

**QUEBEC
SUPERIOR COURT
(COMMERCIAL DIVISION)**

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
LAURA'S SHOPPE (P.V.) INC. (THE "APPLICANT")**

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

DATED NOVEMBER 17, 2015

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE OF THE MONITOR'S FOURTH REPORT	3
RESTRICTIONS AND SCOPE LIMITATIONS	5
AMENDMENTS TO THE INITIAL PLAN	6
STATUS OF THE CLAIMS PROCESS	7
REVIEW OF POTENTIAL PREFERENCES AND TRANSFERS AT UNDERVALUE	8
ESTIMATED DISTRIBUTION UNDER THE AMENDED PLAN	9
OBSERVATIONS AND RECOMMENDATIONS	10

INTRODUCTION AND PURPOSE OF THE MONITOR'S FOURTH REPORT

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

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

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

9. The Applicant filed with the Court an Amended Plan of Compromise and Arrangement dated November 13, 2015 on November 13, 2015 and a further Amended Plan of Compromise and Arrangement dated November 13, 2015 on November 17, 2015 (the “**Amended Plan**”). For the purposes hereof, all references to the Amended Plan shall relate only to the version filed with the Court on November 17, 2015.

10. The purpose of this fourth report of the Monitor (the “**Fourth Report**”) is to provide the Court with information on:

- a. the Amended Plan, and particularly the modifications therein as compared to the Initial Plan;
- b. the status of the claims process put in place pursuant to the Claims Procedure Order (the “**Claims Process**”);
- c. the Monitor’s review of any potential preferences or transfers at undervalue;
- d. the estimated distribution contemplated by the Amended Plan; and
- e. the Monitor’s observations and recommendations.

11. The Fourth Report should be read in conjunction with the Second Report and the Third Report which includes additional information which has not been duplicated herein.

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

RESTRICTIONS AND SCOPE LIMITATIONS

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

- a. the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CASs**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and
- b. some of the information referred to in this report consists of financial forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

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

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

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

AMENDMENTS TO THE INITIAL PLAN

17. On November 5, 2015, the Monitor sent, by regular mail, a copy of the Initial Plan to the Applicant's known creditors, and posted a copy thereof on the Monitor's website.
18. The Amended Plan filed with the Court on November 17, 2015, as compared with the Initial Plan, contains a number of amendments ("**Amendments**").
19. Terms not defined in this section shall have the meaning attributed to them in the Amended Plan.
20. As the Amendments primarily affect claims that may be made by the Applicant's landlords in respect of Disclaimed Leases, the Monitor intends, prior to the Creditors' Meeting, to send a copy of the Amended Plan by email to the Applicant's landlords.
21. Significant Amendments include:

New Financing

- Reference to Third Eye Capital as the DIP Lender, having replaced the Applicant's temporary financing with The Cadillac Fairview Corporation Limited and its secured indebtedness with Salus, in accordance with the New Financing Order.

Disclaimed Landlord Claims

- Disclaimed Landlord Claims shall be limited to the "**DLC Limit**", being the lesser of:
 - the aggregate of the rent provided for in the Disclaimed Lease for the first year of such Disclaimed Lease following the date on which the disclaimer or resiliation becomes effective; and 15% of the rent for the remainder of the term of the Disclaimed Lease after that year, or;
 - three years' rent provided for in the Disclaimed Lease.
- Disclaimed Landlord Claims in respect of Disclaimed Leases disclaimed or resiliated between the date of the Amended Plan and the Sanction Date must be filed within 30 days of the date of the disclaimer or resiliation, failing which the Applicant will be released therefrom.

STATUS OF THE CLAIMS PROCESS

22. In the Claims Procedure Order, the Claims Bar Date was defined as 5:00 pm on October 21, 2015, with the exception of Restructuring Claims, which are subject to a “floating” bar date of 30 days following the receipt by the Creditor of a notice from the Applicant giving rise to the Restructuring Claim.

23. As noted above, the effective bar date in the Amended Plan for a Disclaimed Landlord Claim is 30 days following the date of a notice of disclaimer or resiliation.

24. Since October 21, 2015, the Monitor, in conjunction with its legal counsel, the Applicant and its legal counsel and financial advisors, has been reviewing the Claims received.

25. As a result of such review, the Monitor shall be issuing Notices of Revision or Disallowance in respect of certain Claims made by the Applicant’s landlords, in particular where:

- a portion of the amount claimed pertains to a lease (other than a Disclaimed Lease pursuant to the Amended Plan) which was voluntarily amended or replaced with new contractual arrangements by negotiation and agreement with the landlord, without giving rise to any claims for damages or otherwise; or
- the claimed amount following the Disclaimed Lease exceeds the DLC Limit.

26. A substantial proportion of landlords who voluntarily amended or replaced leases with new contractual arrangements by negotiation and agreement with the Applicant have not filed a Proof of Claim in connection therewith.

27. The Monitor has requested additional information in respect of other Claims not made by the Applicant’s landlords, which may give rise to a Notice of Revision or Disallowance. The Monitor does not expect to resolve those Claims prior to the Creditors’ Meeting scheduled for November 19, 2015.

28. The following table summarizes the Claims received as at the date of the Fourth Report:

	Landlord claims	Other claims	Total
Total Claims Filed with the Monitor (number)	104	316	420
Total Claims Filed with the Monitor (\$ million)	82	30	112
Notices of Revision or Disallowance sent to creditors (\$ million)	66	-	66
Potential Notices of Revision or Disallowance (\$ million)	-	1	1
Preliminary estimate of claims to be accepted by the Monitor (\$ million)	16	29	45

29. As at the date of this Fourth Report, the Monitor had received 420 Claims, totaling \$112 million, of which approximately \$45 million of Claims may be accepted.

30. Any Creditor affected by a Notice of Revision or Disallowance may file an appeal motion with the Court within 10 days of receipt thereof.

31. The Creditors' Meeting is scheduled for November 19, 2015, at which time the Notices of Revision or Disallowance will still be subject to appeal. In calculating the votes on the Amended Plan, the Monitor intends to record the votes of all Disputed Claims so as to be able to calculate any effect of the Disputed Claims on the approval or rejection of the Amended Plan.

32. At the date of this report, the Monitor is still receiving claims from the creditors. The Monitor will continue its review pursuant to the Claims Procedure Order, which may impact the level of admitted claims and the dividend.

REVIEW OF POTENTIAL PREFERENCES AND TRANSFERS AT UNDERVALUE

33. Paragraph 9.4 of the Amended Plan provides that, notwithstanding s. 36.1 of the CCAA, Sections 38 (proceedings by creditors) and Sections 95-101 (preferences and transfers at undervalue) of the *Bankruptcy and Insolvency Act* shall not apply to the Amended Plan.

34. The Monitor reviewed, and continues to review, a sample of transactions between related parties, for the one-year period preceding the commencement of the CCAA Proceedings, and a sample of transactions with non-related parties for the three-month period preceding the commencement of the CCAA Proceedings.

35. The Monitor's review includes, but is not limited to: (a) inquiries with management regarding the nature and quantum of both related party and non-related party transactions during the periods reviewed; (b) a review of the nature and support for certain selected related party and

non-related party transactions, including transactions over a certain dollar threshold; and (c) a review of source documentation in order to corroborate certain of the Monitor's inquiries with Senior Management.

36. The Monitor has identified transactions that appear to have improved the positions of certain suppliers during the three-month period preceding the commencement of the CCAA Proceedings. However, each case would have to be examined on its own facts to see if the respective transaction may constitute a preference or if it was undertaken in the ordinary course of business. If that examination were to disclose a potentially litigious claim, it is uncertain whether a trustee in bankruptcy or any creditor would assume the cost of litigation in respect thereof, with no guarantee of a favourable judgment or any recovery relating thereto. In any event, even had the Amended Plan contemplated the possibility of recoveries related to preferential payments or transfers at undervalue, the likely net recoveries, if any, that could be achieved in respect of the aforesaid transactions identified by the Monitor would not materially affect the distribution contemplated by the Amended Plan.

37. Considering the above, it is the Monitor's view that the Applicant's decision to include paragraph 9.4 in the Amended Plan appears reasonable.

ESTIMATED DISTRIBUTION UNDER THE AMENDED PLAN

38. As noted in the Second Report, the total amount to be distributed to the Affected Creditors under the Amended Plan amounts to \$4 million.

39. The estimated realization to the Affected Creditors is subject to change given the Notices of Revision or Disallowance sent, which may be appealed by Creditors.

40. The following table summarizes the range of the estimated realization to the Affected Creditors with and without considering the Disputed Claims.

Estimated dividend	High (1)	Low (2)
Amount for distribution (\$ million)	4	4
Claims eligible for distribution (\$ million)	112	45
Estimated Dividend %	4%	9%

(1): Including Disputed Claims

(2): Excluding Disputed Claims

41. As noted above, the estimated dividend to the Affected Creditors ranges from approximately 4% to 9%, depending on the final determination of the Disputed Claims.

OBSERVATIONS AND RECOMMENDATIONS

42. The Monitor believes that the terms of the Amended Plan are fair and reasonable.

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

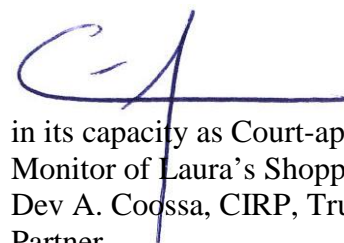
- a. the risk that the Applicant's landlords do not allow a liquidation to take place on the existing store premises;
- b. the stigma of a liquidation or bankruptcy, which would negatively impact the pricing of inventory;
- c. the inability of a receiver or trustee to make inventory purchases to improve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

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

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

The whole respectfully submitted.

KPMG INC.



in its capacity as Court-appointed
Monitor of Laura's Shoppe (P.V.) Inc.
Dev A. Coossa, CIRP, Trustee
Partner