



COURT FILE NUMBER 1901-06027
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
PLAINTIFF ATB FINANCIAL
DEFENDANTS SOLO LIQUOR STORES LTD., SOLO LIQUOR HOLDINGS LTD., GENCO HOLDINGS LTD., PALI BEDI, JASBIR SINGH HANS and TARLOK SINGH TATLA

AND IN THE MATTER OF THE RECEIVERSHIP OF SOLO LIQUOR STORES LTD. and SOLO LIQUOR HOLDINGS LTD.

DOCUMENT **SECOND REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT-APPOINTED RECEIVER AND MANAGER OF SOLO LIQUOR STORES LTD. and SOLO LIQUOR HOLDINGS LTD.**

August 26, 2019

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

1. On May 1, 2019 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all the current and future assets, undertakings and properties of every nature and kind whatsoever (the “**Property**” or “**Business**”) of Solo Liquor Stores Ltd. (“**Solo Liquor**”) and Solo Liquor Holdings Ltd. (“**Solo Holdings**”) pursuant to an Order of the Honourable Justice C. Jones (the “**Receivership Order**”, and the proceedings thereunder the “**Receivership Proceedings**”). Solo Liquor and Solo Holdings are together referred to as the “**Solo Group**” or the “**Company**”.
2. The Receivership Order authorized the Receiver, among other things, to manage, operate and carry on the Business of the Company, to market any or all of the Property including advertising and soliciting offers to purchase the Property, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. On June 17, 2019, the Receiver sought, and on June 19, 2019, the Receiver was granted 12 sale approval and vesting orders (“**Approval and Vesting Orders**”). The Approval and Vesting Orders provided the Receiver with the Court’s approval to close 12 separate asset purchase agreements (“**Liquor Store APA’s**”) which contemplated in aggregate the sale of 44 separate Solo Group liquor stores.
4. On June 18, 2019, a bankruptcy order (“**Bankruptcy Order**”) was granted by this Honourable Court authorizing the appointment of FTI Consulting Canada Inc. as trustee in bankruptcy (“**Trustee**”) of Solo Liquor and Solo Holdings.
5. The Receiver’s reports and other publicly available information in respect of these proceedings (the “**Receivership Proceedings**”) are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/sololiquor> (the “**Receiver’s Website**”).

6. The purpose of this report (“**Second Report**” or this “**Report**”) is to provide this Honourable Court with:
 - (a) an update on the activities of the Receiver since the Receiver’s First Report;
 - (b) a summary of receipts and disbursements from the Date of Appointment to August 16, 2019;
 - (c) an update on the Receiver’s efforts to close the APA’s since the Receiver’s First Report;
 - (d) the Receiver’s proposed interim distribution to Solo Group’s senior secured lender Crown Capital Partner Funding, LP by its general partner Crown Capital LP Partner Funding Inc. (“**Crown Capital**”) and the required holdback of certain funds; and
 - (e) the Receiver’s anticipated next steps.

7. The Receiver is requesting the following relief from this Honourable Court:
 - (a) approval of the activities of the Receiver since the Receiver’s First Report reported herein, including the approval of its receipts and disbursements; and
 - (b) approval of the proposed interim distribution to Crown Capital and required holdback.

TERMS OF REFERENCE

8. In preparing this Second Report, the Receiver has relied upon audited and unaudited financial information, other information available to the Receiver and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
9. Except as described in this Second Report:
 - (a) The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with the Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook; and
 - (b) The Receiver has not examined or reviewed financial forecasts and projections referred to in this Second Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
10. Future oriented financial information reported or relied on in preparing this Second Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
11. The Receiver has prepared this Second Report in connection with the Receiver's Application that is to be heard on September 6, 2019. This Second Report should not be relied on for other purposes.
12. Information and advice described in this Second Report that has been provided to the Receiver by its legal counsel, Torys LLP (the "**Receiver's Counsel**"), was provided to assist the Receiver in considering its course of action, is not intended as legal or other advice to, and may not be relied upon by, any other person.

13. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

RECEIVER'S ACTIVITIES SINCE THE FIRST REPORT

14. Since the date of the Receiver's First Report, the Receiver has, among other things, completed the following:
- (a) FTI Consulting Canada Inc. was appointed as Trustee pursuant to the Bankruptcy Order. The Trustee completed various statutory steps in respect of the bankruptcy filings as discussed in further detail below;
 - (b) Pursuant to the Approval and Vesting Orders granted on June 18, 2019, the Receiver closed the 12 Liquor Store APA's, completed all post-closing matters and collected the net purchase price of \$19,693,118 which was satisfied by cash proceeds of \$9,693,118 and a \$10 million subordinated note of \$10 million ("**CLRA Note**") as discussed and described later in this Report;
 - (c) The Receiver also completed the sale of one additional non-operating liquor store location. Proceeds from this sale in the amount of \$117,338 were below the threshold approval limit outlined in paragraph 3(l)(i) of the Receivership Order, and accordingly, the Receiver completed this sale without Court approval;
 - (d) Receiver's Counsel worked with the Land Titles Office and with a particular lien claimant to have all of its liens discharged and removed from any of the locations assigned under the closed APA's and the Approval and Vesting Orders;
 - (e) The Receiver's Counsel completed a security review of the security held by ATB Financial in relation to Solo Group;

- (f) The Receiver repaid, in full, the Receiver's Borrowing Charge of \$1.6 million;
- (g) Three of the 43 operating locations did not receive bids. These locations were closed for business on or around June 7, 2019. The Receiver sold the inventory from two of these locations for proceeds of \$181,987 and \$152,608, respectively. Proceeds for both sales were below the threshold approval limit outlined in paragraph 3(1)(i) of the Receivership Order, and accordingly, the Receiver completed these sales without Court approval. Inventory from the third location was minimal and was transferred to another location being sold and included in its inventory total at closing. The leases for all three locations were disclaimed on or around June 10, 2019;
- (h) All remaining operating stores were closed for business on June 18, 2019. All store level employees were terminated on or before June 30, 2019. Remaining home office employees were terminated on July 31, 2019. One management level employee has been retained under a consulting agreement, effective until September 30, 2019, to assist with final administrative matters;
- (i) Based on the books and records of the Company, notices regarding the *Wage Earner Protection Program Act* ("WEPPA") were issued to all employees eligible to submit a proof of claim under the program. The Receiver has begun to submit claims to Service Canada;
- (j) In consultation with the Company, the Receiver issued ROE's to all terminated employees, and T4 slips for 2019 were prepared and mailed to all employees; and

- (k) The Receiver sold all of the Company owned vehicles, equipment, hardware and miscellaneous items from stores. As the sale proceeds for each of the foregoing items were below the threshold approval limit outlined in paragraph 3(1)(i) of the Receivership Order, accordingly, the Receiver completed the subject sales without Court approval. Insurance policies have been cancelled, and notices of termination were sent out to service providers on or around June 30, 2019.

BANKRUPTCY ORDER

- 15. On June 19, 2019, this Honourable Court granted the Bankruptcy Order for Solo Liquor and Solo Holdings. FTI Consulting Canada Inc. was appointed as Trustee of the estates of the bankrupts.
- 16. The Trustee issued a Notice of Bankruptcy to all known creditors of the bankrupts on June 28, 2019. The first meeting of creditors was held for both estates on July 9, 2019 at 10:00 am MST at the office of the trustee. The Trustee's Preliminary Report was issued on July 9, 2019.
- 17. The assets of the bankrupts are encumbered and are being realized on as part of the Receivership Proceedings as discussed within the Receiver's Second Report. The recoveries from the assets will not be sufficient to pay out the secured debt, and as a result, the Trustee does not expect any assets or proceeds to be transferred into the bankruptcy estates.

FINALIZED AND EXECUTED APA'S

18. Pursuant to the Approval and Vesting Orders granted by the Court on June 18, 2019, the Receiver executed 13 individual asset purchase agreements as summarized in the table below:

Purchaser Name	# of stores included	Purchase Price, excl Inventory and GST	Adjustments	Inventory	Final Purchase Price, excl GST
Canadian Liquor Retailers Alliance Limited Partnership	30	\$ 12,319,500	\$ (538,626)	\$ 3,228,457	\$ 15,009,331
1586638 Alberta Ltd	1	130,000	5,592	-	135,592
BSW Liquor Sherwood Park Ltd	1	165,000	5,489	150,545	321,033
BSW Liquor Salisbury Ltd	1	210,000	25,635	231,513	467,147
The Liberty Group Holdings Inc.	4	875,000	32,018	426,074	1,333,092
Jiang Cui - Crowfoot	1	200,000	3,771	123,465	327,236
Jiang Cui - Fish Creek	1	130,000	1,934	133,543	265,477
NAP Liquor Ltd.	1	200,000	23,162	140,183	363,345
2190404 Alberta Inc.	1	150,100	13,847	95,328	259,275
2013341 Alberta Inc.	1	110,000	12,496	164,381	286,877
Cornerstone Co-operative	1	195,000	9,953	146,477	351,430
North Central Co-operative Association Limited	1	375,000	13,483	184,799	573,281
Simranjot Singh Dhaliwal	1	120,000	(2,662)	-	117,338
Total APA Sales	45	\$ 15,179,600	\$ (393,909)	\$ 5,024,765	\$ 19,810,456
Less: Unsecured Subordinated Note					(10,000,000)
Total Cash from APA Sales					\$ 9,810,456

19. Total consideration received by the Receiver for the executed asset purchase agreements included cash proceeds of \$9,810,456 and a \$10 million unsecured subordinated note. Pursuant to the terms of the APA (the "CLRA APA") entered into with Canadian Liquor Retailers Alliance Limited Partnership ("CLRA"), an unsecured subordinated note in the principal amount of \$10,000,000 was issued by the Purchaser, CLRA, to the Receiver, as Vendor under the CLRA APA (the "Subordinated Note"), which included an assignment provision, namely Section 10 thereof, which allowed the Vendor to assign the Subordinated Note to Crown Capital Partner Funding LP ("Crown") without consent of the Purchaser. Contemporaneously with the closing of the CLRA APA, the Vendor and Crown entered into a Subordinated Note Assignment Agreement, pursuant to which the Vendor assigned the Subordinated Note to Crown as partial repayment of the debt that Solo Group was obligated to repay Crown.

20. The purchase price set forth in the CLRA APA was satisfied as to \$10 million dollars, by way of issuance by the Purchaser to the Vendor the Subordinated Note.

SUMMARY OF RECEIPTS AND DISBURSEMENTS

21. Receipts and Disbursements from the Date of Appointment to August 16, 2019 are summarized as follows:

Schedule of Receipts and Disbursements	
As at August 16, 2019	
\$ CAD	
Receipts	
Receiver's Borrowings	\$ 1,600,000
Liquor Sales	13,902,726
APA Asset Sales	9,810,456
Miscellaneous Asset Sales	63,539
Bottle Deposit Collected	354,141
GST Collected	690,812
Total - Receipts	26,421,674
Disbursements	
Receiver's Repayments	1,600,000
Inventory Purchases	10,556,611
Operating Expenses	187,815
Occupation Rent	1,206,612
Cure Costs	385,495
Payroll - Employee Related Obligations	1,766,873
Insurance	38,123
Bottle Deposit Paid	349,502
GST Paid	719,562
Bank & Interest Charges	115,424
Selling Agents & Professional Fees	1,070,348
Total - Disbursements	17,996,364
Net Cash on Hand from Operations	\$ 8,425,309

- (a) Receiver's Borrowings – amounts borrowed in accordance with the terms of the Receivership Order to provide sufficient working capital to fund the ongoing operations. The Receiver's Borrowings were originally incurred to fund initial working capital requirements required immediately following the granting of the Receivership Order;

- (b) Liquor Sales – relates to funds collected by the Receiver in respect of the revenue from inventory sales from the Company’s operating Liquor Stores;
- (c) APA Asset Sales – relates to the cash proceeds received from the 13 executed APA’s as approved by the Court since the date of the First Report;
- (d) Miscellaneous Asset Sales – amounts received from the sale of miscellaneous assets of the Company;
- (e) Bottle Deposit Collected – relates to deposits collected from the sale of specified beverage containers;
- (f) GST Collected – relates to tax credits collected on the revenue generated throughout the receivership period;
- (g) Receiver’s Repayments – amount repaid in respect of the Receiver’s Borrowings under the Receiver’s Certificate;
- (h) Inventory Purchases – relates to the costs incurred for liquor and other sales inventory for the operation of stores;
- (i) Operating Expenses – relates to the payments of ongoing operating costs;
- (j) Occupation Rent – comprises rent paid related to the Company’s head office and all occupied, leased premises from which stores are operating;
- (k) Cure Costs – reflect the costs paid by the Receiver pursuant to the Approval and Vesting Orders as granted by the Court as condition to closing the APA’s;
- (l) Payroll and Employee Related Obligations – costs relating to employee wages, government remittances, benefits and payroll service charges;

- (m) Insurance – costs incurred relating to insurance on operating stores, home office and the remaining equipment;
- (n) Bottle Deposit Paid – relates to deposits paid on the purchase of specified beverage containers;
- (o) GST Paid – relates to goods and services tax remittances;
- (p) Bank & Interest Charges – relates to banking fees and interest charged on the Receiver’s Borrowings; and
- (q) Selling Agents & Other Professional Fees – relates to fees paid to the Selling Agents and other professionals in respect of the Receivership Proceedings.

22. As at August 16, 2019, the Receiver held \$8,425,309 in cash on hand.

LIEN REVIEW

23. The following table summarizes liens that had been filed on various Solo Group liquor store leases (“Liens”). The Liens were on locations that the Receiver was attempting to sell within the Liquor Store APA’s (“Lien Locations”). In order to allow the unencumbered sale of these locations the Receiver included provisions within the Approval and Vesting Orders whereby the liens would be discharged and the proceeds from the sale would be held by the Receiver pending a full review of the validity and enforceability of the Liens.

Store Name	Municipal Address of Leased Premises	Registered Owner (Lessor)	Lienor	Builder's Lien Instrument No.	Lien Amount
Solo Liquor	#101, 11030 - 100 Street	Centre One Hundred Holdings Ltd.	Nolan Inc. c/o Mcleod Law LLP	192 098 293	\$ 50,333
GP Two	Grand Prairie, AB				
Solo Liquor	199 Street & Lessard Road	Hamptons Shopping Centre Ltd.	Nolan Inc. c/o Mcleod Law LLP	192 098 295	\$ 234,790
Hampton Terrace	Edmonton, AB				
Solo Liquor	818 & 822 Crowfoot Cres. NW	1240725 Alberta Ltd.	Nolan Inc. c/o Mcleod Law LLP	191 083 558	\$ 9,368
Crowfoot	Calgary, AB				
Solo Liquor	Unit 302, 320 West Creek Drive	Truman Development Corporation	Nolan Inc. c/o Mcleod Law LLP	191 083 559	\$ 105,471
Chestermere	Chestermere, AB				
					<u>\$ 399,962</u>

24. The Receiver is consulting with the Receiver's Counsel to review the validity of the Liens and any priority that these Liens may hold over the net proceeds generated from the sale of the Lien Locations and will report back to this Honourable Court in respect of this analysis. The Receiver is proposing to hold back the full value of the Liens pending further analysis.

WEPPA

25. The Receiver obtained a listing from the Company of all terminated employees within the six-month period ending on the filing date, May 1, 2019. All employees identified as eligible for a claim under WEPPA were sent a notice and an estimated claim amount.
26. Based on the notices sent to eligible employees, the summary of potential WEPPA claims is as per the table below:

Type of Claim	# of Claims	Estimated Claim Amount
Unpaid Vacation	89	\$ 10,748
Severance	164	287,231
Total	253	\$ 297,979

27. Under WEPPA, a super-priority charge over current assets is given in respect of claims for unpaid wages/vacation up to a maximum of \$2,000 per claim. Of the eligible claims for unpaid vacation, none are in excess of \$2,000. The Receiver has included the entire amount of \$10,748 for the unpaid vacation claims in its proposed holdback.
28. The Receiver is coordinating between former employees and Service Canada in order to administer the WEPPA claims.

PROPOSED HOLDBACK AND DISTRIBUTION

29. The Receiver is currently holding \$8,425,309 and is seeking approval to make total interim distributions to the secured creditors, in the amount \$7,614,599 after considering monies required to be held back. Further details in respect of the security review completed by the Receiver's Counsel and proposed interim distributions is provided in further detail below.
30. As outlined above, there are multiple unresolved lien and WEPPA claims pending. The Receiver intends to holdback funds sufficient to satisfy these claims, as well as holdback funds required to complete the administration of these Receivership Proceedings.
31. The Receiver's proposed holdbacks and interim distribution are summarized in the table below:

Schedule of Holdbacks and Proposed Interim Distribution	
\$ CAD	
Net Cash on Hand	\$ 8,425,309
Required Holdbacks	
G&A	150,000
Liens	399,962
Super-priority WEPPA Claims	10,748
Receiver Fees and Legal Counsel	250,000
Total Required Holdbacks	810,710
Funds Available for Distribution	7,614,599
Proposed Interim Distribution	
Beneficiary of ATB Security	\$ 7,614,599

DEBT ASSIGNMENT AGREEMENT AND SECURITY REVIEW

32. As described in the affidavit of Trina Holland sworn April 29, 2019 (“**Holland Affidavit**”), pursuant to the terms of three demand credit facilities (“**ATB Facilities**”) the Solo Group owed ATB Financial \$29,534,090 (“**ATB Senior Secured Debt**”) as at February 1, 2019 with interest accruing. The ATB Secured Debt owing under the ATB Facilities is secured by general security agreements dated April 1, 2015 and December 13, 2014 (collectively “**ATB Security Documents**”) which grant security in favour of ATB over all of the Solo Group’s present and after-acquired property. The Receiver’s Counsel completed a security review of the ATB Security under the ATB Facilities. A summary of the findings are as follows:
- (a) Each loan document constitutes a legal, valid and binding obligation of Solo Group enforceable against the Company in accordance with its terms;
 - (b) The ATB Security Documents create a valid security interest in the favour of ATB Financial in the personal property described therein; and
 - (c) The security interests created by the ATB Security Documents have been duly registered at the Alberta Personal Property Registry, and all necessary actions have been taken under the PPSA (Alberta) to preserve, protect or perfect such security interests.
33. Given the above, the Receiver is proposing to make interim distributions in respect of the ATB Secured Debt. However, as will be described below, ATB has assigned a portion of the ATB Secured Debt to Crown Capital and therefore distributions flowing from the ATB Secured Debt are to be shared between ATB and Crown Capital.

34. On May 27, 2019, ATB and Crown Capital entered into debt assignment agreement (“**Debt Assignment Agreement**”). The Debt Assignment Agreement assigned a portion (“**Assigned Debt**”) of the ATB Senior Secured Debt to Crown Capital. The portion of the ATB Secured Debt not assigned to Crown Capital is referred to as the “**Remaining ATB Debt**”.
35. In conjunction with the Debt Assignment Agreement, ATB and Crown Capital entered into a Priority, Intercreditor, Indemnity and Security Sharing Agreement (“**Intercreditor Agreement**”) dated May 27, 2019. The Intercreditor Agreement outlines how the proceeds from the sale of the assets encumbered by the ATB Security would be distributed to ATB and Crown Capital.
36. The Receiver’s Borrowings of \$1,600,000 have already been repaid in full by the Receiver. The Receiver is currently holding \$8,425,309. The Receiver is requesting that this Honourable Court approve an interim distribution of \$7,614,599 (“**Proposed Interim Distribution**”) to the beneficiaries of the valid and enforceable first ranking ATB Secured Debt. Pursuant to the terms of the Intercreditor Agreement, Crown Capital has first ranking claim to the Receiver’s Proposed Interim Distribution of \$7,614,599 and accordingly, the Receiver intends to pay the Proposed Interim Distribution to Crown Capital if approved by this Honourable Court.

NEXT STEPS

37. Should this Honourable Court approve the proposed interim distribution, the Receiver’s remaining steps would include:
 - (a) make the proposed Interim Distribution;
 - (b) review the validity of the Lien claims;
 - (c) finalize the administration of WEPPA claims;

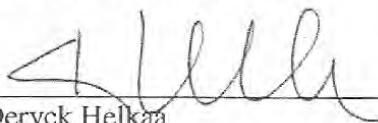
- (d) complete any remaining administrative tasks; and
- (e) propose a final distribution and seek to be discharged.

RECEIVER'S RECOMMENDATIONS


38. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approval of the Receiver's activities since the date of the First Report, including its receipts and disbursements; and
 - (b) approval of the proposed Interim Distribution of \$7,614,599.

All of which is respectfully submitted this 26th day August 2019.

FTI Consulting Canada Inc.,
in its capacity as Court-appointed Receiver and
Manager of the assets, property and
undertakings of Solo Liquor Stores Ltd. and
Solo Liquor Holdings Ltd.



Deryck Helkaa
Senior Managing Director



Dustin Olver
Managing Director