

REPORT OF TRUSTEE'S PRELIMINARY ADMINISTRATION
IN THE MATTER OF THE BANKRUPTCY OF
SOLO LIQUOR STORES LTD. & SOLO LIQUOR HOLDINGS LTD.

of the City of Calgary
in the Province of Alberta

July 9, 2019

BACKGROUND

Solo Liquor Stores Ltd. ("**SLS**") and Solo Liquor Holdings Ltd. ("**SLH**"), collectively Solo Group or the "**Company**", was incorporated in the Province of Alberta in or around December 21, 2004. The Solo Group was incorporated as a retail store selling wine, beer and spirits whose core assets were leasehold improvements, store inventories at their 94 leased locations (of which 43 were operating liquor stores and 51 were non-operating) and 11 owned vehicles (collectively, the "**Assets**"). The Company operated numerous liquor stores out of leased properties throughout the province of Alberta. The Company's registered office was in Calgary, Alberta and was placed into Receivership on May 1, 2019. At the date of the Receivership, the Solo Group had approximately 385 employees, working out of head office and at the leased locations throughout Alberta. All day to day operations, inventory, trade payables and employees are held within SLS. SLH has no assets or liabilities other than some of the store leases.

Due to significant overhead from the non-operated leases the Company's operations became unprofitable. The Company initiated a sales process in December 2018 (the "**Pre-Receivership Sales Process**") to sell some or all the Assets. The Solo Group engaged Eight Capital Corp. (the "**Selling Agent**") to market the Assets. The Company was not able to complete any sales and combined with losses from operations was not able to extend its credit agreement with ATB and was ultimately placed into Receivership.

A Receivership Order (the "**Receivership Order**") was sought and obtained from the Court of the Queen's Bench on May 1, 2019 which appointed FTI Consulting Canada Inc. as the Court appointed Receiver and Manager (the "**Receiver**") of the Assets of the Solo Group.

During the Pre-Receivership Sales Process, the Company was in advanced discussions with several parties and the Receiver determined a continuation of the Pre-Receivership Sales Process was the best course of action to realize on the Assets, collectively with the Pre-Receivership Sales Process, the "**Sales Process**". As of the date of this report, 13 sales have

been closed for a total of 45 locations. The Receivership proceedings have not yet been completed however, all the Assets will be realized on as part of the Receivership.

Crown Capital Fund IV, LP ("**Crown Capital**") also provided the Solo Group with a secured credit facility (the "**Crown Credit Facility**"). At the date of the Receivership the Solo Group was indebted to Crown Capital in the amount of \$17,329,087. The Crown Credit Facility is subordinate to the ATB Credit Facilities and together they are henceforth collectively referred to as the "**Secured Debt**". The total Secured Debt as the Receivership date was \$46,863,177.

The Receiver expected that it would at some point be required to investigate potential reviewable transactions involving the Company and would require a Bankruptcy Order in respect of the Company to assist with this task and help facilitate crystallization of claims and the streamlined administration of the Solo Group estate. Consequently, the Receiver obtained a Bankruptcy Order, which appointed FTI Consulting Canada Inc. as the Trustee in Bankruptcy of the Solo Group (the "**Trustee**").

On June 18, 2019 the Court of Queen's Bench of Alberta granted an order declaring SLS and SLH bankrupt and appointing FTI Consulting Canada Inc. as trustee.

CAUSES OF INSOLVENCY

The Trustee's preliminary review of the Company's affairs indicates the following factors contributed to its' insolvency:

- High fixed operating costs relating to non-operated stores significantly affected the Company's ability to maintain profitable operations and service their debt obligations; and
- The Company's inability to complete any sales outside of a formal insolvency proceeding to reduce its debt load and create additional operating capital for the Company.

APPOINTMENT OF A TRUSTEE IN BANKRUPTCY

The Trustee has performed the following duties as required under the BIA;

- Obtained control of the Company's available books and records from the Receiver;
- Obtained a copy of the legal opinion completed by the Receiver's independent legal counsel which reviewed the validity of the security held by ATB; and
- Attended to the various statutory notice requirements.

SECTION A - Summary of Assets

As indicated previously, the Receiver was appointed on May 1, 2019 and accordingly took possession and control of the Assets. As at the date of the Receivership, the Solo Group owned the following assets:

1. Leasehold improvements and signage at its leased locations;
2. 11 owned vehicles; and
3. Liquor inventory at its leased locations.

At the date of the Receivership, these assets had a book value of \$32,834,000, noting that the foregoing assets are recognized at their book value as stated in the financial statements of the Debtors as at December 31, 2017, apart from inventory, which is stated as per the results of a physical inventory count completed on or around February 8, 2019.

The Receivership proceedings have not yet been completed however, all the Assets will be realized on as part of the Receivership and the Receiver does not expect the recoveries to be sufficient to pay out the Secured Debt. As a result, the Trustee does not expect any assets to be transferred into the bankruptcy estates of the Solo Group.

SECTION B

1. Conservatory and protective measures

As the Assets are to be sold as part of the Receivership proceedings, no property has been transferred into the bankruptcy estates, therefore there is no property requiring conservatory or protective measures to be performed by the Trustee.

2. Carrying on business

As the Assets are still being held in the Receivership estates, there were no operations for the Trustee to carry on.

SECTION C: Legal proceedings

The Trustee is not aware of any on-going litigation where SLS or SLH are the plaintiff.

SECTION D: Provable claims

In regards to SLS, at the date of this report, the Trustee has received 7 proofs of claim from unsecured creditors totalling \$878,184.03.

In regards to SLH, at the date of this report, the Trustee has received 4 proofs of claim from unsecured creditors totalling \$738,773.98.

SECTION E: Secured creditors and trust claims

In regard to SLS, at the date of this report, the Trustee has a secured claim under section 136 of the Bankruptcy and Insolvency Act in the amount of \$792,425.

In regard to SLH, at the date of this report, the Trustee has a secured claim under section 136 of the Bankruptcy and Insolvency Act in the amount of \$792,425.

SECTION F: Anticipated realization and projected distribution

Based on the information currently available to the Trustee, the Trustee anticipates that there will be no distribution to unsecured creditors as the realizable value of the Assets will be insufficient to satisfy the claim relating to the Secured Debt.

SECTION G: Preferences and transfers at undervalues

At the date of this report, the Trustee has not identified any payments that would be considered preference payments under the *Bankruptcy and Insolvency Act*. However, the Trustee is aware of other insolvency proceedings relating to the principles of the Solo Group and related parties and notes that situations may arise in these other proceedings which may required the Trustee to further investigate the existence of preference payments in the twelve months prior to the date of bankruptcy.

SECTION H: Third Party Deposit & Guarantees

In order to fund the Solo Group's bankruptcy proceeding and the administrative matters of the estate, the Trustee fees and expenses were guaranteed by the Secured Debt holders ATB and Crown Capital.

SECTION I: Other Matters

As indicated previously, the Receiver requested its independent legal counsel to provide a legal opinion on the validity of the ATB Credit Facility agreements. The legal opinion confirmed the validity of the security held by ATB, subject to standard qualifications.

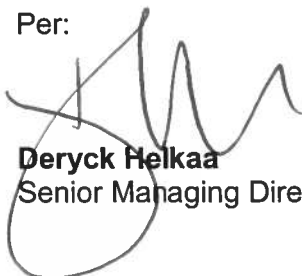
All of which is respectfully submitted this 9th day July 2019.

Yours truly,

FTI Consulting Canada Inc.

Solely in its capacity as the Trustee in Bankruptcy of
Solo Liquor Stores Ltd. and Solo Liquor Holdings Ltd.,
and not in its personal or corporate capacity

Per:



Deryck Helkaa
Senior Managing Director