

**QUEBEC  
SUPERIOR COURT  
(COMMERCIAL DIVISION)**

**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 AND ARRANGEMENT OF  
LAURA'S SHOPPE (P.V.) INC. (THE "APPLICANT")**

**SIXTH REPORT OF THE MONITOR  
KPMG INC.**

**DATED DECEMBER 10, 2015**

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## **INTRODUCTION AND PURPOSE OF THE MONITOR'S SIXTH REPORT**

1. On August 11, 2015, Laura's Shoppe (P.V.) Inc. (the "**Applicant**") filed an application before the Quebec Superior Court, Commercial Division (the "**Court**") under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). On the same day, KPMG Inc. ("**KPMG**"), in its then capacity as proposed monitor, provided the Court with a pre-filing report dated August 11, 2015 in connection with the Applicant's application.
2. On August 12, 2015, the Court granted an initial order (the "**Initial Order**") which provides for, among other things, the appointment of KPMG as monitor of the Applicant (in such capacity, the "**Monitor**") in these CCAA proceedings (the "**CCAA Proceedings**") and a stay of proceedings until September 11, 2015, or such later date as the Court may order (the "**Stay Period**").
3. The Applicant's motion for the granting of the Initial Order had been contested by Salus Capital Partners, LLC ("**Salus**"), which on or about August 20, 2015 filed a Motion for Leave to Appeal, which was dismissed on September 3, 2015 by the Court of Appeal.
4. On August 31, 2015, the Applicant filed two motions with the Court, namely a Motion for an Order Extending the Stay Period and to Amend the Initial Order (the "**Extension Motion**") and a Motion for a Claims Procedure Order (the "**Claims Motion**"). The Monitor provided the Court with its first report dated September 9, 2015 (the "**First Report**") in connection with the Applicant's filing of the Extension Motion and the Claims Motion. On September 11, 2015, the Court rendered an order granting the Claims Motion (the "**Claims Procedure Order**") and an order extending the Stay Period until November 30, 2015.
5. On September 3, 2015, Salus filed a Motion to Rescind or Vary the Initial Order and Other Relief, which it subsequently withdrew.
6. On September 11, 2015, the Court granted a Motion for Orders in Respect of Supplier Agreements that had been filed on September 3, 2015 by the Monitor in connection with the supply of new merchandise to the Applicant with the consent of the Monitor.

7. On October 16, 2015, the Applicant filed a Motion (the “**Plan and Meeting Motion**”) for an Order for the Filing of a Plan of Compromise and Arrangement and the Calling of a Creditors’ Meeting (the proposed “**Plan and Meeting Order**”), with a copy of a Plan of Compromise and Arrangement (the “**Initial Plan**”). The Monitor provided the Court with its second report dated October 22, 2015 (the “**Second Report**”) in connection with the Applicant’s filing of the Plan and Meeting Motion. On October 23, 2015, the Court issued the Plan and Meeting Order.

8. On October 27, 2015, the Applicant filed a Motion (the “**New Financing Motion**”) for an Order for New Financing (the “**New Financing Order**”). The Monitor provided the Court with its third report dated October 29, 2015 (the “**Third Report**”) in connection with the Applicant’s filing of the New Financing Motion. On October 30, 2015, the Court issued the New Financing Order.

9. The Applicant amended the Initial Plan by filing with the Court an Amended Plan of Compromise and Arrangement on November 13, 2015 and another on November 17, 2015 (as amended, the “**Amended Plan**”). The Monitor provided the Court with its fourth report dated November 17, 2015 (the “**Fourth Report**”) in connection with the Applicant’s filing of the Amended Plan.

10. On November 18, 2015, following discussions with certain of its major landlords, the Applicant circulated a Re-Amended Plan of Compromise and Arrangement (the “**Re-Amended Plan**”). By e-mail from its legal counsel sent on November 18, 2015, the Monitor provided the Court and the service list with its view that the amendments contained in the Re-Amended Plan are reasonable under the circumstances (the “**November 18th E-mail**”).

11. On November 19, 2015, the Re-Amended Plan was filed with the Court and the Creditors’ Meeting was held, during which the Affected Creditors voted in favour of the Re-Amended Plan.

12. On November 19, 2015 the Applicant filed a motion (the “**Sanction Motion**”), seeking an order approving an amendment to the Claims Procedure Order, extending the Stay Period and sanctioning the Re-Amended Plan (the “**Sanction Order**”). The Monitor provided the Court with its fifth report dated November 25, 2015 (the “**Fifth Report**”) in connection with the Sanction Motion. On November 27, 2015, the Court granted the Sanction Order.

13. On December 4, 2015, the Applicant filed a motion (the “**Refinancing Motion**”) seeking an order approving the permanent credit facilities provided to the Applicant by TEC (the “**Replacement Financing**”) and a Refinancing Charge, re-ordering the priority of the KERP Charge and terminating previous orders of the Court with respect to the Cash Management System.

14. On or about December 7, 2015, Monitor filed a Motion to Amend the Claims Procedure Order (the “**Claims Amendment Motion**”), seeking to amend the Claims Procedure Order to extend the Claims Bar Date.

15. The purpose of this sixth report of the Monitor (the “**Sixth Report**”) is to provide the Court with information on:

- a) the Replacement Financing and the Refinancing Charge;
- b) the reordering of the KERP Charge;
- c) the extension of the Claims Bar Date;
- d) the Cash Management System;
- e) the Monitor’s observations and recommendations.

16. The Sixth Report should be read in conjunction with the Second Report, the Third Report, the Fourth Report, the Fifth Report, the Refinancing Motion and the Claims Amendment Motion, which include additional information which has not been duplicated herein.

17. Terms not defined herein shall have the meaning attributed to them in the First Report, Second Report, Third Report, Fourth Report, Fifth Report, the Refinancing Motion, the Claims Amendment Motion and the Re-Amended Plan.

## **RESTRICTIONS AND SCOPE LIMITATIONS**

18. In preparing this Sixth Report, the Monitor has been provided with and has relied upon, unaudited financial information, books and records prepared by certain senior management of the Applicant (“**Senior Management**”) and discussions with Senior Management (collectively, the “**Information**”). Except as further described in this Sixth Report:

- 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 (“CASs”) pursuant to the *Chartered Professional Accountants Canada Handbook* and accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- b) some of the information referred to in this report consists of financial forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

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

20. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Applicant.

21. Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is the Applicant’s common reporting currency.

## **THE REPLACEMENT FINANCING AND REFINANCING CHARGE**

22. The Applicant has repaid its previous lenders, The Cadillac Fairview Corporation Limited and Salus, and continued its operations throughout the CCAA proceedings, using an interim financing facility of up to \$31 million provided to the Applicant by TEC, the whole in accordance with the New Financing Order.

23. Since the beginning of the CCAA Proceedings, the Applicant's objective has been to refinance its secured debt and restructure its operations with the view of continuing its business in the normal course.

24. Following the issuance of the New Financing Order, the Applicant and TEC entered into negotiations which ultimately led to the signing of a Commitment Letter (filed under seal with the Refinancing Motion) with TEC for a permanent financing facility.

25. The Replacement Financing provides for a Refinancing Charge in the amount of \$50,000,000 plus other hypothecs and security interests provided for therein;

26. The Monitor has reviewed the terms and conditions of the Replacement Financing and is of the view that, under the circumstances, they appear commercially reasonable and consistent with the Applicant's restructuring objectives.

27. As the Replacement Financing is a key factor in the Applicant's successful restructuring, and was a condition of the Re-Amended Plan, the Monitor is of the view that:

- a) the Replacement Financing would enhance the prospects of the Applicant successfully implementing and completing its Re-Amended Plan; and
- b) no creditor would be materially prejudiced as a result of the Refinancing Charge.

28. The Replacement Financing demonstrates confidence by TEC in the Applicant's management.

29. The Replacement Financing and the Refinancing Charge are consistent with the nature and value of the Applicant's property, the period during which the Applicant is expected to be subject to the CCAA Proceedings, and the manner in which the Applicant's business and financial affairs are to be managed during the CCAA proceedings.

## **REORDERING OF THE CCAA CHARGES**

30. The New Financing Order provided for the following CCAA Charges, ranking in the following order:

- a) the KERP Charge in the amount of \$250,000;
- b) the New Lender Charge (to secure the TEC Facility) in the amount of \$41,000,000; and
- c) the Administration Charge in the amount of \$350,000.

31. The Re-Amended Plan provides that each KERP Claim will be paid as and when due, and the Applicant has requested that the KERP Charge be retained only in the event that the KERP Claims are not paid as scheduled.

32. The Replacement Financing requires that the relative priority of the CCAA Charges is as follows:

- a) the Refinancing Charge (to secure the Replacement Financing) in the amount of \$50,000,000;
- b) the KERP Charge (to be determined); and
- c) the Administration Charge.

33. The Monitor has received confirmation from the Applicant that the payment of the KERP Claims have been issued and honored at the date of this report.

34. The Monitor, the Applicant and TEC have made arrangements for the payment of professional fees incurred in the CCAA Proceedings, and the Monitor has been advised that the beneficiaries of the Administration Charge have consented to the subordination thereof to the Refinancing Charge.



## THE EXTENSION OF THE CLAIMS BAR DATE

35. The Sanction Order declares that “*subject to Sections 4.5 and 4.6 of the Plan, any Claims for which a Proof of Claim has not been filed by the Claims Bar Date are and shall be forever barred and extinguished*”.

36. After the Claims Bar Date, the Monitor received 30 proofs of claim with a total aggregate value of \$10,981,443 (the “Late Claims”), detailed as follows:

- a) 26 proofs of claim with an aggregate of \$10,608,113 filed prior to the date of the Sanction Order; and
- b) 4 proofs of claim with an aggregate value of \$373,330 filed after the date of the Sanction Order.

37. The Monitor has since determined that:

- a) 10 of the Late Claims, representing \$10,211,427\$ or 93% of the aggregate value thereof, were submitted within 48 hours of the Claims Bar Date; and
- b) certain Late Claims were submitted by Creditors located in jurisdictions outside of Quebec that did not receive notification of the Claims Bar Date in accordance with the Claims Procedure Order.

38. Since the Sanction Order, the Monitor has become aware that 9 other Creditors, which according to the Applicant’s accounting records have claims against the Applicant in the aggregate amount of \$7,213, may not have received notice of the Claims Bar Date in accordance with the Claims Procedure Order (the “**Outstanding Creditors**”).

39. The Monitor has been notified that certain other Outstanding Creditors intend to submit proofs of claim.

40. After consulting with the Applicant, the Monitor, is of the view that it would be reasonable and appropriate to permit the filing of the Late Claims and to allow the Outstanding Creditors, or other Creditors that may have Claims against the Applicant, to submit proofs of claim up until December 15, 2015, or, for a Creditor with a Restructuring Claim, the latest of (a) 5:00 pm

(Montréal time) on December 15, 2015, and (b) thirty (30) days after the date of receipt by the Creditor of a notice from the Applicant giving rise to the Restructuring Claim.

41. In its Fourth Report, the Monitor estimated that the dividend to Affected Creditors could range from 4% to 9%, depending on the final determination of Disputed Claims. With the addition of the Late Claims and the potential claims that could be filed by the Outstanding Creditors, the estimated dividend could range from 3.5% to 8.5%.

## **THE CASH MANAGEMENT SYSTEM**

42. The Initial Order provided that the Interim Lender's financial advisor, PWC, shall supervise the Cash Management System of the Applicant, and that the Monitor shall control all of receipts and disbursements of the Applicant, including the existing Cash Management System, under the supervision, monitoring and with the approval of PWC.

43. As the TEC Facility provided for the Interim Lender to be paid in full, the New Financing Order granted powers to TEC in respect of receipts and disbursements and the Cash Management System, and also provided that the Monitor and its counsel shall continue to control and operate all mechanisms (and any resulting control of receipts and disbursements specifically required therefor) in order to ensure payment of orders of suppliers of the Applicant.

44. In the Refinancing Motion, the Applicant seeks to terminate various orders of the Court in respect of the Cash Management System, with the exception of the orders that permit the Monitor to facilitate the payment of suppliers of the Applicant.

45. The Monitor's monitoring and reporting in respect of the Applicant's receipts and disbursements and the Cash Management System would continue to inform the Court as to the status thereof.

46. Considering the above, it is the Monitor's view that the amendments sought by the Applicant in respect of the Cash Management System are reasonable and appropriate.

## **OBSERVATIONS AND RECOMMENDATIONS**

47. Following the acceptance of the Re-Amended Plan by the Affected Creditors, and the subsequent issuance of the Sanction Order, the Monitor's role is limited to the administration of the Claims Process and the distribution to creditors pursuant to the terms of the Re-Amended Plan.

48. The Applicant has continued to diligently pursue its restructuring efforts since the issuance of the Sanction Order and continues to operate its business in the ordinary course with the stability provided by the Stay Period.

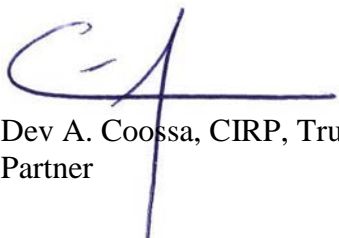
49. The Monitor believes that the terms of the Replacement Financing will allow the Applicant to continue to operate its business with a view to implementing the Re-Amended Plan and successfully completing its restructuring process.

50. For the reasons stated herein, the Monitor supports the Applicant's Refinancing Motion and the Claims Amendment Motion.

The whole respectfully submitted.

### **KPMG INC.**

in its capacity as Court-appointed  
Monitor of Laura's Shoppe (P.V.) Inc.



Dev A. Coossa, CIRP, Trustee  
Partner