

CANADA

PROVINCE OF QUEBEC
District of Québec
Division No: 01- Montréal

SUPERIOR COURT

(Commercial division)

N° :500-11-049210-152
41-2021835

"IN BANKRUPTCY AND INSOLVENCY"

IN THE MATTER OF THE RECEIVERSHIP OF :

LAURA'S SHOPPE (P.V.) INC., LAURA'S
SHOPPE CANADA LTD. AND 7735235
CANADA INC., corporations duly
incorporated or continued under the laws
of Quebec, having their domicile at 3000
boulevard Le Corbusier, Laval, Quebec;

Debtor / Respondent

-and-

SALUS CAPITAL PARTNERS, LLC, a
Delaware limited liability company, having
its head office at 197 First Ave, Suite 250,
Needham, Massachusetts;

Petitioner

-and-

ALVAREZ & MARSAL CANADA INC.,
duly incorporated corporation under the
Canada Business Corporations Act, having
its head office at 200 Bay Street, Suite
2900, Toronto, Ontario

Receiver

MOTION SEEKING THE APPOINTMENT OF A RECEIVER
(Section 243 of the *Bankruptcy and Insolvency Act* (the "BIA"))

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THE PETITIONER RESPECTFULLY SUBMITS THE FOLLOWING:**I. INTRODUCTION**

1. By this Motion, Petitioner Salus Capital Partners, LLC (the "Lender") is respectfully asking this Court to appoint Alvarez & Marsal Canada Inc. ("A&M") as Receiver to the estate and movable property of Laura's Shoppe (P.V.) Inc. (the "Borrower") and Laura's Shoppe Canada Inc. and 9318-5494 Quebec Inc. (collectively, the "Guarantors" and, together with the Borrower, the "Debtors") further to section 243 and following of the BIA, with the powers enumerated in the conclusions of the present Motion, for reasons explained below;
2. The Lender is a secured creditor of the Debtor and holds security over substantially all of the Debtor's movable Property (the "Property");

II. THE PARTIES

3. The Lender is the Borrower's operating and term lender;
4. The Borrower is a Quebec company, as it appears from the profile report for the Borrower obtained from the Quebec enterprise register, **Exhibit P-1**;
5. The Guarantors, Laura's Shoppe Canada Inc. and 9318-5494 Quebec Inc., are incorporated or continued pursuant to the laws of Quebec, as it appears from the profile reports for the Guarantors obtained from the Quebec enterprise register, **Exhibit P-2, en liasse**;
6. The Guarantors, Laura's Shoppe Canada Inc. and 9318-5494 Quebec Inc., are the sister and parent company of the Borrower, respectively, as it appears from the Debtors' corporate organizational chart (which identifies 9318-5494 Quebec Inc. by its former name, "7735235 Canada Inc."), **Exhibit P-3**;
7. The Borrower operates 162 Laura, Laura Petites, Laura Plus, Laura Outlet and Melanie Lyne clothing stores in nine Provinces, as well as the e-commerce sites www.laura.ca and www.melanielyne.com;
8. Approximately half of the Borrower's stores are located in Ontario, and approximately one quarter in Quebec;
9. The Borrower's head office and distribution centre is located at 3000 boulevard Le Corbusier, in premises owned by a related company, 119605 Canada Inc., with whom the Lender entered into a collateral

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access agreement and landlord waiver, as it appears from a copy of such agreement, **Exhibit p-4**;

III. FINANCING OF THE BORROWER

10. The Lender has made available to the Borrower various credit facilities (the "**Credit Facilities**") pursuant to a Credit Agreement dated April 17, 2013 (the "**Original Credit Agreement**"), as it appears from a copy of the Original Credit Agreement, **Exhibit P-5**;
11. The Original Credit Agreement was amended by:
 - a) a Forbearance Agreement dated July 22, 2013, as amended by letter agreements dated August 2, 2013, August 9, 2013 and August 16, 2013 (collectively, the "**First Forbearance Agreement**"), as it appears from a copy the First Forbearance Agreement, **Exhibit P-6, en liasse**;
 - b) a Second Forbearance Agreement dated August 30, 2013, as amended by letter agreements dated October 5, 2013, October 12, 2013, October 19, 2013, October 26, 2013 and November 22, 2013 (collectively, the "**Second Forbearance Agreement**"), as it appears from a copy the Second Forbearance Agreement, **Exhibit P-7, en liasse**;
 - c) a Third Forbearance Agreement dated December 16, 2013 (the "**Third Forbearance Agreement**"), as it appears from a copy of the Third Forbearance Agreement, **Exhibit P-8**;
 - d) a Fourth Forbearance Agreement dated April 2, 2014 (the "**Fourth Forbearance Agreement**" and, together with the First Forbearance Agreement, the Second Forbearance Agreement and the Third Forbearance Agreement, the "**Forbearance Agreements**"), as it appears from a copy of the Fourth Forbearance Agreement, **Exhibit P-9**;
 - e) a First Amending Agreement date August 8, 2014 (the "**First Amending Agreement**"), as it appears from a copy of the First Amending Agreement, **Exhibit P-10**;
 - f) a Second Amending Agreement date February 26, 2015 (the "**Second Amending Agreement**"), as it appears from a copy of the Second Amending Agreement, **Exhibit P-11**;

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The Original Credit Agreement, the Forbearance Agreement, the First Amending Agreement and the Second Amending Agreement are hereinafter collectively referred to as the "Credit Agreement");

12. The Guarantors have guaranteed the obligations of the Borrower to the Lender, as it appears from a copy of the their joint and several guarantee dated April 17, 2013 (the "Guarantee"); Exhibit P-12;

IV. DEBT OF THE DEBTOR TO THE LENDER.

13. As at August 6, 2015 the Debtors are indebted towards the Lender for the following amounts pursuant to the Credit Agreement and the Guarantee (the whole subject to readjustment, interest, legal and bank fees and costs):

Revolving Loan	
Principal	CDN\$ 6,113,711.98 US\$ 10,359,302.91
Interest	CDN\$ 9,163.42 US\$ 18,533.91
Term Loan	
Principal	CDN\$2,850,000.00
Interest.	CDN\$ 4,725.00

V. THE LENDER'S SECURITY

14. The Lender holds the following movable hypothec on the property of the Debtor (the "Hypothec"):

- a) a Deed of Hypothec and Issue of Bonds dated April 11, 2014 (in the amount of \$8,625,000.00, registered at the Register of Personal and Movable Real Rights ("RPMRR") on April 11, 2014 under No. 13-0280666-0001, charging all of the Debtor's movable property;

The whole as more fully appears from a copy of the Hypothec, Exhibit P-13;

15. The Lender also holds the following general security agreement (the "GSA" and, together with the Hypothec, the "Security"):

- b) a General Security Agreement dated April 17, 2013, registration in respect of which was made pursuant to the *Personal Property Security Act* (Ontario) by financing statement number 20130411 0905 1590 8557, and pursuant to applicable personal property security legislation in all other Canadian

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common law Provinces (except Prince Edward Island) on that same date;

The whole as more fully appears from a copy of the GSA, Exhibit P-14;

VI. CASH MANAGEMENT ARRANGEMENTS

16. The Lender has had, since the date of the first advance under the Original Credit Agreement, cash dominion over all receipts of the Borrower, in part pursuant to:

- a) a blocked account agreement between the Lender, the Borrower and The Bank of Nova Scotia dated April 16, 2013; and
- b) a blocked account agreement between the Lender, the Borrower and Bank of Montreal dated April 17, 2013;

(collectively, the "Blocked Account Agreements") as appears from copies of such agreements, Exhibit P-15, *en liasse*;

17. The Lender's cash dominion was further established by notices sent to the Borrower's credit card receipt processors (the "Credit Card Notices"), as appears from copies of such notices, Exhibit P-16, *en liasse*;
18. The Lender's advisors, A&M Canada Securities Inc. ("A&M Canada Securities") prepared a simplified flow chart of how the cash management systems in place pursuant to the Blocked Account Agreements and the Credit Card Notices (the "Lender's Cash Management Arrangements"), Exhibit P-17;

VII. DEBTORS' OTHER STAKEHOLDERS

19. Searches under the RPMRR and the personal property registration systems ("PPRS") in the common law Provinces revealed a number of registrants against the Borrower and Laura's Shoppe Canada Inc., as appears from the search summary, Exhibit P-18;
20. The RPMRR and/or PPRS registrants include, without limitation, the following:

- a) PNC Equipment Finance, a division of PNC Bank Canada Branch ("PNC"), who confirmed to the Lender that its registrations pertained only to specific personal property, as

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appear from a copy of an estoppel letter from PNC to the Lender dated April 18, 2013, Exhibit P-19;

- b) 3482731 Canada Inc., a related party to the Borrower, who subordinated its position to the Lender's security, as appears from a copy of an intercreditor agreement with the Lender dated April 17, 2013, Exhibit P-20;
 - c) PVM Foncia II Inc., PVM Foncia III Inc. (as assignees) and 9145-4090 Québec Inc., who ceded their rank to the Lender, as appears from a copy of a cession of rank, Exhibit P-21; and
 - d) CBSC Capital Inc. ("CBSC"), who confirmed to the Lender that some of its registrations pertained only to specific personal or moveable property, as appears from a copy of an estoppel letter from CBSC to the Lender dated April 16, 2013, Exhibit P-22;
- 21. The Borrower has 2330 employees, 1,752 of whom are employed part-time;
 - 22. The Borrower's Payroll is managed through Ceridian and none of the employees are unionized;
 - 23. The Borrower administers three defined contribution pension plans for a total of four former or present management employees;
 - 24. Approximately 80 percent of the Borrower's stores are lease from large, national landlords, with Cadillac Fairview being landlord to approximately one quarter of the stores and Ivanhoe Cambridge and Riocan each being landlord to approximately one eighth of the stores;

VIII. FINANCIAL DIFFICULTIES AND DEFAULTS BY THE BORROWER

- 25. The Borrower very quickly defaulted under the terms of the Original Credit Agreement, and the First Forbearance Agreement was required within a few months of the first advances under the Credit Facilities, with the remaining Forbearance Agreements required within a two-year period;
- 26. The Borrower attributes its poor financial performance to mis-steps in product selection for the Fall 2012 and Spring 2013 seasons;
- 27. The results of the Borrower's merchandising mistakes were net losses for the fiscal years ending February 2, 2013 and February 1, 2014 in the amounts of \$17,416,326 and \$41,934,215, respectively,

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and EBITDA losses of approximately \$15,733,000 and \$26,811,000, respectively;

28. The First Forbearance Agreement and the Second Forbearance Agreement waived breaches of the Borrower's fixed charge coverage ratio and minimum consolidated EBITDA covenants;
29. The Third Forbearance Agreement waived those same financial covenants breaches along with a breach of covenant caused by an adverse variances in disbursements greater than the permitted 15%;
30. All those breaches were waived again the Fourth Forbearance Agreement and the First Amending Agreement;
31. In December, 2014, the Borrower breached the \$9,400,000 trade accounts payable limits under the Credit Agreement, reporting trade accounts payable in the amount of \$12,200,000, which breach was waived by the Second Amending Agreement;
32. The Borrower reported a return to profitability in the fiscal year ending January 31, 2015, but for the five months period ended July 4, 2015, it incurred a net loss of \$1,678,029;
33. During the present fiscal year the Borrower's financial position has significantly deteriorated and the Borrower faces significant liquidity issues resulting in a lengthened vendor payment cycle and a material increased in accounts payable;
34. The Borrower failed to deliver a binding commitment letter by June 30, 2015 to raise at least \$5,000,000 of new additional working capital, as required under the Second Amending Agreement, which breach constituted an event of default under the Credit Agreement and the Lender Security (an "Event of Default");
35. On July 17, 2015, the Borrower advised that it was in arrears of approximately \$5,400,000 of July rent to landlords, as appears, in part, from copies of rent default notices from landlords for 46 locations for arrears totalling \$2,682,370.49 (the "Rent Default Notices"), Exhibit P-23, *en liasse*;
36. Having continued for more than 15 days, the Borrower's failure to pay its July rents constituted a further Event of Default;
37. More troubling to the Lender was the fact that the Borrower had represented in its July borrowing based certificates to that point that it was in compliance with all material terms of all leases and that it had

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not been notified of any default under any lease, as appears from copies of the Borrower's July 4, 6, 7, 9, 10, 11, 13, 14, 16 and 17 borrowing base certificates, **Exhibit P-24, en liasse**;

38. The Borrower's concealment of its rent arrears and the Rent Default Notices greatly eroded the Lender's confidence in its management;
39. In total the Borrower owes \$5,986,896 to a number of its landlords, which amount is in addition to an approximate \$3,500,000 it owed to Cadillac Fairview in deferred long term debt;
40. In response to the mounting Events of Default, the Lender's counsel :
 - a) sent the Borrower a reservation of rights letter date July 23, 2015, as appears from a copy of such letter, **Exhibit P-25**; and
 - b) retained A&M Canada Securities to monitor and review the Borrower's financial situation, as appears from a copy of the A&M Canada Securities retainer letter, signed in consent and acknowledgement by the Borrower, **Exhibit P-26**;
41. A&M Securities Canada quickly discovered numerous undisclosed post-dated cheques outstanding, totalling approximately \$3,500,00, well in excess of the \$2,200,000 limit the Borrower had agreed to in the First Amending Agreement;
42. The undisclosed post-dated cheques were among a large amount of outstanding cheques that the Lender was not aware of totalling approximately \$8,000,000, an amount that far exceeded the borrowing availability under the Credit Facilities at that time;
43. These breaches of covenants constituted yet a further Event of Default, the secrecy around which only further eroded the Lender's confidence in the Borrower's management;
44. With regard to its rent arrears, the Borrower asserted to A&M Canada Securities that it had reached agreement with landlords for all of its locations for the deferral of July, 2015 rents, but was unable to supply evidence of any such binding agreements; as appears from the summary, as at July 29, 2015, of the documentary evidence provided by the Borrower to A&M Canada Securities to support such assertion, **Exhibit P-27**;
45. The Lender has already advanced \$5,500,000 under the Credit Facilities to satisfy August rent, which represents a significant portion of the borrowings presently outstanding.

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46. By the end of July, 2015, the Borrower has almost no availability under the Credit Facilities and was unable to fulfil obligations under its purchase orders and acquire inventory for the Fall season.

IX. DEMANDS FOR REPAYMENT

47. On July 30, 2015, the Lender sent the Debtors demands (collectively, the "Demands" and, each, a "Demand") accompanied by notices of intention to enforce security pursuant to Section 244 of the BIA (collectively, the "BIA Notices" and, each, a "BIA Notice"), as appears from copies of the Demands and BIA Notices, Exhibit P-28, *en liasse*;
48. Pursuant to the Demand sent to the Borrower, the Lender terminated the Borrower's right to receive any further extension or other accommodation of credit from the Lender, pursuant to the Credit Facilities or otherwise;
49. On July 31, 2015 the Debtors each delivered to the Lender consents to immediate enforcement of the Lender's Security time stamped 12:30 p.m. (collectively, the "Consents to Enforcement"); as appears from copies of the Consents to Enforcement, Exhibit P-29, *en liasse*;
50. On July 31, 2015, counsel to the Lender sent notice to the Borrower that the default rate of interest under the Credit Agreement would be charged starting on August 1, 2015, as appears from a copy of such notice, Exhibit P-30;

X. FILING OF NOTICE OF INTENTION TO MAKE A PROPOSAL

51. On July 31, 2015, the Borrower filed a Notice of Intention to Make a Proposal pursuant to the BIA (the "NOI") and KPMG was appointed as its proposal trustee, as appears from the certificate of filing issues by the Office of the Superintendent of Bankruptcy Canada, time stamped 16:20, Exhibit P-31, and the revised certificate of filing, Exhibit P-32;
52. Because of the BIA Notice delivered to the Borrower and the Borrower's waiver of the notice period set out therein in advance of the filing of the NOI, the Lender is not stayed in the Borrower's proposal proceedings;

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XI. SALUS' VIEW OF THE BORROWER'S RESTRUCTURING PLAN

53. On August 4, 2015, the Borrower presented an eight-week cash flow forecast and partial self-liquidation plan (the "Richter Plan") prepared by its advisors, Richter Advisory Group Inc. ("Richter"), whereby the Borrower proposed to:
- a) liquidate and close 59 underperforming stores by September 12, 2015
 - b) pursue refinancing;
 - c) develop a longer term restructuring plan. And
 - d) develop a proposal to its creditors in its BIA proposal proceeding;
54. Although the Richter Plan suggests that the Borrower's indebtedness to the Lender would reduce slightly by the end of September, 2015, and that the Lender's collateral coverage would improve as Spring/Summer inventory was replaced with in-season Fall merchandise, the Richter Plan is premised on the false assumption that the Lender is willing (much less obligated) to continue to provide credit to the Borrower on a debtor-in-possession basis and fund the purchase of Fall merchandise;
55. The Richter Plan contemplated that the Lender will forbear and continue to extend material new credit while the Borrower seeks refinancing and liquidates some of the Lender's collateral to pay junior creditors and buy Fall inventory but does not result in any improvement to the Lender's position unless there is a refinancing;
56. The Lender's retail consultants, 360 Merchant Solutions LLC ("360"), have advised that, in the absence of purchase of Fall merchandise, the optimal product mix exists right now and that every week a liquidation is delayed will result in a marked reduction in the desirability of the Borrower's Spring/Summer inventory and the disappearance of the Borrower's competitive advantage as other retailers begin to reduce prices on their Spring/Summer merchandise by the end of August;
57. 360 has advised that failure to commence a liquidation sale now will result in a significant deterioration of the Lender's recovery causing the Lender to suffer a significant shortfall, and that the Lender needs to take advantage of the present optimal product mix in an immediate 162-store liquidation, as appears from a copy of the report of 360 to the Lender, **Exhibit P-33**;

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58. On August 4, 2015, the Lender advised the Borrower and Richter of its intention to seek the appointment of the Receiver, that a liquidation must begin immediately, and the Lender would not continue to fund the business or forbear while the Borrower sought refinancing;
59. The Lender has lost confidence that the Borrower can find refinancing as the only signed term sheet it has received contemplates, as a condition to funding, a \$10,000,000 equity or subordinate debt injection, which condition also is also present in the one other term sheet the Borrower has received in draft;
60. The Lender is not prepared to forbear or fund while potential new lenders conduct due diligence and seek satisfaction of conditions.
61. The Lender terminated the Credit Facilities in the Demand sent to the Borrower and is not stayed in the Borrower's BIA proposal proceedings;
62. In the absence of funding from the Lender, the Lender does not believe the Borrower will be able to file the cash flows required under Subsection 50.4(2) of the BIA by the Monday, August 10 deadline;
63. On August 6, 2015, the Lender learned that the Borrower had included in its borrowing base calculations at least \$2,700,000 worth of inventory in transit that it did not actually own, as title has not yet passed, and that the Lender had already advanced credit to the Borrower based on such representation;
64. On August 6, 2015, the Lender's counsel informed the Borrower's counsel that the Lender was willing to forbear and fund on the following terms:
 - a) the Lender would forbear until a date to be determined in mid-August to allow the Borrower to arrange for committed refinancing;
 - b) the Borrower would continue to conduct its current publicised sale on a nation-wide basis;
 - c) the Lender would continue to fund critical operational costs such as payroll and rent;
 - d) the Borrower would engage 360 to assist with its inventory sale;

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- e) the Borrower would consent to a liquidation bid auction process led by the Lender to canvass the market in the event the Borrower was not able to secure refinancing; and
- f) the Borrower would consent to a receivership and liquidation to commence at the end of the forbearance period in the event that the Borrower was unable to secure refinancing;

The whole as appears from an email by which these terms were proposed, **Exhibit P-34**;

65. The Borrower has not yet agreed to these terms;

XII. SALUS MARKETING EFFORTS

66. On August 6, 2015, the Lender sent requests for proposals to liquidate the Borrower's stores to seven liquidation firms in substantially the form attached as **Exhibit P-35**;
67. The Lender intends to request that the Receiver immediately commence an auction to retain a liquidator, to be held in the week of August 10, 2015, and will seek the Court's approval for the Receiver to retain a liquidator that same week;

VI. APPOINTMENT OF THE RECEIVER

68. In light of the above-mentioned facts, the Petitioner submits that it is just, convenient, appropriate and in the best interest of the Lender, which holds Security on all of the Debtors' Property, that A&M be appointed as Receiver of the Property of the Debtors;
69. The Lender has demanded and the Debtors have waived the statutory ten-day notice period set out in the BIA Notices;
70. The Lender has, at all times, acted in good faith and with considerable patience toward the Debtors, including by agreeing to the Forbearance Agreements, the First Amending Agreement and the Second Amending Agreement;
71. The Borrower has failed to negotiate a refinancing to date, and Salus has no confidence that the Borrower will be able to obtain such refinancing in the near term;
72. The Lender has lost all confidence in the management of the Borrower due to material misrepresentations made regarding rental

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- arrears, post-dated cheques outstanding and inventory in transit value;
73. The Lender is not prepared or obligated to continue to fund the Borrower's business whether in accordance with the Richter Plan or otherwise;
74. This requested appointment of a Receiver will allow A&M to:
- a) have the necessary powers to control and protect the Property of the Debtors;
 - b) continue, as it sees fit, the Lenders' Cash Management Arrangements in order to maintain operational status quo;
 - c) have the necessary powers to collect all the accounts receivable and all the other claims of the Debtors and to dispose of the Debtors' inventory;
 - d) solicit prospective investors and/or purchasers in connection with Debtors' business and Property; and
 - e) proceed with the sale of the Debtors' Property in order to maximize their value, all under the supervision of this Court, including to retain a liquidator of the Borrower's stores and to market the Borrower's portfolio of leases; and
75. Without the appointment of a Receiver, the Lender is well founded to believe that its position as secured lender would greatly deteriorate, that it would suffer a serious prejudice and that the recovery of its debt may be put in jeopardy;
76. A&M is a licensed trustee familiar with the affairs of the Debtors and has consented to act as Receiver and exercise any and all of the proposed powers enumerated in the conclusions of the present Motion;
77. The present request is urgent given the situation expressed above;
78. The present Motion is well founded in fact and in law.

FOR THESE REASONS, MAY IT PLEASE THE COURT TO:

[1] GRANT the Motion;

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SERVICE

- [2] **ORDER** that any prior delay for the presentation of this Motion is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof;

APPOINTMENT

- [3] **APPOINT** Alvarez & Marsal Canada Inc., trustee, to act as receiver (the "Receiver") to the Property (as defined below) of Laura's Shoppe (P.V.) Inc., Laura's Shoppe Canada Ltd. and 7735235 Canada Inc. (collectively, the "Debtors" and, each, a "Debtor") until one of the following events comes to pass:

- (a) the sale of all the Property; or
- (b) the issuance of any order by the Court terminating the mandate of the Receiver;

- [4] **DECLARE** that the order (the "Order") and its effects shall survive the filing by any Debtor of a notice of intention to make a proposal or of a proposal pursuant to the terms of the BIA, the issuance of an initial order in regard of any Debtor pursuant to the terms of the *Companies Creditors Arrangements Act* (the "CCAA") or the bankruptcy of any Debtor, unless the Court orders otherwise.

RECEIVER'S POWERS

- [5] **AUTHORIZE** the Receiver to exercise the following powers, the whole to its sole discretion and judgment:

5.1 Powers related to the possession of the Property

AUTHORIZE the Receiver to take possession of the Debtors' property described herein (the "Property") and to exercise the following powers listed hereinafter in the place and stead of the Debtors in respect of the Property:

- (a) All the movable property of the Debtors, of every nature and kind whatsoever, wherever situated, and regardless of whose possession it may be in;

5.2 Powers related to the preservation of the Property

- (b) all the powers necessary for the preservation and for the protection of the Property;

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- (c) all the powers necessary to control the Property, the place of business and the premises occupied by the Debtors;
- (d) all the powers necessary to grant the Receiver access, at all times, to the place of business and to the premises of the Debtors, to the Property, and to change the locks granting access to such premises and places of business of the Debtors;
- (e) all the powers necessary to grant the Receiver access to all the accounting records of the Debtors, as well as to any document, contract, register of any nature or kind whatsoever, wherever they may be situated and regardless of the medium on which they may be recorded (the "Records"), as well as the powers necessary to make copies of all the Records necessary or useful to the execution of the Receiver's functions;
- (f) all the powers necessary to undertake an analysis of the Debtors' Records;

5.3 Powers related to the Debtors' operations

- (g) carry on, all or any part of the Debtors' operations;
- (h) all the powers necessary to control the Debtors' receipts and disbursements;
- (i) all the powers necessary to collect all the accounts receivable and all the other claims of the Debtors, secured or unsecured, and to transact in respect of same, as well as to sign any document for this purpose, and to exercise any Debtor's rights under policies or insurance;
- (j) all the powers necessary to open any required bank account, pursuant to the terms and conditions the Receiver may determine, with any chartered Canadian bank, or any other financial institution, the whole, in order to cash any item payable to any Debtor, and to issue any payment which, in the opinion of the Receiver, is necessary or useful to the Debtors' operations;

5.4 Powers related to the disposition or sale of the Property

- (k) all the powers necessary to carry out the sale or the disposition of the Property of the Debtors, to transact in that regard, and to sign any document or any contract required or useful for these purposes or meant to give effect to any such sale or disposition;
- (l) all the powers necessary to interest or solicit one or several potential buyers of all or any part of the Property, including, without limitation, the

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right to carry out a public call for tenders or private solicitations in order to dispose of the Property, and including, without limitation, to carry on the marketing process commenced by the Petitioner and to conduct a marketing and sale process for the Borrower's portfolio of leases to real or immoveable property;

- [6] **ORDER** the Receiver to petition the Court for authorization to sell all or any part of the Debtors' Property outside the ordinary course of business, upon finding a purchaser and pursuant to conditions it deems reasonable in the circumstances;
- [7] **GRANT** the Receiver all the powers necessary to initiate, prosecute and continue the prosecution of any and all proceedings it considers appropriate, including for the purpose of Sections 34 and 249 of the BIA, within the performance of its duties regarding the Property;
- [8] **AUTHORIZE** the Receiver to retain the services of any lawyer, or of any person or business in order to appropriately fulfill its functions;
- [9] **DECLARE** that the Receiver may provide creditors and other relevant stakeholders with information in response to requests made by them in writing concerning the Receiver's mandate. A copy of such requests must be sent to the Petitioner's attorney. Where the Receiver has been advised by the Petitioner that information is confidential, proprietary or competitive, the Receiver shall not provide such information to any person without the consent of the Petitioner unless otherwise directed by this Court.

DEBTORS' DUTIES

- [10] **ORDER** the Debtors, their directors, officers, employees, agents and representatives to forthwith provide the Receiver with access to the Property, to the places of business and to the premises of the Debtors, as well as to the Records;
- [11] **ORDER** the Debtors, their directors, officers, employees, agents and representatives to cooperate with the Receiver in the exercise of the powers that are granted pursuant to the terms of the Order;
- [12] **ORDER** the Debtors not to dispose, alienate, encumber or otherwise transact in any manner whatsoever, with regard to the Property, other than with the authorization of the Receiver;

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NON-INTERFERENCE WITH THE RECEIVER, THE DEBTOR AND THE PROPERTY

- [13] ORDER that subject to any other order rendered by the Court, which may only be rendered after a prior notice has been duly sent to the Receiver and to the Petitioner, no proceeding, seizure, revendication, or any other enforcement process shall be commenced or enforced against the Property;
- [14] ORDERS that no person shall interrupt, modify, terminate or fail to execute its obligations pursuant to any contract, agreement, license or permit entered into with any Debtor without the prior consent of the Receiver or without the authorization of the Court;

CONTINUATION OF SERVICES

- [15] ORDER that any person having an oral or written agreement with any Debtor, as well as any supplier of goods or services to any Debtor is hereby restrained until further order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services, as may be required by the Receiver and that the Receiver shall be authorized to continue use of the Debtors' current premises, telephone numbers, facsimile numbers, Internet addresses, domain names and other services, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver, in accordance with the normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court;

EMPLOYEES

- [16] AUTHORIZE the Receiver to continue to engage the services of the Debtors' employees until the Receiver, acting for and on behalf of the Debtors, terminates the employment of such employees. The Receiver shall not be liable for any employee related liabilities, including any successor-employer liabilities as provided for in sections 14.06(1.2) of the BIA other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) and 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*;

PROTECTION OF PERSONAL INFORMATION

- [17] DECLARE that pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information on identifiable individuals, which

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information it has in its possession or under its responsibility, to interested parties or to investors, financiers, prospective purchasers or potential strategic partners, as well as to their advisors, but only to the extent desirable or required, and only upon condition that the persons to whom such personal information is disclosed shall undertake to maintain and protect the privacy of such information and limit the use of such information pursuant to confidentiality agreements entered into with the Receiver;

LIMITATION OF LIABILITY

- [18] **DECLARE** that subject to the powers granted to the Receiver pursuant to the terms of paragraph 5 of the Order, nothing herein contained shall require the Receiver to occupy or to take control, or to otherwise manage all or any part of the Property. The Receiver shall not, as a result of this Order, be deemed to be in possession of any of the Property within the meaning of environmental legislation, the whole pursuant to the terms of the *BIA*;
- [19] **DECLARE** that the powers of the Receiver shall be exercised pursuant to its sole discretion and judgment;
- [20] **DECLARE** that section 215 of the *BIA* applies *mutatis mutandis*, and hence that no action lies against the Receiver by reason of its appointment or the execution of the powers granted by the Court, except by leave of the Court. The entities related to the Receiver or belonging to the same group as the Receiver shall benefit from the protection arising under the present paragraph;

FEES

- [21] **DECLARE** that as security for the professional fees and disbursements incurred in relation to these proceedings, both before and after the date of the Order, a charge and security over the Property is hereby constituted in favour of the Receiver, of the Receiver's attorneys and other advisors, to the extent of the aggregate amount of \$750,000 (the "**Administration Charge**");
- [22] **DECLARE** that the Administration Charge shall rank in priority to any and all other hypothecs, mortgages, liens, security interests, priorities, charges, encumbrances or security of whatever nature or kind (collectively, the "**Encumbrances**") affecting the Property charged by such Encumbrances;

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- [23] **DECLARE** that the Administration Charge is effective and shall charge, as of 12:01 a.m. (Montreal time) the day of the Order (the "Effective Time"), all the Debtors' Property present and future;
- [24] **DECLARE** that notwithstanding: (i) these proceedings and any declaration of insolvency made herein, (ii) any petition for a receiver order filed pursuant to the *BIA* in respect of the Petitioner and any receiving order granting such petition or any assignment in bankruptcy made or deemed to be made in respect of the Petitioner and (iii) the provisions of any federal or provincial statute, the payments or disposition of Property made by the Receiver pursuant to the Order do not and will not constitute settlements, fraudulent preferences, fraudulent conveyances or other challengeable or reviewable transactions or conduct meriting a recourse for abuse under an applicable law, and shall be valid and enforceable as against any person, including any trustee in bankruptcy, and any receiver to the Property of the Debtors;
- [25] **AUTHORIZE** the Receiver to collect the payment of its fees and disbursements and those of its attorneys, with the consent of the Petitioner, the whole subject to taxation in conformity with the *BIA*, if applicable;

FUNDING OF THE RECEIVERSHIP

- [26] **AUTHORIZES** the Receiver to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$~~500~~ (or such greater amount as this Court may by further Order authorize) at any time, at such rate or rates of interest as it deems advisable for such period or periods of time as it may arrange, for the purpose of funding the exercise of the powers and duties conferred upon the Receiver by this Order, including interim expenditures. The whole of the Property shall be and is hereby charged by way of a fixed and specific charge (the "Receiver's Borrowings Charge") as security for the payment of the monies borrowed, together with interest and charges thereon, in priority to all other hypothecs, mortgages, liens, security interests, priorities, charges, encumbrances or security of whatever nature or kind, in favour of any Person, but subordinate in priority to the Administration Charge and the charges as set out in sections 14.06(7), 81.4(4), and 81.6(2) of the *BIA*;
- [27] **DECLARES** that neither the Receiver's Borrowings Charge nor any other security granted by the Receiver in connection with its borrowings under this Order shall be enforced without leave of this Court;

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- [28] **DECLARES** that the monies from time to time borrowed by the Receiver pursuant to this Order or any further order of this Court and any and all certificates or other documents evidencing the same or any part thereof shall rank on a *pari passu* basis, unless otherwise agreed to by the lenders to the Receiver;

CASH MANAGEMENT SYSTEM

- [29] **AUTHORIZES** the Receiver to continue to operate, on behalf of the Debtors, under the provisions of the Credit Agreement among the Debtors and the Petitioner dated April 17, 2013 (as amended, the "**Credit Agreement**"), the Blocked Account Agreement between Laura Shoppe (P.V.) Inc./Magasin Laura (P.V.) Inc. (the "**Borrower**"), the Petitioner and The Bank of Nova Scotia dated April 16, 2013, the Blocked Account Agreement between the Borrower, the Petitioner and Bank of Montreal dated April 17, 2013 (collectively, the "**Blocked Account Agreements**"), and the notices given to Moneris Capital Solutions, American Express, Royal Bank of Canada and/or Bank of Montreal directing those credit card payment processors to pay all amounts due to the Borrower to designated accounts in Salus' name (the "**Credit Card Notices**"), on the terms and subject to the conditions set forth in the Credit Agreement, the Blocked Accounts Agreements, the Credit Card Notices the or other such terms and conditions as the Petitioner and the Receiver shall agree;
- [30] **AUTHORIZES** the Receiver to pay and perform, on behalf of the Debtors, all of the Debtors' indebtedness, interests, fees, liabilities and obligations to the Petitioner under and pursuant to the Credit Agreement when the same become due and are to be performed, notwithstanding any other provision of this Order, but subject to the Administration Charge, and provided that the Petitioner shall reimburse the Receiver for any monies received by the Petitioner to which it may not have been entitled pursuant to any liens, charges, security interests or other claims having priority over the Petitioner's hypothecary interest and security.

GENERAL

- [31] **DECLARE** that the Order, the Motion and the affidavit do not, in and of themselves, constitute a default or failure to comply by any Debtor under any statute, regulation, license, permit, contract, permission, covenant, agreement, undertaking or any other written document or requirement;
- [32] **DECLARE** that the Receiver is at liberty to serve any notice, circular or any other document in connection with these proceedings by forwarding copies by prepaid ordinary mail, courier, personal delivery or electronic transmission to persons or other appropriate parties at their respective

given address as last shown in the Records; the documents served in this manner shall be deemed to be received on the date of delivery if by personal delivery or electronic transmission, on the following business day if delivered by courier, or three (3) business days after mailing if delivered by ordinary mail;

- [33] **DECLARE** that the Receiver may serve any court materials in these proceedings on all represented parties, by emailing a PDF or other electronic copy of such materials to counsels' email addresses, provided that the Receiver shall deliver "hard copies" of such materials upon request to any party as soon as practicable thereafter;
- [34] **DECLARE** that any party interested in these proceedings may serve any court material in these proceedings by emailing a PDF or other electronic copy of such materials to counsels' email addresses, provided that such party shall deliver a "hard copy" on paper of such PDF or electronic materials to the Debtors' and the Receiver's counsel and to any other party who may request such delivery;
- [35] **DECLARE** that, unless otherwise provided herein, ordered by this Court, or provided by the BIA, no document, order or other material need be served on any person in respect of these proceedings, unless such person has served a notice of appearance on the solicitors for the Debtors and the Receiver and has filed such notice with the Court;
- [36] **DECLARE** that any interested Person may apply to this Court to vary or rescind the Order or seek other relief upon five (5) days notice to the Receiver, the Petitioner and any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order;
- [37] **DECLARE** that the present Order and all other orders in these proceedings shall have full force and effect in all provinces and territories in Canada;
- [38] **DECLARE** that the Receiver shall be authorized to apply as it may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada, the United States of America or elsewhere, for orders which aid and complement the Order and any subsequent orders of this Court and, without limitation to the foregoing, an order under Chapter 15 of the *U.S. Bankruptcy Code*, for which the Receiver shall be the foreign representative of the Debtor. All courts and administrative bodies of all such jurisdictions are hereby respectively requested to make such orders and to provide such assistance to the Receiver as may be deemed necessary or appropriate for that purpose;

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- [39] **REQUEST** the aid and recognition of any Court or administrative body in any Province of Canada and any Canadian federal court or administrative body and any federal or state court or administrative body in the United States of America and any court or administrative body elsewhere, to act in aid of and to be complementary to this Court in carrying out the terms of the Order;
- [40] **ORDER** the provisional execution of the present Order notwithstanding any appeal and without the requirement to provide any security or provision for costs whatsoever;
- [41] **THE WHOLE** with costs.

MONTREAL, August 7, 2015

BCF LLP

BCF LLP

ATTORNEYS FOR PETITIONER
SALUS CAPITAL PARTNERS, LLC

AFFIDAVIT

I, **KYLE SHONAK**, of the Town of Somers, in the County of Tolland, State of Connecticut, **MAKE OATH AND SAY AS FOLLOWS:**

1. I am Co-President of Salus Capital Partners, LLC, a Delaware limited liability company ("**Salus**") the senior secured creditor of Laura's Shoppe (P.V.) Inc. (the "**Borrower**") and Laura's Shoppe Canada Inc. and 9318-5494 Quebec Inc. (collectively, the "**Guarantors**" and, together with the Borrower, the "**Debtors**"). As such, I have knowledge of the matters to which I hereinafter depose, except where the information set out below is based upon the information I have received from others, in which case I have stated the source of that information and, with respect to the material information, believe it to be true.

NATURE OF APPLICATION AND RELIEF SOUGHT

2. This Affidavit is sworn in support of motion by Salus for an Order pursuant to subsection 243(1) of the *Bankruptcy and Insolvency Act* (the "**BIA**") appointing Alvarez & Marsal Canada Inc. ("**A&M**") as receiver (in such capacity, the "**Receiver**") of the estate and moveable and immoveable property of the Debtors (the "**Motion**").
3. A receivership is urgently needed at this time to preserve and protect Salus' collateral. As more fully explained below, Salus has lost all confidence in the management of the Borrower and will not advance any further funding to the Borrower to permit it to continue operations. Among other things, the Borrower has made material misrepresentations to Salus regarding its business and financial affairs. Salus has given the Borrower more than sufficient time to refinance its obligations to Salus, to no avail. The best opportunity to liquidate the collateral and maximize return to the Borrower's stakeholders exists today. Any delay in commencing a liquidation is likely to cause a material erosion of Salus' recoveries.

BACKGROUND TO THE DEBTORS

4. The Borrower is a women's clothing retailer operating 162 Laura, Laura Petites, Laura Plus, Melanie Lyne and liquidation stores in nine Provinces, as well as the e-commerce sites www.laura.ca and www.melanielelyne.com.
5. The Borrower was incorporated under Quebec law on May 28, 1975. A copy of the profile report for the Borrower obtained from the Quebec enterprise register is attached as **Exhibit P-1** to the Motion.

6. The Borrower is 100% owned by the Guarantor, 9318-5494 Quebec Inc., which was incorporated pursuant to the *Canada Business Corporations Act* on December 23, 2010 as "7735235 Canada Inc.", and registered in Quebec on June 10, 2011. 9318-5494 Quebec Inc.'s name was changed from "7735235 Canada Inc." on March 2, 2015. A copy of the profile report for 9318-5494 Quebec Inc. obtained from the Quebec enterprise register is attached at Exhibit P-2 to this the Motion. To the best of my knowledge 9318-5494 Quebec Inc. is does not operate any business.
7. The Guarantor, Laura's Shoppe Canada Ltd., is the Borrower's sister company and was incorporated on June 25, 1982 under the laws of Quebec. A copy of the profile report for Laura's Shoppe Canada Ltd. obtained from the Quebec enterprise register is attached at Exhibit P-2 to the Motion. To the best of my knowledge Laura's Shoppe Canada Ltd. is no longer involved in operation of the Laura's business.
8. The Borrower's corporate organizational chart which was warranted by the Debtors to Salus to be accurate as at April 17, 2013, and which, to the best of my knowledge, remains accurate but for the fact it does not reflect 9318-5494 Quebec Inc.'s name change (from "7735235 Canada Inc."), is attached as Exhibit P-3 to the Motion.
9. The Borrower's head office and distribution centre is located at 3000 boulevard Le Corbusier, Laval, Quebec, in premises owned by a related company, 119605 Canada Inc. Salus and the landlord of this property entered into a collateral access agreement and landlord waiver, a copy of which is attached as Exhibit P-4 to the Motion.
10. The Borrower also has leased offices located at 2955 Rue Jules Brillant, Laval, Quebec as well as other two other dormant offices in Montreal and Toronto which the Borrower has indicated it intends to disclaim in its BIA proposal proceedings (which proceedings are described in more detail below).
11. The breakdown by Province and by banner of the Borrower's stores is as follows:

Laura Retail Stores by Banner and Province										
Banner	# of stores	ON	QC	AB	BC	MB	NS	NF	SK	NB
Laura	95	46	22	12	7	4	1	1	1	1
Melanie Lyne	57	30	11	6	5	2	1	1	1	-
Liquidation	10	4	4	1	-	-	1	-	-	-
Total	162	80	37	19	12	6	3	2	2	1

SALUS' LOANS AND SECURITY

Credit Agreement and Security

12. Salus, the Debtors, 3482731 Canada Inc. (as limited recourse guarantor) and Kalman Fisher (as limited guarantor) are parties to a credit agreement dated April 17, 2013 (the "**Original Credit Agreement**"), a copy of which is attached as **Exhibit P-5** to the Motion. The Original Credit Agreement has been amended several times to address covenant breaches by the Debtors and to give the Debtors an opportunity to refinance with a new lender. As explained in more detail below, the Original Credit Agreement was amended by:

- (a) a Forbearance Agreement dated July 22, 2013, as amended by letter agreements dated August 2, 2013, August 9, 2013 and August 16, 2013 (collectively, the "**First Forbearance Agreement**"), a copy of which First Forbearance Agreement (including all its amendments) is attached as **Exhibit P-6** to the Motion;
- (b) a Second Forbearance Agreement dated August 30, 2013, as amended by letter agreements dated October 5, 2013, October 12, 2013, October 19, 2013, October 26, 2013 and November 22, 2013 (collectively, the "**Second Forbearance Agreement**"), a copy of which Second Forbearance Agreement (including all its amendments) is attached as **Exhibit P-7** to the Motion;
- (c) a Third Forbearance Agreement dated December 16, 2013 (the "**Third Forbearance Agreement**"), a copy of which is attached as **Exhibit P-8** to the Motion;
- (d) a Fourth Forbearance Agreement dated April 2, 2014 (the "**Fourth Forbearance Agreement**" and, together with the First Forbearance Agreement, the Second Forbearance Agreement and the Third Forbearance Agreement, the "**Forbearance Agreements**"), a copy of which is attached as **Exhibit P-9** to the Motion;
- (e) a First Amending Agreement date August 8, 2014 (the "**First Amending Agreement**"), a copy of which is attached as **Exhibit P-10**" to the Motion; and
- (f) a Second Amending Agreement dated February 26, 2015 (the "**Second Amending Agreement**"), a copy of which is attached as **Exhibit P-11** to the Motion.

13. The Original Credit Agreement, the Forbearance Agreements, the First Amending Agreement and the Second Amending Agreement are collectively hereinafter referred to as the "**Credit Agreement**".

14. Pursuant to the Credit Agreement, Salus has supplied the Borrower with:

- (g) a revolving operating facility in the maximum amount of CDN\$32,000,000 or its US\$ equivalent, subject to sufficient collateral borrowing base; and

(h) a CDN\$3,000,000 term loan,

(collectively, the "**Credit Facilities**") which Credit Facilities were to be used: (a) to purchase working capital assets in the ordinary course, including inventory and equipment; (b) for capital lease obligations and other capital expenditures; and (c) for general corporate purposes of the Debtors. The Credit Facilities paid out the loans from the Borrower's former asset-based lenders, Roynat Inc. and The Bank of Nova Scotia. The Borrower also used the Credit Facilities to repay sums owing to HSBC and PNC Capital primarily in connection with certain capital improvement financings. Certain small sums remain outstanding to HSBC.

15. By a guarantee dated April 17, 2013, the Guarantors guaranteed all present and future obligations of the Borrower to Salus (the "**Guarantee**"), a copy of which Guarantee is attached as **Exhibit P-12** to the Motion.

16. As security for their obligations to Salus, the Debtors provided, among other things:

- (i) a Deed of Hypothec and Issue of Bonds dated April 11, 2013 (the "**Hypothec**"), registration in respect of which was made pursuant to the Quebec Register of Personal and Moveable Real Rights (the "**RPMRR**") on that same date by registration number 13-0280666-0001 and a copy of which Hypothec is attached as **Exhibit P-13** to the Motion; and
- (j) a General Security Agreement dated April 17, 2013 (the "**GSA**"), registration in respect of which was made pursuant to the *Personal Property Security Act* (Ontario) on April 11, 2013 by financing statement no.: 20130411 0905 1590 8557, and pursuant to applicable personal property security legislation in all other Canadian common law Provinces (except Prince Edward Island) on that same date, a copy of which GSA is attached as **Exhibit P-14** to the Motion.

17. Specific details of the registrations of the Hypothec and the GSA (collectively, the "**Salus Security**") are set out in the search summary, along with details of all other such registrations against the Debtors.

18. As at August 6, 2015, the Debtors were indebted to Salus for the following amounts pursuant to the Credit Facilities and the Guarantee plus interest, legal and bank fees and costs:

Revolving Loan	
Principal	CDN\$ 6,113,711.98 US\$ 10,359,302.91
Interest	CDN\$ 9,163.42 US\$ 18,533.91
Term Loan	
Principal	CDN\$2,850,000.00
Interest.	CDN\$ 4,725.00

Total CDN	\$8,977,600.40
Total USD	\$10,377,836.82

Cash Management Arrangements

19. The Borrower maintains a centralized cash management system (the "Cash Management System") which is administered from its head office. The bank accounts are maintained and controlled by the Borrower's senior management utilizing cash management systems established at The Bank of Nova Scotia ("BNS"), Bank of Montreal ("BMO") and Royal Bank of Canada ("RBC"). All debit and credit card receipts are deposited daily into a deposit account with BMO. Each store maintains a "deposit only" account into which cash receipts are deposited daily. These local deposit accounts are at various institutions the balance in such accounts is transferred electronically on a daily basis into the same deposit account with BMO. Other bank accounts include U.S. dollar, utilities and payroll accounts with BNS.

20. Because Salus' revolving loans to the Borrower are asset-based loans, with availability being a function of the value (measured weekly) of the Borrower's inventory and accounts receivables (net of certain availability reserves), every dollar received by the Borrower represents either the sale of inventory or the collection of any account receivable and consequently a reduction in the collateral securing Salus' lending. For that reason, since the date of the first advances under the Credit Agreement, Salus has had cash dominion over all receipts of the Borrower in part pursuant to:

- (k) a blocked account agreement between Salus, the Borrower and BNS dated April 16, 2013; and
- (l) a blocked account agreement between Salus, the Borrower and BMO dated April 17, 2013,

(collectively, the "Blocked Account Agreements"), copies of which Blocked Account Agreements are attached at Exhibit P-15 to the Motion. In accordance with the terms of the Blocked Account Agreements, all of the Borrower's receipts deposited to the BMO designated collection account are automatically swept to an account designated by Salus. Salus then re-advances funds to the Borrower on a daily basis in accordance with the Borrower's borrowing request evidenced by the Borrower's certified borrowing base certificate, the availability reserves and the other terms of the Credit Agreement. In this fashion, Salus' cash dominion also serves a collateral monitoring function essential to the asset-based nature of the Borrower's operating revolving facilities. The funding provided by Salus in response to the Borrower's borrowing requests is deposited through RBC as an

Intermediary, into the main operating bank account held at BNS. The Borrower uses its main operating account to make payments to its vendors through the use of cheques, pre-authorized payments, wires and credit card payments. The Borrower also utilizes a U.S. chequing account to make payments to foreign vendors.

21. Salus' cash dominion was further established by notices sent to the following credit card receipt processors:

- (m) Moneris Solutions Corporation and Royal Bank of Canada;
- (n) Moneris Solutions Corporation and Bank of Montreal;
- (o) Moneris Solutions Corporation; and
- (p) American Express,

directing those credit card payment processors to pay all amounts due to the Borrower to Salus accounts at BMO (the "Credit Card Notices"), copies of which notices are attached at Exhibit P-16 to the Motion. The mechanisms instituted by the Credit Card Notices and by the Blocked Account Agreements are hereinafter collectively referred to as the "Salus Cash Management Arrangements". A simplified flow chart of how the Salus Cash Management Arrangements operates is attached at Exhibit P-17 to the Motion.

THE DEBTORS' OTHER STAKEHOLDERS

22. The Debtors' other stakeholders include creditors who have made registrations in respect of the Debtor's personal and movable real rights, employees of the Debtors and the Debtors' landlords. A brief summary of the Debtor's obligations to these stakeholders is set out below.

Personal and Moveable Property Registrants

23. Other than the registrations made in respect of the Salus Security, searches by Salus' counsel (i) under the *Bank Act* in Quebec, (ii) of the RPMRR and (iii) of personal property registration systems ("PPRS") in the common law Provinces revealed the following registrations, all further detailed in the search summary forming Exhibit P-18 to the Motion:

- (q) against the Borrower:
 - (i) PNC Equipment Finance, a division of PNC Bank Canada Branch ("PNC"), made registrations on February 24, 2012 in connection

- with financed leasehold improvements in each of British Columbia, Alberta and Ontario, in respect of which registrations PNC delivered an estoppel letter to Salus dated April 18, 2013 (the "PNC Estoppel"), a copy of which is attached at Exhibit P-19 to the Motion;
- (ii) La Corporation de Services Financiers Mercedes-Benz Canada (dba: Services Financiers Mercedes-Benz) made two RPMRR registrations against the Borrower, one on May 4, 2012 and the other (also against Kalman Fisher) on July 17, 2015, each apparently in respect specific motor vehicles;
 - (iii) Dell Financial Services Canada Limited made five RPMRR registrations, each apparently in respect of specific computer equipment, on November 21, 2011, December 6, 2012, June 13, 2014, September 25, 2014 and June 9, 2015;
 - (iv) Porsche Financial Services Canada made two RPMRR registrations, also against Kalman Fisher, on May 31, 2012 and March 10, 2015, each apparently in respect of specific motor vehicles;
 - (v) Riocan Holdings (Québec) Inc. made an RPMRR registration on October 27, 2014 in respect of a \$138,000 hypothec on all moveable property located at a specific Laval, Quebec location;
 - (vi) 3482731 Canada Inc., a related party to the Borrower, made an RPMRR registration on April 11, 2014 in respect of a \$5 million hypothec, and entered into an Intercreditor agreement with Salus dated April 17, 2013 (the "3482731 Intercreditor Agreement"), a copy of which is attached as Exhibit P-20 to the Motion;
 - (vii) Toyota Credit Canada Inc. ("Toyota") made two RPMRR registrations, each apparently in respect of a specific motor vehicle, dated September 5, 2012 and March 18, 2013;
 - (viii) Ally Credit Canada Limited made an RPMRR registration on April 21, 2011, apparently in respect of a specific motor vehicle; and
 - (ix) PVM Foncia II Inc., PVM Foncia III Inc. (as assignees) and 9145-4090 Québec Inc. made two RPMRR registrations on November 12, 2001 and December 18, 2006, in connection with hypothecs over moveable improvements, equipment, machinery, furniture and fixtures located at a specific Montreal store, in respect of which hypothecs, the same parties executed a cession of rank in favour of Salus, a copy of which is attached as Exhibit P-21 to the Motion;
- (r) against the Guarantor, Laura's Shoppe Canada Inc.:

- (i) the PNC PPRS registrations in British Columbia, Alberta and Ontario described in paragraph 1(q)(i), also made against Laura's Shoppe Canada Inc., and, to that extent, subject to the PNC Estoppel;
- (ii) CBSC Capital Inc. ("CBSC") made a PPRS registration in Ontario on December 13, 2010 and an RPMRR registration on December 27, 2012, in respect of which CBSC delivered to Salus an estoppel letter dated April 16, 2013 confirming the registrations only concerned specific equipment, a copy of which CBSC estoppel letter is attached as Exhibit P-22 to the Motion;
- (iii) CBSC had also made an RPMRR registration on December 13, 2013 and another RPMRR registration on September 17, 2014, each apparently in respect of specific equipment;
- (iv) the RPMRR registration by 3482731 Canada Inc., a related party to the Borrower, detailed in paragraph 1(q)(vi) above, also made against Laura's Shoppe Canada Inc. and, to that extent, subject to the 3482731 Intercreditor Agreement;
- (v) Société de Location GM Financial Canada Ltée made an RPMRR registration on September 30, 2013, also against Kalman Fisher's wife, Melanie, apparently in respect of a specific motor vehicle;
- (vi) Toyota made an RPMRR registration on August 21, 2012, apparently in respect of a specific motor vehicle; and
- (vii) HSBC Bank Canada made an RPMRR registration on August 29, 2011, apparently in respect of equipment financed pursuant to a master lease agreement.

Employees

24. The Borrower has 2330 employees. A breakdown of the Province and type of employment is set out below:

Store Level Employees			
Province	Full Time	Part Time	Total
Alberta	40	235	275
British Columbia	21	115	136
Manitoba	11	58	69
New Brunswick	5	9	14
Newfoundland	3	21	24
Nova Scotia	5	23	28
Ontario	140	931	1,071
Quebec	82	335	417
Saskatchewan	5	22	27
Grand Total	312	1,749	2,061

Head Office Employees			
Province	Full Time	Part Time	Total
British Columbia	1	-	1
Manitoba	1	-	1
Ontario	8	-	8
Quebec	256	3	259
Grand Total	266	3	269

25. The Borrower uses Ceridian as its payroll service provider. None of the employees are unionized.

26. The Borrower administers three defined contribution pension plans for the following present and former management employees:

- (s) Kalman and Melanie Fisher;
- (t) Wayne Vranckx, a former vice president of merchandising; and
- (u) Michael Covens, a former vice president of finance.

Landlords

27. The Borrower's locations by landlord and Province are as follows:

Sites by Landlord										
Landlord	Total # stores	ON	QC	AB	BC	MB	NS	NF	SK	NB
Cadillac Fairview	39	20	11	3	1	3	-	-	-	1
Ivanhoe Cambridge	22	10	8	3	1	-	-	-	-	-
RioCan	21	13	3	4	1	-	-	-	-	-
Oxford Properties	15	11	1	3	-	-	-	-	-	-
20Vic	14	7	1	1	2	2	-	-	1	-
Morguard	10	6	1	-	2	-	-	-	1	-
Smartcentres	5	3	-	-	-	1	1	-	-	-
Primaris	4	2	1	-	1	-	-	-	-	-
Other	32	8	11	5	4	-	2	2	-	-
Total	162	80	37	19	12	6	3	2	2	1

28. As shown in the above chart, approximately 80% of the Borrower's stores are leased from large, national landlords.

FINANCIAL DIFFICULTIES AND DEFAULTS

29. As Indicated above, the Borrower very quickly defaulted under the terms of the Original Credit Agreement, and the First Forbearance Agreement was required within a three months of the first advances with the remaining Forbearance Agreements required within two-years.

30. I am advised by the Borrower that its financial difficulties began in the Fall of 2012, prior to the Original Credit Agreement, when merchandise ordered by a newly hired senior vice-president of merchandising was poorly received by the Borrower's customers. By the time the problem had been identified merchandise for Spring 2013 had already been ordered under the leadership of the same senior vice-president. That merchandise was also poorly received by the Borrower's customers. The result of this misguided merchandising were net losses for the fiscal years ending February 2, 2013 and February 1, 2014 in the amounts of \$17,416,326 and \$41,934,215, respectively. EBITDA losses for these fiscal years were approx. \$15,733,000 and \$26,811,000 respectively.

31. The First Forbearance Agreement and the Second Forbearance Agreement waived breaches of financial covenants concerning the Borrower's consolidated fixed charge coverage ratio and minimum consolidated EBITDA. Pursuant to the Second Forbearance Agreement, the Borrower delivered to Salus an actual to budget variance report showing an adverse variance in disbursements greater than the permitted 15%, which adverse variance was a forbearance termination event. All three of these defaults were waived in the Third Forbearance Agreement. Further adverse actual to budget variances in excess of 15% ensued, which were, along

with the prior defaults, waived in the Fourth Forbearance Agreement and again in the First Amending Agreement.

32. Although the Borrower reported a return to profitability in the fiscal year ending January 31, 2015, in December, 2014 it breached the \$9,400,000 trade accounts payable limit under the Credit Agreement, reporting trade accounts payable in the amount of \$12,200,000. This breach was waived by the Second Amending Agreement.
33. For the five month period ended July 4, 2015, the Borrower incurred a Net Loss of \$1,678,029 and positive EBITDA of approx. \$2,365,000. During the fiscal year the Borrower's financial position significantly deteriorated and the Borrower faced considerable liquidity issues which resulted in the Borrower lengthening its vendor payment cycle and in turn materially increasing its accounts payable balance.
34. Under the Second Amending Agreement, the Borrower was required to deliver to Salus a binding letter of commitment on or before June 30, 2015 to raise not less than \$5,000,000 of new additional working capital, which it failed to do. This breach constituted an event of default under the Credit Agreement and the Salus Security (an "Event of Default").
35. On July 17, 2015, the Borrower verbally advised Salus on a conference call that it was in arrears of approximately \$5,400,000 of July rent to landlords. The Borrower then provided Salus with copies of 42 notices of rent default (the "Rent Default Notices") from landlords for 46 separate locations, which defaults totalled \$2,682,370.49. Most of the defaults were for July rent, but 9 were for June rent as well, and one was for rent all the way back to February, 2015. Copies of the Rent Default Notices, date stamped as received by the Borrower from July 3 to July 21, are attached as Exhibit P-23 to the Motion.
36. The Borrower's breach of its Credit Agreement covenant to keep rents current, having continued for more than 15 days, constituted a further Event of Default. What was even more troubling to Salus, was the fact that the Borrower had, up until that point, represented in its July daily borrowing requests that all July rents were current. Copies of the borrowing base certificates for July 4, 6, 7, 9, 10, 11, 13, 14, 16 and 17 in which the Borrower represented and warranted that it was in compliance with all material terms of all leases and that it had not been notified of any default under any lease are attached as Exhibit P-24 to the Motion. The Borrower's concealment of its failure to pay rents and its receipt of Rent Default Notices greatly eroded Salus' confidence in its management and put Salus' collateral and the operations of the business in significant jeopardy.
37. There is a total of \$5,986,896 presently owing by the Borrower to a number of its landlords, which is in addition to an approximate \$3,500,000 the Borrower owes to Cadillac Fairview in deferred long term debt.

38. In response to the mounting Events of Default, Salus's counsel sent the Borrower a reservation of rights letter dated July 23, 2015, a copy of which is attached as Exhibit P-25 to the Motion, and then, on July 24, 2015, retained A&M Canada Securities ULC ("A&M Canada Securities"), an affiliate of A&M, to monitor and review the financial situation of the Borrower and assess the refinancing activities of the Borrower. A copy of the A&M Canada Securities retainer letter, signed in consent and acknowledgement by the Borrower, is attached as Exhibit P-26 to the Motion.
39. Upon attending at the Borrower's head office, A&M Canada Securities soon uncovered another troubling fact. Despite the Borrower's covenant in the First Amending Agreement not to allow outstanding post-dated cheques to exceed \$2,200,000 in the aggregate, A&M Canada Securities discovered that there were numerous undisclosed post-dated cheques outstanding, totaling approximately \$3,500,000. These cheques were among a large amount of outstanding Borrower cheques that Salus was not aware of, including post-dated cheques, cheques on hand and cheques in circulation, totalling approximately \$8,000,000. This amount far exceeded the borrowing availability under the Credit Facilities at that time. This breach of covenant constituted yet a further Event of Default and the secrecy around only further eroded Salus' confidence in the Borrower's management.
40. With regard to its rent arrears, the Borrower asserted to A&M Canada Securities that it had reached agreement with the landlords for substantially all its stores for the deferral of July, 2015 rent for a period of time. Attached as Exhibit P-27 to the Motion is a summary, as at July 29, 2015, of the documentary evidence provided by the Borrower to A&M Canada Securities to support its claims of rent deferrals. It can be seen that in no case had a binding agreement been reached with any of the Borrower's landlords, let alone substantially 100% of them. On July 30, counsel to the Borrower provided a copy of an execute letter agreement with Oxford Properties Group for deferral of July, 2015 rent for 14 stores until January, 2016. The Oxford letter agreement, however, had a deadline for acceptance by the Borrower of July 17, 2015, and, as can be seen in the summary attached as Exhibit P-27 to the Motion, to the best of A&M Canada Securities' knowledge, it had not yet been signed back by the Borrower as at July 30, 2014.
41. Salus has already advanced \$5,500,000 under the Credit Facilities to satisfy August rent and other non-trade critical payments. This advance represents a significant portion of the funds presently outstanding to Salus. Entering into August the Borrower had almost no availability under the Credit Facilities and accordingly its ability to fulfill its obligations under its existing purchase orders and acquire inventory for the upcoming Fall season was in significant jeopardy.

SALUS' DEMANDS FOR REPAYMENT

42. On July 30, 2015, Salus, by its counsel, sent the Debtors, 3482731 Canada Inc. and Kalman Fisher demands for repayment of the Debtors' obligations under the Credit Agreement and, where applicable, their guarantees (collectively, the "Demands")

and, each, a "Demand"). In the case of the Debtors and 3482731 Canada Inc., their Demands were accompanied by notice of intention to enforce security under Section 244 of the BIA dated the same date (collectively, the "BIA Notices", and each, a "BIA Notice"). Copies of the Demands and the BIA Notices are attached as Exhibit P-28 to the Motion.

43. Pursuant to the Demand delivered to the Borrower, Salus terminated the Borrower's right to receive any further extension or other accommodations of credit from Salus, pursuant to the Credit Facilities or otherwise.
44. On July 31, 2015 the Debtors and 3482731 Canada Inc. each delivered to Salus an acknowledgment of the Demands and BIA Notices and consent to immediate enforcement of the Salus Security (collectively, the "Consents to Enforcement" and, each, a "Consent to Enforcement"), copies of Consents to Enforcement and the email by which they were delivered are attached as Exhibit P-29 to the Motion. The Consents to Enforcement were both dated and time stamped 12:30 p.m., July 31, 2015 and were received by Salus' counsel at 2:21 p.m. on that day.
45. On July 31, 2015, Salus, by its counsel, sent notice to the Borrower advising that the default rate of interest under the Credit Agreement would be charged beginning August 1, 2015, thereby raising the Borrower's effective rate of interest by 3% per annum. A copy of the notice is attached as Exhibit P-30 to the Motion.

FILING OF NOTICE OF INTENTION TO MAKE A PROPOSAL

46. On July 31, 2015, the Borrower filed a Notice of Intention to Make a Proposal pursuant to the BIA (the "NOI") and KPMG Inc. was appointed as its proposal trustee. A copy of the certificate of filing issued by the Office of the Superintendent of Bankruptcy Canada, time stamped 16:20, on July 31, 2015, is attached as Exhibit P-31 to the Motion. A copy of a revised certificate of filing changing the Division from Laval to Montreal is attached as Exhibit P-32 to the Motion.
47. I am advised by counsel that, due to the BIA Notice sent to the Borrower on July 30, 2015 and the Borrower's delivery of a Consent to Enforcement prior to filing of the NOI, Salus is not affected by the statutory stay of proceedings that arose upon filing of the NOI.

SALUS' VIEW OF THE BORROWER'S RESTRUCTURING PLAN

48. On August 4, 2015, the Borrower presented to Salus an eight-week cash flow forecast for the period ending September 26, 2015 and its inventory monetization plan (the "Richter Plan") prepared by its advisors, Richter Advisory Group Inc. ("Richter"). Under the Richter Plan the Borrower proposed to:

(v) liquidate and close 59 underperforming stores by September 12, 2015;

- (w) pursue refinancing of its obligations to Salus;
- (x) develop a longer term restructuring plan; and
- (y) develop a proposal to present to its creditors in its BIA proposal proceedings.

49. The cash flows in the Richter Plan suggest that the Borrower's total indebtedness to Salus would reduce slightly by the end of September 2015, however, as a result of, among other things, the partial liquidation of certain of its stores, commencing at the beginning of September and continuing through the balance of the cash flow period, the Borrower would be in, and remain in, a forecast availability deficit, in a peak of amount of approximately \$2.9 million. Notwithstanding the foregoing however, the Borrower has asserted that Salus' collateral coverage would improve as liquidated Spring/Summer inventory would be replaced by purchasing fresh Fall merchandise.
50. In Salus' view, supported by the review performed by A&M Canada Securities, the Richter Plan is premised on the false assumption that Salus is willing to continue to provide credit to the Borrower on a debtor-in-possession basis and fund the purchase of Fall merchandise. As previously stated, the Demand sent to the Borrower terminated the Borrower's access to the Credit Facilities.
51. The Richter Plan contemplates Salus forbearing for an additional period while the Borrower seeks to refinance the Credit Facilities. During this period, the Richter Plan suggests that the Borrower will borrow material funds from Salus, but will liquidate some of Salus' collateral and use the proceeds to pay junior creditors so as to buy Fall inventory. The Richter Plan does not result in any improvement to Salus' loan position unless there is a refinancing and in fact results in an increasing availability deficit throughout September.
52. Salus's retail consultants, 360 Merchant Solutions LLC ("360"), have advised that, in the absence of purchase of Fall merchandise, the optimal product mix for a liquidation exists right now. Every week a liquidation is delayed will result in a marked reduction in the desirability of the Spring/Summer inventory and the disappearance of the Borrower's present competitive advantage in holding a liquidation sale immediately, as retailers in general start to reduce prices on their Spring/Summer merchandise by the end of August. A summary of the Borrower's inventory mix as at July 31, 2015 is set out below:

Inventory Mix	
C\$'000s	31-Jul-15
Inventory Mix	
Spring 2015	18,468
Fall 2015	5,232
Fall 2014 & older	1,470
Spring 2014 & older	222
Other	380
Inventory on hand	
	25,772
Goods in transit	3,512
Total Inventory as at July 31, 2015	
	29,284

53. 360 has advised that failure to commence a liquidation sale now will result in a significant deterioration of Salus' recoveries. If a liquidation sale is commenced immediately, Salus should recover close to 100% of the funds advanced under the Credit Facilities. If a liquidation sale is delayed, Salus may suffer a significant shortfall.
54. 360 has advised that, if Salus hopes to see the outstanding obligations of the Debtors repaid, the Borrower needs to take advantage of the present optimal product mix and level of inventory to liquidate on a 162-store basis, not just a 59-store basis. A copy of the report dated August 7, 2015 provided to Salus by 360 is attached as Exhibit P-33 to the Motion.
55. On August 4, 2015, Salus advised the Borrower and Richter of its intention to seek the appointment of the Receiver. Salus advised the Borrower that a liquidation of the Borrower's assets must begin immediately, that Salus would not continue to fund the business and that Salus was not prepared to wait for the Borrower to develop a plan to refinance the Credit Facilities.
56. Salus has lost confidence that the Borrower can re-finance its obligations to Salus. The Borrower's recent efforts have failed to secure such a refinancing. A&M Securities Canada has been provided copies of:
- (z) a term sheet dated July 20, 2015 from CIBC for a revolving credit facility in the maximum amount of \$32,000,000;
 - (aa) a draft term sheet from GE Capital Canada Finance Inc. ("GE") for a revolving credit facility in the maximum amount of \$32,000,000;

(bb) a "non-binding summary of indicative terms and conditions" dated July 29, 2015 for a term loan from Crystal Financial LLC ("Crystal") to accompany the GE revolving loan.

57. Of the above term sheets, only one is signed by a potential lender: the CIBC term sheet. The proposed financing from CIBC, however, is conditional on a \$10,000,000 equity or subordinate debt injection prior to funding.
58. The proposed financing from GE is in draft form. Among other things, it contains a condition that the Borrower concurrently enter into a \$10,000,000 term lending transaction with another lender and, upon the consummation of the GE financing and the term financing contemplated therein, the Borrower be solvent, able to satisfy their obligations as they mature and be and remain adequately capitalized. The Borrower has not demonstrated that GE is willing to move forward with the refinancing now that the Borrower has declared its insolvency.
59. The proposed financing from Crystal is in very early stages, contemplates a concurrent closing of the GE financing and it is not presently consistent with the term lending transaction contemplated by the GE financing. Significant further work would be required to even assess whether this summary of indicative terms could be converted into a binding commitment to finance.
60. Salus does not believe that the Borrower can complete the financings contemplated by any of the term sheets provided to it or on any other potential financing. A new lender is likely to require a period of due diligence and a number of conditions. Salus is not prepared to wait while due diligence is conducted or conditions are satisfied. Salus is also not prepared to fund the Borrower for a period of time while the Borrower attempts to negotiate a financing since Salus does not believe that these negotiations or any other negotiations with any other potential party could result in a binding commitment to repay Salus' debt in full.
61. The Borrower also informed Salus on August 6, 2015 that some of the inventory in transit that the Borrower had included in its borrowing base calculations and against which Salus had advanced credit, were not actually owned by the Borrower as title had not yet passed. Salus is presently attempting to determine the size of this problem which it has so far assessed at approximately \$2,700,000.
62. Notwithstanding the clear, continuous and pervasive defaults and the numerous opportunities that the Borrower has been given to repay its obligations to Salus, on August 6, 2015, Salus' counsel contacted the Borrower's counsel first by phone and then by email and proposed the following forbearance terms:
- (cc) Salus would forbear from the exercise of its rights and applying for a receiver until an appropriate time later in August, 2015 (somewhere

around August 15 to 17 to be discussed further) for the Borrower to try to arrange for committed refinancing;

- (dd) the Borrower would continue to conduct its current publicized sale on a nation-wide basis;
- (ee) Salus would continue to fund critical operational costs (such as payroll and rent, the latter of which has already been funded for August);
- (ff) the Borrower would engage 360 to assist it with its inventory sale;
- (gg) the Borrower would approve of a liquidation bid auction process led by Salus to canvass the market in the event that the Borrower was not able to secure take out financing; and
- (hh) the Borrower would consent to a receivership and a liquidation to commence on such date in the event that it was unable to secure take out financing.

A copy of the email by which these terms were proposed is copied as **Exhibit P-34** to the Motion.

63. The Borrower has not accepted the Salus' forbearance and funding terms.

SALUS MARKETING EFFORTS

64. On August 6, 2015, Salus sent requests for proposals to liquidate the Borrower's stores to seven liquidation firms in substantially the form attached as **Exhibit P-35** to the Motion.

65. Salus intends to request that the proposed Receiver immediately commence an auction to retain a liquidator to liquidate Salus' collateral. The auction is anticipated to be held in the week of August 10, 2015 so that a liquidator can be retained without delay to commence the liquidation of Salus' collateral. It is anticipated that the proposed Receiver will retain a liquidator during the week of August 10, 2015 and will seek the Court's approval of the retainer either on the day it is appointed or shortly thereafter.

APPOINTMENT OF THE RECEIVER

66. For the above reasons, Salus believes that there is an urgent need to preserve and protect the assets of the Debtors by the appointment of a receiver. Under the Salus Security, Salus has the right, upon an event of default, to appoint a receiver over the Debtors.
67. The Debtors have each waived the statutory ten-day notice period set out in the BIA Notices and consented to immediate enforcement of Salus' security.
68. Salus has, at all times, acted in good faith and with considerable patience towards the Debtors, including by agreeing to the Forbearance Agreements, the First Amending Agreement and the Second Amending Agreement. At this time, however, Salus considers it just and convenient that a receiver be appointed.
69. As explained above, Salus agreed to the Forbearance Agreements, the First Amending Agreement and the Second Amending Agreement to permit the Borrower to refinance the Credit Facilities or even demonstrate a credible alternative; the Richter Plan provides for a deterioration in borrowing availability. The Borrower has failed to negotiate a refinancing to date and Salus has no confidence that the Borrower will be able to negotiate a refinancing in the near term, and even if it could, the time it would take to do so would result in an impairment in Salus' collateral.
70. Salus has lost all confidence in the management of the Borrower. The Borrower has made material misrepresentations regarding its financial status, including in its borrowing base certificates, regarding its position with its landlords, the amount of post-dated cheques outstanding, and the value of its inventory in transit. These misstatements go to the heart of Salus' relationship with the Borrower and involve significant changes to Salus' understanding of the amount of funding the Borrower needs to obtain from Salus.
71. Salus is not prepared to continue to finance the Borrower's business. As discussed above, the Richter Plan contemplates Salus continuing to fund the Borrower while steps are taken that do not result in material payments to Salus.
72. A&M is a licensed trustee familiar with the affairs of the Debtors and has consented to act as Receiver should the Court so appoint it.
73. Salus will seek authority for the Receiver to market the Borrower's lease portfolio which, based on an Oberfeld Snowcap evaluation dated April 1, 2015 prepared for the Borrower, could have significant value.
74. Salus will also seek authority for the Receiver to continue, as it sees fit, the Salus Cash-Management Arrangements subject to, among other things, Salus' reimbursement obligations as set out in the proposed form of Receivership Order. These options will be necessary for the Receiver to maintain operational status quo, at least in the short term.

75. It is also proposed that the Receiver be granted a charge (the "Administration Charge") over all of the Debtors' property and in priority to any and all other hypothecs, mortgages, liens, security interests, priorities, charges, encumbrances or security of whatever nature or kind (collectively, the "Encumbrances") to security for its professional fees and disbursements up to a maximum amount of \$750,000 and that the Receiver be granted the right, if necessary, to borrow funds up to a maximum amount to be determined to finance any expenses associated with the exercise of its powers and duties, and that a charge be granted security for the payment and performance of such loans (the "Receiver's Borrowing Charge"), which would rank in priority to all Encumbrances other than the Administration Charge. The Administration Charge and the Receiver's Borrowing Charge is necessary in the circumstances, particularly in light of the dire financial situation facing the Debtors.

76. In light of the foregoing, a Receiver must be appointed immediately. The best opportunity to liquidate the collateral and maximize return to the Borrower's stakeholders exists today. Any delay in commencing a liquidation is likely to cause a material erosion of Salus' recoveries.

77. This Affidavit is made in support of the within application for the appointment of A&M as receiver of the Debtors, and for no other or improper purpose whatsoever.

SWORN before me at the Town of Needham, in the State of Massachusetts, this 7th day of August, 2015.

LA
Notary Public

) Kyle Shonak

My commission expires July 27, 2018.

NOTICE OF PRESENTATION

TO: LAURA'S SHOPPE (P.V.) INC.
C/O : ME GÉRALD F. KANDESTIN
gkandestin@kklex.com
KUGLER, KANDESTIN S.E.N.C.R.L., L.L.P.
1 place Ville-Marie
bur. 2101
Montréal QC H3B 2C6

TO: KPMG INC.
c/o: Dev A. Coossa, CIRP
600, de Malsonneuve Blvd. West
Suite 1500
Montreal (Quebec) H3A 0A3

TAKE NOTICE that Petitioner's Motion seeking the appointment of a Receiver will be presented for adjudication before the Superior Court sitting in Commercial Division, on August 11, 2015, at 9:00 am in room 16.10 of the Courthouse located at 1, Notre-Dame East, in Montreal, or as soon thereafter as counsel may be heard.

DO GOVERN YOURSELVES ACCORDINGLY.

MONTRÉAL, August 7, 2015

BCF LLP
BCF LLP
ATTORNEYS FOR PETITIONER
SALUS CAPITAL PARTNERS, LLC

C A N A D A

PROVINCE OF QUEBEC
District of Québec
Division No: 01- Montréal

S U P E R I O R C O U R T

(Commercial division)

N° : 500-11-049210-152
41-2021835

"IN BANKRUPTCY AND INSOLVENCY"

IN THE MATTER OF THE RECEIVERSHIP OF :

**LAURA'S SHOPPE (P.V.) INC., LAURA'S
SHOPPE CANADA LTD. AND 7735235
CANADA INC.**

Debtor / Respondent

-and-

SALUS CAPITAL PARTNERS, LLC

Petitioner

-and-

ALVAREZ & MARSAL CANADA INC.

Receiver

LIST OF EXHIBITS

EXHIBIT P-1 : Copy of the profile report for the Borrower

EXHIBIT P-2 : Copy of the profile reports for the Guarantors

EXHIBIT P-3 : Copy of the Debtor's corporate organizational chart

- EXHIBIT P-4 : Copy of a collateral access agreement and landlord waiver.
- EXHIBIT P-5 : Copy of the Original Credit Agreement dated April 17, 2013
- EXHIBIT P-6 : Copy of the First Forbearance Agreement dated July 22, 2013 including all its amendments, *en liasse*
- EXHIBIT P-7 : Copy of the Second Forbearance Agreement dated August 30, 2013 including all its amendments, *en liasse*
- EXHIBIT P-8 : Copy of the Third Forbearance Agreement dated December 16, 2013
- EXHIBIT P-9 : Copy of the Fourth Forbearance Agreement dated April 2, 2014
- EXHIBIT P-10 Copy of the First Amending Agreement
- EXHIBIT P-11 Copy of the Second Amending Agreement
- EXHIBIT P-12 Copy of a guarantee dated April 17, 2013
- EXHIBIT P-13 Copy of the Hypothec
- EXHIBIT P-14 Copy of the General Security Agreement
- EXHIBIT P-15 Copy of the Blocked account agreements, *en liasse*
- EXHIBIT P-16 Copy of the Credit Card Notices
- EXHIBIT P-17 Lender's Cash Management Arrangements
- EXHIBIT P-18 Search summary
- EXHIBIT P-19 Copy of an estoppel letter from PNC Equipment Finance
- EXHIBIT P-20 Copy of an Intercreditor Agreement
- EXHIBIT P-21 Copy of a cession of rank
- EXHIBIT P-22 Copy of an estoppel letter from CBSC

- EXHIBIT P-23 Copy of the Rent Default Notices, *en liasse*
- EXHIBIT P-24 Copies of the Borrower's July 4, 6, 7, 9, 10, 11, 13, 14, 16 and 17 borrowing base certificates, *en liasse*
- EXHIBIT P-25 Copy of the reservation of rights letter dated July 23, 2015
- EXHIBIT P-26 Copy of the A&M Canada Securities ULC retainer letter

- EXHIBIT P-27 Copy of the summary, as at July 29, 2015, of the documentary evidence provided by the Borrower to A&M Canada Securities to support such assertion
- EXHIBIT P-28 Copy of the demands for repayment dated July 30, 2015 and BIA Notices, *en liasse*
- EXHIBIT P-29 Copy of the Consents to Enforcement, *en liasse*
- EXHIBIT P-30 Copy of notice to the Borrower

- EXHIBIT P-31 Copy of the certificate of filing issued by the Office of the Superintendent of Bankruptcy Canada
- EXHIBIT P-32 Copy of the revised certificate of filing
- EXHIBIT P-33 Copy of the report of 360 to the Lender
- EXHIBIT P-34 Copy of an email

- EXHIBIT P-35 Copy of the requests for proposals to liquidate the Borrower's stores

MONTREAL, August 7, 2015

BCF LLP

BCF LLP
ATTORNEYS FOR PETITIONER
SALUS CAPITAL PARTNERS, LLC

No.: 500-11-049210-152

SUPERIOR COURT
(Commercial Division)
District of Montreal

**LAURA'S SHOPPE (P.V.) INC., LAURA'S
SHOPPE CANADA LTD. AND 7735235 CANADA
INC.**

Debtor / Respondent

SALUS CAPITAL PARTNERS, LLC

Petitioner

ALVAREZ & MARSAL CANADA INC.

Receiver

**MOTION SEEKING THE APPOINTMENT
OF A RECEIVER, AFFIDAVIT, NOTICE OF
PRESENTATION AND LIST OF EXHIBITS**

ORIGINAL

Me Claude Paquet

Our file: 036481-0002



1100 René-Lévesque Blvd. West, 25th Floor
MONTREAL, QUÉBEC, CANADA

BBB 5C9

Tel: (514) 397-6907

Fax: (514) 397-8515

BB 7462