

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*

*APPLICATION OF TLC VISION CORPORATION UNDER
SECTION 47 OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED*

SECOND REPORT OF THE INFORMATION OFFICER

ALVAREZ & MARSAL CANADA INC.

February 16, 2010

INTRODUCTION

1. On December 21, 2009, TLC Vision Corporation ("TLC Canada" or the "Company"), along with TLC Vision (USA) Corporation ("TLC USA"), a wholly-owned subsidiary of TLC Canada, and TLC Management Services Inc. ("TLC MSI"), a wholly-owned subsidiary of TLC USA (collectively, the "Debtors"), filed with the United States Bankruptcy Court for the District Court of Delaware (the "U.S. Court") a voluntary petition for relief under Chapter 11 of Title 11 of the *United States Bankruptcy Code* (the "Chapter 11 Proceeding"). TLC Canada is the direct or indirect parent of the entities that comprise the TLC group of companies (the "TLC Group").
2. On December 21, 2009, TLC Canada obtained an order of this Honourable Court (the "Canadian Court") pursuant to Section 47 of the *Companies' Creditors Arrangement Act* ("CCAA"), granting, among other things, an interim stay of proceedings against the Company (the "Interim Initial Order").

3. On December 23, 2009, TLC Canada, as foreign representative, brought an application before the Canadian Court, pursuant to section 47 of the CCAA, and obtained an order, which among other things: (i) recognized the Chapter 11 Proceeding commenced by TLC Canada as a “foreign main proceeding”; (ii) recognized various Chapter 11 orders; (iii) granted a stay of proceedings against the Company; (iv) authorized the Debtors to obtain super-priority postpetition financing in the aggregate amount of up to \$US 15 million (the “Lender DIP Facility”); and (v) appointed Alvarez & Marsal Canada ULC¹, as Information Officer (collectively, the “Initial Order”).
4. On January 26, 2010, TLC Canada, as foreign representative, obtained an order from the Canadian Court which, among other things: (i) approved the First Report of the Information Officer, dated January 25, 2010 (the “First Report”) and the activities described therein; and (ii) recognized and gave full force and effect in all provinces and territories in Canada to the U.S. Lease Rejection Order, the U.S. Claims Bar Date Order and the U.S. Final Utilities Order. A copy of each of the orders issued by the U.S. Court is attached as exhibits to the First Report.
5. This is the Second Report of the Information Officer (the “Report”) in these Proceedings. A copy of the First Report (without appendices) is attached hereto as “Exhibit A”. The First Report, together with other information regarding these CCAA proceedings, including the Amended and Restated Initial Order, have been posted by the Information Officer on its website at www.alvarezandmarsal.com/tlccanada. The Court-filed documents regarding the Chapter 11 Proceeding are also available at <http://chapter11.epiqsystems.com/tlcvision>.
6. The purpose of this Second Report of the Information Officer is to provide the Canadian Court with information concerning:

¹ Pursuant to the Amended and Restated Initial Order of Mr. Justice Cummings dated January 21, 2010, Alvarez & Marsal Canada ULC was replaced by Alvarez & Marsal Canada Inc. (“A&M”) as Information Officer in this proceeding. The Consent by A&M to act as Information Officer in this proceeding was filed with this Honourable Court on January 21, 2010.

- (i) the TLC Group's proposed recapitalization, including:
 - (a) past recapitalization and sales efforts; and
 - (b) the Plan Sponsor Agreement;
- (ii) the TLC Group's financing facilities, including:
 - (a) the Prepetition Credit Facilities;
 - (b) the First Interim DIP Order; and
 - (c) the Charlesbank DIP Facility;
- (iii) the activities of the Information Officer since the date of the First Report; and
- (iv) the Information Officer's recommendations.

TERMS OF REFERENCE

7. In preparing this report, A&M has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and its advisors, and discussions with management of TLC Canada and its advisors. In addition, A&M has reviewed the publicly available information filed in the Chapter 11 Proceeding and in this CCAA proceeding. A&M has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, A&M expresses no opinion or other form of assurance on the information contained in this report.
8. A&M has requested that TLC Canada bring to its attention any significant matters that were not addressed in the course of its specific inquiries. Accordingly, this report is based solely on the information (financial or otherwise) made available to A&M.
9. All terms not otherwise defined in this Report have the meanings ascribed to them in the First Report.
10. All references to dollars in this report are in Canadian currency unless otherwise noted.

COMPANY BACKGROUND

11. TLC Canada is a publicly traded company with its common shares traded on the OTC Bulletin Board. The shares were previously listed on the Toronto Stock Exchange under

the symbol "TLC" and on the NASDAQ Global Market under the symbol "TLCV" prior to their delisting as a result of the insolvency proceedings. The Company's head office and executive personnel are located in St. Louis, Missouri. For the year ended December 31, 2008, TLC Canada reported revenues from continuing operations of approximately \$275.7 million, of which the Canadian operations accounted for approximately \$15 million or 5.5%. The majority of the TLC Group's revenues are derived from owning and managing refractive centres. The TLC Group employs approximately 750 people, including 101 in Canada.

12. The TLC Group is an eye care services company that operates in three main business segments: (i) refractive laser centres (the "Refractive Segment"); (ii) doctor services; and (iii) eye care. The majority of the TLC Group's revenues are derived from owning and managing refractive laser centres that employ laser technologies to treat common refractive vision disorders. A brief description of the Refractive Segment is as follows:

Refractive Segment

13. The TLC Group owns and manages 64 refractive centres located in the U.S. and 6 in Canada. A typical centre is between 3,000 and 5,000 square feet, located in a high-end retail, medical or general office building and has a minimum of at least one excimer laser (with many centres having two or more). The TLC Group's Refractive Segment receives revenues from patients for laser vision correction procedures performed at the centres and fees paid by doctors who use the centres to perform procedures. The TLC Group does not practice medicine and as such its activities are limited to owning and managing eye care centres and affiliating with surgeons performing the laser vision correction procedures.
14. Of the 6 Canadian refractive centres (the "Canadian Operations"), four are located in Ontario. Through its 75% ownership of TLC The Laser Center (Moncton) Inc. ("TLC Moncton"), TLC Canada is also the majority owner of two refractive centres located in Eastern Canada. TLC Moncton employs 10 people. TLC Moncton is not an applicant in the Chapter 11 Proceeding or these proceedings.

TLC GROUP'S RECAPITALIZATION EFFORTS

(i) Past Recapitalization and Sales Efforts

15. As a result of the difficult economic environment and its significant debt, commencing in early 2008, the TLC Group undertook various initiatives in an attempt to recapitalize its balance sheet.
16. Through discussions with the Company's management, financial and legal advisors, review of the Company's public regulatory filings and press releases, and review of a report to the Board of Directors (the "Board"), A&M understands that:
 - (i) in February 2008, the Board engaged CIT and Edgeview Partners (the "IBanks") and Cowen and Company ("Cowen") to explore a potential transaction with a major strategic competitor of TLC based in the U.S. These discussions ultimately did not result in a transaction;
 - (ii) in September 2008, the IBanks commenced a marketing process to solicit interest from potential private equity investors. Fifty-three parties were contacted as part of this process, with 29 signing confidentiality agreements to review the Confidential Information Memorandum (a copy of which was provided to A&M). Two parties ultimately submitted indications of interest, but at valuation levels that would require substantial discounts to the amounts outstanding under the Prepetition Credit Facilities;
 - (iii) in December 2008, the IBanks also led discussions with a special acquisition corporation to attempt to arrange financing. In excess of 65 potential investors were contacted as part of this process. In March 2009, the IBanks reported to the Board that due to transaction complexity and poor market conditions, the likelihood of executing this type of financing was low; and
 - (iv) concurrent with the above, the IBanks also explored other strategic options to recapitalize the Company, including a sale of the Company's 51% interest in Vision Source LLC.

17. From April to November 2009, the Company issued a series of press releases and management comments in its SEC filings referring to its “continued work with lenders and advisors to secure a more flexible capital structure for the Company”. In November 2009, the Company also disclosed that it was in discussions with “certain third parties regarding the sale of non-core assets”.
18. As the initiatives outlined above did not result in the receipt of any viable expressions of interest at valuations in excess of the amounts outstanding under the Prepetition Credit Facilities, the Company entered into negotiations with its Prepetition Secured Lenders which culminated in the execution of the Lender DIP Facility, Restructuring Agreement and Plan of Reorganization (the “Prepetition Lenders’ Plan of Reorganization”), the latter of which was filed in the U.S. Court on January 6, 2010.
19. The Prepetition Lenders’ Plan of Reorganization contemplated a consensual restructuring of the Company whereby existing Secured Lenders would exchange approximately US\$107 million in prepetition debt (the “Prepetition Debt”) currently outstanding for newly-issued senior secured notes of TLC USA of US\$80 million and all of the equity of the reorganized TLC USA upon its emergence from the Chapter 11 Proceeding. The Prepetition Lenders’ Plan of Reorganization also required the sale of all of the assets necessary to operate TLC’s laser eye centers in Canada, including the shares of TLC Moncton owned by TLC Canada, for gross consideration of US\$9.7 million, plus assumed liabilities, pursuant to a Purchase Agreement negotiated with a third party.
20. Notwithstanding the Prepetition Lenders’ Plan of Reorganization, the Applicants continued to explore possible restructuring transactions as alternatives. The Prepetition Lenders’ Plan of Reorganization and paragraph 39 of the First Interim DIP Order provide that the Debtors may exercise a “fiduciary out” and terminate the Plan of Reorganization by:
 - (i) providing the Prepetition Lenders with written notice of the Board’s decision to exercise the fiduciary out;
 - (ii) filing a motion seeking authority to pay all amounts owing under the Lender DIP Facility, in full, in cash;

- (iii) filing a new plan of reorganization, not contingent on further due diligence or financing, that provides for repayment of the Prepetition Debt no later than May 20, 2010;
- (iv) providing reasonable evidence of committed financing in support of such plan; and
- (v) obtaining a U.S. Court hearing seeking approval to repay the outstanding balance of the Lender DIP Facility in full within 15 days of delivering the notice described in (i) above.

(ii) *Plan Sponsor Agreement*

21. On February 12, 2010 the Debtors sought and obtained an order approving an agreement (as amended, the "Plan Sponsor Agreement" or the "Sponsored Plan"), outlining the terms and conditions under which Charlesbank Equity Fund VII Limited Partnership and certain of its affiliates (collectively, "Charlesbank") would agree to purchase and assume from the Debtors all right, title, interests and obligations in substantially all of the assets and liabilities of the Debtors' business. Unlike the Prepetition Lenders' Plan of Reorganization, the Plan Sponsor Agreement does not require the sale of the Canadian Operations. The Information Officer understands that Charlesbank is a leading middle market-focused private equity firm that manages more than \$3.0 billion of committed capital on behalf of Harvard University and other large institutions.
22. The Plan Sponsor Agreement approved by the U.S. Court on February 12, 2010 reflects material improvements made by Charlesbank to its original offer. These enhancements came about following receipt of an offer made by H.I.G. Middle Market LLC, an affiliate of Dunkirk Investments I, LLC, a Prepetition Lender (together, "HIG"), to acquire the Debtors' assets on terms superior to those initially offered by Charlesbank. Through affiliates, HIG contends that it holds in excess of 50% of the Company's senior secured debt.
23. The Information Officer is advised by the Debtors' U.S. counsel, that commencing on or about February 3, 2010, and after Charlesbank's original Plan Sponsor Agreement was

filed with the Bankruptcy Court, HIG asked the TLC Group if it had any objection to HIG having direct discussions with Charlesbank regarding a co-investment with Charlesbank. The TLC Group informed both HIG and Charlesbank that it had no objection to the parties engaging in discussions regarding a potential co-investment. The discussions between HIG and Charlesbank commenced and continued, without the Debtors' involvement. The Information Officer was advised by the Debtors' U.S. counsel that approximately one hour before the U.S. Court hearing on February 12, 2010, the TLC Group was informed by both Charlesbank and HIG that they had reached a handshake agreement on the terms of a co-investment, whereby HIG would "roll-over" its secured debt claim in exchange for a 35% equity interest in the holding company that will be established for the investment. However, the entity that is contractually obligated to the TLC Group under the Plan Sponsor Agreement and underlying equity commitment letter is Charlesbank, not HIG.

24. The Plan Sponsor Agreement provides, among other things, for the cash payment in full by Charlesbank of all obligations owing to the Prepetition Lenders upon the Sponsored Plan's effective date. The Plan Sponsor Agreement is not subject to any financing contingency and, according to the Debtors' U.S. counsel, has received approval from the Company's unsecured creditors' committee.
25. In connection with the Plan Sponsor Agreement, Charlesbank has provided a written commitment (the "Commitment Letter") to acquire the Company for up to US\$ 141,964,500, representing the amount that will be paid to creditors and claimants under the Sponsored Plan, exclusive of the value of any assumed liabilities and assumed capital leases. Among other things, the Sponsored Plan provides for: (i) full cash payment to the Prepetition Lenders; and (ii) a greater cash distribution to the Company's unsecured creditors than was provided for in the Prepetition Lenders' Plan of Reorganization. While the Sponsored Plan allows the Company to emerge from the Proceedings virtually debt free, under the previous lender plan, the Company would have funded secured indebtedness of at least US\$80 million upon emergence.
26. Key elements of the Plan Sponsor Agreement are:

- (i) the purchased assets are substantially all of the assets of the TLC Group, including without limitation, the business as a going concern, furniture and equipment, inventories, merchandise, cash, accounts receivable, books and records, intellectual property, certain claims and causes of action, assumed contracts, permits, leasehold interests and the stock of TLC Vision (USA) Corporation, The Laser Center (Moncton), Inc. and OccuLogix Inc.;
 - (ii) upon closing, Charlesbank is to make payments required under the Sponsored Plan, including: (i) the allowed claims of the Prepetition Lenders to a maximum of US\$ 107,677,000; (ii) the closing indebtedness of the Charlesbank DIP Facility (described below) up to a maximum of US\$ 25 million; (iii) up to 90% of the allowed claims of each general unsecured creditor, with aggregate cash to the class not to exceed US\$9 million, plus an unsecured note for 10% of the allowed general unsecured claims, not to exceed \$3 million; (iv) allowed administrative claims and priority tax claims; and (v) restructuring expenses (subject to a restructuring expense cap); and
 - (iii) the Plan Sponsor Agreement provides for a break-up fee of US\$5 million payable to Charlesbank if, among other things, the Company enters into a superior proposal. The break-up fee represents approximately 3.5% of the value of the Sponsored Plan. A typical break fee approved in CCAA proceedings represents approximately 1 to 3% of the purchase price. The agreement also provides for the reimbursement to Charlesbank of reasonable out-of-pocket costs and expenses incurred in connection with the transaction to a maximum of US\$ 2 million.
27. The Plan Sponsor Agreement allows for submission and consideration of superior proposals. Pursuant to the Plan Sponsor Agreement, such proposals may be considered by the Debtors' board of directors in accordance with the terms and conditions of the Plan Sponsor Agreement.
28. As described in the Debtors' motion for approval of the Plan Sponsor Agreement, the Debtors believe that the Plan Sponsor Agreement provides a higher and better recovery for the Debtors' secured and unsecured creditors than the recovery provided for in the

Prepetition Lenders' Plan of Reorganization. Further, the Debtors believe the Sponsored Plan is in the best interests of the Company's stakeholders because it is intended to enable the Company to emerge from the Chapter 11 and CCAA proceedings free of debt.

TLC GROUP'S FINANCING FACILITIES

(i) Pre-petition Credit Facilities

29. As described in the First Report:

- (i) on June 21, 2007, certain TLC entities entered into a US\$ 110 million credit facility with the Prepetition Secured Lenders. The facility is administered by Wells Fargo Bank and consists of an US\$ 85 million senior term loan with a six-year term, a US\$ 25 million revolver with a five-year term and a US\$ 3 million letter of credit facility (collectively the "Prepetition Credit Facilities"). The Borrower under the Prepetition Credit Facilities is TLC USA. TLC Canada and TLC Moncton are Guarantors of the facilities. All of TLC Canada's assets are pledged as security in support of the Prepetition Credit Facilities pursuant to the Canadian Security Agreement dated June 21, 2007. As at the December 21, 2009, the Company had total obligations of approximately US\$ 107 million under the Prepetition Credit Facilities; and
- (ii) the Information Officer's independent legal counsel in this matter, Chaitons LLP ("Chaitons"), has provided A&M with a legal opinion (the "Opinion") that, subject to the customary exceptions and qualifications, the Canadian Security Agreement creates a security interest in favour of the Prepetition Lenders in the personal property of TLC Canada as security for payment of TLC Canada's guaranty of the Prepetition Credit Facilities, which security interest is perfected in TLC Canada's personal property located in the Province of Ontario. A copy of the Opinion is attached as Exhibit "A" to the First Report.

(ii) First Interim DIP Order

30. On December 21, 2009, the Interim Initial Order granted by the Canadian Court recognized and gave full force and effect to an order of the U.S. Court (the "U.S. Interim

DIP Order”) authorizing the TLC Group to, among other things, obtain postpetition super-priority financing on an interim basis, in the aggregate amount of up to \$US 15 million under the Lender DIP Facility.

31. The Lender DIP Facility is being provided by certain of the Debtors’ Prepetition Lenders with Cantor Fitzgerald Securities as agent. The Lender DIP Facility provides for several fees, including, among others, a closing fee of \$175,000, an agency fee of \$75,000, a backstop fee of \$275,000, an unused commitment fee of 0.75% of the annual unused facility amount, a facility fee of 1.5% of the aggregate commitments, an exit fee of 2.0% of the outstanding principal amount of the Lender DIP Facility on the closing date, and an extension fee of 2.0% of the outstanding amount of the Lender DIP Facility due upon extension.
32. The Lender DIP Facility was made available to the TLC Group in two draws. An initial draw in the amount of \$US 7.5 million was made available following the granting of the First Interim Initial Order and subsequently drawn on by TLC USA on December 23, 2009. A second draw in an amount not to exceed \$US 7.5 million was to be made available upon or after the entry of a final DIP order by the U.S. Court. Ultimately, the Final DIP Order for the Lender DIP Facility was not sought given the developments with respect to the Plan Sponsor Agreement and the Charlesbank DIP Facility, which is described below.

(iii) The Charlesbank DIP Facility

33. On February 12, 2010, the Debtors sought and obtained a Second Interim DIP Order in the U.S. Court approving a US\$ 25 million, multiple draw, junior, debtor-in-possession financing facility from Charlesbank (the “Charlesbank DIP Facility”). The Charlesbank DIP Facility is to be used to: (i) repay the Lender DIP Facility; (ii) continue the same adequate protection provisions provided for in the First Interim DIP Order; and (iii) provide sufficient working capital to fund the Debtors’ operations through the effective date of the Chapter 11 plan outlined in the Plan Sponsor Agreement.
34. The Charlesbank DIP Facility is to be secured by post-petition liens that are junior to all prepetition liens and obligations arising under the Prepetition Credit Facilities and

First Interim DIP Order. Pending entry and approval of a final order authorizing the DIP Credit Agreement, the Second Interim DIP Order authorizes the Debtors to borrow up to US\$ 10 million in order to repay all obligations owed pursuant to the First Interim DIP Order (approximately US\$ 7.5 million) and to meet administrative and operational obligations.

35. Key elements of the Charlesbank DIP Facility are as follows:

- (i) the Borrowers are TLC Canada, TLC USA and TLC MSI. TLC Canada and TLC MSI were not Borrowers under the Prepetition Credit Facilities, but were Guarantors;
- (ii) the total amount of the Charlesbank DIP Facility is US\$ 25 million to be made available to the TLC Group in two or more draws. An initial draw in the amount of US\$ 10 million is to be made available following recognition by the Canadian Court of the Second Interim DIP Order. Subsequent draws in increments of US\$ 1 million up to a maximum of US\$ 15 million, will be made available following the entry of a final DIP order by the U.S. Court (the "U.S. Final DIP Order") and recognition by the Canadian Court;
- (iii) interest is to be charged at LIBOR plus 10% and is due and payable in cash in arrears, on: (i) the last day of each month; and (ii) the maturity date;
- (iv) the Charlesbank DIP Facility provides for several fees, including: (i) an exit fee in an amount equal to 4% of the maximum principal amount of the Charlesbank DIP Facility, payable on the maturity date or, if earlier, the date on which the Charlesbank DIP Facility is paid in full and all the commitments thereunder are terminated; and (ii) a commitment fee in an amount equal to 2% of the maximum principal amount of the facility payable on the Closing Date;
- (v) the obligation to pay certain professional fees ranks senior to the facility. This amount will not exceed US\$ 250,000 plus the amount of any budgeted fees and expenses incurred prior to any acceleration of the facility; and
- (vi) the Borrowers, including TLC Canada, are jointly and severally liable for the amounts outstanding under the facility.

ACTIVITIES OF THE INFORMATION OFFICER

36. Since the date of the First Report (January 25, 2010), the Information Officer's activities have included:
- daily review and monitoring of the materials filed in the Chapter 11 Proceedings and communicating with Chaitons regarding same (the Court-filed documents for the Chapter 11 Proceeding are available at <http://chapter11.epiqsystems.com/tlcvision>);
 - reviewing the draft materials for these CCAA proceedings and communicating with Chaitons regarding same;
 - preparing for and attending at Court for the hearing held on January 26, 2010 where the orders of the U.S. Court referred to in paragraph 4 of this Report were recognized by the Canadian Court;
 - posting a copy of the Court-filed documents in these CCAA proceedings to the Information Officer's website at www.alvarezandmarsal.com/tlccanada;
 - liaising with the Company and the Office of the Superintendent of Bankruptcy ("OSB") to assist in providing information requested by the OSB;
 - participating in conference calls with management of the Company and the Company's legal and financial advisors to discuss matters relevant to the CCAA and Chapter 11 proceedings; and
 - preparing this Report and communicating with Chaitons regarding same.

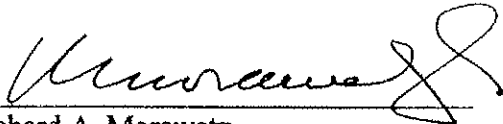
RECOMMENDATIONS

37. Based on the foregoing, the Information Officer recommends that this Honourable Court:
- (i) recognize and give full force and effect to the U.S. Plan Sponsor Order;
 - (ii) recognize and give full force and effect to the U.S. Second Interim DIP Order;
and
 - (iii) approve this Report and the activities of the Information Officer as described herein.

38. **ALL OF WHICH IS RESPECTFULLY SUBMITTED** at Toronto, Ontario this 16th day of February, 2010.

ALVAREZ & MARSAL CANADA INC.
in its capacity as Information Officer of
TLC Vision Corporation

Per:


Richard A. Morawetz

**EXHIBIT "A" TO
SECOND REPORT REPORT OF INFORMATION OFFICER**

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

APPLICATION OF TLC VISION CORPORATION
UNDER SECTION 47 OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.
C-36, AS AMENDED

FIRST REPORT OF THE INFORMATION OFFICER

ALVAREZ & MARSAL CANADA INC.

January 25, 2010

CHAITONS LLP
Barristers and Solicitors
185 Sheppard Avenue West
Toronto, Ontario M2N 1M9

Harvey Chaiton (LSUC # 21592F)
Tel: (416) 218-1132
Fax: (416) 218-1832

**Lawyers for Alvarez & Marsal
Canada Inc. in its capacity as The
Information Officer**

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

APPLICATION OF TLC VISION CORPORATION
UNDER SECTION 47 OF THE COMPANIES'
CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.
C-36, AS AMENDED

INDEX

First Report of the Information Officer Alvarez & Marsal Canada Inc

- A Legal Opinion of Chaitons LLP dated January 20, 2010
- B Claims Procedure Order dated January 22, 2010
- C Lease Rejection Order dated January 22, 2010
- D Final Utilities Order dated January 22, 2010

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*

*APPLICATION OF TLC VISION CORPORATION UNDER
SECTION 47 OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED*

FIRST REPORT OF THE INFORMATION OFFICER

ALVAREZ & MARSAL CANADA INC.

January 25, 2010

INTRODUCTION

1. On December 21, 2009, TLC Vision Corporation ("TLC Canada" or the "Company"), along with TLC Vision (USA) Corporation ("TLC USA"), a wholly-owned subsidiary of TLC Canada and TLC Management Services Inc. ("TLC MSI") a wholly-owned subsidiary of TLC USA (collectively the "Debtors") filed with the United States Bankruptcy Court for the District Court of Delaware (the "U.S. Court") a voluntary petition for relief under Chapter 11 of Title 11 of the *United States Bankruptcy Code* (the "Chapter 11 Proceeding"). TLC Canada is the direct or indirect parent of the entities that comprise the TLC Group of Companies (the "TLC Group").
2. On December 21, 2009, TLC Canada obtained an order of this Honourable Court (the "Canadian Court") pursuant to Section 47 of the *Companies' Creditors Arrangement Act* ("CCAA"), granting, among other things, a stay of proceedings against the Company (the "Interim Initial Order").

3. On December 23, 2009, TLC Canada, as foreign representative, brought a further application before the Canadian Court, pursuant to section 47 of the CCAA, and obtained an order, which among other things: (i) recognized the Chapter 11 Proceeding commenced by TLC Canada as a "foreign main proceeding"; (ii) granted a stay of proceedings against the Company; (iii) authorized the Debtors to obtain super-priority postpetition financing in the aggregate amount of up to \$US 15 million; and (iv) appointed Alvarez & Marsal Canada ULC¹, as Information Officer (the "Initial Order").
4. Following its appointment as the Information Officer, A&M, in accordance with section 47 of the CCAA and paragraph 41 of the Initial Order, coordinated the publication of notice of the CCAA and Chapter 11 proceedings in The Globe and Mail (National Edition) on December 28 and 31, 2009.
5. The purpose of this First Report of the Information Officer (the "Report") is to provide the Canadian Court with information concerning:
 - (a) background on TLC Canada's business and operations in Canada;
 - (b) the TLC Group's financing facilities, including:
 - (i) the Prepetition Credit Facilities;
 - (ii) the security opinion provided by the Information Officer's independent legal counsel;
 - (c) the claims process;
 - (d) other Orders of the U.S. Court granted on January 22, 2010;
 - (e) the activities of the Information Officer; and
 - (f) conclusions and recommendations.

¹ Pursuant to the Amended and Restated Initial Order of Mr. Justice Cummings dated January 21, 2010, Alvarez & Marsal Canada ULC was replaced by Alvarez & Marsal Canada Inc. ("A&M") as Information Officer in this proceeding. The Consent by A&M to act as Information Officer in this proceeding was filed with this Honourable Court on January 21, 2010.

TERMS OF REFERENCE

6. In preparing this report, A&M has relied upon unaudited financial information, the Company's books and records, financial information prepared by the Company and its advisors, and discussions with management of TLC Canada and its advisors. In addition, A&M has reviewed the publicly available information filed in the Chapter 11 Proceeding and in this CCAA proceeding. A&M has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, A&M expresses no opinion or other form of assurance on the information contained in this report.
7. Certain of the information referred to in this report may consist of or include forecasts and/or projections. An examination or review of financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. 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.
8. A&M has requested that TLC Canada bring to its attention any significant matters that were not addressed in the course of its specific inquiries. Accordingly, this report is based solely on the information (financial or otherwise) made available to A&M.
9. All references to dollars in this report are in Canadian currency unless otherwise noted.

BACKGROUND

10. TLC Canada is a publicly traded company with its common shares traded on the OTC Bulletin Board. The shares were previously listed on the Toronto Stock Exchange under the symbol "TLC" and on the NASDAQ Global Market under the symbol "TLCV" prior to their delisting as a result of the insolvency proceedings. The Company's head office and executive personnel are located in St. Louis, Missouri. For the year ended December 31, 2008, TLC Canada reported revenues from continuing operations of approximately \$275.7 million, of which the Canadian operations accounted for approximately \$15

million or 5.5%. The majority of the TLC Group's revenues are derived from owning and managing refractive centres, of which 64 are located in the United States and six in Canada. The TLC Group employs approximately 750 people, including 101 in Canada.

11. The TLC Group is an eye care services company that operates in three main business segments: (i) refractive laser centres (the "Refractive Segment"); (ii) doctor services; and (iii) eye care. The majority of the TLC Group's revenues are derived from owning and managing refractive laser centres that employ laser technologies to treat common refractive vision disorders. A brief description of the Refractive Segment is as follows:

Refractive Segment

12. The TLC Group owns and manages 64 refractive centres located in the U.S. and 6 in Canada. A typical centre is between 3,000 and 5,000 square feet, located in a high-end retail, medical or general office building and has a minimum of at least one excimer laser (with many centres having two or more). The TLC Group's Refractive Segment receives revenues from patients for laser vision correction procedures performed at the centres and fees paid by doctors who use the centres to perform procedures. The TLC Group does not practice medicine and as such its activities are limited to owning and managing eye care centres and affiliating with surgeons performing the laser vision correction procedures.
13. Of the 6 Canadian refractive centres (the "Canadian Operations"), four are located in Ontario. Through its 75% ownership of TLC The Laser Center (Moncton) Inc. ("TLC Moncton"), TLC Canada is also the majority owner of two refractive centres located in Eastern Canada. TLC Moncton employs 10 people. TLC Moncton is not an applicant in the Chapter 11 Proceeding or the Canadian recognition proceeding.
14. The refractive centres operated in Canada are located at leased premises at the following locations:
 - 4101 Yonge St., Suite 100, Toronto, ON;
 - 50 Burnhamthorpe Road West, First Floor, Mississauga, ON;
 - 380 Wellington St. N., London, ON;
 - University of Waterloo, School of Optometry, Waterloo, ON;

- 100 Arden Street, Suite 515, Moncton, NB; and
 - Clayton Professional Center, 255 Lacewood Dr., Suite 212, Halifax, NS.
15. In addition to the above refractive centres, TLC Canada operated a call centre and information technology department located at leased premises at 5280 Solar Drive, Mississauga, ON (the "Mississauga Premises"). From this location, the Company provided support services to the entire TLC Group. A portion of the Mississauga Premises was subleased by TLC Canada to an unrelated company, Innovapost Inc. As discussed later in this Report, on January 22, 2010, the Debtors obtained an order from the U.S. Court authorizing TLC Canada to reject the lease for the Mississauga Premises (the "U.S. Lease Rejection Order").

TLC GROUP'S FINANCING FACILITIES

(i) Prepetition Credit Facilities

16. On June 21, 2007, certain TLC entities entered into a \$US 110 million credit facility with a syndicate of lenders (the "Prepetition Secured Lenders"). The facility is currently administered by Wells Fargo Bank ("Wells Fargo") and consists of an \$US 85 million senior term loan with a six-year term, a \$US 25 million revolver with a five-year term and a \$US 3 million letter of credit facility (collectively the "Prepetition Credit Facilities"). The Borrower under the Prepetition Credit Facilities is TLC USA. TLC Canada and TLC Moncton are Guarantors, among others, of the Prepetition Credit Facilities. All of TLC Canada's assets are pledged as security in support of the Prepetition Credit Facilities pursuant to the Canadian Security Agreement dated June 21, 2007.
17. As at December 21, 2009, the TLC Group had total obligations of approximately \$US 107.6 million (the "Prepetition Debt") under the Prepetition Credit Facilities.

(ii) Security Opinion Provided by the Information Officer's Independent Legal Counsel

18. The Information Officer's independent legal counsel in this matter, Chaitons LLP ("Chaitons"), has provided A&M with a legal opinion (the "Opinion") that the Canadian Security Agreement creates a security interest in favour of the Prepetition Secured Lenders in the personal property of TLC Canada as security for payment of TLC Canada's guaranty of the Prepetition Credit Facilities, which security interest is perfected in TLC Canada's personal property located in the Province of Ontario. A copy of the Opinion is attached hereto as Exhibit "A".

CLAIMS PROCESS

19. On January 22, 2010, the Debtors sought and obtained an order in the U.S. Court establishing bar dates for filing proofs of prepetition secured, unsecured and administrative expense claims (the "Claims Order"). A copy of the Claims Order is attached hereto as Exhibit "B". Pursuant to the Claims Order, the deadline for all persons and entities holding or wishing to assert a prepetition unsecured or secured claim against the Debtors in the Chapter 11 Proceeding is March 15, 2010 (the "General Bar Date"). The Claims Order also established June 21, 2010 (the "Governmental Bar Date") as the deadline for all governmental units to file proofs of claim in the Chapter 11 Proceeding.
20. Pursuant to the Claims Order, the Applicants are required to provide notice of the above bar dates, together with a proof of claim form, to all known persons and entities holding claims, by first class mail at least twenty days before the General Bar Date. The Claims Order also requires the Applicants to publish a notice of the bar dates at least twenty days before the General Bar Date in the national edition of the Wall Street Journal and The Globe and Mail (National Edition) newspapers.
21. The Claims Order requires that to file a claim, creditors need to submit a signed original claim form, together with supporting documentation to the following by the applicable Bar Date: (i) by first class US mail to: TLC Vision (USA) Corporation Claims Processing Center, c/o Epiq Bankruptcy Solutions, LLC, FDR Station, PO Box 5082, New York, NY 10150-5082; and (ii) by hand delivery and overnight mail to TLC Vision (USA)

Corporation Claims Processing Center, c/o Epiq Bankruptcy Solutions, LLC 757 Third Avenue, 3rd Floor, New York, NY 10017.

OTHER ORDERS OF THE U.S. COURT

22. On January 22, 2010, the U.S. Court also granted the following orders, which the Company is seeking recognition of the Canadian Court at the hearing scheduled for January 26, 2010:
- (i) *U.S. Lease Rejection Order*; authorizing TLC Canada to reject its unexpired real property lease for the Mississauga Premises (the "U.S. Lease Rejection Order"). The lease agreement for the Mississauga Premises is by and between TLC Canada, as tenant, and Canada Mortgage and Housing Corporation as landlord and has an 18 year term which commenced in October 2001. The annual rent payable by TLC Canada is \$1,050,000, increasing to \$1,110,000 over the last 5 years of the lease. A&M has been informed by the Company's management that based on TLC Canada's current needs, the Mississauga Premises are costly and underutilized. As such, as part of its Chapter 11 Proceeding, TLC Canada sought and obtained the Lease Rejection Order from the U.S. Court. The TLC Group intends to permanently relocate its call centre and IT functions to smaller more cost effective premises. A copy of the U.S. Lease Rejection Order is attached hereto as Exhibit "C"; and
 - (ii) *U.S. Final Utilities Order*; among other things, prohibiting utility companies from altering, refusing or discontinuing services to the Debtors (the "U.S. Final Utilities Order"). A copy of the U.S. Final Utilities Order is attached hereto as Exhibit "D".

ACTIVITIES OF THE INFORMATION OFFICER

23. Since the date of the Initial Order, the Information Officer's activities have included:
- Daily review and monitoring of the materials filed in the Chapter 11 Proceedings and communicating with Chaitons regarding same (the Court-filed documents for


the Chapter 11 Proceedings are available at
<http://chapter11.epiqsystems.com/tlcvision>);

- Reviewing the draft materials for these CCAA proceedings and communicating with Chaitons regarding same;
- Preparing for and attending at Court for the hearing for the Initial Order;
- Posting a copy of the Court-filed documents in these CCAA proceedings to the Information Officer's website at www.alvarezandmarsal.com/tlccanada;
- Coordinating publication of notice of the CCAA and Chapter 11 proceedings in The Globe and Mail (National Edition) on December 28 and 31, 2009, as required by section 47 of the CCAA and paragraph 41 of the Initial Order;
- Liaising with the Company and the Canada Revenue Agency ("CRA") to assist in facilitating a payroll audit requested by CRA;
- Participating in conference calls with management of the Company and the Company's legal and financial advisors to discuss matters relevant to the CCAA and Chapter 11 proceedings; and
- Preparing this Report and communicating with Chaitons regarding same.

RECOMMENDATIONS

24. Based on the foregoing, the Information Officer recommends that this Honourable Court:
- Recognize and give full force and effect to the U.S. Lease Rejection Order;
 - Recognize and give full force and effect to the U.S. Claim Order;
 - Recognize and give full force and effect to the U.S. Final Utilities Order; and
 - Approve the activities of the Information Officer set out in this Report.
25. **ALL OF WHICH IS RESPECTFULLY SUBMITTED** at Toronto, Ontario this 25th day of January, 2010.

ALVAREZ & MARSAL CANADA INC.
in its capacity as Information Officer of
TLC Vision Corporation

Per: 
Richard A. Morawetz