000s, Unaudited)</i>	
Opening Cash Position, December 10, 2023	\$ 82,078
Forecast Receipts	
Interest	992
Total Receipts	\$ 992
Forecast Disbursements	
Occupancy & Other Costs	880
Professional Fees	3,079
Shared Service Payments - Intercompany	635
Other Disbursements	116
Total Disbursements	\$ 4,710
Forecast Closing Cash Position, April 6, 2023	\$ 78,360

5.6 Forecast receipts during the Cash Flow Period relate to interest income and exclude approximately \$1.3 million of additional receipts beyond the Cash Flow Period related to the anticipated return of a customs bond.

5.7 Forecast disbursements during the Cash Flow Period relate primarily to ongoing rents through the anticipated closing of the transactions contemplated by the Winners Agreement on February 1, 2024, payments for post-filing goods and services as a limited number of vendor accounts are reconciled, professional fees and shared services.

5.8 The closing cash balance as of April 6, 2024 is forecast to be approximately \$78.4 million. Accordingly, the Nordstrom Canada Entities are expected to have sufficient liquidity to fund the CCAA Proceedings through the proposed extension of the Stay Period to and including April 5, 2024.

6.0 PLAN OF COMPROMISE AND ARRANGEMENT

6.1 Capitalized terms used but not defined in this section of the Seventh Report have the meanings ascribed to them in the Plan. Readers are cautioned that the commentary below

is an overview only, and, as such, interested parties should review the Plan in its entirety. The commentary below is intended to supplement the extensive description of the Plan in the Seventh Heckel Affidavit.

- 6.2 In accordance with section 23(1)(d.1) of the CCAA, the Monitor will file a report at least seven days prior to the Creditors' Meeting regarding the Plan and the Monitor's analysis and views with respect to the Plan.
- 6.3 A table detailing an illustrative range of estimated recoveries to Affected Creditors under the Plan is provided in section 7.0 of this Seventh Report.

Overview of the Plan

- 6.4 The Nordstrom Canada Entities, with the support of Nordstrom US as "**Plan Sponsor**" and the Monitor, have developed the Plan to present to the Affected Creditors. A copy of the Plan is attached as Exhibit "A" to the Seventh Heckel Affidavit.
- 6.5 The Plan is being put forward by the Nordstrom Canada Entities on a consolidated basis.
- 6.6 If approved, sanctioned and implemented, the Plan will provide for a compromise and settlement of all Affected Claims, effect a release and discharge of all Affected Claims and claims against the Released Parties, and effect a global resolution of the CCAA Proceedings.

Classification of Creditors

- 6.7 The Plan creates a single class of Affected Creditors for voting and distribution purposes (the "**Unsecured Creditors' Class**") that would be entitled to vote as a single class of

creditors and then receive cash distributions under the Plan in respect of their Proven Claims. The procedures for valuing Voting Claims and resolving disputes and entitlements to voting are set forth in the Claims Procedure Order, the Meeting Order and the Plan.

- 6.8 Affected Creditors with Proven Claims that are less than or equal to \$15,000 are deemed to be “**Convenience Class Creditors**”. Convenience Class Creditors are deemed to vote in favour of the Plan without any requirement to cast a vote.
- 6.9 Any Affected Creditor with Proven Claims in excess of \$15,000 in the aggregate can elect to be treated as a Convenience Class Creditor by delivering a Convenience Class Claim Election pursuant to the Meeting Order. The Claim of any Affected Creditor that timely delivers a Convenience Class Claim Election will be valued at \$15,000 for purposes of the Plan and the Meeting Order. While the Monitor cannot provide assurances as to the ultimate recovery to be realized by Affected Creditors under the Plan, the Monitor notes by way of illustration that if the Plan ultimately provides a recovery of 73% for Affected Creditors (being the approximate mid-point in the range of illustrated recoveries in this Seventh Report), any Affected Creditor with a Claim of less than \$20,548 would obtain a higher recovery on its Proven Claim by electing to be treated as a Convenience Class Creditor.
- 6.10 Certain Claims are to be unaffected by the Plan (defined in the Plan as “**Unaffected Claims**”) and will not be compromised. The Unaffected Claims include any: (a) Excluded Claim; (b) Claim in respect of the Administrative Reserve Costs; (c) FLS Landlord Guarantee Claim; (d) Priority Claim; and (e) Insured Claim.

- 6.11 Persons holding Equity Claims will not be entitled to vote at the Creditors' Meeting and are not entitled to any distributions under the Plan or to otherwise receive any compensation in respect of those Equity Claims.
- 6.12 The Plan Sponsor will not be entitled to vote on the Plan. In addition, the FLS CCAA Lease Claims of the FLS Landlords will not be voted at the Creditors' Meeting, as the Plan Sponsor will receive amounts paid in respect of such Claims from the FLS Landlords pursuant to the FLS Landlord Settlement Agreements.
- 6.13 Insured Claims will not be compromised, settled, released or discharged by the Plan, provided that any Person with an Insured Claim is limited to recovery in respect of the applicable Insurance Policies and not from the Nordstrom Canada Entities.

Consolidated Plan of the Nordstrom Canada Entities

- 6.14 The Plan is a consolidated plan of arrangement in respect of the four Nordstrom Canada Entities. The Plan provides for the pooling of all cash of the Nordstrom Canada Entities (subject to certain reserves) into a Consolidated Cash Pool, from which distributions to Affected Creditors of all four of the Nordstrom Canada Entities will be made.
- 6.15 The Seventh Heckel Affidavit describes the intertwined nature of the business of the Nordstrom Canada Entities. The Monitor is of the view that it is reasonable for the Plan to be consolidated having regard to the corporate and operational structure of the Nordstrom Canada Entities, the nature of the Claims against the Nordstrom Canada Entities, and the circumstances of these CCAA Proceedings.

6.16 In reaching that view, the Monitor has considered the potential benefits and impacts to various Affected Creditors arising from a consolidated plan, as opposed to a scenario in which each of the Nordstrom Canada Entities filed its own unconsolidated plan of arrangement. In that regard, the Monitor notes the following general distribution of Claims as against the Nordstrom Canada Entities:

- (a) the FLS Landlords and Supporting Rack Landlords have Proven Claims against Canada Leasing LP. Substantially all of the Proven Claims against Canada Leasing LP are held by such third-party landlords;
- (b) the vast majority of Affected Creditors – being primarily vendor claimants and employee claimants – have Proven Claims solely against Nordstrom Canada (subject to very limited exceptions);
- (c) subject to the resolution of the CRA NCH Assessments in accordance with the CRA Agreement and the CRA Marker Claim, the only Affected Creditor that would currently have a Proven Claim against NCH is NIL, being the NIL Canada Expansion Loan Claim (as defined in the Monitor’s Intercompany Claims Report); and
- (d) there are no Proven Claims against NCHII.

6.17 As described in the Monitor’s Intercompany Claims Report, there are significant Intercompany Claims owing by Nordstrom Canada to Canada Leasing LP.³ If those estates

³ For a listing of the Intercompany Claims, see the table at section 3.6 of the Monitor’s Intercompany Claims Report, which is attached hereto as Appendix “A”. The Intercompany Claims owing by Nordstrom Canada to Canada Leasing

were resolved on an unconsolidated basis, the effect of the realization on such Intercompany Claims would be to transfer a material portion of the cash held by Nordstrom Canada to Canada Leasing LP. The resulting transfer of funds to Canada Leasing LP would, on an unconsolidated basis, increase recoveries to Affected Creditors with Proven Claims against Canada Leasing LP (the third-party landlords) and decrease recoveries to Affected Creditors with Proven Claims against Nordstrom Canada (primarily vendors and employees).

- 6.18 All of the third-party landlords with Proven Claims have reached settlement agreements with the Nordstrom Canada Entities to resolve their Proven Claims pursuant to the consolidated Plan. Proceeding by way of a consolidated Plan with the support of the FLS Landlords and the Supporting Rack Landlords enables the creation of a Consolidated Cash Pool from which all Affected Creditors can receive distributions under the Plan. The effect of this consolidation under the Plan is to make additional funds available to Affected Creditors with Proven Claims against Nordstrom Canada which would not otherwise be available to such Affected Creditors in an unconsolidated scenario.
- 6.19 Having regard to all of the circumstances, including the structure of the settlements with the FLS Landlords and the Supporting Rack Landlords and the resolution of the CRA NCH Assessments, the Monitor believes that a significant majority of Affected Creditors will receive a better financial recovery under the consolidated Plan relative to an unconsolidated scenario, and that there is no material prejudice to Affected Creditors from the Nordstrom Canada Entities' decision to proceed by way of a consolidated Plan. The Monitor also notes

LP are, as defined therein, the NCL Pre-Filing Sublease Rent Claim (Claim No. 8), the NCL Post-Filing Sublease Rent Claim (Claim No. 9), and the NCL Sublease Termination Claim (Claim No. 10).

that there are efficiency benefits and cost savings realized by proceeding by way of a consolidated Plan.

Consolidated Cash Pool and Cash Reserves

6.20 On the Plan Implementation Date, consistent with the consolidated approach of the Plan, the Nordstrom Canada Entities will use all of their cash to establish the Consolidated Cash Pool and Cash Reserves:

- (a) **Consolidated Cash Pool** – Each of the Nordstrom Canada Entities shall deliver or cause to be delivered to Nordstrom Canada all of its cash, if any, including all proceeds of sale from the Liquidation Sale and the Lease Monetization Process, which cash shall be held by Nordstrom Canada in the Consolidated Cash Pool Account for itself and as nominee for the other Nordstrom Canada Entities (to the extent of their contributions).
- (b) **Administrative Reserve** – Nordstrom Canada, on behalf of itself and each of the other Nordstrom Canada Entities, shall transfer the cash necessary to establish the Administrative Reserve to the Administrative Reserve Account, for the purpose of paying the “Administrative Reserve Costs”, which are enumerated in the Plan.
- (c) **Disputed Claims Reserve Account** – Nordstrom Canada, on behalf of itself and each of the other Nordstrom Canada Entities, shall transfer the cash necessary to establish the Disputed Claims Reserve to the Disputed Claims Reserve Account, pending the final resolution of any Disputed Claims in accordance with the Plan.

Input Tax Credits (ITCs)

6.21 It is expected that certain input tax credits under the *Excise Tax Act* (“ITCs”) will become receivable as a result of the transactions and payments pursuant to the Plan and the FLS Landlord Settlement Agreements. These ITCs relate to three general categories, as follows:

- (a) “NCL FLS Distribution ITCs” are ITCs generated in favour of NCL on account of HST/GST deemed to have been paid by NCL on Plan distributions to FLS Landlords. NCL FLS Distribution ITCs will be held by Nordstrom Canada in the NCL ITC Cash Pool Account (as nominee for NCL) and distributed to FLS Landlords pursuant to the Plan;
- (b) “NCL Rack Distribution ITCs” are ITCs generated in favour of NCL on account of HST/GST deemed to have been paid by NCL on Plan distributions to Supporting Rack Landlords. As the Rack Landlord Settlement Payments to be paid to Supporting Rack Landlords are inclusive of HST/GST, all NCL Rack Distribution ITCs will be delivered by NCL to Nordstrom Canada and deposited into the Consolidated Cash Pool (to be held by Nordstrom Canada as nominee for NCL);
and
- (c) “Plan Sponsor ITCs” are ITCs generated in favour of NCL as a result of payments made by Nordstrom US to the FLS Landlords pursuant to the FLS Landlord Settlement Agreements. Plan Sponsor ITCs received by NCL are to be held in trust by NCL for the benefit of the Plan Sponsor as and when received, and shall not be contributed to the Consolidated Cash Pool.

Intercompany Claims

- 6.22 The Claims Procedure Order provides that an Intercompany Claim identified in the Monitor's Intercompany Claims Report shall not be accepted as a Proven Claim unless and until such Intercompany Claim has been approved by the Court. The Plan provides that the Sanction and Vesting Order would order that the Intercompany Claims set out in Schedule "A" to the Plan are deemed to be Proven Claims for the purposes of the Claims Procedure Order and the Plan.
- 6.23 As described in section 3.2 of the Monitor's Intercompany Claims Report (a copy of which is attached as **Appendix "A"** hereto), the Intercompany Claims can be subdivided into two types of claims based on the nature of the claimant:
- (a) Intercompany Claims between a Nordstrom Canada Entity and another entity in the Nordstrom Group that is not a Nordstrom Canada Entity (the "**Affiliate Claims**"); and
 - (b) Intercompany Claims against a Nordstrom Canada Entity by a claimant that is itself a Nordstrom Canada Entity (the "**Intracompany Claims**").
- 6.24 The Monitor's Intercompany Claims Report identified seven (7) Affiliate Claims and four (4) Intracompany Claims, as summarized in the table at section 3.6 of the Monitor's Intercompany Claims Report.

Intracompany Claims

6.25 As the Nordstrom Canada Entities are proceeding with a consolidated Plan, the four Intracompany Claims identified in the Monitor's Intercompany Claims Report – being claims as between Nordstrom Canada Entities – do not alter the economic recoveries of Affected Creditors.⁴ The Intracompany Claims are treated as Proven Claims under the Plan in the amounts set forth in Schedule “A” to the Plan, and certain of the Intracompany Claims are settled as between Canada Leasing LP and Nordstrom Canada in accordance with the Plan Transaction Steps set out in section 5.2 of the Plan. However, and of importance to note, the settlement of such Intracompany Claims does not have any economic effect on the recovery for Affected Creditors, as all cash held by or payable by the Nordstrom Canada Entities following completion of these Plan Transaction Steps is contributed to the Consolidated Cash Pool for distribution to Affected Creditors.

Affiliate Claims

6.26 Under the Plan, the seven Affiliate Claims identified in the Monitor's Intercompany Claims Report – being claims as between a Nordstrom Canada Entity and an affiliate that is not subject to the CCAA Proceedings – are to be Proven Claims in the amounts set forth in Schedule “A” to the Plan. From a substantive perspective and omitting certain interim steps for the sake of simplicity, the Affiliate Claims are resolved as follows for purposes of the Plan:

⁴ The Intracompany Claims are the NCL Pre-Filing Sublease Rent Claim (Claim No. 8), the NCL Post-Filing Sublease Rent Claim (Claim No. 9), the NCL Sublease Termination Claim (Claim No. 10) and the NCRI-NCL Services Claim (Claim No. 11).

- (a) the NINC-NCH Services Claim (in the amount of \$55,031) will be contributed down the corporate ownership chain to the capital of NCH in satisfaction of the Claim. Accordingly, Nordstrom US will not obtain a cash recovery on this Claim;
- (b) the NINC-NCII Services Claim (in the amount of \$56,829) will be contributed down the corporate ownership chain to the capital of NCHII in satisfaction of the Claim. Accordingly, Nordstrom US will not obtain a cash recovery on this Claim;
- (c) Nordstrom US will pay \$69,939,309 to the Consolidated Cash Pool, in satisfaction of the NCRI Transfer Pricing Claim (\$87,400,488), on a net basis after effecting a set off of the Net NINC-NCRI Services Claim (\$17,461,179), which represents the amount of the NINC-NCRI Services Claim (\$17,661,179) reduced by the fair market value of the Canada Customer Data transferred to Nordstrom US (\$200,000);
- (d) the NIL Canada Expansion Loan Claim (\$309,832,891) will be a Proven Claim in an amount which will generate a distribution equal to (and in any case no greater than) the cash on hand at NCH available for distribution to Affected Creditors on the Plan Implementation Date. It is expected that NIL's cash recovery on the NIL Canada Expansion Loan Claim will be approximately \$0.9 million, and thus the vast majority of the Canadian Expansion Loan Claim (representing more than \$300 million in Claim value) will not be recovered by the Plan Sponsor;
- (e) the NINC-NCL Services Claim (\$495,582) will be a Proven Claim in the amount set forth in the Monitor's Intercompany Claims Report and Nordstrom US will obtain a cash recovery of its Pro Rata Share of this Affected Claim; and

- (f) as authorized pursuant to the Initial Order, the NINC Employee Trust Subrogated Claim will be a Proven Claim in the amount of \$14,599,347 (being the aggregate gross amount paid to beneficiaries directly or indirectly from the Employee Trust) and Nordstrom US will obtain a cash recovery of its Pro Rata Share of this Affected Claim.

6.27 Nordstrom US will not recover on certain other Claims that could be subrogated Claims as against the Nordstrom Canada Entities in the amount of approximately \$1 million.

Distributions under the Plan

6.28 No later than the Initial Distribution Date, Nordstrom Canada will distribute Cash from the Administrative Reserve to pay certain Administrative Reserve Costs to the extent they are due and owing on such date, as set out in the Plan.

6.29 On the Initial Distribution Date, Nordstrom Canada, on behalf of itself and each of the other Nordstrom Canada Entities, will distribute the Cash in the Consolidated Cash Pool as follows:

- (a) first, each Other Priority Claim Creditor will receive a distribution in the full amount of its Other Priority Claim, in full and final settlement and satisfaction of its Other Priority Claim;
- (b) second, each Convenience Class Creditor will receive a distribution in the full amount of its Convenience Class Claim, in full and final settlement and satisfaction of its Proven Claim; and

(c) third, each Affected Creditor (other than a Convenience Class Creditor) with a Proven Claim will receive an initial distribution in an amount equal to its Pro Rata Share of the Cash in the Consolidated Cash Pool Account on the Initial Distribution Date, provided that the amount of the initial distribution paid to each Supporting Rack Landlord shall be no less than the total amount required to be paid pursuant to its Supporting Rack Landlord Settlement Agreement (i.e., the Rack Landlord Settlement Payments), with no further distributions to be made to the Supporting Rack Landlords under the Plan.

6.30 From and after the Initial Distribution Date, as frequently as the Nordstrom Canada Entities and the Monitor may determine, Nordstrom Canada will distribute to each Affected Creditor (other than Convenience Class Creditors and Supporting Rack Landlords) its Pro Rata Share of any cash in the Consolidated Cash Pool. In circumstances where a Disputed Claim has become a Proven Claim, Nordstrom Canada will distribute to the applicable Affected Creditor an amount of cash from the Disputed Claims Reserve Account equal to the aggregate amount of all distributions such Affected Creditor would have already received pursuant to the Plan had its Claim been accepted as a Proven Claim prior to the Plan Implementation Date. Any remaining balance in the Disputed Claims Reserve Account relating to such Affected Creditor's Disputed Claim will be deposited into the Consolidated Cash Pool Account.

6.31 On the Final Distribution Date, once there are no remaining Disputed Claims, Nordstrom Canada, on behalf of itself and each of the other Nordstrom Canada Entities will:

- (a) first, pay any final Administrative Reserve Costs from the Administrative Reserve Account;
- (b) second, contribute any balance remaining in the Administrative Reserve Account and the Disputed Claims Reserve Account to the Consolidated Cash Pool Account;
- (c) third, distribute to each Affected Creditor (other than Convenience Class Creditors and Supporting Rack Landlords) an amount equal to such Affected Creditor's respective Pro Rata Share of any Cash in the Consolidated Cash Pool Account, in full and final settlement, satisfaction and extinguishment of such Affected Creditor's Proven Claim; and
- (d) fourth, provide written notice to the Monitor that it has completed its duties to fully and finally effect all distributions, disbursements and payments in accordance with the Plan.

6.32 To the extent that payments are not cashed and become stale-dated or are returned as undeliverable, an Affected Creditor must notify the Monitor of the Affected Creditor's current address or payment instructions, at which time all such distributions will be made to such Affected Creditor. All claims for undeliverable or uncashed distributions in respect of Proven Claims must be made no later than the date that is four months following the Initial Distribution Date. If notice is not given before the deadline, the Affected Creditor's Claim will be forever discharged and barred and the cash that otherwise would have been payable to that Affected Creditor will be returned to the Consolidated Cash Pool Account.

Plan Releases

- 6.33 The Plan provides for a comprehensive release of the “Released Parties” in respect of claims and obligations arising or occurring on or prior to the later of the Plan Implementation Date and the date on which actions are taken to implement the Plan, subject to certain specific carve-outs including that the FLS Landlord Guarantee Claims are not released under the Plan. The FLS Landlord Guarantee Claims were addressed, outside of the Plan, through contractual releases granted pursuant to the FLS Landlord Settlement Agreements.
- 6.34 The Released Parties under the Plan consist of:
- (a) the “**Nordstrom Canada Entities Released Parties**”, defined as the Nordstrom Canada Entities and their respective Directors, Officers, current and former employees, advisors, legal counsel and agents;
 - (b) the “**Third Party Released Parties**”, defined as (i) the Monitor, A&M, and their respective affiliates, and each of their current and former directors, officers, employees, representatives, advisors, legal counsel and agents; (ii) counsel to the Directors and Officers; (iii) the Employee Trust Trustee; and (iv) Employee Representative Counsel; and
 - (c) the “**Plan Sponsor Released Parties**”, defined as the Plan Sponsor, the Plan Sponsor Subsidiaries (being all direct and indirect subsidiaries of the Plan Sponsor other than the Nordstrom Canada Entities) and their current and former directors, officers and employees and their respective advisors, legal counsel and agents.

7.0 ILLUSTRATIVE RANGE OF ESTIMATED RECOVERIES

- 7.1 The Monitor has prepared an illustrative range of estimated recoveries under the Plan which is summarized in the table below and is based on information available as at December 11, 2023 (the “**Illustrative Recoveries Analysis**”). The Illustrative Recoveries Analysis has been prepared based on the terms of the Plan and the ongoing assessment of Claims filed. The Monitor cautions that the Illustrative Recoveries Analysis remains preliminary at this stage and is expected to change (which change could be material) as:
- (a) filed Claims continue to be reviewed and assessed, including the CRA Marker Claim;
 - (b) the Claims Process continues to advance, including the resolution of Disputed Claims, if any, in accordance with Claims Procedure Order; and
 - (c) variances in receipts and disbursements relative to the Updated Forecast result in changes to the total estimated net proceeds available for distribution to creditors.

Illustrative Range of Estimated Recoveries		Illustrative Scenarios	
CAD 000's		Low	High
Forecast Cash Balance as at April 6, 2024		77,681	78,946
Transfer Pricing Payment (<i>Net of NINC-NCRI Shared Services Claim</i>)		69,939	69,939
Refund of Customs Bond (<i>Timing of Receipt TBD</i>)		1,000	1,300
Post Filing Obligations and Administrative Reserve		(5,000)	(3,000)
Total Estimated Net Proceeds		143,620	147,185
Estimated Other Priority Claims, Convenience Class & Recoveries to Rack Landlords			
Other Priority Claims		719	719
Convenience Class Claims (< \$15,000)		1,700	1,700
Convenience Class Opt Ins		1,000	750
Recoveries to Supporting Rack Landlords		8,835	8,835
Estimated Net Proceeds Available for Distribution	A	131,366	135,181
Estimated Allowable Unsecured Claims			
FLS Landlord Claim Amounts		121,563	121,563
Other Affected Creditor Claims		46,000	42,250
Intercompany Claims			
NIL Canada Expansion Loan		1,254	1,193
NINC Employee Trust Subrogated Claim		14,599	14,599
NINC-NCL Services Claim		496	496
Total Estimated Allowable Unsecured Claims	B	183,912	180,101
Recovery %	A/B	71.4%	75.1%

- 7.2 Based on the above Illustrative Recoveries Analysis (and subject to the important qualifications noted in section 7.1 of this Seventh Report), the Monitor estimates that Affected Creditors with Proven Claims will receive distributions under the Plan in the range of approximately 71% to 75% of such Affected Creditors' Proven Claim.

8.0 MEETING ORDER

- 8.1 The Nordstrom Canada Entities are seeking the proposed Meeting Order setting out the procedures for the notice and conduct of the virtual Creditors' Meeting to enable Affected Creditors to consider and vote on a resolution to approve the Plan. Capitalized terms used but not defined in this section of this Seventh Report have the meanings ascribed to them in the Meeting Order.
- 8.2 The proposed Meeting Order contemplates the meeting of a single class of Affected Creditors – the Unsecured Creditors Class – to vote on the Plan. Subject to Court approval, the Creditors' Meeting will be held at 10:00 a.m. on March 1, 2024 by electronic or virtual means, subject to adjournment or modification in accordance with the terms of the Meeting Order or further order of this Court. The Creditors' Meeting will be chaired by the Monitor or its representative.

Notice of Creditors' Meeting

- 8.3 The Meeting Order approves certain notice materials and documents to be provided to Affected Creditors in connection with the Creditors' Meeting, consisting of: (a) a letter from the Nordstrom Canada Entities to Affected Creditors describing key elements of the Plan (the "**Letter to Creditors**"); (b) the Notice of Creditors' Meeting; (c) the form of Proxy; (d) the Convenience Class Claim Election; and (e) the form of Resolution to

approve the Plan. The Monitor notes that providing a letter to creditors has been used to provide information to creditors in other CCAA proceedings and believes that the Letter to Creditors will assist the Affected Creditors in considering the Plan.

8.4 The Meeting Order requires the Monitor to provide notice of the Creditors' Meeting to Affected Creditors, as follows:

- (a) not later than January 15, 2024 or as soon as practicable thereafter, the Monitor shall send, or cause to be sent, the Letter to Creditors, Notice of Creditors' Meeting, the Proxy, the Convenience Class Claim Election, the Resolution, the Plan, and the Meeting Order (collectively, the "**Meeting Materials**") to: (i) each Affected Creditor at the address set out in its Proof of Claim or Negative Notice Claim, as applicable; and (ii) Employee Representative Counsel;
- (b) within four Business Days following the date of the Meeting Order, the Monitor shall post an electronic copy of the Meeting Materials on the Monitor's Website and send a copy of the Meeting Materials to the Service List in the CCAA Proceedings;
- (c) upon request by any Affected Creditor with a Voting Claim received not less than five Business Days prior to the Creditors' Meeting, the Monitor shall provide written or electronic copies of the Meeting Materials to such Affected Creditor; and
- (d) the Monitor shall cause a notice of the Creditors' Meeting to be published in *The Globe and Mail* (National Edition) on or before January 15, 2024.

Conduct of the Creditors' Meeting

- 8.5 The Meeting Order provides that a representative of the Monitor will act as Chair of the Creditors' Meeting and, subject to any further order of this Court, will decide all matters relating to the conduct of the Creditors' Meeting. The Monitor may appoint one or more scrutineers for the supervision and tabulation of the attendance, quorum and votes cast at the Creditors' Meeting. One or more individuals designated by the Monitor will act as secretary at the Creditors' Meeting.
- 8.6 The only Persons entitled to attend the Creditors' Meeting are: (i) Affected Creditors entitled to vote at the Creditors' Meeting (or, if applicable, and Person holding a valid Proxy on behalf of one or more Affected Creditors) and any such Affected Creditor's legal counsel and financial advisors; (ii) the Chair, the scrutineers, and the secretary; (iii) representatives of the Monitor and the Monitor's legal counsel; (iv) representatives of the Nordstrom Canada Entities and the Nordstrom Canada Entities' legal counsel; (v) representatives of the Plan Sponsor and the Plan Sponsor's legal counsel; and (vi) Employee Representative Counsel. Any other Person may be admitted to the Creditors' Meeting on invitation of the Nordstrom Canada Entities, in consultation with the Monitor.

Voting at the Creditors' Meeting

- 8.7 The Meeting Order provides that at the Creditors' Meeting, the Chair will direct a vote on the Resolution to approve the Plan and any amendments or variations thereto as the Monitor, the Nordstrom Canada Entities and the Plan Sponsor may consider appropriate.

- 8.8 The quorum required at the Creditors' Meeting will be one Affected Creditor with a Voting Claim present at the Creditors' Meeting in person (by electronic or virtual means) or by proxy.
- 8.9 An Affected Creditor will be permitted to attend the Creditors' Meeting in person (electronically or virtually) or may appoint the Monitor or another person to attend the Creditors' Meeting as its proxyholder in accordance with the process provided in the Meeting Order. The Meeting Order appoints Employee Representative Counsel as proxyholder for Represented Employees. The Meeting Order contains provisions outlining the requirements for voting by proxy and sets out the procedure and deadlines for submitting a Proxy. To vote by Proxy, an Affected Creditor must deliver the completed Proxy to the Monitor so that it is received prior to 5:00 p.m. (Toronto time) on February 28, 2024 (the "**Election/Proxy Deadline**").
- 8.10 Any Affected Creditor intending to attend and vote at the Creditor's Meeting (as opposed to voting by Proxy) must notify the Monitor by no later than the Election/Proxy Deadline in order to obtain their personal meeting identification number (a "**Personal Meeting Identifier**"). If such Affected Creditor validly submits a Proxy to the Monitor duly appointing a proxyholder other than the Monitor's representatives, the Monitor will provide a Personal Meeting Identifier to such duly appointed proxyholder.
- 8.11 Each Convenience Class Creditor will be deemed to vote as part of the Unsecured Creditors' Class in favour of the Plan. Each such vote will have a value equal to such Convenience Class Creditor's Proven Claim. Any Creditor who validly elects to be a Convenience Class Creditor by submitting a Convenience Class Claim Election prior to

the Election/Proxy Deadline will be deemed to have a Proven Claim in the amount of \$15,000 and will be deemed to vote in favour of the Plan.

- 8.12 The CRA will have one vote in respect of its Disputed Claims set out in the CRA Marker Claim, the dollar value of which will be equal to \$1.00, without prejudice to the determination of the dollar value of such Disputed Claims for distribution purposes in accordance with the Claims Procedure Order and the Plan.
- 8.13 Each Affected Creditor with a Disputed Claim (other than the CRA in respect of its Disputed Claims) will be entitled to one vote at the Creditors' Meeting in the amount of a Voting Claim equal to the dollar value for such Disputed Claim as set out in the NORD delivered by the Monitor pursuant to the Claims Procedure Order in respect of such Disputed Claim of, if a NORD has not been delivered in respect of such Disputed Claim, the dollar value of such Disputed Claim as set out in such Affected Creditor's Proof of Claim or Notice of Dispute of Negative Notice Claim, as applicable. The Monitor will keep a separate record of votes cast by Affected Creditors holding Disputed Claims and will report to the Court with respect thereto at the Sanction Motion.
- 8.14 Certain Persons are not entitled to vote on the Plan, including Persons holding Unaffected Claims. The Plan Sponsor is not entitled to vote on the Plan, and the FLS CCAA Lease Claims will not be voted on the Plan in light of the agreement of the FLS Landlords in the FLS Landlord Settlement Agreements to turnover any distributions in respect of such FLS CCAA Lease Claims to the Plan Sponsor.
- 8.15 The Chair will be authorized to adjourn, postpone or otherwise reschedule the Creditors' Meeting on one or more occasions (without the need to first convene such Creditors'

Meeting for the purpose of any adjournment, postponement or other rescheduling thereof). If the Creditors' Meeting is adjourned, the Monitor shall (a) post notice of the adjournment at the originally designated time and location of the Creditors' Meeting; (b) forthwith post notice of the adjournment on the Monitor's Website; and (c) provide notice of the adjournment to the Service List.

Amendments to the Plan

- 8.16 The Meeting Order provides that the Nordstrom Canada Entities, with the consent of the Monitor and the Plan Sponsor, are authorized to make and to file any Plan Modification prior to or at the Creditors' Meeting, in which case any such Plan Modification will form part of and be incorporated into the Plan considered by Affected Creditors at the Creditors' Meeting.
- 8.17 The Meeting Order also provides that amendments to the Plan can be made after the Creditors' Meeting by the Nordstrom Canada Entities, with the consent of the Monitor and the Plan Sponsor, either pursuant to an Order of the Court or where such an amendment concerns a matter which is of an administrative nature required to better give effect to the implementation of the Plan and the Sanction and Vesting Order or to cure any errors, omissions or ambiguities. In either circumstance, the amendment cannot be materially adverse to the financial or economic interests of the Affected Creditors or the Unaffected Creditors.

Approval and Court Sanction of the Plan

- 8.18 To be approved, the Plan must receive an affirmative vote by the Required Majority (as defined in the Plan) at the Creditors' Meeting. Following the vote at the Creditors' Meeting, the Monitor will tally the votes and determine whether the Plan has been approved by the Required Majority. The results of the Creditors' Meeting will be binding on all Affected Creditors, whether or not any such Affected Creditor is present or voting at the Creditors' Meeting, or was entitled to be present or vote at the Creditors' Meeting.
- 8.19 The Monitor will provide a report to the Court as soon as practicable after the Creditors' Meeting with respect to: (i) the results of voting at the Creditors' Meeting; (ii) whether the Required Majority has approved the Plan; (iii) the voting results in respect of Disputed Claims; and (iv) in its discretion, any other matter relating to the Sanction Motion.
- 8.20 The Nordstrom Canada Entities propose that, in the event that the Plan is approved by the Required Majority, the Nordstrom Canada Entities will bring the Sanction Motion on March 12, 2024 (or such later date as is acceptable to the Nordstrom Canada Entities and the Monitor).

Monitor's Views Regarding the Proposed Meeting Order

- 8.21 The Monitor and its counsel have worked closely with the Nordstrom Canada Entities and their counsel in the development of the Plan and the proposed Meeting Order. The Monitor believes that the proposed Meeting Order sets out an appropriate process for providing Affected Creditors with notice of the Creditors' Meeting and for Affected Creditors to consider and vote on the Plan. The Monitor notes that Affected Creditors will have until

February 28, 2024 to submit their voting Proxy or provide notice of their intention to attend and vote electronically at the Creditors' Meeting, which the Monitor believes is an appropriate timeframe in the circumstances.

8.22 The Monitor believes that the classification of all Affected Creditors into a single class of creditors for purposes of voting on the Plan is appropriate having regard to the commonality of their Claims (which are unsecured, non-priority Claims) and the fact that Affected Creditors would therefore receive the same economic recovery under the Plan. The Monitor also believes that the establishment of a convenience class, which is a common feature of CCAA plans of arrangement, is appropriate in the circumstances of this Plan and will achieve efficiency in the voting and distribution processes for Convenience Class Creditors.

8.23 The Nordstrom Canada Entities have made substantial progress in these CCAA Proceedings to complete an orderly wind-down of their business operations and to maximize the value of their estate through the Liquidation Sale and the Lease Monetization Process. The Nordstrom Canada Entities have completed the realization stage of the CCAA Proceedings and have now developed the Plan with a view to making distributions to their creditors and addressing remaining matters on a comprehensive and timely basis. Having regard to the structure, terms and objectives of the Plan and the advanced stage of the CCAA Proceedings, the Monitor believes it is appropriate for the Nordstrom Canada Entities to file the Plan and proceed with a vote of their Affected Creditors at this time. Accordingly, the Monitor supports the granting of the proposed Meeting Order.

9.0 EXTENSION OF THE STAY PERIOD

9.1 The current Stay Period (which also applies to the Co-Tenancy Stay) extends to December 22, 2023. The Nordstrom Canada Entities are seeking an extension of the Stay Period to and including April 5, 2024.

9.2 The Monitor supports the Nordstrom Canada Entities' request to extend the Stay Period to April 5, 2024, for the following reasons:

- (a) the Nordstrom Canada Entities have made substantial progress in the CCAA Proceedings during the most recent Stay Period, including: (i) concluding the FLS Landlord Settlement Agreements and the Supporting Rack Landlord Settlement Agreements; (ii) concluding the CRA Agreement; (iii) resolving a significant majority of the Claims submitted in the Claims Process; and (iv) developing the Plan and proposed Meeting Order. The extension of the Stay Period will enable the Nordstrom Canada Entities, with the assistance of the Monitor, to continue to advance the Claims Process, conduct the Creditors' Meeting to enable Affected Creditors to vote on the Plan and, if the Plan is approved by the Requisite Majority of Affected Creditors, bring the Sanction Motion seeking Court approval of the Plan and related relief;
- (b) the extension of the Co-Tenancy Stay will maintain stability while the Claims of creditors are resolved in the Claims Process and the CCAA Proceedings advance to the Creditors' Meeting;
- (c) the Nordstrom Canada Entities have acted, and continue to act, in good faith and with due diligence to advance their orderly wind-down and the CCAA Proceedings;

- (d) as described above, the Nordstrom Canada Entities have sufficient liquidity to fund forecast disbursements through the proposed extension of the Stay Period; and
- (e) the Monitor is not aware of any party that would be materially prejudiced by the proposed extension of the Stay Period.

10.0 ACTIVITIES OF THE MONITOR

10.1 Since the date of the Sixth Report (September 22, 2023), the primary activities of the Monitor and its counsel, Goodmans LLP, have included the following:

- (a) monitoring the Nordstrom Canada Entities' cash receipts and disbursements, and assisting in preparing weekly cash flow variance reporting, including tracking outstanding balances and commitments to service providers;
- (b) reviewing and participating in discussions with the Consultant, the Nordstrom Canada Entities and counsel regarding the Final Reconciliation;
- (c) assisting in the Claims Process, including reviewing and participating in the reconciliation of submitted Claims, and responding to questions from claimants and others parties regarding the Claims Process;
- (d) assisting the Nordstrom Canada Entities in engaging with landlords with respect to the resolution of their asserted Claims;
- (e) participating in discussions with the CRA and its counsel with respect to the CRA Agreement;

- (f) in its capacity as Administrator, assisting the Trustee in administering all aspects of the Employee Trust, including assisting in the calculations of entitlement amounts for Eligible Employees and working with Employee Representative Counsel and Nordstrom Canada to address disputes and questions;
- (g) assisting in the development of the Plan and the Meeting Order, including engaging in extensive discussions with the Nordstrom Canada Entities and the Plan Sponsor, and their respective counsel, with respect to the structure and terms of the Plan;
- (h) responding to inquiries from stakeholders who contacted the Monitor on the toll-free number or e-mail account established by the Monitor; and
- (i) preparing this Seventh Report with the assistance of counsel.

11.0 CONCLUSIONS AND RECOMMENDATIONS

11.1 For the reasons set out in this Seventh Report, the Monitor respectfully recommends that the Court grant the proposed Meeting Order in the form sought by the Applicants.

All of which is respectfully submitted to the Court this 14th day of December, 2023.

**Alvarez & Marsal Canada Inc., in its capacity as Monitor of
Nordstrom Canada Retail, Inc.,
Nordstrom Canada Holdings, LLC,
Nordstrom Canada Holdings II, LLC, and
Nordstrom Canada Leasing LP,
not in its personal or corporate capacity**

Per: _____



Alan Hutchens
Senior Vice-President

APPENDIX A
FIFTH REPORT OF THE MONITOR

See attached.

Court File No. CV-23-00695619-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS
AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF NORDSTROM CANADA RETAIL, INC.,
NORDSTROM CANADA HOLDINGS, LLC AND
NORDSTROM CANADA HOLDINGS II, LLC**

**FIFTH REPORT OF THE MONITOR
(MONITOR'S INTERCOMPANY CLAIMS REPORT)
ALVAREZ & MARSAL CANADA INC.**

AUGUST 3, 2023

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1.0 INTRODUCTION

A. CCAA Proceedings

- 1.1 On March 2, 2023 (the “**Filing Date**”), Nordstrom Canada Retail, Inc. (“**NCRI**”), Nordstrom Canada Holdings, LLC (“**NCH**”) and Nordstrom Canada Holdings II, LLC (“**NCHII**”, and together with NCRI and NCH, the “**Applicants**”) were granted protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an initial order (the “**Initial Order**”) of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”). The stay of proceedings and other protections and authorizations in the Initial Order were also extended to Nordstrom Canada Leasing LP (“**NCL**” and, collectively with the Applicants, the “**Nordstrom Canada Entities**”).
- 1.2 Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed as monitor of the Nordstrom Canada Entities (in such capacity, the “**Monitor**”) in these CCAA proceedings (the “**CCAA Proceedings**”). The relief granted by the Initial Order is described in detail in the Second Report of the Monitor dated March 16, 2023.
- 1.3 On March 10, 2023, the Court granted an Amended and Restated Initial Order (the “**ARIO**”) which modified the Initial Order in certain respects.
- 1.4 On March 20, 2023, the Court granted a Liquidation Sale Approval Order, among other things, authorizing NCRI and NCL to undertake a liquidation of certain merchandise and furniture, fixtures and equipment at each of NCRI’s 13 retail stores (collectively, the “**Stores**”) in accordance with the sale guidelines approved pursuant to the Liquidation Sale Approval Order.

- 1.5 On May 30, 2023, the Court granted a Claims Procedure Order, among other things, approving a process for the identification, determination and adjudication of claims of creditors against the Nordstrom Canada Entities and their current and former officers and directors.
- 1.6 On July 17, 2023, the Court granted: (a) an Approval and Vesting Order, approving the Assignment Agreement between NCL and G2MC Inc. in respect of the Heartland Lease; and (b) an Approval and Vesting Order, approving the Assignment Agreement between NCL and Winners Merchants International L.P. (the “**Winners Agreement**”) in respect of the Vaughan Mills Lease and the Deerfoot Meadows Lease.
- 1.7 A&M has prepared a number of reports to the Court in connection with the CCAA Proceedings. Copies of these reports, along with other Court-filed documents and notices in the CCAA Proceedings, are available on the Monitor’s case website at www.alvarezandmarsal.com/NordstromCanada.
- 1.8 Unless otherwise stated, all monetary amounts referenced in this Report are expressed in Canadian dollars.
- 1.9 Capitalized terms used but not defined in this Fifth Report of the Monitor (this “**Report**”) have the meanings given to them in the Claims Procedure Order or the previous reports of the Monitor.

B. Purpose of this Report

- 1.10 Paragraph 44 of the Claims Procedure Order provides that “the Monitor shall prepare a report to be served on the Service List and filed with the Court detailing its review of all

Intercompany Claims identified by the Monitor and assessing in detail with reasonably sufficient particulars and analysis the amount and Characterization of such Claims (the “**Monitor’s Intercompany Claims Report**”).”

- 1.11 The Claims Procedure Order defines an “**Intercompany Claim**” as any Claim that may be asserted against any Nordstrom Canada Entity by or on behalf of: (a) any other Nordstrom Canada Entity; or (b) Nordstrom, Inc. (“**Nordstrom US**”) or any of its affiliated companies, partnerships, or other corporate entities other than the Nordstrom Canada Entities.
- 1.12 The Claims Procedure Order defines “**Claim**” as any: (a) Pre-Filing Claim; (b) Restructuring Period Claim; (c) Pre-Filing D&O Claim; or (d) Restructuring Period D&O Claim.
- 1.13 The Claims Procedure Order defines “**Characterization**” as whether the Claim is a secured or unsecured Claim, priority, property or trust Claim, Pre-Filing Claim, Restructuring Period Claim or D&O Claim.
- 1.14 This Report constitutes the Monitor’s Intercompany Claims Report for purposes of the Claims Procedure Order.
- 1.15 Paragraph 45 of the Claims Procedure Order provides that: (a) each Intercompany Claim identified in the Monitor’s Intercompany Claims Report shall be deemed to have been properly submitted through a Proof of Claim in accordance with the requirements of the Claims Procedure Order; and (b) an Intercompany Claim identified in the Monitor’s Intercompany Claims Report shall not be accepted by the Nordstrom Canada Entities or

the Monitor unless and until such Intercompany Claim has been approved by the Court upon a motion on notice to the Service List.

2.0 TERMS OF REFERENCE AND DISCLAIMER

- 2.1 In preparing this Report and as described in greater detail in this Report, the Monitor has requested, and where available, been provided with, and has relied upon, unaudited financial information and books and records prepared or provided by Nordstrom US and its affiliates, including the Nordstrom Canada Entities (collectively, the “**Nordstrom Group**”), and has held discussions with management of the Nordstrom Group and the Nordstrom Canada Entities’ legal counsel (collectively, the “**Information**”).
- 2.2 The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with *Canadian Auditing Standards* (the “**CAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under the CAS in respect of the Information. Some of the information referred to in this Report may include forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

3.0 OVERVIEW OF THE INTERCOMPANY CLAIMS

3.1 A simplified organizational chart of the Nordstrom Group showing the entities referenced in this Report is attached hereto as **Appendix “A”**.

3.2 The Intercompany Claims described in this Report can be subdivided into two types of claims based on the nature of the claimant:

- (a) Intercompany Claims between a Nordstrom Canada Entity and another entity in the Nordstrom Group that is not a Nordstrom Canada Entity (collectively, the “**Affiliate Claims**” and each an “**Affiliate Claim**”); and
- (b) Intercompany Claims against a Nordstrom Canada Entity by a claimant that is itself a Nordstrom Canada Entity (collectively, the “**Intracompany Claims**” and each an “**Intracompany Claim**”).

3.3 This Report addresses Intercompany Claims that are: (a) Pre-Filing Claims; (b) Restructuring Period Claims; and (c) claims arising or relating to the period following the commencement of the CCAA Proceedings (a “**Post-Filing Claim**”). D&O Claims, by their nature, cannot be Intercompany Claims.

3.4 The Claims Procedure Order defines a Pre-Filing Claim, a Restructuring Period Claim and an Intercompany Claim, in relevant part, as any claim that may be asserted against any of the Nordstrom Canada Entities. Accordingly, a claim by a Nordstrom Canada Entity against a person, including an affiliate, that is not a Nordstrom Canada Entity does not technically fall within the definition of “Claim” or “Intercompany Claim” under the Claims Procedure Order (since the Claims Procedure Order only calls for claims against the

Nordstrom Canada Entities). Despite the foregoing, this Report includes an analysis of the NCRI Transfer Pricing Claim (as defined below) by NCRI against Nordstrom US given the significance of that claim and to ensure that all intercompany claims – including claims by a Nordstrom Canada Entity against a non-debtor affiliate – are included in the Monitor’s analysis. Accordingly, references to “Intercompany Claims” and “Affiliate Claims” in this Report include the NCRI Transfer Pricing Claim by NCRI against Nordstrom US.

3.5 After reviewing and considering various intercompany transactions involving the Nordstrom Canada Entities, the Monitor has identified a total of 11 Intercompany Claims. The Monitor notes that:

- (a) the Intercompany Claims identified by the Monitor include one Restructuring Period Claim (the NCL Sublease Termination Claim) that has two components, one of which (the NCL Master Lease Flow-Through Claim) cannot be quantified as at the date of this Report;
- (b) none of the Intercompany Claims is a secured, property or trust Claim;
- (c) one of the Intercompany Claims (the NCL Post-Filing Sublease Rent Claim) is a Post-Filing Claim; and
- (d) one of the Intercompany Claims (the NCRI Transfer Pricing Claim) is a claim by NCRI against Nordstrom US.

3.6 The Intercompany Claims identified by the Monitor in this Report are summarized in the following table:

No.	Claim	Claim Type	Claim By	Claim Against	Claim Amount
AFFILIATE CLAIMS					
1.	NIL Canada Expansion Loan Claim	Pre-Filing Claim	NIL	NCH	\$309,832,891
2.	NINC-NCRI Services Claim	Pre-Filing Claim	Nordstrom US	NCRI	\$17,661,179
3.	NCRI Transfer Pricing Claim	Claim Receivable	NCRI	Nordstrom US	\$87,400,488
4.	NINC Employee Trust Subrogated Claim	Subrogated Pre-Filing Claim	Nordstrom US	NCRI	\$13,633,426
5.	NINC-NCL Services Claim	Pre-Filing Claim	Nordstrom US	NCL	\$495,582
6.	NINC-NCH Services Claim	Pre-Filing Claim	Nordstrom US	NCH	\$55,031
7.	NINC-NCHII Services Claim	Pre-Filing Claim	Nordstrom US	NCHII	\$56,829
INTRACOMPANY CLAIMS					
8.	NCL Pre-Filing Sublease Rent Claim	Pre-Filing Claim	NCL	NCRI	\$64,879,810
9.	NCL Post-Filing Sublease Rent Claim	Post-Filing Claim	NCL	NCRI	\$26,227,411
10.	NCL Sublease Termination Claim	Restructuring Period Claim	NCL	NCRI	
	A. NCL Master Lease Flow-Through Claim	Restructuring Period Claim	NCL	NCRI	\$TBD
	B. NCL Improvement Rent Claim	Restructuring Period Claim	NCL	NCRI	\$368,027,201
11.	NCRI-NCL Services Claim	Pre-Filing Claim	NCRI	NCL	\$55,046

3.7 In addition to the foregoing Intercompany Claims, the Monitor notes that Nordstrom US may advance an Intercompany Claim consisting of a subrogated claim against one or more of the Nordstrom Canada Entities to the extent that Nordstrom US makes payments to Landlords (as defined below) under the Lease Indemnities (as defined below) relating to the Stores (the “**NINC Lease Indemnities Subrogated Claim**”). The NINC Lease Indemnities Subrogated Claim is contingent in nature and the Monitor understands that no amounts have yet been paid or settled under the Lease Indemnities as of the date of this

Report. Accordingly, while the Monitor has identified this contingent Intercompany Claim for the purposes of Paragraph 45 of the Claims Procedure Order, the Monitor is not in a position at this time to assess the existence, validity or quantum, if any, of the NINC Lease Indemnities Subrogated Claim. The NINC Lease Indemnities Subrogated Claim is described further in section 7.0 of this Report.

4.0 REVIEW OF INTERCOMPANY CLAIMS

4.1 In performing its mandate under the Claims Procedure Order to review the Intercompany Claims, the Monitor, with the assistance of its legal counsel, has considered various intercompany transactions involving the Nordstrom Canada Entities. This includes, but is not limited to, funding transactions for the Nordstrom Canada Entities, the provision of shared services and related transfer pricing payments, leasing arrangements, licensing arrangements, and other normal course and non-recurring intercompany transactions and payments. The Monitor has considered each intercompany transaction identified with a view to identifying whether the intercompany transaction gives rise to an Intercompany Claim.

4.2 In the course of such review, the Monitor, with the assistance of its legal counsel, has among other things:

- (a) considered the historical context and rationale for the transactions identified;
- (b) reviewed and verified, to the best of its ability, supporting documentation and information relating to the transactions identified;

- (c) in certain cases, made inquiries of and met with management of the Nordstrom Group and the Nordstrom Canada Entities' legal counsel to clarify certain aspects of the intercompany transactions identified and to request additional information and supporting documentation; and
- (d) confirmed the mathematical accuracy of certain calculations.

4.3 Given the nature and complexity of certain of the intercompany transactions reviewed by the Monitor in the course of developing this Report, along with cost and time considerations, the Monitor exercised its judgment when determining the extent of work required to review an intercompany transaction to assess whether the intercompany transaction gives rise to an Intercompany Claim, and to determine the validity and quantum thereof. When necessary or appropriate, the Monitor used various approaches, including applying a materiality threshold to the review exercise, as well as "sampling" or "testing" to assess the accuracy of underlying calculations.

5.0 AFFILIATE CLAIMS

A. Summary of Affiliate Claims

5.1 As described below, the Monitor has identified and reviewed the following Affiliate Claims, each of which is an Intercompany Claim between a Nordstrom Canada Entity and another entity in the Nordstrom Group that is not a Nordstrom Canada Entity:

- (a) *Claim No. 1* – a Pre-Filing Claim by Nordstrom International Limited, Inc. ("NIL") against NCH in respect of loans advanced by NIL under the Master Loan

Agreement dated April 18, 2014 (the “**Canada Expansion Loan Agreement**”) (the “**NIL Canada Expansion Loan Claim**”), in the amount of \$309,832,891;

- (b) *Claim No. 2* – a Pre-Filing Claim by Nordstrom US against NCRI for unpaid fees relating to the provision of shared services and the licencing of intellectual property pursuant to the Inter-Affiliate License and Services Agreement dated February 3, 2019 (the “**NINC-NCRI Services Agreement**”) between Nordstrom US and NCRI (the “**NINC-NCRI Services Claim**”), in the amount of \$17,661,179;
- (c) *Claim No. 3* – a claim by NCRI against Nordstrom US for unpaid transfer pricing payments pursuant to the Transfer Pricing Policy (as defined below) under the NINC-NCRI Services Agreement (the “**NCRI Transfer Pricing Claim**”), in the amount of \$87,400,488;
- (d) *Claim No. 4* – a subrogated Pre-Filing Claim by Nordstrom US against NCRI authorized pursuant to the ARIO in respect of the aggregate gross amounts paid to beneficiaries directly or indirectly from the Employee Trust (as defined below) (the “**NINC Employee Trust Subrogated Claim**”), in the amount of \$13,633,426 as at the date of this Report;
- (e) *Claim No. 5* – a Pre-Filing Claim by Nordstrom US against NCL for unpaid fees relating to the provision of shared services pursuant to the Inter-Affiliate Services Agreement dated December 10, 2014 (the “**NINC-NCL Services Agreement**”) between Nordstrom US and NCL (the “**NINC-NCL Services Claim**”), in the amount of \$495,582;

- (f) *Claim No. 6* – a Pre-Filing Claim by Nordstrom US against NCH for unpaid fees relating to the provision of shared services pursuant to the Inter-Affiliate Services Agreement dated October 10, 2016 (the “**NINC-NCH Services Agreement**”) between Nordstrom US and NCH (the “**NINC-NCH Services Claim**”), in the amount of \$55,031; and
- (g) *Claim No. 7* – a Pre-Filing Claim by Nordstrom US against NCHII for unpaid fees relating to the provision of shared services pursuant to the Inter-Affiliate Services Agreement dated October 10, 2016 (the “**NINC-NCHII Services Agreement**”) between Nordstrom US and NCHII (the “**NINC-NCHII Services Claim**”), in the amount of \$56,829.

5.2 Each of the foregoing Affiliates Claims is described below.

B. Claim No. 1: NIL Canada Expansion Loan Claim

- 5.3 Under the Canada Expansion Loan Agreement, NIL agreed to make certain loans available to NCH to finance the construction of certain Stores and to finance working capital needs (collectively, the “**Expansion Loans**”). A copy of the Canada Expansion Loan Agreement is attached to this Report as **Appendix “B”**. As described below, NIL ultimately advanced Expansion Loans to NCH in an aggregate principal amount totalling US\$223,000,000.
- 5.4 NCH did not grant any security to NIL in respect of the Expansion Loans and the Expansion Loans are not guaranteed by any of the other Nordstrom Canada Entities.
- 5.5 The Expansion Loans are evidenced by eight separate Loan Notes (as defined in the Canada Expansion Loan Agreement), each of which is also included in **Appendix “B”** of this

Report. There is a separate Loan Note for each of the Full-Line Stores (as defined below), a Loan Note in respect of the One Bloor Rack Store, and a consolidated Loan Note in respect of four other Rack Stores (as defined below).

- 5.6 The Expansion Loans were structured such that NCH could draw amounts under the Expansion Loans in one or multiple drawdowns by submitting a draw notice to NIL. The Expansion Loans state that they mature and are repayable on the date that the lease associated with the related Store expires, but may be repaid at any time in whole or in part without penalty.
- 5.7 Under each Loan Note, NCH had the option to pay only interest on the applicable Expansion Loan until a set amortization date, after which date the principal balance of the Expansion Loan would begin to amortize in a straight-line fashion until maturity (unless otherwise agreed). None of the Expansion Loans had begun to amortize as of the Filing Date, and the Monitor understands and has seen no evidence that any principal repayments have been made in respect of the Expansion Loans.
- 5.8 The Expansion Loans each bear interest at a rate of 6.1% per annum, payable monthly in arrears and due on or before the 15th day of each month. The Monitor understands that interest on the Expansion Loans was paid by NCH in cash monthly from the inception of the Expansion Loans through October 2022, at which time the Nordstrom Group ceased making any intercompany transfers while it considered its options with respect to the Canadian business. Accordingly, the NIL Canada Expansion Loan Claim includes accrued and unpaid interest on the Expansion Loans from November 1, 2022 to the Filing Date.

5.9 The following table summarizes the outstanding obligations (in United States dollars) with respect to the Expansion Loans as of the Filing Date, all of which relate to the Full-Line Stores:

Store	Maximum Loan Amount (US\$)	Total Principal Amount Advanced (US\$)	Accrued Interest as of the Filing Date (US\$)
Chinook Centre Full-Line Store	\$30,000,000	\$30,000,000	\$616,685
Rideau Centre Full-Line Store	33,000,000	33,000,000	678,353
Pacific Centre Full-Line Store	56,000,000	38,000,000	781,134
Yorkdale Full-Line Store	51,000,000	51,000,000	1,048,364
Sherway Gardens Full-Line Store	34,000,000	18,000,000	370,011
Eaton Centre Full-Line Store	53,000,000	53,000,000	1,089,477
TOTAL (US\$)	\$257,000,000	\$223,000,000	\$4,584,025

5.10 The Monitor notes that although two Loan Notes were created for certain of the Rack Stores, no amounts were advanced in respect of such Loan Notes.

5.11 The Monitor has, among other things, performed the following activities in reviewing the Expansion Loans for the purposes of determining the related Intercompany Claim:

- (a) reviewed the terms of the Canada Expansion Loan Agreement and related documents, including the Loan Notes and draw notices;
- (b) reviewed bank statements and/or supporting wire transfer documentation to confirm receipt by NCH of principal advances made in respect of the Expansion Loans by NIL;

- (c) confirmed that the interest charged on outstanding balances complied with the provisions of the Canada Expansion Loan Agreement and the applicable Loan Notes;
- (d) confirmed the mathematical accuracy of the calculation of interest charged on outstanding balances; and
- (e) on a sample basis, reviewed bank statements to confirm the payment of monthly interest by NCH in respect of the Expansion Loans.

5.12 Based on its work described above, the Monitor is of the view that (a) the aggregate principal amounts referred to in the draw notices (totalling US\$223,000,000) accurately reflects advances made by NIL to NCH; and (b) interest accrued on those advances was calculated and paid by NCH to NIL through October 2022 in compliance with the Canada Expansion Loan Agreement.

5.13 As of the Filing Date, the aggregate obligations outstanding under the Expansion Loans was US\$227,584,025 (consisting of US\$223,000,000 in principal, plus US\$4,584,025 in accrued interest). As at the Filing Date, the U.S. dollar-Canadian dollar exchange rate as shown on the Bank of Canada's daily exchange rate publication was 1.3614 (the "**Filing Date Exchange Rate**"). Accordingly, the aggregate obligations outstanding under the Expansion Loans as of the Filing Date, converted to Canadian dollars using the Filing Date Exchange Rate, were \$309,832,891.

5.14 Based on the foregoing, it is the Monitor's view that the NIL Canada Expansion Loan Claim is a valid Pre-Filing Claim by NIL against NCH in the amount of \$309,832,891.

C. Claim No. 2: NINC-NCRI Services Claim

(i) Background

- 5.15 As described in the Affidavit of Misti Heckel, President of NCRI, President and Treasurer of NCH and NCHII, and Vice President – Tax of Nordstrom US, sworn March 1, 2023 in support of the Applicants’ application for the Initial Order (the “**Initial Heckel Affidavit**”), the Nordstrom Canada Entities’ business was dependent on Nordstrom US for administrative and business support services including legal, finance, accounting, bill processing, payroll, human resources, merchandising, strategy, and information technology project support (collectively, the “**Shared Services**”). The Initial Heckel Affidavit indicated that NCRI could not operate or function without the provision of Shared Services from Nordstrom US.
- 5.16 Prior to the Filing Date, Nordstrom US and NCRI were parties to the NINC-NCRI Services Agreement, under which Nordstrom US provided the Shared Services and licenced certain intellectual property to NCRI, and NCRI agreed to operate the Stores and the Nordstrom.ca website. A copy of the NINC-NCRI Services Agreement is attached to this Report as **Appendix “C”**.
- 5.17 In advance of the commencement of the CCAA Proceedings, Nordstrom US and the Nordstrom Canada Entities entered into a Wind-Down Agreement dated as of March 1, 2023 (the “**Wind-Down Agreement**”) to, among other things: (a) effect the immediate termination of the NINC-NCRI Services Agreement and other services agreements entered into between Nordstrom US and the Nordstrom Canada Entities; and (b) ensure the continued provision of Shared Services and the license of intellectual property by

Nordstrom US solely for the purposes of effecting an orderly wind-down of the Nordstrom Canada Entities as part of the CCAA Proceedings. Paragraph 12(d) of the ARIO authorized the Nordstrom Canada Entities to perform their obligations under the Wind-Down Agreement, including with respect to the provision of and payment for shared services.

5.18 Exhibit “A” to the NINC-NCRI Services Agreement lists the intellectual property that was licensed to NCRI on a non-exclusive, non-transferrable basis under the NINC-NCRI Services Agreement (the “**Intellectual Property**”). Exhibit “B” to the NINC-NCRI Services Agreement lists the services that each party provided to the other (the “**Services**”). As set forth on Exhibit “B”, the Services to be provided by NCRI to Nordstrom US were the operation of the Stores and the Nordstrom.ca website; the Services to be provided by Nordstrom US to NCRI were the Shared Services as described above.

5.19 Pursuant to section 3.1 of the NINC-NCRI Services Agreement, Nordstrom US and NCRI agreed to pay the other the amounts set forth in Exhibit “B” to the NINC-NCRI Services Agreement in exchange for any Services and Intellectual Property provided thereunder (the “**Shared Services Fee**”). Such payments were to be paid within 30 days after the end of each quarterly accounting period such that any and all accrued amounts were paid within 30 days of Nordstrom US’s fiscal year end. The NINC-NCRI Services Agreement provided that if it was subsequently determined that the mutually agreed periodic billings did not reflect an arm’s length price, the parties agreed to make any necessary year-end compensating adjustments to ensure that the fees paid constituted an arm’s length result.

5.20 Notwithstanding the foregoing, Exhibit “B” to the NINC-NCRI Services Agreement does not set out the fees to be paid for the provision of Services or the license of Intellectual Property.

5.21 The Monitor understands that Nordstrom US and NCRI have historically determined the Shared Services Fee payable by NCRI to Nordstrom US according to the following:

(a) for those Services that were specific to NCRI, all of the costs for such Services were charged by Nordstrom US to NCRI; and

(b) for the remainder of the Services, which were not specific to NCRI, Nordstrom US allocated the costs and expenses for such Services amongst NCRI and those affiliates (i.e., non-Nordstrom Canada Entities) that also received such Services. The allocation applied by Nordstrom US was determined by Nordstrom US’s finance team based on applicable metrics having regard to the nature of the Service and are as follows:

(i) *Marketing*: Marketing costs were allocated in two tranches: (A) gift card and loyalty program expenses were allocated based on the budgeted location of redemptions; and (B) marketing overhead was allocated based on a percentage of actual total monthly sales. NCRI was allocated approximately \$4.5 million of marketing costs for the fiscal year ended January 28, 2023.

(ii) *Technology*: Technology costs were allocated based on the activity that the shared services supported, including: (A) supporting overhead allocations

were based on budgeted overhead for each business unit; and (B) activities that supported volume were allocated based on budgeted sales. NCRI was allocated approximately \$11.6 million of technology costs for the fiscal year ended January 28, 2023.

- (iii) *NMG/NPG:* Nordstrom Merchandise Group and Nordstrom Product Group costs were allocated based on the merchandise sales mix by sales channel. NCRI was allocated approximately \$11.2 million of NMG/NPG costs for the fiscal year ended January 28, 2023.
- (iv) *Corporate and Other Overhead:* Corporate and other overhead costs were allocated based on: (A) percentage of sales; (B) percentage of Full-Time-Equivalent headcount; and (C) activity utilization factors based on budget. NCRI was allocated approximately \$4.4 million of corporate and other overhead costs for the fiscal year ended January 28, 2023.
- (v) *Payroll Support:* Payroll support costs were allocated based on a percentage of Full-Time-Equivalent headcount. NCRI was allocated approximately \$1.9 million of payroll support costs for the fiscal year ended January 28, 2023.

(ii) *Quantum of the NINC-NCRI Services Claim*

5.22 The Monitor has, among other things, performed the following activities in reviewing the provision of the Services and the licensing of Intellectual Property for the purposes of determining the related Intercompany Claim:

- (a) reviewed the terms of the NINC-NCRI Services Agreement;
- (b) confirmed the methodology under which the Shared Services Fee was determined;
- (c) verified (or, to the extent not possible, assessed the reasonableness of) the costs incurred by Nordstrom US in providing the Services to NCRI for which Nordstrom US billed NCRI on a cost-basis;
- (d) assessed the reasonableness of the allocation of costs and expenses to NCRI for the Services that were not billed by Nordstrom US on a cost-basis, including:
 - (i) reviewing the unpaid Services allocated by Nordstrom US; (ii) reviewing a sample of cost allocations to ensure consistency with the Monitor's understanding;
 - (iii) assessing the quantum of unpaid Services charges compared to historical averages by allocation methodology; and (iv) reviewing the calculation of the Shared Services Fee for the stub period from February 26, 2023 to and including March 1, 2023, which was calculated by the Nordstrom Group based on the average daily Shared Services Fee for the fiscal month ended February 25, 2023, pro-rated for the four-day period to March 1, 2023; and
- (e) reviewed certain financial information and documentation provided by Nordstrom US in respect of outstanding Shared Services Fees relating to the period prior to the Filing Date.

5.23 The Monitor understands that the Shared Services Fee was paid by NCRI to Nordstrom US in the normal course up to and including the Shared Services Fee relating to August 2022 that was paid in October 2022. The Monitor understands that no subsequent payments in

respect of the Shared Services Fee were made in light of the decision of the Nordstrom Group to cease making intercompany transfers in October 2022 while it considered its options with respect to the Canadian business.

- 5.24 Based on the Monitor's review, the Shared Services Fee payable by NCRI to Nordstrom US under the NINC-NCRI Services Agreement for the period between September 1, 2022 and the Filing Date is \$17,661,179.
- 5.25 Based on the foregoing, it is the Monitor's view that the NINC-NCRI Services Claim is a valid Pre-Filing Claim by Nordstrom US against NCRI in the amount of \$17,661,179.

D. Claim No. 3: NCRI Transfer Pricing Claim

(i) Background

- 5.26 Prior to the CCAA Proceedings, operational funding for NCRI was provided by Nordstrom US through transfer pricing payments made by Nordstrom US pursuant to the transfer pricing policy set out in the NINC-NCRI Services Agreement (the "**Transfer Pricing Policy**").
- 5.27 The Transfer Pricing Policy is contained in Exhibit "B" to the NINC-NCRI Services Agreement, as follows:

"In consideration of the [NINC-NCRI Services] Agreement, each party agrees to pay the other the US dollar amount necessary such that NCRI, as a limited risk operator, realizes an arms-length Rate of Return between 4.5% and 6.5%, to be reviewed and updated as needed. "Rate of Return" is defined as operating profit divided by net sales."

- 5.28 Pursuant to the NINC-NCRI Services Agreement, payments under the Transfer Pricing Policy were to be made within 30 days of each quarterly accounting period. In practice, amounts payable under the Transfer Pricing Policy were recorded on a quarterly basis, and payments were made periodically based on the cash needs of NCRI and typically settled at year-end.
- 5.29 While the Transfer Pricing Policy provides for the possibility of NCRI making transfer payments to Nordstrom US to achieve an arms-length Rate of Return (as defined in the NINC-NCRI Services Agreement) between 4.5% and 6.5% (the “**Rate of Return Range**”), the Monitor understands that in actuality some form of transfer payments have always been made by Nordstrom US to NCRI upon the Nordstrom Group’s expansion into Canada, given the underperformance of the Canadian retail business since the NINC-NCRI Services Agreement was executed.
- 5.30 The Wind-Down Agreement entered into by Nordstrom US and the Nordstrom Canada Entities on March 1, 2023 terminated the Transfer Pricing Policy with immediate effect.

(ii) *Quantum of the NCRI Transfer Pricing Claim*

- 5.31 Although payments under the Transfer Pricing Policy were to be made within 30 days of each quarterly accounting period, Nordstrom US has not made any transfers to NCRI under the Transfer Pricing Policy since October 26, 2022 in light of the decision of the Nordstrom Group to cease making intercompany transfers in October 2022 while it considered its options with respect to the Canadian business.

- 5.32 Since that time, any transfers to be made by Nordstrom US to NCRI under the Transfer Pricing Policy were instead recorded as an intercompany receivable of NCRI due from Nordstrom US.
- 5.33 In this regard, Nordstrom US has recorded the following amounts as being owed by Nordstrom US to NCRI under the Transfer Pricing Policy (collectively, the “**Outstanding Transfer Payments**”):
- (a) \$74,877,000 in respect of the 2022 fiscal year ended January 28, 2023, which amount is net of transfer pricing payments of US\$20,000,000 that were previously made by Nordstrom US in respect of the 2022 fiscal year; and
 - (b) \$12,523,488 in respect of the period from January 29, 2023 to March 1, 2023 (being the day immediately prior to the Filing Date).
- 5.34 The Monitor has reviewed the terms of the NINC-NCRI Services Agreement, including the Transfer Pricing Policy, and the calculation of the Outstanding Transfer Payments, including information regarding NCRI’s operating profit and net sales for the relevant periods. The Monitor reconciled the Net Sales and Earnings Before Interest and Taxes included in the 2022 fiscal year Transfer Pricing Policy calculation to the supporting trial balance included in Exhibit “K” in the First Heckel Affidavit and reconciled the transfer pricing payments made during fiscal 2022 to the supporting bank statements.

5.35 The Monitor notes the following with respect to the calculation of the Outstanding Transfer Payments:

- (a) the Outstanding Transfer Payment for the 2022 fiscal year ended January 28, 2023 has been calculated by the Nordstrom Group to yield a Rate of Return for NCRI of 4.84% in Canadian dollars;
- (b) the Outstanding Transfer Payment for the period from January 29, 2023 to February 25, 2023 has been calculated by the Nordstrom Group to yield a Rate of Return for NCRI of 4.50% in Canadian dollars; and
- (c) the Outstanding Transfer Payment for the period from February 26, 2023 to March 1, 2023 has been calculated by the Nordstrom Group based on the average daily transfer pricing payment for the fiscal month ended February 25, 2023, prorated for the four-day period to March 1, 2023.

5.36 The Monitor notes that the Outstanding Transfer Payments were calculated using a Rate of Return at the lower end of the Rate of Return Range. The Monitor understands that this is consistent with the Nordstrom Group's past practice. For example, the transfer pricing payment for the 2021 fiscal year was calculated to yield a Rate of Return for NCRI of 4.54% in Canadian dollars.

5.37 Based on the foregoing, the Monitor is of the view that NCRI has a valid claim against Nordstrom US for unpaid transfer payments under the Transfer Pricing Policy for the 2022 fiscal year ended January 28, 2023 and for the period from January 29, 2023 to termination of the NINC-NCRI Services Agreement on March 1, 2023, in the aggregate amount of

\$87,400,488. Subject to the application of the right of set-off as described below, the Monitor is of the view that the Outstanding Transfer Payments are a debt payable by Nordstrom US to NCRI.

(iii) Set-off of NCRI Transfer Pricing Claim and NINC-NCRI Services Claim

5.38 The Monitor and its legal counsel have considered whether the respective pre-filing obligations of NCRI and Nordstrom US under the NINC-NCRI Services Agreement are subject to set-off – in other words, whether Nordstrom US is entitled to set-off the \$17,661,179 it is owed by NCRI in respect of the NINC-NCRI Services Claim against the \$87,400,488 that it owes to NCRI in respect of the NCRI Transfer Pricing Claim.

5.39 The Monitor notes the following facts, which support a finding that the NCRI Transfer Pricing Claim and the NINC-NCRI Services Claim are subject to legal set-off:

- (a) the claims are cross-claims between the same parties;
- (b) the claims arise pursuant to the same agreement (the NINC-NCRI Services Agreement);
- (c) the claims are in the same right, as NCRI and Nordstrom US are liable solely to each other and the parties are acting in the same original capacity in regards to both claims;
- (d) the claims are liquidated, fixed and ascertainable;
- (e) the claims each relate to the period prior to the Filing Date (i.e. there is no issue of “pre-post” set-off); and

- (f) the claims are closely intertwined in the sense that an adjustment to the quantum of the Shared Services Fee in respect of a particular period would result in a corresponding adjustment to the quantum of the transfer pricing payment under the Transfer Pricing Policy.

5.40 The Monitor notes that, if it is determined that the NCRI Transfer Pricing Claim and the NINC-NCRI Services Claim are subject to set-off, the net amount owing by Nordstrom US to NCRI in respect of such claims is \$69,739,309.

E. Claim No. 4: NINC Employee Trust Subrogated Claim

(i) Background

- 5.41 As of the Filing Date, NCRI employed approximately 2,300 salaried and hourly employees. On March 21, 2023, substantially all employees were provided with written notice of termination with effective termination dates to occur between May 16, 2023 and June 30, 2023 in order to align with the anticipated timing for closure of the Stores. Accordingly, the employment of the vast majority of employees has terminated during the course of the Nordstrom Canada Entities' orderly wind-down, with the exception of two employees who continue to assist with wind-down matters.
- 5.42 In order to provide eligible employees with a measure of financial security during the wind-down process and to ensure that all employees of NCRI received the full amount of termination and severance pay owed to them under applicable employment standards legislation, the Nordstrom Canada Entities sought and obtained in the Initial Order (as confirmed by the ARIO) the approval of a trust established for the benefit of their employees and funded by Nordstrom US (the "**Employee Trust**").

- 5.43 The Employee Trust is governed by an Employee Trust Agreement dated as of March 2, 2023 (the “**Employee Trust Agreement**”) among Nordstrom US, as settlor, the Monitor, as administrator (in such capacity, the “**Administrator**”), and Gale Rubenstein, in her personal capacity as trustee (the “**Trustee**”).¹ A copy of the Employee Trust Agreement is attached to this Report as **Appendix “D”**.
- 5.44 The Employee Trust has been funded by Nordstrom US in accordance with the terms of the Employee Trust Agreement. Nordstrom US made the First Contribution, in the amount of \$14,000,000, on March 13, 2023.
- 5.45 To date, the Employee Trust has reimbursed NCRI for Eligible Employee Claims in the aggregate amount of \$13,633,426. As the employment of substantially all employees has now terminated and the majority of Eligible Employee Claims have been reimbursed, it is not expected that payments of Eligible Employee Claims from the Employee Trust will exceed \$15,750,000 in the aggregate. In addition, certain other amounts funded to the Employee Trust by Nordstrom US have been used or allocated to pay the Administrator Payments and the Trustee Payments in accordance with the Employee Trust Agreement. The remaining Eligible Employee Claims to be reimbursed relate to: (a) Benefit Claims, which are in the process of being quantified; (b) payments that may be required as a result of Notices of Dispute received prior to 60 days after the final payment to such Eligible Employee, which has not yet passed for a majority of employees; and (c) payments required as a result of the final reconciliation to be performed by the Administrator and NCRI.

¹ Capitalized terms used but not defined in this section have the meanings given to such terms in the Employee Trust Agreement.

(ii) *Quantum of NINC Employee Trust Subrogated Claim*

- 5.46 Section 2.4 of the Employee Trust Agreement provides Nordstrom US (referred to as the Settlor) with a right of subrogation against NCRI (referred to as Nordstrom Canada):

The Settlor shall have – and shall be deemed by the Monitor and the Nordstrom Canada Entities to have – full and complete subrogation rights against Nordstrom Canada in respect of the aggregate gross amount paid to Beneficiaries directly or indirectly from the Employee Trust.

- 5.47 Paragraph 28(c) of the ARIO approved the subrogation right:

[THIS COURT ORDERS that] the Settlor (as defined in the Trust Agreement) shall be deemed to be fully and completely subrogated to all rights of recovery of the Beneficiaries against [NCRI], in an amount equal to the aggregate gross amount paid to such Beneficiaries directly or indirectly from the Employee Trust.

- 5.48 Accordingly, by operation of the Employee Trust Agreement and the ARIO, Nordstrom US has a subrogated claim against NCRI in an amount equal to the aggregate gross amount paid to Beneficiaries from the Employee Trust. The gross amount paid to such Beneficiaries are the aggregate Eligible Employee Claims as defined in the Employee Trust Agreement.

- 5.49 In accordance with the Employee Trust Agreement, the Administrator has assisted NCRI and the Trustee in preparing the calculations of Eligible Employee Regular Wages and Regular Work Weeks that are utilized to calculate Eligible Employee Claims (including Top Up Claims).

- 5.50 As of the date of this Report, \$13,633,426 has been reimbursed from the Employee Trust to NCRI in respect of Eligible Employee Claims paid by NCRI to employees.

- 5.51 Pursuant to the Employee Trust Agreement, an Eligible Employee Claim is determined by reference to the Statutory Termination Entitlements of an Eligible Employee. “Statutory Termination Entitlements” is defined in the Employee Trust Agreement as: “the applicable statutory minimum termination entitlements under ESA in respect of, if and as required, notice of termination, pay-in-lieu of notice, severance pay, post-termination benefits coverage and post-termination vacation pay.”
- 5.52 Accordingly, the Eligible Employee Claims – the payment of which gives rise to the right of subrogation – are, in substance, claims in respect of termination and severance entitlements. The Monitor understands that this Court and other Canadian courts have determined that claims of employees for termination and severance arising from the termination of their employment after the commencement of CCAA proceedings constitute pre-filing claims. Moreover, in the absence of the Employee Trust, any claims by employees for termination and severance entitlements would be Pre-Filing Claims against NCRI. Accordingly, the Monitor is of the view that the NINC Employee Trust Subrogated Claim is properly characterized as a Pre-Filing Claim.
- 5.53 Based on the foregoing, it is the Monitor’s view that the NINC Employee Trust Subrogated Claim is a valid Pre-Filing Claim by Nordstrom US against NCRI in the amount of \$13,633,426 as of the date of this Report. The quantum of the NINC Employee Trust Subrogated Claim will increase to the extent of the Eligible Employee Claims paid to Beneficiaries following the date of this Report, but it is not expected that the aggregate NINC Employee Trust Subrogated Claim will exceed \$15,750,000.

F. Claim No. 5: NINC-NCL Services Claim

- 5.54 Prior to the Filing Date, Nordstrom US and NCL were parties to the NINC-NCL Services Agreement, under which Nordstrom US provided the services to NCL as described in the NINC-NCL Services Agreement. A copy of the NINC-NCL Services Agreement is attached to this Report as **Appendix “E”**. As of the date of this Report, the Monitor has not received a copy of the NINC-NCL Services Agreement executed by NCL.
- 5.55 Pursuant to section 3.1 of the NINC-NCL Services Agreement, NCL agreed to pay Nordstrom US the amount set forth in Exhibit “A” to the NINC-NCL Services Agreement in exchange for the provision of the services set out therein. Such payments were to be paid within 30 days after the end of each quarterly accounting period such that any and all accrued amounts were paid within 30 days of Nordstrom US’s fiscal year end. The NINC-NCL Services Agreement provided that if it was subsequently determined that the mutually agreed periodic billings did not reflect an arm’s length price, the parties agreed to make any necessary year-end compensating adjustments to ensure that the fees paid constituted an arm’s length result.
- 5.56 The Monitor understands that no amounts have been paid by NCL for services provided by Nordstrom US for fiscal years 2021 and 2022. The Monitor has reviewed the terms of the NINC-NCL Services Agreement and the calculation of the unpaid services fees for fiscal years 2021 and 2022 as reflected in the Nordstrom Group’s intercompany accounts. The Monitor notes that the services fees allocated to NCL in respect of those periods account for approximately 0.03% of Nordstrom US’s allocable expenses.

5.57 Based on the foregoing, it is the Monitor's view that the NINC-NCL Services Claim is a valid Pre-Filing Claim by Nordstrom US against NCL in the amount of \$495,582.

G. Claim No. 6: NINC-NCH Services Claim

5.58 Prior to the Filing Date, Nordstrom US and NCH were parties to the NINC-NCH Services Agreement, under which Nordstrom US provided the services to NCH as described in the NINC-NCH Services Agreement. A copy of the NINC-NCH Services Agreement is attached to this Report as **Appendix "F"**.

5.59 Pursuant to section 3.1 of the NINC-NCH Services Agreement, NCH agreed to pay Nordstrom US for the actual and reasonable costs of the services rendered when presented with a request for payment and adequate payment documentation of the costs incurred, or alternatively a flat fee of \$5,000 per year for any de minimus services rendered by Nordstrom US. Such payments were to be paid within 30 days after the end of each quarterly accounting period such that any and all accrued amounts were paid within 30 days of Nordstrom US's fiscal year end. The NINC-NCH Services Agreement provided that if it was subsequently determined that the mutually agreed periodic billings did not reflect an arm's length price, the parties agreed to make any necessary year-end compensating adjustments to ensure that the fees paid constituted an arm's length result.

5.60 The Monitor has reviewed the terms of the NINC-NCH Services Agreement and a summary of the fees payable by NCH thereunder. The Monitor understands that such fees have not been cash settled since the execution of the NINC-NCH Services Agreement.

5.61 Based on the foregoing, it is the Monitor's view that the NINC-NCH Services Claim is a valid Pre-Filing Claim by Nordstrom US against NCH in the amount of \$55,031.

H. Claim No. 7: NINC-NCHII Services Claim

- 5.62 Prior to the Filing Date, Nordstrom US and NCHII were parties to the NINC-NCHII Services Agreement, under which Nordstrom US provided the services to NCHII as described in the NINC-NCHII Services Agreement. A copy of the NINC-NCHII Services Agreement is attached to this Report as **Appendix “G”**.
- 5.63 Pursuant to section 3.1 of the NINC-NCHII Services Agreement, NCHII agreed to pay Nordstrom US for the actual and reasonable costs of the services rendered when presented with a request for payment and adequate payment documentation of the costs incurred, or alternatively a flat fee of \$5,000 per year for any de minimus services rendered by Nordstrom US. Such payments were to be paid within 30 days after the end of each quarterly accounting period such that any and all accrued amounts were paid within 30 days of Nordstrom US’s fiscal year end. The NINC-NCHII Services Agreement provided that if it was subsequently determined that the mutually agreed periodic billings did not reflect an arm’s length price, the parties agreed to make any necessary year-end compensating adjustments to ensure that the fees paid constituted an arm’s length result.
- 5.64 The Monitor has reviewed the terms of the NINC-NCHII Services Agreement and a summary of the fees payable by NCHII thereunder. The Monitor understands that such fees have not been cash settled since the execution of the NINC-NCHII Services Agreement.
- 5.65 Based on the foregoing, it is the Monitor’s view that the NINC-NCHII Services Claim is a valid Pre-Filing Claim by Nordstrom US against NCHII in the amount of \$56,829.

6.0 INTRACOMPANY CLAIMS

A. Summary of Intracompany Claims

6.1 As described below, the Monitor has identified and reviewed the following Intracompany Claims as among the Nordstrom Canada Entities:

- (a) *Claim No. 8* – a Pre-Filing Claim by NCL against NCRI for unpaid Basic Sublease Rent, Sublease Additional Rent and Real Estate Improvement Rent (each as defined below) relating to the period prior to the Filing Date (the “**NCL Pre-Filing Sublease Rent Claim**”), in the amount of \$64,879,810;
- (b) *Claim No. 9* – a Post-Filing Claim by NCL against NCRI for unpaid Real Estate Improvement Rent (as defined below) relating to the period from and after the Filing Date (the “**NCL Post-Filing Sublease Rent Claim**”), in the amount of \$26,227,411;
- (c) *Claim No. 10* – a Restructuring Period Claim by NCL against NCRI for damages suffered by NCL as a result of the termination of the Master Leases and Subleases (each as defined below) (the “**NCL Sublease Termination Claim**”), consisting of two components:
 - (i) *Claim No. 10A* – a Restructuring Period Claim by NCL against NCRI for the claims of Landlords against NCL arising from the disclaimer of the unassigned Master Leases (the “**NCL Master Lease Flow-Through Claim**”), which cannot be quantified at this time (as described below); and

- (ii) *Claim No. 10B* – a Restructuring Period Claim by NCL against NCRI arising from the termination of each Sublease, equal to the net present value of unpaid Real Estate Improvement Rent for the remaining term of each Sublease (the “**NCL Improvement Rent Claim**”), in the amount of \$368,027,201; and
- (d) *Claim No. 11* – a Pre-Filing Claim by NCRI against NCL for unpaid fees relating to the provision of shared services pursuant to the Inter-Affiliate Services Agreement dated as of December 10, 2014 (the “**NCRI-NCL Services Agreement**”) between NCRI and NCL (the “**NCRI-NCL Services Claim**”), in the amount of \$55,046.

6.2 Each of the foregoing Intracompany Claims are addressed further below.

B. Background to the Intracompany Lease Claims (Claims No. 8, 9 and 10)

(i) The Lease-Sublease Structure

- 6.3 As at the Filing Date, NCRI operated 13 Stores, consisting of six full-line Nordstrom stores (the “**Full-Line Stores**”) and seven Nordstrom Rack stores (the “**Rack Stores**”).
- 6.4 All of the Stores were operated in leased premises owned by third parties under the following structure:
 - (a) each Store premises was leased by NCL from an unrelated third-party landlord (each, a “**Landlord**”) pursuant to a lease agreement (each, a “**Master Lease**”);

- (b) NCL paid rent to the Landlord pursuant to the Master Lease, including, as applicable, Basic Rent or Minimum Rent, additional rent and, in some cases, Percentage Rent (as each of those terms are defined in the applicable Master Lease);
- (c) NCL, in turn, subleased each of the Store premises to NCRI pursuant to a sublease agreement (the “**Sublease**”);
- (d) pursuant to the Sublease, NCRI agreed to pay to NCL:
 - (i) all Basic Rent or Minimum Rent required to be paid by NCL to the Landlord pursuant to the applicable Master Lease during the term of the Sublease as and when such Basic Rent or Minimum Rent was due under the Master Lease (the “**Basic Sublease Rent**”);
 - (ii) all additional rent required to be paid by NCL to the Landlord under the applicable Master Lease including all operating expenses, real property taxes, and other expenses and charges payable by NCL under the Master Lease (the “**Sublease Additional Rent**”); and
 - (iii) an amount on account of a percentage of costs incurred by NCL in constructing, fixturing and furnishing the Store after the execution of the applicable Master Lease (the “**Real Estate Improvement Rent**”), as described further below;
- (e) the term of each Sublease was for a period commencing on the date of execution of the Sublease and ending one day prior to the expiration or earlier termination of the Master Lease; and

- (f) each Sublease provides that, in the event of the termination of NCL's interest as tenant under the Master Lease for any reason, the Sublease shall terminate upon termination of the Master Lease.

(ii) *Real Estate Improvement Rent*

- 6.5 To fund the Nordstrom Group's expansion into the Canadian market, NIL advanced funding to NCH under the Canada Expansion Loan Agreement and through contributed capital. NCH, in turn, contributed equity financing to NCL. NCL then incurred the costs of constructing, fixturing and furnishing each Store in accordance with the applicable Master Lease and related specifications and drawings. This construction work is defined in the Subleases as the "**TI Work**".
- 6.6 As described at paragraphs 44 and 45 of the Initial Heckel Affidavit, each Sublease required NCRI to reimburse NCL for the cost of the TI Work through the payment of the Real Estate Improvement Rent during the initial term of the Sublease. The annual Real Estate Improvement Rent was a fixed annual amount determined as a specified percentage of the total TI Costs actually paid by NCL (net of any capital contribution provided by the Landlord) determined through a financial model that considered a number of factors, including Sublease revenue, depreciation, interest expense and tax expense. For the Full-Line Stores, the costs of the TI Work were repayable at a rate of 12.80% per annum; for the Rack Stores, the costs of TI Work were repayable at a rate of 15.00% per annum.
- 6.7 Under each Sublease, NCRI was required to pay the Real Estate Improvement Rent in monthly instalments concurrently with the payment of Basic Sublease Rent.

6.8 The following table sets out, for each Store: (a) the specified percentage of TI Work to be repaid on an annual basis; and (b) the resulting annual Real Estate Improvement Rent payment under the applicable Sublease:

Store	Specified Percentage of TI Work Repaid Annually	Real Estate Improvement Rent (Annual)
Yorkdale Full-Line Store	12.8%	\$15,609,186
Pacific Centre Full-Line Store	12.8%	8,652,750
Eaton Centre Full-Line Store	12.8%	13,539,124
Sherway Gardens Full-Line Store	12.8%	8,741,093
Rideau Centre Full-Line Store	12.8%	7,673,372
Chinook Centre Full-Line Store	12.8%	6,258,630
Willowbrook Rack Store	15.0%	805,304
Vaughan Mills Rack Store	15.0%	709,408
South Edmonton Commons Rack Store	15.0%	681,342
Heartland Town Centre Rack Store	15.0%	745,688
One Bloor Rack Store	15.0%	1,074,398
Ottawa Train Yards Rack Store	15.0%	650,143
Deerfoot Meadows Rack Store	15.0%	658,107

(iii) *Lease and Sublease Termination Dates*

6.9 As of the date of this Report, the Nordstrom Canada Entities:

- (a) have disclaimed the Master Leases in respect of nine Stores;
- (b) received a notice of termination from a Landlord in respect of one Store (the Ottawa Train Yards Rack Store), which termination will become effective on September 1, 2023; and
- (c) have not issued any notice to disclaim the Master Lease in respect of three Stores (the Heartland Town Centre Rack Store, the Deerfoot Meadows Rack Store, and

the Vaughan Mills Rack Store) as they are subject to Court-approved lease assignment transactions in respect of such Master Leases. The assignment of the Heartland Lease occurred on July 20, 2023, and the assignments of the Deerfoot Meadows Lease and the Vaughan Mills Lease are expected to occur on February 1, 2024 in accordance with the terms of the Winners Agreement.

- 6.10 For purposes of the calculation of the quantum of certain Intracompany Claims (in particular, the NCL Post-Filing Sublease Rent Claim and/or the NCL Improvement Rent Claim), it is necessary to determine the date on which the applicable Master Lease and related Sublease are terminated. As set forth above, each Sublease terminates, by its terms, upon the termination of the Master Lease.
- 6.11 For purposes of this Report, the Monitor has assumed that, for a Master Lease in respect of which NCL has entered into a Court-approved assignment agreement, the related Sublease shall terminate on the closing date or expected closing date of the assignment of the Master Lease.
- 6.12 Accordingly, this Report quantifies lease-related claims on the basis of the termination dates for the Master Leases and Subleases specified in the table below (the “**Master Lease Termination Date**” and the “**Sublease Termination Date**”, respectively). The final quantum of the lease-related claims are subject to adjustment in circumstances where the actual Master Lease Termination Date and/or the Sublease Termination Date is other than as shown in the table below:

Store	Master Lease Termination Date	Sublease Termination Date
Yorkdale Full-Line Store	July 22, 2023	July 22, 2023
Pacific Centre Full-Line Store	July 22, 2023	July 22, 2023
Eaton Centre Full-Line Store	July 22, 2023	July 22, 2023
Sherway Gardens Full-Line Store	July 22, 2023	July 22, 2023
Rideau Centre Full-Line Store	July 22, 2023	July 22, 2023
Chinook Centre Full-Line Store	July 22, 2023	July 22, 2023
Willowbrook Rack Store	June 2, 2023	June 2, 2023
Vaughan Mills Rack Store	N/A (Master Lease to be assigned)	February 1, 2024
South Edmonton Commons Rack Store	June 2, 2023	June 2, 2023
Heartland Town Centre Rack Store	N/A (Master Lease assigned)	July 19, 2023
One Bloor Rack Store	June 4, 2023	June 4, 2023
Ottawa Train Yards Rack Store	September 1, 2023	September 1, 2023
Deerfoot Meadows Rack Store	N/A (Master Lease to be assigned)	February 1, 2024

C. Claim No. 8: NCL Pre-Filing Sublease Rent Claim

6.13 The NCL Pre-Filing Sublease Rent Claim is a Pre-Filing Claim by NCL, as sublessor, against NCRI, as sublessee, for unpaid Basic Sublease Rent, Sublease Additional Rent and Real Estate Improvement Rent relating to the period prior to the Filing Date.

6.14 Sublease Additional Rent relating to real property taxes and utilities (the “**Taxes and Utilities Rent**”) payable by NCRI to NCL relating to the period prior to the Filing Date (the “**Pre-Filing Period**”) was not settled on a recurring basis. Commencing in 2018, the monthly expense for Taxes and Utilities Rent was recorded to an intercompany account that was not marked for quarterly settlement. The Nordstrom Group identified the non-payment during a review of the intercompany accounts in 2022.

6.15 Separately, all Basic Sublease Rent, Sublease Additional Rent (other than Taxes and Utilities Rent) and Real Estate Improvement Rent were settled on a recurring basis up to

and including August 2022. The Monitor understands that no payments for the periods subsequent to August 2022 were made in respect of Basic Sublease Rent, Sublease Additional Rent or Real Estate Improvement Rent for the Pre-Filing Period in light of the decision of the Nordstrom Group to cease making intercompany transfers in October 2022 while it considered its options with respect to the Canadian business.

- 6.16 As noted, each Sublease required NCRI to pay NCL the Basic Sublease Rent and Sublease Additional Rent as due under the Master Lease. The Monitor understands that Basic Sublease Rent and Sublease Additional Rent (other than Taxes and Utilities Rent) up to and including August 2022 were cash paid by NCRI based on the amounts recorded under *Accounting Standards Codification 842*.
- 6.17 In respect of the Pre-Filing Period, the Monitor has quantified the NCL Pre-Filing Sublease Rent Claim as the difference between (a) the aggregate rent paid by NCL under the Master Leases to third-party Landlords (all of which was, in turn, payable by NCRI to NCL under the Subleases); and (b) the actual amounts paid by NCRI to NCL in respect of such rent (i.e. the sum of all Basic Sublease Rent and Sublease Additional Rent paid by NCRI to NCL).
- 6.18 The Monitor has, among other things, performed the following activities in reviewing the quantum of the NCL Pre-Filing Sublease Rent Claim:
- (a) reviewed the supporting calculations for the annual Real Estate Improvement Rent and reconciled the calculations to the amounts recorded;

- (b) obtained supporting documentation outlining cash payments of Sublease rent for the Pre-Filing Period and inspected the associated bank statements to verify the amounts paid;
- (c) compared the fiscal 2022 quarterly settlements between NCRI and NCL, on a sample basis, to supporting documentation to: (i) verify that the Taxes and Utilities Rent components of Sublease Additional Rent were excluded from cash settlement; and (ii) verify that the Basic Sublease Rent, Sublease Additional Rent (other than Taxes and Utilities Rent) and Real Estate Improvement was cash settled by NCRI;
- (d) reconciled supporting journal entries, on a sample basis, to unsettled real property tax and utilities support; and
- (e) reviewed the reconciliation of historical Sublease rent settlements to amounts paid under the Master Lease.

6.19 Based on the foregoing, it is the Monitor's view that the NCL Pre-Filing Sublease Rent Claim is a valid Pre-Filing Claim by NCL against NCRI in the amount of \$64,879,810.

D. Claim No. 9: NCL Post-Filing Sublease Rent Claim

6.20 The NCL Post-Filing Sublease Rent Claim is a Post-Filing Claim by NCL against NCRI for unpaid Real Estate Improvement Rent relating to the period from and after the Filing Date.

6.21 As it relates to Real Estate Improvement Rent, paragraph 10 of the ARIO states in relevant part as follows:

Without in any way impairing, limiting or lessening the priority, protections, rights or remedies of [NCL], any Rent in respect of Premises Fixturing Costs payable by [NCRI] to [NCL] under a Lease shall be stayed and suspended until further Order of this Court.²

6.22 Accordingly, the payment of Real Estate Improvement Rent by NCRI was stayed and suspended pursuant to the ARIO. NCRI has not paid any Real Estate Improvement Rent to NCL during the CCAA Proceedings.

6.23 The following table lists, for each Store: (a) the aggregate annual Real Estate Improvement Rent payable under the applicable Sublease; and (b) the NCL Post-Filing Sublease Rent Claim, being the aggregate unpaid Real Estate Improvement Rent for the period commencing on the Filing Date and ending on the applicable Sublease Termination Date:

Store	Real Estate Improvement Rent (Annual)	NCL Post-Filing Sublease Rent Claim
Yorkdale Full-Line Store	\$15,609,186	\$6,115,380
Pacific Centre Full-Line Store	8,652,750	3,389,982
Eaton Centre Full-Line Store	13,539,124	5,304,369
Sherway Gardens Full-Line Store	8,741,093	3,424,592
Rideau Centre Full-Line Store	7,673,372	3,006,280
Chinook Centre Full-Line Store	6,258,630	2,452,011
Willowbrook Rack Store	805,304	205,187

² The ARIO references the definition of “Premises Fixturing Costs” in the Initial Heckel Affidavit, where Premises Fixturing Costs are defined as “all costs incurred by [NCL] in constructing, fixturing and furnishing the retail premises after executing the Lease”. Accordingly, the term “Premise Fixturing Costs” used in the Initial Heckel Affidavit is a synonym for the definition of “TI Work” in the Subleases. Accordingly, the effect of this provision of the ARIO was to stay the payment of Real Estate Improvement Rent during the CCAA Proceedings, subject to further order of the Court.

Store	Real Estate Improvement Rent (Annual)	NCL Post-Filing Sublease Rent Claim
Vaughan Mills Rack Store	709,408	654,988
South Edmonton Commons Rack Store	681,342	173,602
Heartland Town Centre Rack Store	745,688	286,017
One Bloor Rack Store	1,074,398	279,638
Ottawa Train Yards Rack Store	650,143	327,743
Deerfoot Meadows Rack Store	658,107	607,622
TOTAL	\$65,798,545	\$26,227,411

6.24 The Monitor notes that the stay and suspension of payments of Real Estate Improvement Rent pursuant to paragraph 10 of the ARIO is an exception to the general language in that paragraph, which otherwise provides that each Nordstrom Canada Entity is required to pay Rent (as defined and in accordance with the ARIO) under any lease (including a sublease) to which it is a party until such lease is disclaimed in accordance with the CCAA or otherwise consensually terminated. In the absence of this exception, NCRI would have been required to pay Real Estate Improvement Rent to NCL in the ordinary course during the CCAA Proceedings until such time as the applicable Sublease was disclaimed or terminated.

6.25 Further, paragraph 10 of the ARIO provides that the stay and suspension of the payments of Real Estate Improvement Rent does not impair, limit or lessen the priority, protections or remedies of NCL.

6.26 Based on the foregoing, it is the Monitor's view that (a) the NCL Post-Filing Sublease Rent Claim is a valid Post-Filing Claim by NCL against NCRI in the amount of \$26,227,411; and (b) since the NCL Post-Filing Sublease Rent Claim is a Post-Filing Claim, it is payable in full to NCL.

E. Background to the NCL Sublease Termination Claim (Claims No. 10A and 10B)

6.27 Each Sublease provides, among other things:

- (a) except as may be inconsistent with the terms of the Sublease, all the terms, covenants, conditions and defined terms contained in the Master Lease shall be applicable to the Sublease with the same force and effect as if NCL were the landlord under the Master Lease and NCRI were the tenant thereunder;
- (b) NCRI is responsible for the performance of all of NCL's obligations under the Master Lease except as specifically indicated to the contrary in the Sublease; and
- (c) NCRI shall pay to NCL Basic Sublease Rent, Sublease Additional Rent and Real Estate Improvement Rent in accordance with the terms of the Sublease and the Master Lease.

6.28 Each of the Subleases also contains the following agreement between NCL (in its capacity as Sublandlord) and NCRI (in its capacity as Subtenant):

Subtenant shall indemnify and hold Sublandlord harmless from and against all claims of any kind whatsoever by reason of any breach or default on the part of Subtenant by reason of which the Master Lease may be terminated or forfeited. In the event of the termination of Sublandlord's interest as tenant under the Master Lease for any reason, then this Sublease shall terminate upon termination of the Master Lease; provided, however, that if the Master Lease or this Sublease terminates as a result of a default of Subtenant, then Subtenant shall be liable to Sublandlord for all damages suffered by Sublandlord as a result of the termination of the Master Lease or this Sublease.

6.29 Accordingly, NCRI and NCL agreed pursuant to the Sublease that:

- (a) NCRI indemnifies and holds NCL harmless from all claims of any kind whatsoever arising from a breach or default by NCRI resulting in the termination of the Master Lease; and
- (b) if the Master Lease or Sublease terminates as a result of a default by NCRI, then NCRI shall be liable to NCL for all damages suffered by NCL as a result of the termination of the Master Lease or the Sublease.

6.30 The Monitor is of the view that, from a substantive perspective, the termination of the unassigned Master Leases and the termination of the Subleases arose as a result of the insolvency of NCRI. In that regard, the Monitor notes the following:

- (a) as stated at paragraph 23 of the Initial Heckel Affidavit, NCRI “is the operating entity in Canada and serves as the customer retail sales entity for the Nordstrom Group in the Canadian market.” NCRI carried on substantially all the Nordstrom Group’s business operations in Canada and was the only revenue-generating entity among the Nordstrom Canada Entities;
- (b) conversely, NCL did not carry on any retail business operations and was solely responsible for leasing activities. As stated at paragraph 26 of the Initial Heckel Affidavit, NCL is “responsible for the Nordstrom Canada Entities’ real estate activities, such as leasing retail space from third-party property owners, committing capital to build and furnish the stores, and subleasing the retail space to [NCRI], who operates the stores”;

- (c) NCL had no independent ability to generate the funding necessary to pay rent to the third-party Landlords under the Master Leases. NCL was wholly-dependent on NCRI to pay Basic Sublease Rent and Sublease Additional Rent in order for NCL to pay the corresponding rent obligations to third-party Landlords under the Master Leases;
- (d) when NCRI became unable to pay rent or perform its other obligations under the Subleases, it rendered NCL unable to perform its obligations under the Master Leases; and
- (e) the disclaimer or termination of the unassigned Master Leases and the termination of the related Subleases was fundamentally the result of the insolvency of NCRI and the discontinuation of its Canadian retail operations.

6.31 Accordingly, the Monitor is of the view that the NCL Sublease Termination Claim is a valid Restructuring Period Claim by NCL against NCRI relating to the damages suffered by NCL as a result of the termination of the unassigned Master Leases and the termination of the Subleases. The NCL Sublease Termination Claim has two components:

- (a) the NCL Master Lease Flow-Through Claim, which is a Restructuring Period Claim by NCL against NCRI for the claims of Landlords against NCL arising from the disclaimer of the unassigned Master Leases; and
- (b) the NCL Improvement Rent Claim, which is a Restructuring Period Claim by NCL against NCRI arising from the termination of each Sublease.

F. Claim No. 10A: NCL Master Lease Flow-Through Claim

6.32 The NCL Master Lease Flow-Through Claim is a Restructuring Period Claim by NCL against NCRI for the claims of Landlords against NCL arising from the disclaimer of the unassigned Master Leases.

6.33 As described above, each Sublease provides that, if the Master Lease terminates as a result of a default of NCRI, then NCRI is liable to NCL for all damages suffered by NCL as a result of the termination of the Master Lease. The damages suffered by NCL from the termination of the applicable Master Leases will be the claims of the third-party Landlords arising from the disclaimer of such Master Leases.

6.34 As of the date of this Report, it is not possible to determine the quantum of the NCL Master Lease Flow Through-Claim because the claims of Landlords arising from the disclaimer of the unassigned Master Leases have not been finally determined in accordance with the Claims Procedure Order.

6.35 Based on the foregoing, it is the Monitor's view that the NCL Master Lease Flow Through-Claim is a valid Restructuring Period Claim by NCL against NCRI in an amount equal to the aggregate amount of proven claims of third-party Landlords against NCL arising from the disclaimer or termination of the unassigned Master Leases as determined in accordance with the Claims Procedure Order.

G. Claim No. 10B: NCL Improvement Rent Claim

6.36 As described above, each Sublease was structured such that NCL would recover the costs of the TI Work through the payment of Real Estate Improvement Rent by NCRI over the

term of the Sublease. Under the Subleases, Real Estate Improvement Rent is payable by NCRI on a monthly basis, together with Basic Sublease Rent. The Monitor has reviewed the scheduled monthly payments of Real Estate Improvement Rent for each of the Stores and confirmed that such scheduled monthly payments are in accordance with the applicable Subleases.

- 6.37 As a result of the termination of each Sublease, NCL will not receive future payments of Real Estate Improvement Rent. This is the case in respect of the ten Subleases that terminated as a result of the disclaimer or termination of the related Master Lease, and the three Subleases that have been or will be terminated by NCL and NCRI in order to facilitate the completion of the Court-approved Master Lease assignment transactions. In the Monitor's view the NCL Improvement Rent Claim is a Restructuring Period Claim by NCL against NCRI arising from the termination of the Subleases.
- 6.38 Since the monthly payments of Real Estate Improvement Rent extend for between five and 14 years following the respective Sublease Termination Dates, the Monitor believes that it is appropriate to value the NCL Improvement Rent Claim in an aggregate amount equal to the net present value (the "NPV") of Real Estate Improvement Rent payable under each Sublease from and after the Sublease Termination Date, without factoring in any mitigation.
- 6.39 In order to calculate the NPV of the future monthly payments of Real Estate Improvement Rent, it is necessary to determine the appropriate discount rate. In order to select an appropriate discount rate, the Monitor worked with internal A&M resources from its Disputes and Investigations group based in Calgary, Alberta (the "**A&M Valuation**

Group”), which group has significant experience in analysis of the quantum and valuation of claims.

- 6.40 The A&M Valuation Group utilized the weighted average cost of capital (“**WACC**”) methodology in determining an appropriate discount rate. The A&M Valuation Group considered a number of factors and inputs to determine the appropriate WACC, including the cost of debt and the cost of equity applicable to the Nordstrom Group and a group of comparable public companies.
- 6.41 The A&M Valuation Group considered the WACC methodology the most appropriate for determining a discount rate and considered alternatives including capitalization rates for similar real estate assets. Since Nordstrom US funded the cost of fixturing and furnishing the stores (through the Expansion Loans and capital contributions to NCH and thereafter to NCL), the market WACC of Nordstrom US is a reasonable level of return that NCL would have expected from the Subleases. The A&M Valuation Group considered the implied Price to Earnings Ratio and EBITDA multiples when measured against comparable companies and other financial metrics to assess the reasonableness of its WACC calculations and assumptions.
- 6.42 Ultimately, the A&M Valuation Group concluded, based on its WACC analysis, that a discount rate of 10.6% to 11.8% is appropriate to calculate the NPV of the future monthly payments of Real Estate Improvement Rent.
- 6.43 Based on the foregoing and using the midpoint of the range identified by the A&M Valuation Group, the Monitor has determined that the appropriate discount rate is 11.2% per annum (the “**Discount Rate**”).

6.44 The table below sets out for each Store: (a) the aggregate undiscounted Real Estate Improvement Rent payable under the applicable Sublease from and after the Sublease Termination Date; and (b) the NPV of such unpaid Real Estate Improvement Rent calculated using the Discount Rate.

Store	Aggregate <u>Undiscounted</u> Real Estate Improvement Rent	<u>Net Present Value</u> of such Real Estate Improvement Rent
Yorkdale Full-Line Store	\$212,386,352	\$108,790,491
Pacific Centre Full-Line Store	65,815,657	44,168,527
Eaton Centre Full-Line Store	116,526,162	74,574,542
Sherway Gardens Full-Line Store	83,971,486	51,300,370
Rideau Centre Full-Line Store	58,366,184	39,169,226
Chinook Centre Full-Line Store	41,347,225	29,125,427
Willowbrook Rack Store	5,902,258	4,014,114
Vaughan Mills Rack Store	2,951,012	2,350,374
South Edmonton Commons Rack Store	3,688,944	2,756,701
Heartland Town Centre Rack Store	3,878,120	2,929,345
One Bloor Rack Store	5,361,205	4,092,921
Ottawa Train Yards Rack Store	3,358,083	2,541,087
Deerfoot Meadows Rack Store	2,791,641	2,214,076
TOTAL	\$606,344,330	\$368,027,201

6.45 Based on the foregoing, it is the Monitor's view that the NCL Improvement Rent Claim is a valid Restructuring Period Claim of NCL against NCRI in the aggregate amount of \$368,027,201.

H. Claim No. 11: NCRI-NCL Services Claim

6.46 NCRI and NCL are parties to the NCRI-NCL Services Agreement, which provides for the provision of services between NCRI and NCL as described in the NCRI-NCL Services Agreement. A copy of the NCRI-NCL Services Agreement is attached to this Report as **Appendix "H"**.

- 6.47 Pursuant to section 3.1 and Exhibit A of the NCRI-NCL Services Agreement, (a) NCL agrees to pay NCRI all reasonable costs and expenses incurred by NCRI in providing payroll, finance and accounting services to NCL; and (b) NCRI agrees to pay NCL all reasonable costs and expenses incurred by NCL in providing property management services to NCRI. Payments are to be made within 30 days after the end of each quarterly accounting period such that any and all accrued amounts are paid within 30 days of fiscal year end. The NCRI-NCL Services Agreement provides that if it is subsequently determined that the mutually agreed periodic billings do not reflect an arm's length price, the parties agree to make any necessary year-end compensating adjustments to ensure that the fees paid constituted an arm's length result.
- 6.48 The Monitor has reviewed the terms of the NCRI-NCL Services Agreement and a summary of the fees payable by NCL thereunder. The Monitor notes that (a) the majority of the fees payable by NCL comprising the NCRI-NCL Services Claim relate to the allocation of salaries and benefits of employees of NCRI for services performed on behalf of NCL; and (b) there are no accrued fees payable by NCRI relating to the provision of property management services by NCL.
- 6.49 The Monitor also notes that no fees have been charged under the NCRI-NCL Services Agreement since the Filing Date due to the immaterial nature of the services provided by NCRI to NCL during the CCAA Proceedings.
- 6.50 Based on the foregoing, it is the Monitor's view that the NCRI-NCL Services Claim is a valid Pre-Filing Claim of NCRI against NCL in the aggregate amount of \$55,046.

7.0 NINC LEASE INDEMNITIES SUBROGATED CLAIM

- 7.1 As described in previous reports of the Monitor, the obligations of NCL (in its capacity as tenant) under the Master Leases governing certain Stores are subject to an indemnity provided by Nordstrom US in favour of the applicable Landlord (each, a “**Lease Indemnity**” and collectively the “**Lease Indemnities**”).
- 7.2 With respect to each Master Lease that is subject to a separate Lease Indemnity, the Monitor notes that the Lease Indemnities are substantially similar. Under each Lease Indemnity, Nordstrom US agreed, among other things and subject to the terms of the Lease Indemnity, to (a) make due and punctual payment of all rent and other monies payable under the Master Lease by the tenant whether to the Landlord or otherwise; and (b) indemnify the Landlord from all losses, costs and damages arising out of any failure by the tenant to pay rent and other amounts payable under the Master Lease or to perform any of the terms, covenants and conditions contained in the Master Lease.
- 7.3 Paragraph 17 of the ARIO contains a stay of proceedings (referred to as the “**Parent Stay**” in previous reports of the Monitor) that prevents any person from commencing or continuing any proceeding against Nordstrom US in respect of, among other things, the Lease Indemnities. Paragraph 18 of the ARIO provides, among other things, that any Landlord claim pursuant to an indemnity, guarantee or surety executed by Nordstrom US in relation to any Nordstrom Canada Entity shall be unaffected and shall not be released or affected in any way in any CCAA plan of compromise or arrangement.

- 7.4 The Monitor notes that Nordstrom US may advance a subrogated claim against one or more Nordstrom Canada Entities in respect of any amounts paid by Nordstrom US pursuant to the Lease Indemnities.
- 7.5 The NINC Lease Indemnities Subrogated Claim is contingent on a number of factors, including the quantum of Landlord Claims to be determined in accordance with the Claims Procedure Order, the recoveries on such proven Claims under a CCAA plan of arrangement or otherwise, and negotiations between the Landlords and Nordstrom US with respect to the settlement of the Lease Indemnities. The Monitor understands that no amounts have been paid or settled under the Lease Indemnities as of the date of this Report.
- 7.6 Accordingly, while the Monitor has identified this contingent Intercompany Claim for the purposes of Paragraph 45 of the Claims Procedure Order, the Monitor is not in a position at this time to assess the existence, validity or quantum, if any, of the NINC Lease Indemnities Subrogated Claim. The Monitor will address the NINC Lease Indemnities Subrogated Claim in a future report to the extent necessary.

8.0 ADDITIONAL INTERCOMPANY TRANSACTIONS

- 8.1 The Monitor, in the course of preparing this Report, identified and reviewed certain intercompany transactions that, in the Monitor's view, do not give rise to an Intercompany Claim against a Nordstrom Canada Entity or a claim by a Nordstrom Canada Entity against an affiliate.
- 8.2 The Monitor notes that the Initial Heckel Affidavit at paragraph 122 refers to NCRI having paid approximately US\$10.3 million to Nordstrom US in fiscal year 2022 in order to reduce or pay off intercompany balances. This amount includes payment for the provision of

Shared Services by NCRI, net of amounts paid by Nordstrom US to NCRI under the Transfer Pricing Policy.

8.3 In addition, the Monitor notes the following intercompany transactions that occurred during the one-year period prior to the Filing Date:

(a) on October 14, 2022, NCL made a \$11 million return of capital distribution to NCH; NCH, in turn, converted the entire amount into U.S. dollars and made a return of capital distribution to NIL; and

(b) on July 5, 2022, NCRI made a US\$20 million return of capital distribution to NIL.

8.4 The Monitor notes that these return of capital transactions do not appear to fall within the scope of subsection 101(1) of the *Bankruptcy and Insolvency Act* (the “**BIA**”), which pursuant to section 36.1 of the CCAA apply in respect of a CCAA plan of compromise or arrangement. In particular, (a) the type of reviewable transactions under subsection 101(1) of the BIA do not appear to include a return of capital distribution; and (b) based on the fact that the Nordstrom Canada Entities continued to operate in the normal course until the CCAA Proceedings were commenced on March 2, 2023, it does not appear as though NCL, NCH or NCRI were insolvent at the time of the return of capital transactions or were rendered insolvent by completing such transactions.

9.0 SUMMARY OF RESULTS OF THE MONITOR’S REVIEW

9.1 As required by paragraph 44 of the Claims Procedure Order, the Monitor has prepared this Report detailing its review of all Intercompany Claims identified by the Monitor and

assessing the amount and Characterization of such claims. The Intercompany Claims identified by the Monitor are summarized at paragraph 3.6 of this Report.

9.2 Pursuant to the Claims Procedure Order, each Intercompany Claim identified in this Report is deemed to have been properly submitted through a Proof of Claim. However, the Claims Procedure Order provides further that “[a]n Intercompany Claim identified in the Monitor’s Intercompany Claims Report shall not be accepted or deemed to be accepted by the Nordstrom Canada Entities or the Monitor unless and until such Intercompany Claim has been approved by this Court upon a motion on notice to the Service List.”

9.3 The Court and the Nordstrom Canada Entities and their creditors and stakeholders will now have the opportunity to review the Intercompany Claims as set forth in this Report. In connection with their efforts to advance a plan of compromise and arrangement, the Monitor expects that the Nordstrom Canada Entities will in due course bring a motion for approval of Intercompany Claims. The Monitor may report further to the Court regarding the Intercompany Claims in connection with such motion.

All of which is respectfully submitted to the Court this 3rd day of August 2023.

**Alvarez & Marsal Canada Inc., in its capacity as Monitor of
Nordstrom Canada Retail, Inc.,
Nordstrom Canada Holdings, LLC,
Nordstrom Canada Holdings II, LLC, and
Nordstrom Canada Leasing LP,
not in its personal or corporate capacity**

Per:



Alan Hutchens
Senior Vice-President

APPENDIX B
SIXTH REPORT OF THE MONITOR

See attached.

Court File No. CV-23-00695619-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS
AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF NORDSTROM CANADA RETAIL, INC.,
NORDSTROM CANADA HOLDINGS, LLC AND
NORDSTROM CANADA HOLDINGS II, LLC**

**SIXTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.**

SEPTEMBER 22, 2023

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INDEX TO APPENDICES

- A Fourth Report of the Monitor dated July 12, 2023 (without appendices)

1.0 INTRODUCTION

- 1.1 On March 2, 2023 (the “**Filing Date**”), Nordstrom Canada Retail, Inc. (“**Nordstrom Canada**”), Nordstrom Canada Holdings, LLC and Nordstrom Canada Holdings II, LLC (together the “**Applicants**”) were granted protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) pursuant to an initial order (the “**Initial Order**”) of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”). The stay of proceedings and other protections and authorizations in the Initial Order were also extended to Nordstrom Canada Leasing LP (“**Canada Leasing LP**” and, collectively with the Applicants, the “**Nordstrom Canada Entities**”).
- 1.2 Pursuant to the Initial Order, Alvarez & Marsal Canada Inc. was appointed as monitor of the Nordstrom Canada Entities (in such capacity, the “**Monitor**”) in these CCAA proceedings (the “**CCAA Proceedings**”).
- 1.3 The Initial Order, among other things:
- (a) granted a stay of proceedings in favour of the Nordstrom Canada Entities, a Co-Tenancy Stay and a Parent Stay, which stays of proceedings have been subsequently extended by the Court until and including September 29, 2023;
 - (b) approved an employee trust agreement (the “**Employee Trust Agreement**”) among Nordstrom, Inc. (“**Nordstrom US**”), as settlor, the Monitor, as administrator (the “**Administrator**”), and Gale Rubenstein in her personal capacity as trustee (the “**Trustee**”), providing for the establishment of a trust funded by Nordstrom US for the benefit of employees of Nordstrom Canada (the “**Employee Trust**”);

- (c) approved the appointment of Ursel Phillips Fellows Hopkinson LLP as representative counsel (“**Employee Representative Counsel**”) to represent the interests of Nordstrom Canada employees other than: (i) non-store level employees eligible for a payment under the KERP (as defined below); (ii) directors and officers of the Nordstrom Canada Entities; and (iii) the Senior Vice President, Regional Manager for Canada (the “**Represented Employees**”); and
 - (d) granted an Administration Charge and a Directors’ Charge over the Property (each as defined in the Initial Order).
- 1.4 On March 10, 2023, the Court granted an Amended and Restated Initial Order (the “**ARIO**”) which modified the Initial Order in certain respects. The ARIO, among other things:
- (a) approved the Applicants’ key employee retention plan (the “**KERP**”) and granted a charge over the Property in the maximum amount of \$2.6 million as security for the payments to be made in accordance with the KERP (the “**KERP Charge**”); and
 - (b) increased the amount of the Administration Charge to \$1.5 million and increased the amount of the Directors’ Charge to \$13.25 million.
- 1.5 On March 20, 2023, the Court granted the Liquidation Sale Approval Order, which among other things:
- (a) approved an amended and restated consulting agreement (the “**Consulting Agreement**”) between Nordstrom Canada and Canada Leasing LP (together, the “**Merchant**”) and a contractual joint venture comprised of Hilco Merchant Retail

Solutions ULC, Gordon Brothers Canada, ULC, Tiger Asset Solutions Canada, ULC and B. Riley Retail Solutions LLC (collectively, the “**Consultant**”);

- (b) approved the sale guidelines (the “**Sale Guidelines**”) for the orderly liquidation of Merchandise and FF&E (each as defined in the Liquidation Sale Approval Order) at each of the Merchant’s Stores (the “**Liquidation Sale**”); and
- (c) authorized the Merchant, with the assistance of the Consultant, to undertake the Liquidation Sale in accordance with the terms of the Liquidation Sale Approval Order, the Consulting Agreement and the Sale Guidelines.

1.6 On May 31, 2023, the Court granted the Claims Procedure Order, which:

- (a) approved a claims process for the identification, quantification and resolution of Claims (as defined in the Claims Procedure Order) against the Nordstrom Canada Entities and their respective current and former directors and officers (the “**Claims Process**”);
- (b) authorized the Nordstrom Canada Entities, the Monitor and the Claims Officers (as defined in the Claims Procedure Order) to perform their respective obligations under the Claims Procedure Order; and
- (c) established the Claims Bar Date and the Restructuring Period Claims Bar Date (each as defined in the Claims Procedure Order).

1.7 On July 17, 2023, the Court granted two Orders (the “**Approval and Vesting Orders**”) approving assignment transactions in respect of certain of the Nordstrom Rack Leases (the

“Lease Assignment Transactions”): (a) an Approval and Vesting Order approving the transaction contemplated by an Assignment and Assumption of Lease between Canada Leasing LP and G2MC Inc. in respect of the Heartland Lease (the **“G2MC Agreement”**); and (b) an Approval and Vesting Order approving the transactions contemplated by an Assignment and Assumption of Leases between Canada Leasing LP and Winners Merchants International L.P. in respect of the Vaughan Mills Lease and the Deerfoot Meadows Lease (the **“Winners Agreement”**).

- 1.8 On August 3, 2023, the Monitor served on the Service List and filed with the Court the Fifth Report of the Monitor, which constitutes the **“Monitor’s Intercompany Claims Report”** for purposes of paragraph 44 of the Claims Procedure Order.
- 1.9 The purpose of this report (the **“Sixth Report”**) is to provide the Court with information concerning, and where applicable the Monitor’s views on, the following matters:
- (a) the activities of the Nordstrom Canada Entities in connection with their orderly wind-down, including the Liquidation Sale and employee matters;
 - (b) an update on the Lease Assignment Transactions;
 - (c) an update on the Claims Process;
 - (d) an update on the activities of the Monitor since July 12, 2023, being the date of the Fourth Report of the Monitor (the **“Fourth Report”**), a copy of which (without appendices) is attached as **Appendix “A”** hereto;

- (e) the Applicants' motion for an order (the "**Order**"), among other things:
 - (i) extending the Stay Period (as defined in the ARIO) to and including December 22, 2023;
 - (ii) terminating the Employee Trust upon delivery by the Monitor of the Employee Trust Termination Certificate (as defined below); and
 - (iii) terminating, releasing and discharging the KERP Charge; and
- (f) the Monitor's conclusions and recommendations in connection with the Applicants' motion and the relief sought therein.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Sixth Report, the Monitor has been provided with, and has relied upon, unaudited financial information and books and records prepared or provided by Nordstrom US and its affiliates, including the Nordstrom Canada Entities (collectively, the "**Nordstrom Group**"), and has held discussions with management of the Nordstrom Group and the Nordstrom Canada Entities' legal counsel (collectively, the "**Information**"). Except as otherwise described in this Sixth Report, in respect of the Nordstrom Canada Entities' cash flow forecast:

- (a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (the "**CAS**") pursuant to the *Chartered Professional*

Accountants Canada Handbook (the “**CPA Handbook**”) and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under the CAS in respect of the Information; and

- (b) some of the information referred to in this Sixth Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

2.2 Future oriented financial information referred to in this Sixth Report was prepared based on the estimates and assumptions of the Nordstrom Group. Readers are cautioned that, since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 This Sixth Report should be read in conjunction with the affidavit of Misti Heckel, President of Nordstrom Canada, President and Treasurer of Nordstrom Canada Holdings, LLC and Nordstrom Canada Holdings II, LLC, and Vice President – Tax of Nordstrom US, sworn on September 20, 2023 (the “**Sixth Heckel Affidavit**”). Unless otherwise stated, capitalized terms used and not defined in this Sixth Report have the meanings given to them in the ARIO or the Sixth Heckel Affidavit, as applicable.

2.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

- 2.5 The reports of the Monitor and other Court-filed documents and notices in the CCAA Proceedings are available on the Monitor's case website at www.alvarezandmarsal.com/NordstromCanada (the "Monitor's Website").

3.0 UPDATE ON THE LIQUIDATION SALE

- 3.1 A full update on the Liquidation Sale, including the dates on which the Stores were closed and vacated and the financial results of the Liquidation Sale, was provided in the Fourth Report.
- 3.2 Total receipts generated from the Liquidation Sale were approximately \$103.7 million from the sale of Merchandise and approximately \$6.6 million from the sale of FF&E (after the 15% FF&E Fee payable to the Consultant). The Nordstrom Canada Entities also earned approximately \$580,000, or 7.5% of the gross proceeds, from the sale of Additional Consultant Goods.
- 3.3 The Nordstrom Canada Entities, with the assistance of the Monitor, are in the process of finalizing the Final Reconciliation to determine the Merchandise Fee, Sales Costs, FF&E Fee, FF&E Costs and other fees, expenses and other amounts reimbursable or payable under the Consulting Agreement (as the foregoing terms are defined in the Consulting Agreement). The Monitor will report further to the Court once the Final Reconciliation is complete.

4.0 UPDATE ON EMPLOYEE MATTERS

- 4.1 Capitalized terms used but not defined in this section of the Sixth Report have the meanings ascribed to them in the Employee Trust Agreement.

- 4.2 The Monitor has been in regular contact with Employee Representative Counsel and understands that Employee Representative Counsel has and continues to:
- (a) maintain a website to provide Represented Employees with up-to-date information regarding the CCAA Proceedings, guidance on common questions and access to relevant documents;
 - (b) maintain a toll-free telephone number and email address dedicated to Represented Employees to facilitate and respond to questions; and
 - (c) convene videoconference meetings with Nordstrom Canada's counsel and the Monitor and its counsel, on a recurring basis and as needed, in order to facilitate the resolution of issues arising during the CCAA Proceedings that have been brought to the attention of Employee Representative Counsel.
- 4.3 As of the Filing Date, Nordstrom Canada employed approximately 2,300 salaried and hourly employees. On March 21, 2023, substantially all employees were provided with written notice of termination with effective termination dates that occurred between May 16, 2023 and June 30, 2023 in order to align with the then-anticipated timing of the closure of the Stores. As of the date of the Fourth Report, only two employees continued to be employed by Nordstrom Canada, both of whom have since been terminated.
- 4.4 As described in the Second Report, the Trustee and the Monitor, in its capacity as Administrator under the Employee Trust, jointly opened the Nordstrom Canada Employee Trust bank account at Royal Bank of Canada (the “**Employee Trust Account**”) on March 6, 2023.

- 4.5 On March 13, 2023, the initial funding of the Employee Trust by Nordstrom US in the amount of \$14 million was received into the Employee Trust Account. Since that date, the Administrator has assisted Nordstrom Canada and the Trustee in preparing the calculations of: (a) Eligible Employee Regular Wages and Regular Work Weeks used to calculate Eligible Employee Claims and Top Up Claims; (b) Top Up Claims to be paid to Eligible Employees for each Pay Period; (c) Pay Period Reconciliations; (d) Benefit Claims; and (e) Statutory Termination and Severance Entitlements to be paid after termination.
- 4.6 On September 7, 2023, following a reconciliation and update of remaining amounts reimbursable by the Employee Trust to Nordstrom Canada, the Administrator requested an additional contribution of \$1.2 million from Nordstrom US to the Employee Trust. This additional funding from Nordstrom US was received into the Employee Trust Account on September 13, 2023, which increased the cumulative funding by Nordstrom US to the Employee Trust to a total of \$15.2 million. As of the date of this Sixth Report, approximately \$14.6 million has been reimbursed from the Employee Trust to Nordstrom Canada for Eligible Employee Claims paid by Nordstrom Canada to Employees.
- 4.7 The Administrator has had ongoing discussions with the Trustee and Employee Representative Counsel regarding the operation of the Employee Trust, including with respect to the calculation of Eligible Employee Claims, the resolution of Notices of Dispute (as described below), and the funding status of the Employee Trust.
- 4.8 Further, the Administrator and Nordstrom Canada have reconciled the payments made by Nordstrom Canada that were reimbursed by the Employee Trust to the calculations of each Eligible Employee Claim. As of the date of this Sixth Report, all reimbursements for

amounts paid to Beneficiaries have been made by the Employee Trust to Nordstrom Canada.

- 4.9 Paragraph 28(a) of the ARIO contains a “**Deemed Release**” which provides that each Beneficiary of the Employee Trust shall be deemed to release the Releasees¹ in respect of the full amount of such Beneficiary’s Eligible Employee Claim, sixty (60) days after the final payment to such Beneficiary under the Employee Trust (or such later date as the Monitor, in its sole discretion, may designate), provided that such Beneficiary has not delivered a notice of dispute to the Monitor and Employee Representative Counsel, substantially in the manner and form attached as Schedule “A” to the ARIO (a “**Notice of Dispute**”), within forty-five (45) days of the final payment to such Beneficiary.
- 4.10 As of the date of this Sixth Report, the Monitor and Employee Representative Counsel have received 29 Notices of Dispute filed by employees in respect of their entitlements under the Employee Trust. All of these Notices of Dispute have been resolved. The Deemed Release has become effective for all Beneficiaries of the Employee Trust other than two employees.

Termination of the Employee Trust

- 4.11 The proposed Order sought by the Applicants provides that the Employee Trust shall be wound-up and terminated upon the Monitor delivering a certificate (the “**Employee Trust Termination Certificate**”) stating that the Monitor has received: (a) written confirmation

¹ “Releasees” is defined in the Employee Trust Agreement as Nordstrom Canada Retail, Inc., Nordstrom, Inc. and all their respective affiliates (the “**Released Entities**”) and the present and former officers, directors, employees, representatives and agents of the Released Entities.

from the Trustee, the Administrator and the Settlor that there are no further actions required under the Trust Agreement; and (b) written confirmation of consent from the Trustee, the Administrator, the Settlor, Nordstrom Canada and Employee Representative Counsel, respectively, to the termination and wind-up of the Employee Trust.

- 4.12 The proposed Order also provides that, upon the delivery of the Employee Trust Termination Certificate, the Trustee, the Settlor and the Administrator shall be released and discharged from their respective obligations under the Employee Trust Agreement and from any and all claims relating to their activities as Trustee, Settlor and Administrator, respectively.
- 4.13 The Monitor supports the relief sought by the Applicants as it will provide an orderly process to terminate the Employee Trust upon the completion of remaining activities, including the completion of final accounting and reconciliation matters, the expiry of the period to file a Notice of Dispute for the final two employees, and the completion of tax filings and related payments (if any). The Monitor notes that the Employee Trust Termination Certificate can only be delivered with the written consent of the parties to the Employee Trust Agreement, as well as Nordstrom Canada and Employee Representative Counsel.

Discharge of the KERP Charge

- 4.14 The ARIQ approved the KERP and granted the KERP Charge up to a maximum aggregate amount of approximately \$2.6 million as security for payments under the KERP.

- 4.15 Payments totalling approximately \$2.3 million were made to 231 eligible employees under the KERP. No further amounts are due under the KERP. Accordingly, the proposed Order sought by the Applicants provides for the release and discharge of the KERP Charge. As no further amounts are payable under the KERP, the Monitor supports this request.

5.0 UPDATE ON THE LEASE ASSIGNMENT TRANSACTIONS

- 5.1 As described in the Fourth Report, with respect to the six Full-Line Store Leases and seven Nordstrom Rack Store Leases:

- (a) notices to disclaim each of the six Nordstrom Full-Line Store Leases and related agreements were issued on June 22, 2023 and the disclaimers became effective on July 22, 2023;
- (b) notices to disclaim the Leases and related agreements for three Nordstrom Rack Stores (South Edmonton Common, Willowbrook Langley and One Bloor Street East) were issued on May 3, 2023 or May 5, 2023, as applicable, and the disclaimers became effective by early June 2023;
- (c) the Train Yards Lease was terminated effective September 1, 2023 by the Train Yards landlord as accepted by the Nordstrom Canada Entities and the Monitor; and
- (d) three Nordstrom Rack Leases (Heartland, Vaughan Mills and Deerfoot Meadows) were subject to the Lease Assignment Transactions approved by the Court on July 17, 2023 pursuant to the Approval and Vesting Orders.

- 5.2 The assignment of the Heartland Lease contemplated by the G2MC Agreement closed on July 20, 2023 and resulted in proceeds to Canada Leasing LP of approximately \$340,000,

net of applicable withholding taxes. The assignment of the Vaughan Mills Lease and the Deerfoot Meadows Lease is to occur on February 1, 2024 pursuant to the terms of the Winners Agreement.

6.0 UPDATE ON THE CLAIMS PROCESS

- 6.1 Capitalized terms used but not defined in this section of the Sixth Report have the meanings ascribed to them in the Claims Procedure Order.
- 6.2 On May 31, 2023, the Court granted the Claims Procedure Order approving the Claims Process for the identification, quantification and resolution of Claims as against the Nordstrom Canada Entities and their respective current and former directors and officers.
- 6.3 Pursuant to the Claims Procedure Order, the deadline for the filing of:
- (a) Pre-Filing Claims, Pre-Filing D&O Claims and Notices of Dispute of Negative Notice Claims was August 4, 2023 (the “**Claims Bar Date**”); and
 - (b) Restructuring Period Claims and Restructuring Period D&O Claims is the later of:
 - (i) 30 days after the date on which the Monitor sends a Negative Notice Claims Package or General Claims Package, as appropriate, with respect to a Restructuring Period Claim or Restructuring Period D&O Claim; and
 - (ii) the Claims Bar Date (the “**Restructuring Period Claims Bar Date**”).

Pre-Filing Claims and Restructuring Period Claims

- 6.4 As of the Claims Bar Date, the Monitor received 650 Proofs of Claim totalling approximately \$690.3 million of asserted Claims against the Nordstrom Canada Entities.

6.5 As at the date of this Sixth Report, the Monitor has received 33 late-filed claims totalling approximately \$1.9 million. The Nordstrom Canada Entities and the Monitor are reviewing the late-filed Claims, including the reasons why they were not filed in advance of the Claims Bar Date. The Monitor notes that the Claims Procedure Order permits the exercise of discretion by the Monitor and by the Court with respect to the treatment of late-filed Claims. The Monitor may, at a later date, seek advice and direction from the Court in this regard.

6.6 A summary of filed Claims as of the date of this Sixth Report (including Negative Notice Claims and late-filed Claims) is provided in the table below.

Summary of Claims as Filed Against the Nordstrom Canada Entities by Claim Type		
Total Claimants		683
Summary of Filed Claims ⁽¹⁾		
Claim Type	Claim Filed	Amount ⁽²⁾
Landlord	12	647,599,929
Vendor and Supplier	541	42,311,466
Government	2	116,677
Litigation	2	430,422
Employee	110	1,761,157
Other	16	7,323
	683	692,226,973
Notes:		
<i>(1) The above summary does not include the potential impact of "marker claims" or Restructuring Period Claims that have yet to be filed.</i>		
<i>(2) All amounts converted to CAD using exchange rates as of the Filing Date.</i>		

Landlord Claims

6.7 Of the 650 Claims filed as of the Claims Bar Date, 12 Claims totaling approximately \$647.6 million were filed by landlords. Three of the 12 landlord Claims totalling approximately \$50.6 million are duplicative, in the sense that substantially identical claims were filed

against more than one of the Nordstrom Canada Entities. If the duplicative claims are excluded (for presentation purposes only), an adjusted view is that nine claims totaling \$597.0 million have been filed by landlords.

- 6.8 Under the Claims Process, Claims were asserted by Cadillac Fairview and its affiliates (collectively, “**Cadillac Fairview**”), the landlord of five of Nordstrom Canada’s former Full-Line Stores, and Oxford Properties Group (“**Oxford**”), the landlord of the former Yorkdale Full-Line Store. The Claims asserted by Cadillac Fairview and Oxford are collectively by far the largest third-party Claims filed in the Claims Process.
- 6.9 As described in the Sixth Heckel Affidavit, agreements in principle (subject to the execution of mutually agreeable definitive documentation) on: (a) the Claims of Cadillac Fairview in the CCAA estate and the claims associated with the indemnities granted by Nordstrom US to Cadillac Fairview; and (b) the Claims of Oxford in the CCAA estate and the claims associated with the indemnity granted by Nordstrom US to Oxford, in each case, have been reached to resolve such indemnity claims and to provide a framework for the resolution of the respective Claims in the CCAA estate. The agreements, once finalized through definitive documentation, are expected to resolve all issues involving the Leases for the Full-Line Stores.
- 6.10 Under the Claims Process, Claims were asserted by the former landlords of the three Nordstrom Rack Stores that were disclaimed by the Nordstrom Canada Entities (South Edmonton Common, Willowbrook Langley and One Bloor Street East). An agreement in principle (subject to the execution of mutually agreeable definitive documentation) has been reached with respect to the Claims of First Capital Holdings (Ontario) Corporation,

the former landlord of the One Bloor East location. The Nordstrom Canada Entities, with the assistance of the Monitor, are currently engaged in discussions with the two remaining former Nordstrom Rack landlords regarding resolutions of their Claims.

Vendor and Supplier Claims

- 6.11 As at the date of this Sixth Report, 541 Claims totalling approximately \$42.3 million have been filed by trade vendors and suppliers, including 30 late-filed claims totalling approximately \$1.9 million and asserted priority Claims in an aggregate amount of approximately \$1.4 million. Of the 541 Claims filed, 210 Claims totalling approximately \$14.6 million have been reconciled, reviewed and admitted (including in circumstances where the Monitor has issued a Notice of Revision or Disallowance (a “**NORD**”) and the 30-day period to object to the NORD has elapsed without the Claimant delivering a Notice of Dispute of Revision or Disallowance, or the Claimant has expressly agreed with the NORD as issued).
- 6.12 Where appropriate, the Monitor, with the assistance of the Nordstrom Canada Entities, has been corresponding with Claimants with the intention of reconciling and admitting Claims without the need to deliver a NORD.
- 6.13 A further 108 Claims totalling approximately \$12.0 million have been reconciled and reviewed, and will be admitted in the very near term (including through NORDs to be issued, and NORDs that have already been issued where the 30-day objection period has not yet elapsed).

- 6.14 The remaining 223 vendor and supplier claims totalling approximately \$15.7 million are subject to ongoing reconciliation by the Nordstrom Canada Entities and review by the Monitor.

Government Claims

- 6.15 The two Claims filed by governmental entities are: (a) a “marker” Claim filed by the Canada Revenue Agency (the “CRA”) for any obligations owing by the Nordstrom Canada Entities to His Majesty the King in right of Canada, as represented by the Minister of National Revenue, including any obligations identified through the CRA’s ongoing audit activities and any obligations arising from the notices of reassessment issued by the CRA in respect of Nordstrom Canada Holdings, LLC; and (b) a Claim by His Majesty the King in Right of the Province of British Columbia for employee health tax, which has been reconciled and reviewed, and is expected to be resolved in the very near term.

Litigation Claims

- 6.16 The two litigation Claims that were filed relate to litigation proceedings that were commenced by a former employee and a customer against the Nordstrom Canada Entities prior to the Filing Date.

Employee Claims

- 6.17 The Claims filed by or in respect of employees consist of: (a) 94 Negative Notice Claims sent to Known Employee Claimants totalling approximately \$680,000 (none of which were formally disputed and all of which are admitted, as the time to dispute such Negative Notice Claims has elapsed); (b) 15 Claims filed by Employee Representative Counsel, on behalf of certain Represented Employees, totalling approximately \$464,000; and (c) one Negative

Notice Claim sent to an employee not represented by Employee Representative Counsel. The Nordstrom Canada Entities and the Monitor are actively reviewing the employee Claims and engaging with Employee Representative Counsel with respect to the Claims filed on behalf of Represented Employees.

Summary

6.18 In summary, as of the date of this Sixth Report:

- (a) agreements in principle (subject to the execution of mutually agreeable definitive documentation) have been reached with Cadillac Fairview and Oxford that will provide a framework for the resolution of their respective Claims in the CCAA estate (which constitute all of the Claims in respect of the Full-Line Stores);
- (b) an agreement in principle (subject to the execution of mutually agreeable definitive documentation) has been reached with respect to the Claims of the landlord of the former Nordstrom Rack One Bloor East location, and discussions are ongoing with the two remaining former Nordstrom Rack landlords regarding resolutions of their Claims;
- (c) 306 Claims totalling \$15.3 million have been reconciled, reviewed and admitted (including 94 Employee Claims totalling approximately \$680,000 that have been admitted), and two Claims have been disallowed in full. A further 109 Claims totalling \$12.1 million have been reconciled and reviewed and will be admitted in the very near term (including through NORDs to be issued, and NORDs that have already been issued where the 30-day objection period has not yet elapsed); and

- (d) the Nordstrom Canada Entities, in consultation with the Monitor, are in the process of reviewing and adjudicating the remaining 268 unresolved Claims totalling approximately \$664.8 million and will provide updates in future Monitor's reports as the Claims Process continues to advance.

Director & Officer Claims

- 6.19 Two Pre-Filing D&O Claims have been filed totalling approximately \$287,000. One of those Claims has been disallowed in full, and the Claimant did not object to the disallowance of the D&O Claim. The other D&O Claim in the amount of approximately \$65,000 remains under review by the Nordstrom Canada Entities and legal counsel to the Directors and Officers.

7.0 CASH FLOW RESULTS RELATIVE TO FORECAST AND UPDATED AND EXTENDED CASH FLOW FORECAST

- 7.1 Receipts and disbursements for the cumulative 18-week period from July 2, 2023 to September 16, 2023 (the "**Reporting Period**"), as compared to the cash flow forecast that was attached as Appendix "A" to the Third Report (the "**Cash Flow Forecast**"), are summarized in the table below.

Cash Flow Variance Reporting		Cumulative 18-Week Period Ended Sep 16, 2023		
<i>(CAD \$000s, Unaudited)</i>		Actual	Forecast	Variance
Receipts		\$ 33,069	\$ 26,743	\$ 6,327
Disbursements				
Salaries and Benefits	14,064	9,602	(4,462)	
Occupancy & Other Costs	8,759	11,543	2,784	
Sales Tax Remittances	8,338	10,397	2,059	
Logistics, Transportation and Customs	1,373	2,006	633	
Liquidation Costs	3,585	7,669	4,083	
Professional Fees	5,704	4,779	(925)	
Shared Service Payments - Intercompany	2,746	2,700	(46)	
Total Disbursements	\$ 44,569	\$ 48,696	\$ 4,126	
Net Cash Flow	\$ (11,500)	\$ (21,953)	\$ 10,453	
Opening Cash Balance	100,223	100,223	-	
Net Cash Flow	(11,500)	(21,953)	10,453	
Closing Cash Balance	\$ 88,723	\$ 78,270	\$ 10,453	

7.2 During the Reporting Period, the Nordstrom Canada Entities' total receipts were approximately \$6.3 million greater than projected in the Cash Flow Forecast. The positive variance is largely attributable to higher than forecast FF&E sales, lower than forecast loyalty program redemptions, and interest income that was not included in the Cash Flow Forecast.

7.3 During the Reporting Period, the Nordstrom Canada Entities' total disbursements were approximately \$4.1 million less than projected in the Cash Flow Forecast. The net positive variance is primarily attributable to:

- (a) lower than forecast occupancy and other costs (by approximately \$2.8 million), which are primarily timing and expected to reverse in future weeks as certain vendor accounts are reconciled for goods and services provided after the Filing Date;

- (b) lower than forecast liquidation costs (by approximately \$4.1 million) which is due primarily to: (i) timing differences relating to payments to the Consultant; and (ii) lower than forecast FF&E removal costs (by approximately \$2.5 million) as a result of the Nordstrom Canada Entities retaining a subset of employees to assist with FF&E removals rather than contracting with third parties (which also accounts for a portion of the negative variance in salaries and benefits noted below);
- (c) lower than forecast sales tax remittances (by approximately \$2.0 million), which is anticipated to be a permanent difference; and
- (d) the above positive variances were partially offset by higher than forecast salaries and benefits (by \$4.5 million), which is due primarily to: (i) a subset of employees being retained for longer than forecast to assist with FF&E removals; and (ii) higher than forecast benefits costs.

7.4 The closing cash balance as of September 16, 2023 was approximately \$88.7 million, as compared to the forecast cash balance of \$78.3 million.

Updated and Extended Cash Flow Forecast

7.5 The Applicants have prepared an updated and extended cash flow forecast (the “**Updated Forecast**”) for the 14-week period from September 17, 2023 to December 23, 2023 (the “**Cash Flow Period**”). The Nordstrom Canada Entities are forecast to have significantly lower receipts and disbursements activity during the Cash Flow Period (as summarized in the table below) relative to earlier periods in the CCAA Proceedings.

- 7.6 Forecast receipts during the Cash Flow Period relate to interest income and customs fee returns, and exclude a total of approximately \$1.5 million of additional receipts beyond the timeframe of the Cash Flow Period related to the anticipated return of a customs bond and the anticipated proceeds from the assignment transactions under the Winners Agreement.
- 7.7 Forecast disbursements during the Cash Flow Period relate primarily to ongoing rents through the closing of the Winners Agreement, payments for post-filing goods and services as vendor accounts are reconciled, remaining amounts owing to the Consultant, professional fees and shared services.

Cumulative 14-Week Period Ending December 23, 2023	
<i>(CAD \$000s, Unaudited)</i>	
Opening Cash Position, September 17, 2023	\$ 88,723
Forecast Receipts	
Interest	894
Customs Fee Returns	225
Total Receipts	\$ 1,119
Forecast Disbursements	
Salaries and Benefits	170
Occupancy & Other Costs	1,716
Logistics, Transportation and Customs	50
Liquidation Costs	1,700
Professional Fees	5,086
Shared Service Payments - Intercompany	600
Total Disbursements	\$ 9,322
Forecast Closing Cash Position, December 23, 2023	\$ 80,520

- 7.8 The closing cash balance as of December 23, 2023 is forecast to be approximately \$80.5 million. Accordingly, the Nordstrom Canada Entities are expected to have sufficient liquidity to fund the CCAA Proceedings through the proposed extension of the Stay Period to and including December 22, 2023.

8.0 EXTENSION OF THE STAY PERIOD

8.1 The current Stay Period (which also applies to the Co-Tenancy Stay) extends to September 29, 2023. The Nordstrom Canada Entities are seeking an extension of the Stay Period to and including December 22, 2023.

8.2 The Monitor supports the Nordstrom Canada Entities' request to extend the Stay Period to December 22, 2023, including for the following reasons:

- (a) the Nordstrom Canada Entities have made meaningful progress in these CCAA Proceedings during the most recent Stay Period, and the extension of the Stay Period will enable the Nordstrom Canada Entities, with the assistance of the Monitor, to continue to advance the Claims Process and to continue efforts to develop the terms and framework of a CCAA plan of compromise or arrangement (a "**CCAA Plan**") to distribute the proceeds of realization to creditors;
- (b) the extension of the Co-Tenancy Stay will maintain stability while the Claims of landlords and other creditors are resolved in the Claims Process and the CCAA Plan is developed;
- (c) the Nordstrom Canada Entities have acted, and continue to act, in good faith and with due diligence to advance their orderly wind-down and the CCAA Proceedings;
- (d) as described above, the Nordstrom Canada Entities have sufficient liquidity to fund forecast disbursements through the proposed extension of the Stay Period; and
- (e) the Monitor is not aware of any party that would be materially prejudiced by the proposed extension of the Stay Period.

- 8.3 The Monitor notes that the Applicants are not seeking to extend the Parent Stay that had stayed derivative claims against Nordstrom US or its affiliated entities, including potential actions relating to the Lease Indemnities. As such, the Parent Stay will expire on September 29, 2023.

9.0 ACTIVITIES OF THE MONITOR

- 9.1 Since the date of the Fourth Report (July 12, 2023), the primary activities of the Monitor and its counsel, Goodmans LLP, have included the following:

- (a) monitoring the Nordstrom Canada Entities' cash receipts and disbursements, and assisting in preparing weekly cash flow variance reporting, including tracking outstanding balances and commitments to service providers;
- (b) participating in final landlord walk-throughs of Full-Line Stores with respect to the removal of FF&E and related repair issues, and the return of locations in "broom swept" and clean condition in connection with Lease disclaimers;
- (c) with the assistance of counsel, undertaking an extensive review of Intercompany Claims (as defined in the Claims Procedure Order) and preparing the Monitor's Intercompany Claims Report, which was served on the Service List on August 3, 2023 and filed with the Court;
- (d) supporting the Nordstrom Canada Entities in connection with the Lease Assignment Transactions, including with respect to the closing of the transaction in respect of the Heartland Lease;

- (e) reviewing and participating in discussions with the Consultant, the Nordstrom Canada Entities and counsel regarding the Final Reconciliation;
- (f) assisting in the Claims Process, including reviewing and participating in the reconciliation of submitted Claims, and responding to questions from vendors and others regarding the Claims Process;
- (g) in its capacity as Administrator, assisting the Trustee in administering all aspects of the Employee Trust, including assisting in the calculations of entitlement amounts for Eligible Employees and working with Employee Representative Counsel and Nordstrom Canada to address disputes and questions;
- (h) assisting the Nordstrom Canada Entities in engaging with landlords with respect to the resolution of their asserted Claims;
- (i) assisting the Nordstrom Canada Entities in the development of a CCAA Plan;
- (j) responding to inquiries from stakeholders who contacted the Monitor on the toll-free number or e-mail account established by the Monitor; and
- (k) preparing this Sixth Report with the assistance of counsel.

10.0 CONCLUSIONS AND RECOMMENDATIONS

- 10.1 For the reasons set out in this Sixth Report, the Monitor respectfully recommends that the Court grant the Applicants' motion and the relief sought therein.

All of which is respectfully submitted to the Court this 22nd day of September, 2023.

**Alvarez & Marsal Canada Inc., in its capacity as Monitor of
Nordstrom Canada Retail, Inc.,
Nordstrom Canada Holdings, LLC,
Nordstrom Canada Holdings II, LLC, and
Nordstrom Canada Leasing LP,
not in its personal or corporate capacity**

Per: 

Alan Hutchens
Senior Vice-President

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
NORDSTROM CANADA RETAIL, INC., NORDSTROM CANADA HOLDINGS, LLC
AND NORDSTROM CANADA HOLDINGS II, LLC**

Court File No. CV-23-00695619-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

SEVENTH REPORT OF THE MONITOR

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