

C A N A D A

SUPERIOR COURT
(Commercial Division)

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

N° : 500-11-058602-208

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

**MAGASIN LAURA (P.V.) INC. /
LAURA'S SHOPPE (P.V.) INC.**

Applicant

- and -

KPMG INC.

Monitor

THIRD REPORT OF THE MONITOR

(Companies' Creditors Arrangement Act, R.S.C. 1985, C. C-36, As Amended)

OCTOBER 22, 2020

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A. INTRODUCTION

1. On July 27, 2020, Magasin Laura (P.V.) Inc. / Laura's Shoppe (P.V.) Inc. ("**Laura**" or the "**Company**") filed an application for the issuance of (I) a first-day initial order and (II) an amended and restated initial order (the "**Initial CCAA 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**").
2. On July 27, 2020, KPMG Inc., in its then capacity as proposed monitor, provided the Court with a pre-filing report dated July 27, 2020, (the "**Pre-Filing Report**") in connection with the Company's Initial CCAA Application.
3. On July 31, 2020, the Court granted the Initial CCAA Application, in part, and rendered an initial first day order which provided for, among other things, the appointment of KPMG Inc. as monitor of the Applicants (in such capacity, the "**Monitor**") in these CCAA proceedings (the "**CCAA Proceedings**") and a stay of proceedings until August 10, 2020 (the "**Stay Period**") as well as various priority charges (the "**First-Day Initial Order**").
4. On August 6, 2020, the Monitor provided the Court with its first report as monitor (the "**First Report of the Monitor**") in connection with the Initial CCAA Application.
5. On August 10, 2020, the Court granted the remainder of the relief sought by the Company in the Initial CCAA Application, and rendered an amended and restated initial order (the "**Amended and Restated Initial Order**") which provided for, among other things, the extension of the Stay Period until September 25, 2020 as well as increases of the amount of the administration charge (the "**Administration Charge**") and the directors' and officers' charge (the "**Directors' Charge**") previously granted as part of the First-Day Initial Order.
6. On August 21, 2020, the Company filed an *Application for a Claims Procedure Order* (the "**Claims Procedure Application**") seeking the establishment a claims bar date (the "**Claims Bar Date**") for the filing of proofs of claims by the Company's creditors and approving the form, manner of notice, filing procedure and determination process in respect of such proofs of claims (the "**Claims Procedure**").
7. On August 26, 2020, the Monitor provided the Court with its second report as Monitor (the "**Second Report of the Monitor**") in connection with the Claims Procedure Application.
8. On August 28, 2020, the Court granted the Claims Procedure Application and rendered an order (the "**Claims Procedure Order**") authorizing the proposed Claims Procedure set out thereunder. In addition, pursuant to the Claims Procedure Order, the Stay Period was extended until October 30, 2020.

9. On September 23, 2020, the Monitor filed an application (the “**Receivership Application**”) seeking its appointment as a receiver pursuant to section 243 of the *Bankruptcy and Insolvency Act* (the “**BIA**”) without security, over a pool of funds of the Company (i.e. 100\$), solely for the purpose of allowing its former employees to receive some recovery pursuant the *Wage Earner Protection Program Act* (the “**WEPPA**”).
10. On September 25, 2020, the Court granted the order appointing a receiver (the “**Order Appointing a Receiver**”).
11. On October 20, 2020, the Company filed an *Application for an extension of the stay of proceedings and for other relief* (the “**Extension Application**”) seeking the extension of the Stay Period until January 29, 2021.
12. This report (the “**Report**”) is filed in connection with the Extension Application, and is intended to provide the following information to this Court:
 - a) The terms and reference and disclaimer for the Report (section **B**);
 - b) The Monitor’s activities since the filing of the Second Report of the Monitor (section **C**);
 - c) The Company’s restructuring efforts since the filing of the Second Report of the Monitor (section **D**);
 - d) Update on the Claim Procedure and the request to authorize the Monitor to accept and consider any claims filed after the Claims Bar Date (section **E**);
 - e) Laura’s actual receipts and disbursements for the 11-week period ended October 10, 2020, as compared to the corresponding period reflected in the cash flow projections for Laura (the “**Initial Cash Flow Forecast**”), previously filed as part of the Pre-Filing Report (section **F**);
 - f) Overview of cash flow projections for Laura (the “**Cash Flow Forecast**”) for the 16-week period from October 18th, 2020, to February 6th, 2021 (the “**Cash Flow Period**”) (section **G**);
 - g) The Monitor’s assessment of the Cash Flow Forecasts (section **H**);
 - h) The request for extension of the Stay Period (section **I**); and
 - i) The Monitor’s recommendations on the relief sought by the Company (section **J**);
13. The Third Report should be read in conjunction with the Pre-filing Report, First Report and Second Report which include additional information which has not been duplicated herein.

B. RESTRICTIONS AND SCOPE LIMITATIONS

14. In preparing this Report, the Monitor has been provided with and has relied upon audited and unaudited financial information, books and records prepared by certain senior management of the Company (“**Senior Management**”), and discussions with Senior Management (collectively, the “**Information**”). Except as further described in this 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) If some of the information referred to in this Report consists of financial forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
15. Future oriented financial information referred to in this 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.
16. The information contained in this Report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Company.
17. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars, which is the Company’s common Reporting currency.
18. This Report does not consider all future impacts of the COVID-19 pandemic on the Company’s projections and future-oriented financial information and action plans either taken or considered by Laura as a result of the evolving circumstances caused by the COVID-19 pandemic. Any reference made to the impact of the pandemic on Laura in this Report is based entirely on preliminary discussions and are not to be interpreted as an exhaustive and/or accurate assessment of the full impact of the COVID-19 pandemic. The potential impact of the COVID-19 pandemic on the Company’s customers, suppliers, commercial counterparts (both direct and indirect to Laura’s operations) and other stakeholders is unknown and cannot be quantified at this time.

C. MONITOR’S ACTIVITIES SINCE THE FILING OF THE SECOND REPORT OF THE MONITOR

19. Pursuant to paragraph 3 of the Claims Procedure Order, the Monitor:
- a) On September 4, 2020, published the Newspaper Notice (as defined in the Claims Procedure Order) in the newspapers *La Presse* and *The Globe and Mail*; and
 - b) Before September 4, 2020, posted on the Monitor’s websites home.kpmg/ca/laura and home.kpmg/ca/laura-fr (the “**Website**”) the:
 - i. Creditors’ list;
 - ii. Creditors’ instructions to file a proof of claim and proof of claim form; and

- iii. Claims Procedure Order.
 - c) Sent a copy of the creditors' instructions and proof of claim forms (with minor modifications) to each known creditor.
20. The Monitor has furthermore:
- a) Posted on the Website the Second Report of the Monitor;
 - b) Assisted the Company with its communications with suppliers, lenders and other parties;
 - c) Responded to telephone calls, emails and inquiries and addressed concerns from creditors and other stakeholders regarding the effect of the CCAA Proceedings and completing the proof of claim forms;
 - d) Had numerous exchanges with the Bank of Montreal ("**BMO**");
 - e) Provided assistance to the Company in its reporting to BMO in accordance with the forbearance agreement agreed between the Company and BMO (the "**Forbearance Agreement**"):
 - i. Reviewed weekly updates of the Company's cash flow forecasts provided to BMO; and
 - ii. Prepared weekly variance analyses on the Company's cash flow forecast provided to BMO.
 - f) Reviewed and approved payments made by the Company to key suppliers and service providers in accordance with the First-Day Initial Order and the Amended and Restated Initial Order. At the date of this report, the total amount paid to key suppliers and service providers since the Second Report of the Monitor (August 26, 2020) amounts to approximately \$21K.
 - g) Filed the Receivership Application and obtained the Order Appointing a Receiver, for the purpose previously stated. The Receiver has also sent by mail a letter to the Company's former employees providing details and instructions on how to make a claim pursuant to the WEPPA and has provided WEPP with the information on the eligible employees;
 - h) Assisted the Company in the preparation of the Cash Flow Forecast; and
 - i) Provided support and reviewed draft versions of a plan of compromise and arrangement (the "**Plan**").

D. THE COMPANY'S RESTRUCTURING EFFORTS SINCE THE SECOND REPORT OF THE MONITOR

21. Since the Second Report of the Monitor, Laura has:
- a) Continued to operate in the normal course of business. All the Company's 139 stores are open in addition to its on-line business;
 - b) Reduced its salary expense by terminating approximately 200 employees, the vast majority of whom were on temporary layoff. In addition to the terminated employees, approximately 60 employees have resigned during the same period;

- c) Continued to carry on extensive discussions and negotiations with its landlords with regards to the lease terms of its stores, with the objective of agreeing to new viable lease terms that would enable Laura to carry on its business in the current challenging environment. The Company was able to significantly reduce its rent obligations, while only disclaiming one lease; and
 - d) Continued its discussions with suppliers with regards to obtaining ongoing supplies.
22. The Company is in the process of concluding an agreement to extend its current forbearance agreement with its operating lender Bank of Montreal ("**BMO**").

E. CLAIM PROCEDURE UPDATE AND CLAIMS FILED AFTER THE CLAIMS BAR DATE

23. The Claims Bar Date pursuant to the Claims Procedure Order was October 5, 2020 for all claims other than the Renegotiated Lease Claims and the Disclaimed Lease Claims (as defined in the Claims Procedure Order).
24. The Monitor has begun its review of the proofs of claims received. As at the date of this Report, the Monitor has reviewed approximately 600 proofs of claims totalling approximately \$10M from employees, suppliers and landlords for pre-filing unpaid rents.
25. The Monitor and its counsel, in consultation with the Company and its legal advisors, are in the process of reviewing the claims received. To date, the review process is not sufficiently advanced to determine exactly how many claims, and the quantum thereof, will be subject to a Notice of Revision or Disallowance.
26. Moreover, the review process of the Renegotiated Lease Claims and the Disclaimed Lease Claims is not sufficiently advanced to determine exactly the quantum thereof as several landlords have not yet filed their claims.
27. Since some employees were terminated or resigned a few days before or after the Claims Bar Date, many of these former employees filed their proofs of claims after the Claims Bar Date. In addition, it is likely that other employees could resign or be terminated due to the current restructuring process. Therefore, the Monitor is of the view that in these circumstances, it would be fair and reasonable to accept for filing and consideration proofs of claims which may be submitted by employees after the Claims Bar Date, provided that such claims are filed before any meeting of creditors is convened to vote on the Company's Plan.
28. At the date of this Report, approximately 20 proofs of claims from former employees were filed after the Claims Bar Date.
29. In addition, the Monitor received after the Claims Bar Date one proof of claim from a creditor of the Company which did not receive notice of the claim's procedure. The Monitor is also of the view that it is fair and reasonable to accept for filing and consideration such proof of claim.

F. CASH FLOW RESULTS RELATIVE TO INITIAL CASH FLOW FORECAST

30. A table that summarizes the cash receipts and disbursements for the 11-week period ended October 10, 2020, as compared to the Initial Cash Flow Forecast, is filed under seal with this Report as Appendix A;
31. The opening net bank indebtedness, as at July 26, 2020, was \$324,000 lower than forecasted.
32. As at October 10, 2020, the Company's closing net bank indebtedness was approximately \$11,067,000 which represents a favorable variance of \$8,183,000 compared to the Cash Flow Forecast.
33. In addition to the favorable permanent difference of \$335,000 due to the cancellation of outstanding cheques as at the date of the commencement of the CCAA Proceedings, the positive net cash flow during the period represents a favorable difference of approximately \$7,524,000. The primary reasons for the net cash flow variance are summarized below:
 - a) Total cash receipts during the period were approximately \$6,940,000 higher than forecasted mainly due to:
 - i. Higher receipts from sales than forecasted of \$4,128,000; and
 - ii. Higher receipts from the government wage subsidy program than forecasted of \$2,812,000.
 - b) Total cash disbursements during the period were approximately \$584,000 lower than forecasted mainly due to:
 - i. Permanent favorable difference, especially with regards to lower than forecasted disbursements of payroll and deductions at source, rents, capital expenditures and contingency;
 - ii. Timing difference, especially with regards to lower than forecasted disbursements of professional fees and shipping disbursements, in part offset by the following; and
 - iii. Timing difference, especially with regards to higher payments of merchandise than forecasted due to vendors requiring more COD payments and key suppliers requiring faster payments of their pre-filing obligations to continue manufacturing and supplying the Fall goods.
34. Although cash receipts from sales were higher than forecasted during the entire 11-week period to October 10, 2020, due to new government-imposed health restrictions, the Company has recently experienced periods of lower sales than forecasted.
35. Laura has paid and continues to pay in the normal course of business for goods and services received subsequent to the date of the First-Day Initial Order, including payroll, rents, government remittances and new purchases.

G. CASH FLOW FORECAST

36. The Company has prepared the Cash Flow Forecast which covers the Cash Flow Period. The Cash Flow Forecast is accompanied by the prescribed representations of the Company regarding its presentation, and by notes which support the significant assumptions and hypotheses used in preparing the Cash Flow Forecast. A copy of the Cash Flow Forecasts, the prescribed representations of the Company and the notes outlining the assumptions will be filed under seal of confidentiality with this Report as Appendix **B**.
37. The primary assumptions supporting the Cash Flow Forecast are as follows (refer to Appendix **B** for further details on assumptions):
- a) Sales represent collections generated from Laura's brick and mortar stores and online sales. The Cash Flow Forecast assumes that all stores remain open throughout the Cash Flow Period;
 - b) Government Wage Subsidy represents cash receipts related to the Canadian government's temporary wage subsidy program (due to the Covid-19 pandemic). The Canadian government has publicly announced that the temporary wage subsidy program would be maintained until spring/summer 2021.
 - c) The disbursements for merchandise in the Cash Flow Forecast reflect payments based on Laura's latest inventory purchases and receipts projections, subject to payment terms expected to be obtained. In addition and in accordance with the First-Day Order, it also reflects payments for pre-filing obligations owed to certain of the Company's service providers, including its custom brokers, freight forwarders, transporters, and logistic providers ("**Key Service Providers**"), and to certain of the Company's suppliers of merchandise, including certain foreign entities in China ("**Key Suppliers**");
 - d) Also, in accordance with the First-Day Order, the Cash Flow Forecast reflects rental payments to landlords on a bimonthly basis for locations with a fixed monthly rent and on the tenth or fifteenth day of each month for locations with a variable rent based on a percentage of sales; and
 - e) Rent payments are based on contractual rents, renegotiated rents and on further adjustments to renegotiated rents for certain stores where sales are trending below previous forecast to take into account anticipated revised terms.
38. Subject to the continued support of its operating lender, BMO, the Cash Flow Forecast reflects that the Company is projected to have enough cash flow to operate in the normal course during the Cash Flow Period. This includes operational requirements such as payroll, as well as the costs pertaining to the CCAA proceedings. BMO has confirmed to the Monitor its approval of the Cash Flow Forecast.

H. MONITOR'S ASSESSMENT OF THE CASH FLOW FORECAST

39. The Monitor has assessed the Cash Flow Forecast as to its reasonableness as required by Section 23(1)(b) of the CCAA. Pursuant to this standard, the Monitor's assessment of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by Senior Management and employees of the Company. The Monitor's procedures with respect to the assumptions considered in the Cash Flow Forecast (the "**Cash Flow Assumptions**") were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Monitor also reviewed the supporting Information provided by Senior Management for the Cash Flow Assumptions and the preparation and presentation of the Cash Flow Forecast.
40. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in any material respect that:
- a) The Cash Flow Assumptions are not consistent with the purpose of the Cash Flow Forecast;
 - b) As at the date of this Report, the Cash Flow Assumptions are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Forecast given the Cash Flow Assumptions; or that
 - c) The Cash Flow Forecast does not reflect the Cash Flow Assumptions.

I. REQUEST FOR AN EXTENSION OF THE STAY PERIOD

41. The Stay Period expires on October 30, 2020. The Company is seeking an extension of the Stay Period to January 29, 2021. This extension will allow the Company to:
- a) Review and analyze, together with the Monitor, the proofs of claims received, and assist in the resolution of any disputes which may arise relating thereto;
 - b) Continue the implementation of measures to reduce expenses and increase sales in response to the latest challenges posed by the Pandemic, in particular in the context of the 2nd wave; and
 - c) Continue working with the Monitor and BMO to bring forward a Plan that will be satisfactory to its creditors, unless circumstances arise as a result of the pandemic which make it impractical to do so within such time frame.
42. To date, the Company has been acting diligently and in good faith. Senior Management has provided the Monitor with full co-operation and unrestricted access to the Company's books and records upon requests by the Monitor.
43. The Company, with the assistance of the Monitor, has conducted business since the beginning of the CCAA Proceedings and continues to operate its business in the ordinary course with the benefit of the Stay Period, which has provided stability to the business.

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Third Report of the Monitor

44. The Monitor supports the Company's Motion to extend the Stay Period to January 30, 2021, for the following reasons:
- a) The Company continues to operate its business in the ordinary course;
 - b) Laura requires additional time to finalize the Plan in order to adequately assess the impact on its business of the second wave of the pandemic in Canada. The Company is currently experiencing a greater reduction to its sales volumes than previously anticipated; and
 - c) With the support of its operating lender, BMO, the Company has sufficient liquidity to continue its operations on a going concern basis during the extended Stay Period.

J. THE MONITOR'S RECOMMENDATIONS

45. The Monitor respectfully submits that the Extension Application should be granted;
46. The Monitor is of the view that the extension of the Stay Period until January 29, 2021, is reasonable in the circumstances;
47. The Monitor is also of the view that the Court should authorize the Monitor, if it considers it fair and reasonable to do so, to accept and consider proofs of claims that were filed after the Claims Bar Date by (i) employees or (ii) other creditors which did not receive timely notice of the claims procedure;
48. The Monitor confirms that:
- a) The Company has acted and is continuing to act in good faith with due diligence;
 - b) If the Extension of the Stay Period, as sought by the Company, is granted by the Court, Laura will have additional time to continue its restructuring efforts with a view to providing its creditors with a viable Plan.

All of which is respectfully submitted to this Honourable Court this 22nd day of October 2020.

KPMG INC.

in its capacity as the Monitor of
Magasin Laura (P.V.) Inc. / Laura's Shoppe (P.V.) Inc.



Per: Dev A. Coossa, CIRP, LIT
Partner

**APPENDIX A – ACTUAL CASH FLOW VS CASH FLOW
FORECAST (*UNDER SEAL*)**

APPENDIX B – CASH FLOW FORECAST (*UNDER SEAL*)