

**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")**

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

DATED OCTOBER 22, 2015

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INTRODUCTION AND PURPOSE OF THE MONITOR'S SECOND 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 (the "**Pre-Filing Report**") 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 (the "**Leave Motion**"), 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**"). On September 11, 2015, the Court granted an order approving the Claims Motion (the "**Claims Procedure Order**") and also granted 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. Also on September 3, 2015, the Monitor filed a Motion for Orders in Respect of Supplier Agreements, in connection with the supply of new merchandise to the Applicant with the consent of the Monitor (the "**Monitor's Motion re Supplier Agreements**"). On September 11, 2015, the Court granted the Order sought in the Monitor's Motion re Supplier Agreements (the "**Supplier Agreement Order**").

7. KPMG 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.

8. 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 of Arrangement (the “**Plan of Arrangement**”) and the Calling of a Creditors Meeting (the proposed “**Plan and Meeting Order**”).

9. The purpose of this second report of the Monitor (the “**Second Report**”) is to provide the Court with information on the following:

- a. The Monitor’s activities since the date of the First Report;
- b. The Applicant’s activities since the issuance of the Stay Extension Order and the Claims Motion;
- c. The status of the Applicant’s re-financing process (the “**Refinancing Process**”);
- d. The Applicant’s actual receipts and disbursements for the 10-week period ended October 17, 2015, as compared to the corresponding period reflected in the updated cash flow forecast for the 13-week period ending on November 28, 2015, previously filed as part of the First Report (the “**Updated Cash Flow Forecast**”);
- e. An update on the claims process pursuant to the Claims Procedure Order (the “**Claims Process**”);
- f. An overview of the Plan of Arrangement to be filed by the Applicants with the Court’s authorisation;
- g. The meeting of creditors to consider and vote on the Plan of Arrangement (the “**Creditors Meeting**”); and
- h. The Monitor’s observations and recommendations.

RESTRICTIONS AND SCOPE LIMITATIONS

10. In preparing this Second 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 Second 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.

11. Future oriented financial information referred to in this Second 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.

12. 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.

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

ACTIVITIES OF THE MONITOR SINCE THE FIRST REPORT

14. Since the date of the First Report, the Monitor has continued to comply with several statutory and other obligations pursuant to the Initial Order, the Stay Extension Order and the CCAA, in addition to assisting the Applicant with logistical and operational matters.

Statutory

15. Pursuant to the Claims Procedure Order, the Monitor notified the Applicant's known creditors of the Claims Process and published notices regarding same in the designated newspapers. Terms not defined herein shall have the meaning attributed in the Claims Procedure Order.

16. In particular, the Monitor took the following actions in accordance with the Claims Procedure Order:

- a. On September 16, 2015, the Monitor posted on its website, a copy of the Claims Procedure Order, the Creditors' List and of the French and English versions of the Creditors Instructions;
- b. On September 17, 2015, the Monitor sent, by regular mail, copies of the Creditors Instructions to the Applicant's 709 known creditors; and
- c. On September 17, 2015, the Monitor published a French version of the Newspaper Notice in La Presse (Montreal daily newspaper) and of the English version of the Newspaper Notice in The Gazette (Montreal daily newspaper).

17. The Monitor has continued to respond to telephone calls, emails and inquiries, addressing concerns from creditors and other stakeholders regarding the effect of the CCAA Proceedings.

18. Pursuant to section 23 of the CCAA and paragraph 39 of the Initial Order, the Monitor continued to provide the required reports to The Cadillac Fairview Corporation Limited (the "**Interim Lender**") and to Salus.

19. The Monitor has continued to assist the Applicant with its communications with employees, suppliers, landlords, freight providers, customs brokers, utility companies and other parties.

Logistics and Operations

20. Since the date of the First Report, the Monitor has continued to assist the Applicant in putting in place numerous agreements with its suppliers to provide goods to the Applicant on a cash on delivery (“COD”) basis (the “**Supplier Agreements**”), pursuant to the Supplier Agreement Order.

21. The Monitor has assisted the Applicant in putting in place new agreements with its suppliers (to which the Monitor is also a party) with the view to allowing the Applicant to continue its operations in the normal course for the current and future sales seasons (the “**Deposit Agreements**”).

22. The purpose of the Deposit Agreements is to document the Applicant’s and its respective suppliers’ obligations in relation to the procurement of merchandise to be delivered after the Updated Cash Flow Forecast period and essentially involves the following steps:

- a. approval by the Monitor and by PricewaterhouseCoopers (“**PWC**”), the Interim Lender’s financial advisor, of each payment requested in connection with specific orders for the supply of goods;
- b. remittance by the Applicant to the supplier of the deposit required for the order;
- c. confirmation by the supplier that the goods will be delivered no later than the agreed upon date, failing which an undertaking by the supplier to return the deposit; and
- d. an undertaking by the supplier that the deposit will not be used or retained in any way other than for the fulfillment of the order in question.

ACTIVITIES OF THE APPLICANT SINCE THE FIRST REPORT

23. Since the date of the First Report, the Monitor notes that the Applicant has:

- a. acted and continues to act in good faith and with due care and diligence;

- b. continued to provide the Monitor with its full cooperation, and access to its premises, as well as its books and records;
- c. paid its employees (and making the related government remittances) in the ordinary course;
- d. paid, or made arrangements to pay for any goods and services provided after the date of the Initial Order;
- e. assisted the Monitor in the review of the Claims received by the Monitor; and
- f. continued to implement a number of measures with regard to the restructuring of its operations and the procurement of merchandise, more fully described below.

24. As noted in section 21, the Applicant, in conjunction with the Monitor, has entered into Deposit Agreements with certain suppliers to secure the procurement of required fall 2015 and spring 2016 merchandise.

25. The Applicant, with the Monitor's approval and in accordance with s. 32(1) of the CCAA has sent seven (7) additional lease disclaimer notices, effective November 16, 2015, to its landlords in respect of certain store locations.

26. The financial impact of the above noted lease disclaimers is not reflected in the Updated Cash Flow Forecast; however, the Monitor is of the view that the impact should not be material to the Applicant's cash flow for the remaining period between the effective date of the lease disclaimers and the end of the period covered by the Updated Cash Flow Forecast (November 28, 2015).

STATUS OF THE APPLICANT'S REFINANCING PROCESS

27. As noted in the First Report, the Applicant, with the support of its advisors, has been soliciting refinancing offers to replace the current secured loan indebtedness, including the Interim Facility, and to fund ongoing operating activities and restructuring costs (the "Refinancing Process").

28. The Monitor has been kept apprised of all significant discussions between the Applicant and potential lenders and has been provided with copies of written exchanges between the Applicant and such potential lenders.

29. The Applicant and its advisors have made significant progress in their efforts in respect of the Refinancing Process and it appears likely that the Applicant will be in a position to meet its timeline (as described in the Monitor's First Report) to conclude an acceptable new financing arrangement with a view to implementing its proposed Plan of Arrangement.

ACTUAL CASH FLOWS FOR THE TEN WEEK PERIOD ENDING OCTOBER 17, 2015

30. Cash receipts and disbursements for the ten-week period ending October 17, 2015 (the “Reporting Period”), as compared to the corresponding period of the Updated Cash Flow Forecast (which was filed in conjunction with the First Report) are summarized in the table below:

Laura's Shoppe (P.V.) Inc. Weekly Monitoring - In Thousands	Notes	Cumulative - 10 weeks ending October 17th, 2015		
		Actual	Forecast	Variance
		Cumulative	Cumulative	
Week ending		17-Oct-15	17-Oct-15	
Sources of Cash				
Total Receipts (including Sales Taxes)	a.	\$ 46 702	\$ 49 874	\$ (3 172)
Total Cash Collected		<u>46 702</u>	<u>49 874</u>	- 3 172
Uses of Cash				
Trade and Non-Trade				
Merchandise Inventory	b.	\$ 25 144	\$ 28 659	\$ (3 515)
Merchandise Deposits	b.	92	600	(508)
Recurring				
Payroll & DAS		10 177	10 098	78
Occupancy (Rent & Utilities)		8 412	8 563	(151)
G&A and Non-trade expenses		6 595	6 553	42
Critical Vendor Payments		-	-	-
Interest/Debt Service				
Salus - Revolver Interest (10%)		-	-	-
DIP Fees		300	300	-
DIP Interest		137	90	47
Sales Taxes Remittance / (Collection)	c.	1 186	632	554
Professional Fees (Restructuring)	d.	2 533	1 863	670
Capex		-	-	-
Vendor Deposits		155	300	(145)
Total Uses of Cash		<u>54 730</u>	<u>57 659</u>	<u>(2 929)</u>
Projected Net Cash Flow		<u>\$ (8 028)</u>	<u>\$ (7 785)</u>	<u>\$ (244)</u>
Projected Cash Balance				
Beginning of Week - Book Balance		\$ -	\$ -	\$ -
Net Cash Flow		(8 028)	(7 785)	(244)
DIP Financing		9 800	9 800	0
End of Week - Book Balance		<u>\$ 1 772</u>	<u>\$ 2 016</u>	<u>\$ (244)</u>
Bank Reconciliation				
Scotia / BMO Cash in Bank		\$ 2 926	\$ 2 016	\$ 911
Less: Outstanding Checks		(1 155)	-	(1 155)
End of Week - Book Balance		<u>\$ 1 772</u>	<u>\$ 2 016</u>	<u>\$ (244)</u>

31. As at October 17, 2015, the Applicant's cash balance, which includes the amounts drawn pursuant to the Interim Facility, totaled approximately \$1.8 million.

32. The negative variance in the Applicant's net cash flow during the Reporting Period amounts to \$0.2 million. The more significant variance items are summarized below:

- a. The unfavorable variance of \$3.2 million is primarily due to the warm weather experienced during the month of September which negatively impacted sales;
- b. The favorable variance of \$4 million is due to the Applicant reducing its inventory purchases and deposits to suppliers for future deliveries to compensate for the shortfall in sales receipts as noted above;
- c. The unfavorable variance of \$0.55 million is due to a lower sales tax credits resulting from the lower purchases (which were not completely offset by lower taxes collected on sales) and timing differences in the remittance of taxes;
- d. The unfavorable variance of \$0.7 million is mainly due to the complexity of the proceedings and the additional time that has been required to report to the various stakeholders involved in the file. The variance is expected to be permanent.

33. The Monitor notes that the cash balance as at October 17, 2015 is relatively consistent with the projected cash balance. However, the sales variance is likely permanent and could have a negative impact on the projected cash balance at the end of the period covered by the Updated Cash Flow Forecast of an estimated amount between \$1.0 and \$1.5 million.

CLAIMS PROCESS

34. Terms not defined herein shall have the same meaning as in the Claims Procedure Order.

35. As noted above, the Monitor has complied with its statutory obligations pursuant to the terms of the Claims Procedure Order.

36. As per the terms of the Claims Procedure Order, the Claims Bar Date was October 21, 2015 (5pm) in respect of provable claims outstanding as at July 31, 2015 (the "**Determination Date**")

and the later of October 21, 2015 (5pm) and 30 days after the receipt by a creditor of a notice from the petitioner giving rise to a restructuring claim (a “**Restructuring Claim**”).

37. As at October 21, 2015, the Monitor had received 385 Claims totaling \$99,878,043, however the Monitor notes that the quantum of the overall Claims may be reduced given the way that some of the Restructuring Claims have been computed, and quantified.

38. The Monitor expects to receive additional Restructuring Claims given that notices for disclaimers of leases giving rise to such claims have been sent by the Applicant within the 30 days preceding October 21, 2015. In addition, there may be additional Claims that have been physically received by the Monitor before the Claims Bar Date, but not yet processed.

39. The Monitor and its counsel, in conjunction with the Applicant and its advisors, are in the process of reviewing the Claims received. To date, the review process is not sufficiently advanced to determine exactly how many Claims, and the quantum thereof, will be subject to a Notice of Revision or Disallowance.

OVERVIEW OF THE PLAN OF ARRANGEMENT

40. The Plan and Meeting Motion includes a request by the Applicant for authorization to file the Plan of Arrangement. Capitalized terms not otherwise defined in this section are as defined in the Plan of Arrangement.

41. We have summarized below the significant aspects of the Plan of Arrangement:

Plan Implementation Date

- On or before the Plan Implementation Date, which is the date that is the earlier of December 15, 2015, or the date on which all conditions precedent of the Plan of Arrangement have been met or waived, namely:
 - a favorable vote by the Affected Creditors accepting the Plan of Arrangement;
 - a final order of the Court sanctioning the Plan of Arrangement (“**Sanction Order**”);

- a Replacement Loan will have been disbursed; and
- each of the DIP Claim, the DIP Charge, the Salus Claim and the Salus Security shall have been discharged and released.

Affected Creditors

- Affected Creditors exclude creditors in respect of :
 - Post-Filing Liabilities;
 - Amounts owing, if any, which are subject to the CCAA Charges (as defined in the Initial Order);
 - Crown Priority Claims , if any, owing to governmental entities pursuant to sections 6(3) and 38(2) of the CCAA;
 - Amounts owing, if any, to employees for wages earned between the date of the Initial Order and the Plan Implementation Date;
 - Amounts owing, if any, to employees for wages outstanding as at the date of the Initial Order, but which would be subject to a priority under s. 136 (1)(d) of the Bankruptcy and Insolvency Act (the “**BIA**”);
 - Gift Card Claims;
 - Salus Claim;
 - Fisher Group Claims;
 - Secured Claims.
- The Fisher Group Claims are subordinated and postponed in favor of the claims of the Affected Creditors;

Distribution

- The Applicant is to remit to the Monitor, the following amounts, aggregating \$4 million, for distribution (the “**Distribution Proceeds**”):
 - On or before April 30, 2016, \$1 million (“**Initial Proceeds**”);
 - On or before July 31, 2016, \$1 million (“**Second Tranche Proceeds**”);
 - On or before December 15, 2016, \$1.8 million (“**Third Tranche Proceeds**”);
 - On or before February 15, 2017, \$200,000 (“**Final Proceeds**”).
- The Monitor shall distribute the Initial Proceeds to the Affected Creditors as follows:
 - An amount equal to the lesser of the Proven Claims of the Affected Creditors and \$1,250 (the “**First Level Distribution**”);
 - The difference between the Initial Proceeds and the aggregate of the First Level Distribution, on a pro-rata basis, according to the amounts of their Proven Claims less amounts received under the First Level Distribution.
- The Monitor shall distribute the Second Tranche Proceeds, the Third Tranche Proceeds and the Final Proceeds, once received (the “**Subsequent Distributions**”) to the Affected Creditors on a pro-rata basis, according to the amounts of their Proven Claims, less amounts received under the First Level Distribution and amounts previously received under the Subsequent Distributions.

Release and Discharge

- Upon the implementation of the Plan of Arrangement on the Plan Implementation Date, a release and discharge of the Applicant, its past and present directors, its employees, financial advisors, legal counsel and agents;

- Upon the implementation of the Plan of Arrangement on the Plan Implementation Date, a release and discharge of the Monitor and its directors, employees, advisors, legal counsel and agents.
42. The actual amount of Claims filed with the Monitor will be determined following the completion of the Claims Process.
43. The Monitor is unable to provide an estimated range of recovery to the Affected Creditors as the amount of Claims by the Affected Creditors is not yet determined, as noted in sections 36 to 38.
44. In the context of a forced liquidation or bankruptcy, there would be many factors negatively affecting the realization for the benefit of the Affected Creditors including:
- a. The risk that the 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 mix available in stores;
 - d. The loss of store personnel;
 - e. The additional professional fees incurred as a result of a liquidation;
45. For the reasons noted above, it is the Monitor's view that there would likely be no realization accruing to the benefit of the Affected Creditors in the context of a forced liquidation or bankruptcy.
46. Consequently the expected recovery by the Affected Creditors in the context of the Plan of Arrangement is more advantageous than in a forced liquidation or bankruptcy scenario.

CREDITORS MEETING

47. The Plan and Meeting Motion includes a request by the Applicant for an order allowing it to hold a Creditors' Meeting to consider and vote on the Plan of Arrangement. We have summarized below the salient terms of the proposed Creditors' Meeting. Capitalized terms not defined in this section are as defined in the Plan and Meeting Motion.

- The Creditors' Meeting is to be held on or before December 15, 2015 (the "**Meeting Call Date**");
- The Monitor (or its nominee) shall preside as chair of the Creditors' Meeting;
- Any creditor who wishes to appoint a Proxy shall do so prior to the Creditors' Meeting;
- The Monitor shall post on its website the Meeting Materials at least 14 days before the Meeting Call Date;
- The Monitor shall publish a Notice to Creditors in a French language newspaper and an English language newspaper as soon as possible after the issuance of the Plan and Meeting Order, but in any event no later than 7 days before the Meeting Call Date;
- The Monitor shall send a copy of the Meeting Materials, by regular mail, to all creditors which filed a claim in compliance with the Claims Procedure Order.

48. The Monitor is of the view that the proposed Creditors' Meeting should allow for the Applicant's creditors to fairly express their intention in terms of whether or not to accept the Plan of Arrangement.

49. In the event of a favorable vote on the Plan of Arrangement by the Affected Creditors, the Applicant has requested the Court's authorisation to file a motion for the issuance of a Sanction Order. The Monitor will report the results of the proposed Creditors' Meeting to the Court at the time of the hearing for the rendering of a Sanction Order.

MONITOR'S OBSERVATIONS AND RECOMMENDATIONS

50. The Applicant has continued to diligently pursue its restructuring efforts since the issuance of the Stay Extension Order and continues to operate its business in the ordinary course with the benefit of the Stay Period, which has provided stability to the business.

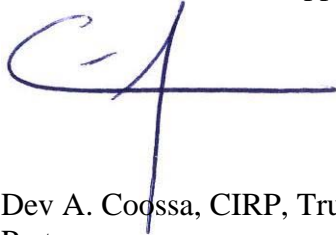
51. The Monitor believes that the terms of the Plan of Arrangement are fair and reasonable and provide the most advantageous recovery to the Affected Creditors in the circumstances.

52. For the reasons set out in this Second Report, the Monitor recommends that the Court grant the Plan and Meeting Order.

The whole respectfully submitted.

KPMG INC.

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

A handwritten signature in blue ink, appearing to be 'Dev A. Coossa', written over a horizontal line.

Dev A. Coossa, CIRP, Trustee
Partner