

**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")**

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

DATED NOVEMBER 25, 2015

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE OF THE MONITOR'S FIFTH REPORT	3
RESTRICTIONS AND SCOPE LIMITATIONS	5
THE EFFECT OF THE RE-AMENDED PLAN ON THE CLAIMS PROCESS	6
ESTIMATED DISTRIBUTION UNDER THE RE-AMENDED PLAN	8
AMENDMENT TO THE CLAIMS PROCEDURE ORDER	8
RESULTS OF THE CREDITORS' MEETING	8
ACTUAL CASH FLOWS FOR THE FIVE-WEEK PERIOD ENDING NOVEMBER 21, 2015	10
EXTENSION OF THE STAY PERIOD	11
OBSERVATIONS AND RECOMMENDATIONS	12

INTRODUCTION AND PURPOSE OF THE MONITOR'S FIFTH 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 on the Re-Amended Plan.

12. By motion dated November 19, 2015 (the “**Sanction Motion**”), the Applicant seeks an amendment to the Claims Procedure Order, an extension of the Stay Period and an order sanctioning the Re-Amended Plan.

13. The purpose of this fifth report of the Monitor (the “**Fifth Report**”) is to provide the Court with information on:

- a) the effect of the Re-Amended Plan on the claims process put in place pursuant to the Claims Procedure Order (the “**Claims Process**”);
- b) the proposed modifications to the Claims Procedure Order;
- c) the results of the Creditors’ Meeting and the Applicant’s request for a Sanction Order;
- d) the Applicant’s actual cash flows as compared to forecasted amounts for the five weeks ending on November 21, 2015;
- e) the Applicant’s request for an extension of the Stay Period to December 18, 2015; and
- f) the Monitor’s observations and recommendations.

14. The Fifth Report should be read in conjunction with the Second Report, the Third Report, the Fourth Report, the Re-Amended Plan and the November 18th E-mail, which include additional information which has not been duplicated herein.

15. Terms not defined herein shall have the meaning attributed to them in the First Report, Second Report, Third Report, Fourth Report or the Re-Amended Plan.

RESTRICTIONS AND SCOPE LIMITATIONS

16. In preparing this Fifth 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 Fifth 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.

17. Future oriented financial information referred to in this Fifth 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.

18. 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.

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

THE EFFECT OF THE RE-AMENDED PLAN ON THE CLAIMS PROCESS

20. Paragraph 2.3 of the Amended Plan limited Disclaimed Landlord Claims to an amount in respect of each Disclaimed Lease equal to the lesser of:

- a) the aggregate of: (i) the rent provided for in the Disclaimed Lease for the first year of such Disclaimed Lease following the date on which the disclaimer or resiliation becomes effective; and (ii) 15% of the rent for the remainder of the term of the Disclaimed Lease after that year, or;
- b) three years' rent provided for in the Disclaimed Lease.

21. On November 17, 2015, following its review of certain Claims made by the Applicant's landlords, the Monitor issued 59 Notices of Revision or Disallowance (the "**Notices**").

22. Most of the Notices had been issued on the basis that the amount claimed:

- a) in respect of a Disclaimed Lease exceeded the amount resulting from the formula set out at section 2.3 of the Amended Plan; or
- b) related to a lease that did not fall within the definition of Disclaimed Lease, having been voluntarily amended or replaced with a new contractual arrangement.

23. The Re-Amended Plan contains changes to the definitions of “Disclaimed Lease” and “Restructuring Claim”. More specifically, paragraph 2.3 thereof provides that Disclaimed Landlord Claims shall be determined in accordance with s. 32(7) of the CCAA, which stipulates that, if an agreement is disclaimed or resiliated, a party to the agreement who suffers a loss in relation to the disclaimer or resiliation is considered to have a provable claim. The definition of Restructuring Claim was amended to include reference to claims arising out of Laura’s renegotiation of leases after the Determination Date.

24. Considering that the Notices had been issued on the basis of the text of the Amended Plan, the Monitor withdrew the Notices on November 18, 2015, following its receipt of the Re-Amended Plan.

25. As a result of the Re-Amended Plan, the Monitor shall reassess the claims of the Applicant’s landlords and will likely seek directions from the Court as to the approach to be taken to quantify Disclaimed Lease Claims and the Restructuring Claims.

26. The Monitor shall also assess the Claims submitted by other Affected Creditors to quantify those claims for distribution purposes.

ESTIMATED DISTRIBUTION UNDER THE RE-AMENDED PLAN

27. The total amount to be distributed to the Affected Creditors under the Re-Amended Plan amounts to \$4 million.

28. The estimated realization to the Affected Creditors continues to be subject to change following the quantification of Disclaimed Lease Claims and the Restructuring Claims, the Monitor's assessment of Claims in general, any appeal by Creditors of Notices of Revision or Disallowance or any determination as to Claims filed after the Claims Bar Date.

29. 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, and this estimate is unaffected by the Re-Amended Plan.

AMENDMENT TO THE CLAIMS PROCEDURE ORDER

30. The Claims Procedure Order does not specify whether Disputed Claims should be litigated by the Applicant or the Monitor.

31. The Applicant seeks that the Claims Procedure Order be amended to specify that Disputed Claims may be litigated by the Applicant or the Monitor.

32. The proposed amendment would not prevent the Monitor from seeking directions from the Court in respect of the quantification of Disclaimed Lease Claims and Restructuring Claims. In the Monitor's view, the proposed amendment of the Claims Procedure Order would promote flexible, efficient and practical resolutions of Disputed Claims.

RESULTS OF THE CREDITORS' MEETING

33. On November 19, 2015, the Creditors' Meeting was held in accordance with the terms of the Claims Procedure Order, and was chaired by a representative of the Monitor.

34. In addition to having been circulated to the service list, the Re-Amended Plan was made available to all Affected Creditors that were present at the Creditors' Meeting, and the amendments contained therein were summarized for the Affected Creditors present.

35. During the Creditors' Meeting, Affected Creditors voted in person and by proxy overwhelmingly in favour of the Re-Amended Plan. The following table summarizes the results of the vote:

	Number			Value		
	In favor	Against	Total	In favor	Against	Total
Affected creditors	188	8	196	\$77,485,345	\$556,787	\$78,042,132
%	96%	4%	100%	99%	1%	100%

36. As noted above, 188 Affected Creditors voted in favor of the Re-Amended Plan, representing 96% in number of Affected Creditors and 99% in value of Voting Claims voted in person or by proxy at the Creditors' Meeting, representing well in excess of the Requisite Majorities required by the CCAA.

ACTUAL CASH FLOWS FOR THE FIVE-WEEK PERIOD ENDING NOVEMBER 21, 2015

37. Cash receipts and disbursements for the five-week period ending November 21, 2015 (the “Reporting Period”), as compared to the corresponding period of the TEC Cash Flow Forecast (which was filed in conjunction with the Third Report) are summarized in the table below:

Laura's Shoppe (P.V.) Inc.					
Actual vs. forecast results					
For the 5 weeks ending November 21, 2015					
Week ending	Actuals	Forecast	Variance		
	5 Week(s)	5 Week(s)	(\$)	(%)	
	Cummulative	Cummulative			
Sources of Cash					
Total Receipts (including Sales Taxes)	\$ 27,212	\$ 27,131	\$ 81	0%	
Total Cash Collected	27,212	27,131	81		
Uses of Cash					
Trade and Non-Trade					
Merchandise Inventory	12,045	10,762	1,282	12%	
Merchandise Deposits	1,102	1,125	(23)	-2%	
Recurring					
Payroll & DAS	5,219	5,469	(250)	-5%	
Occupancy (Rent & Utilities)	4,298	4,450	(152)	-3%	
G&A and Non-trade expenses	3,655	3,534	121	3%	
Interest/Debt Service					
TEC Closing Fees (1%)	-	310	(310)	-100%	
TEC DIP Interest (14%) and fees	-	-	-	0%	
CF DIP Interest and Fees	212	295	(83)	-28%	
Sales Taxes Remittance / (Collection)	411	526	(114)	-22%	
Professional Fees (Restructuring)	836	730	106	14%	
Severance	-	-	-	0%	
Key Employee Retention Plan	-	-	-	0%	
Capex	-	-	-	0%	
Total Uses of Cash	27,778	27,201	577	2%	
Projected Net Cash Flow	\$ (356)	\$ 140	\$ (496)	-354%	
Projected Cash Balance					
Beginning of Week	\$ 1,771	\$ 1,771	\$ -	0%	
Net Cash Flow	(356)	140	(496)	-354%	
TEC DIP Financing	2,500	2,000	500	25%	
End of Week - Book Balance	\$ 3,915	\$ 3,911	\$ 4	0%	

38. As noted above, for the five-week period ending November 21, 2015, the Applicant’s actual results were substantially consistent with the results forecasted in the TEC Cash Flow Forecast.

EXTENSION OF THE STAY PERIOD

39. The Stay Period will expire on November 28, 2015. The Applicants are seeking an extension of the Stay Period to December 18, 2015.

40. Following its acceptance by the Requisite Majorities of Affected Creditors, the implementation of the Re-Amended Plan is conditional on the occurrence or waiver of the following by December 18, 2015:

- a) that the Court grant the Sanction Order; and
- b) that the TEC Facility be replaced by a long-term financing facility to be provided by Third Eye Capital Corporation as agent and hypothecary representative for certain affiliates and funds (the “**Replacement Financing**”).

41. The Sanction Motion is scheduled to be heard on November 27, 2015.

42. The Applicant and Third Eye Capital Corporation are diligently working towards the completion of the Replacement Financing.

43. To date, the Applicant has been acting diligently and in good faith to further its restructuring objectives. The Applicant continues to make purchase and payment arrangements with its suppliers for goods and services required subsequent to the commencement of the CCAA Proceedings. Senior Management has provided the Monitor with full co-operation and unrestricted access to the Applicant’s premises, books and records.

44. For the period of the requested extension, the Monitor refers the Court to the TEC Cash Flow Forecast, the period of which ends on January 16, 2016.

OBSERVATIONS AND RECOMMENDATIONS

45. The amendment to the Claims Procedure Order sought by the Applicant is reasonable and should further the efficient resolution of Disputed Claims.

46. It is the Monitor's view that the Re-Amended Plan is fair and reasonable under the circumstances, considering its broad acceptance by Affected Creditors and the potential benefits that the Applicant's continued operations would offer to its landlords, suppliers and employees.

47. As mentioned in the Second Report, the estimated realization in the context of a forced liquidation or bankruptcy would be negatively affected by certain factors, including:

- a) the risk that the Applicant's landlords do not allow a liquidation to take place on the existing store premises;
- b) the stigma of a liquidation or bankruptcy, which would negatively impact the pricing of inventory;
- c) the inability of a receiver or trustee to make inventory purchases to improve the variety of merchandise available in stores;
- d) the loss of store personnel; and
- e) the additional professional fees incurred as a result of a liquidation.

48. For the reasons noted above, it is the Monitor's view that there would likely be no realization to the benefit of the Affected Creditors in the context of a forced liquidation or bankruptcy that would exceed the distribution contemplated by the Re-Amended Plan.

49. Consequently the expected recovery by the Affected Creditors in the context of the Re-Amended Plan is more advantageous than their expected recovery in a forced liquidation or bankruptcy scenario.

50. The Monitor is of the view that the granting of the Sanction Order is appropriate given the overwhelming support of the Re-Amended Plan by the Affected Creditors.

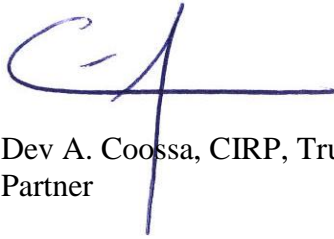
51. The extension of the Stay Period to December 18, 2015 appears reasonable, as it would not be prejudicial to the Applicant's stakeholders and creditors and would provide the Applicant the opportunity to implement the Re-Amended Plan.

52. For the reasons stated herein, the Monitor supports the Applicant's Sanction Motion.

The whole respectfully submitted.

KPMG INC.

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

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

Dev A. Coossa, CIRP, Trustee
Partner