

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

DOCUMENT **FIRST 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.**

**June 7, 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 assets, undertakings and properties (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 Jones (the “**Receivership Order**”). 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. 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**”).
4. The purpose of this report (“**First Report**” or this “**Report**”) is to provide this Honourable Court with:
  - (a) A summary of the activities of the Receiver since the Date of Appointment;
  - (b) A summary of receipts and disbursements from the Date of Appointment to May 31, 2019; and
  - (c) The Receiver’s summary and recommendation with respect to 11 proposed sales (the “**Proposed Sales**”), as are discussed and described in further detail below.

5. The Receiver is requesting the following relief from this Honourable Court:
  - (a) Approval of the activities of the Receiver since the Date of Appointment as reported herein;
  - (b) The granting of 11 orders (collectively, the “**Approval and Vesting Orders**”) approving the Proposed Sales and ordering the assignment of 46 leases included in the Proposed Sales to the various purchasers; and
  - (c) The granting of an order (the “**Bankruptcy Order**”) permitting the Receiver to assign the Company into bankruptcy.

#### **TERMS OF REFERENCE**

6. In preparing this First 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**”).
7. Except as described in this First 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 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 First Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.

8. Future oriented financial information reported or relied on in preparing this First Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
9. The Receiver has prepared this First Report in connection with the Receiver's Application that is to be heard on June 17, 2019. This First Report should not be relied on for other purposes.
10. Information and advice described in this First 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.
11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

## **BACKGROUND**

### **Business, Assets and Liabilities**

12. The Solo Group operates discount liquor stores across Alberta. All the liquor stores were operated out of locations leased from third party landlords. At the Date of Appointment, the Solo Group had 94 leases of which 43 were operating liquor stores and 51 were non-operating.
13. The 43 operating stores have continued to be operated by the Receiver since the Date of Appointment in the normal course with no material issues or changes to the operations.
14. The status of the non-operating stores is set out below:

- (a) 21 locations had been closed by the Solo Group prior to the Receivership Proceedings due to low or no profitability (all 21 were leased). These 21 stores had approximately \$915,000 of rental arrears owing on them at the Date of Appointment;
  - (b) 20 leased locations had unconditional leases that had been signed for future expansion, but no development or construction had commenced and accordingly were not operating; and
  - (c) 10 unconditional leases that had been signed for future expansion, had partially completed construction in process but had never been opened (all 10 were leased location). These 10 stores had approximately \$400,000 of rental arrears owing on them as at the Date of Appointment.
15. All of the day to day liquor operations, inventory, trade payables and employees are held within Solo Liquor. Solo Holdings has no assets or liabilities other than some of the store leases.
16. As outlined in the affidavit of Trina Holland sworn April 29, 2019 (“**Holland Affidavit**”), the Solo Group owed ATB Financial (“**ATB**”) \$29,534,090.37 (“**Senior Secured Debt**”), with contractual interest accruing thereafter, plus all legal and other costs and expenses incurred by ATB, pursuant to advances under three secured credit facilities (“**ATB Secured Facilities**”). The ATB Secured Facilities are secured by a general security agreement dated April 1, 2015 giving security over Solo Holdings present and after-acquired property and a general security agreement dated December 13, 2014 giving security over all of Solo Liquor’s present and after-acquired property.

17. Solo Group also has a secured credit agreement (“**Crown Credit Facility**”) dated February 24, 2017 with Crown Capital Partner Funding LP (formerly Crown Capital Fund IV, LP) (“**Crown Capital**”). The security granted under the Crown Credit Facility is subordinate to the ATB Secured Facilities. Crown is owed approximately \$15 million under the Crown Credit Facility.
18. Pursuant to the terms of a transfer and assignment of debt and security agreement (“**Debt Assignment Agreement**”) between ATB and Crown Capital dated May 27, 2019, ATB assigned a portion of the Senior Secured Debt (approximately \$13.6 million) to Crown Capital as well as the security granted under the ATB Secured Facilities for a purchase price of approximately \$13.6 million.

## **RECEIVER’S ACTIVITIES**

### **Custody and Control**

19. On the Date of Appointment, the Receiver attended the Company’s head office at 634, 6 - Ave S.W, Calgary, Alberta to meet with the Company’s principals, chief financial officer (“**CFO**”) and head office staff to advise the Company that the Receivership Order had been granted and the Receiver was therefore, entitled to take possession of the Company’s Property in accordance with the terms of the Receivership Order. Given the wide spread geographical nature of the Solo Group’s Business, the Receiver also provided a conference call line so that area managers could call into the meeting.
20. The Receiver indicated its intent to continue the Solo Group’s operations in the interim and to continue with a Sales Process (defined below) that had been initiated by the Company several months before the Date of Appointment. The goal being to sell all or a portion of the Business in order to maximize the return for all of the Company’s stakeholders.

21. As is customary in such distressed financial situations, FTI Consulting Canada Inc. was appointed financial advisor to ATB approximately 4 months prior to the date of the Date of Appointment. During this time, FTI worked with the Company's management and assessed cash flows needs, restructuring initiatives and monitored the Sales Process noted above. Unfortunately, due to the distressed nature of the Business (the numerous stores not being operated but incurring lease expenses) and the overall debt load, the sales could not be completed outside a formal insolvency process.
22. On the Date of Appointment, in accordance with the Receivership Order, the Receiver froze the Company's bank accounts.

### **Statutory Notices**

23. On May 8, 2019, the Receiver mailed the notice and statement of receiver in accordance with subsection 245(1) and 246(1) of the *Bankruptcy and Insolvency Act* to the Superintendent of Bankruptcy and to all known creditors of the Company.
24. The Receiver notified Canada Revenue Agency of the Receiver's appointment and established new remittance accounts for the goods and sales tax and employee payroll deduction obligations arising subsequent to the Date of Appointment.

### **Website and Receiver Contacts**

25. The Receiver established a website at <http://cfcanada.fticonsulting.com/sololiquor>, where the Receiver will post periodic updates on the progress of the Receivership Proceedings, along with copies of court orders, motion materials and reports filed in connection with these Receivership Proceedings. The Receiver posted its phone number, fax number and e-mail address, for creditors, employees, interested parties and other stakeholders to contact the Receiver.

## **Employees**

26. At the Date of Appointment, the Solo Group had approximately 385 employees. All employees were initially retained in order to carry on with normal course operations. Prior to the Date of Appointment, the CFO and the three principals were engaged through management consulting agreements. On May 7, 2019 the Receiver terminated the management consulting agreements with all three principals as their roles were redundant and no longer necessary. To date, 12 employees have been terminated as these employees were no longer needed to maintain operations.

## **Insurance**

27. The Receiver reviewed the status and adequacy of the Company's insurance coverage. The Receiver determined that the insurance was adequate and in good standing. The insurance premiums are paid monthly and the Receiver has carried on with the monthly premium payments.

## **Inventory**

28. In order to secure inventory, the Receiver ensured the security systems were maintained. Prior to the Receivership Order being granted, as part of its engagement for ATB, FTI Consulting Canada Inc. in its capacity as financial advisor to ATB, requested and monitored a third-party inventory count and then used purchasing and sales data to roll forward inventory amounts. As a further safeguard/tracking mechanism of inventory, the Receiver has continued with this inventory roll forward practice.



## **Unnecessary Contracts**

29. The Receiver reviewed the various contracts/agreements that the Company had at the Date of Appointment to determine if they were necessary. The Company had 3 vehicle leases for its principals and a cell phone contract that provided cell phones to individuals who were not necessary for operations or did not work for the Company. Accordingly, the Receiver terminated the 3 vehicle contracts and the cell phone contract to avoid unnecessary ongoing expenses. Subsequent to terminating the vehicle contracts, the 3 vehicles were returned to the lessors.

## **Sales Process**

30. The Solo Group had commenced a sales process (the “**Sales Process**”) in January 2019, approximately 3 months prior to the commencement of the Receivership Proceedings. The Receiver carried on with this Sales Process and as a result therefore, has entered into 11 separate purchase and sale agreements for the sale of 46 separate store locations. Further details with respect the Sales Process and the proposed sales are presented later in this Report.

## Lease Terminations

31. The Solo Group had 51 leases at the Date of Appointment for locations that were not operating. As described above, many of these leases were terminated by Solo Group due to low or no profitability prior to the Receivership Proceedings or had never been opened and had significant rental arrears owing on them. The Receiver did not occupy any of the subject leases as there was no inventory in the stores and no ongoing operations at the Date of Appointment. The Receiver monitored these leases closely as the Sales Process unfolded to determine if there was any interest from purchasers and any potential to generate proceeds for the benefit of the estate after factoring in rental arrears. When it became clear that there was no interest and/or no chance of a net recovery to the estate by selling the interest in a particular lease, the Receiver terminated the lease. To date the Receiver has terminated 35 of the non-operating leases.

## SUMMARY OF RECEIPTS AND DISBURSEMENTS

32. Receipts and Disbursements from the Date of Appointment to May 31, 2019 are summarized as follows:

<b>Schedule of Receipts and Disbursements</b>	
<b>As at May 31, 2019</b>	
<b>\$ CAD</b>	
<b>Receipts</b>	
Receiver's Borrowings	1,600,000
Revenue	6,358,203
Bottle Deposit Collected	203,216
GST Collected	331,997
<b>Total - Receipts</b>	<b>8,493,417</b>
<b>Disbursements</b>	
Inventory Purchases	5,676,544
Operating Expenses	70,754
Occupation Rent	610,357
Payroll - Employee Related Obligations	657,919
Insurance	14,783
Bottle Deposit Paid	185,157
GST Paid	310,476
Bank & Interest Charges	28,916
Selling Agents & Other Professional Fees	60,627
<b>Total - Disbursements</b>	<b>7,615,533</b>
<b>Net Cash on Hand from Operations</b>	<b>877,883</b>
Deposits Held in Trust for Proposed Sales	1,241,950
<b>Total Cash on Hand</b>	<b>2,119,833</b>

- (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) Revenue – relates to funds collected by the Receiver in respect of the revenue from inventory sales from the Company's operating Liquor Stores;

- (c) Bottle Deposit Collected – relates to deposits collected from the sale of specified beverage containers;
- (d) GST Collected – relates to tax credits collected on the revenue generated throughout the receivership period;
- (e) Inventory Purchases – relates to the costs incurred for liquor and other sales inventory for the operation of stores;
- (f) Operating Expense – relates to the payments of ongoing operating costs;
- (g) Occupation Rent – comprises rent paid related to the Company’s head office and all occupied, leased premises from which stores are operating;
- (h) Payroll and Employee Related Obligations – costs relating to employee wages, government remittances, benefits and payroll service charges;
- (i) Insurance – costs incurred relating to insurance on operating stores, home office and the remaining equipment;
- (j) Bottle Deposit Paid - relates to deposits paid for on the purchase of specified beverage containers;
- (k) GST Paid – relates to goods and services tax remittances;
- (l) Bank & Interest Charges – relates to banking fees and interest charged on the Receiver’s Borrowings;
- (m) Selling Agents & Other Professional Fees – relates to fees paid to the Selling Agents and other professionals in respect of the Receivership Proceedings;  
and

- (n) Deposits Held in Trust for Proposed Sales – relates to the deposit received for the CLRA APA (as defined below). Between May 31, 2019 and the date of this Report, the Receiver received 10 additional deposits for the proposed sales transactions totaling \$442,760 that are not reflected in the receipts and disbursements schedule above.
33. As at May 31, 2019, the Receiver held \$2,119,833 in cash on hand.

### **SALE PROCESS AND PROPOSED SALES**

34. Approximately 4.5 months prior to the Receivership Proceedings on December 17, 2018, Solo Group engaged Eight Capital Corp. (“**Selling Agent**”) as financial advisor to initiate the Sales Process to sell all or part of the Solo Group’s business/assets. As at the Date of Appointment, no formal sales had been completed by the Company; however, the Company was in advanced discussions with several potential purchasers.
35. Upon being appointed the Receiver, the Receiver reviewed the Selling Agent’s engagement letter to understand the terms of the assignment and discussed the ongoing Sales Process with the Selling Agent. In consultation with ATB and Crown Capital, the Receiver determined that the best course of action and chance of maximizing value to the stakeholders was to continue on with the engagement of the Selling Agent and ongoing Sales Process. The Receiver considered the following factors in respect of the Selling Agent when making this decision:
- (a) general industry knowledge and experience;
  - (b) familiarity with the Business (i.e. the Selling Agent had been previously engaged by the Solo Group and had an ongoing Sales Process and dialogue with potential purchasers); and
  - (c) fee structure.

36. A summary of the Sales Process is summarized as follows:
- (a) The Selling Agent was engaged on December 17, 2018;
  - (b) The Selling Agent prepared a teaser that was distributed to potential purchasers on and after January 26, 2019;
  - (c) The teaser was posted on the Receiver's Website on May 7, 2019;
  - (d) Throughout the Sales Process, 67 parties signed a confidentiality agreement ("CA");
  - (e) The Selling Agent prepared a confidential information memorandum (the "CIM") which was distributed to parties that signed a CA; and
  - (f) Targeted phone calls to industry contacts were made throughout the Sales Process. After the announcement of the Receivership Proceedings and posting the teaser on the Receiver's website the Selling Agent received approximately 50 inbound calls in respect of the opportunity.
37. The Selling Agent received a total of 25 non-binding offers (the "**Non-Binding Offers**"). There was significant overlap of stores included in the various offers (i.e. several offers included the same stores).
38. The Receiver, the Receiver's Counsel and the Selling Agent reviewed the Non-Binding Offers and specifically giving consideration to:
- (a) The proposed purchase prices and the combination of offers that would result in the highest cumulative proceeds;
  - (b) Stores being purchased;
  - (c) Statutory, regulatory or internal approvals required, if any;

- (d) Key dates including the proposed effective date and the closing date of the transaction;
  - (e) Closing risk including any remaining due diligence or financing conditions, if any; and
  - (f) Whether the bid was submitted with a deposit and terms upon which the deposit was provided.
39. In consultation with the Selling Agent, the Receiver concluded that the combination of the below 11 Proposed Sales resulted in the highest overall recovery to the estate. Accordingly, the Receiver negotiated binding purchase and sale agreements with each of the potential purchasers.

Purchaser Name	# of stores included	Purchase price		Total Estimated Value
		excluding inventory	Estimated Inventory value	
Canadian Liquor Retailers Alliance Limited Partnership	31	12,419,500	3,209,423	15,628,923
1586638 Alberta Ltd.	1	130,000	-	130,000
BSW Liquor Ltd.	2	375,000	434,097	809,097
The Liberty Group Holdings Inc.	4	875,000	510,954	1,385,954
Jiang Cui - Crowfoot	1	200,000	100,000	300,000
Jiang Cui - Fish Creek	1	130,000	100,000	230,000
NAP Liquor Ltd.	1	200,000	140,856	340,856
2190404 Alberta Inc.	1	150,100	113,933	264,033
2013341 Alberta Inc.	1	110,000	116,306	226,306
Cornerstone Co-operative	1	195,000	136,886	331,886
North Central Co-operative Association Limited	2	375,000	191,885	566,885
	46	15,159,600	5,054,341	20,213,941

## PROPOSED SALES

40. The Receiver is seeking approval from this Honourable Court to approve the Proposed Sales which represent 11 separate asset purchase agreements for the sale of 46 locations. A summary of the major terms of the Proposed Sales is as follows:

## Canadian Liquor Retailers Alliance Limited Partnership

41. The Receiver entered into an asset purchase and sale agreement with Canadian Liquor Retailers Alliance Limited Partnership (“**CLRA**”) on May 24, 2019 (“**CLRA APA**”). The CLRA APA is attached as Appendix A. The CLRA APA is the largest single sale and includes the following major terms:

- (a) The purchased assets include:
  - i. Assumed contracts which includes 31 store leases as outlined in Schedule 1.1(b) of the CLRA APA (“**CLRA Acquired Stores**”);
  - ii. Accounts receivables, cash floats, equipment, permits, prepaid deposits and inventory related to the CLRA Acquired Stores; and
  - iii. The Solo Groups intellectual property as defined in the CLRA APA which includes goodwill, trademarks/patents, the name “Solo Liquor”, domain names, copy rights, technical information, etc.;
- (b) Purchase Price – is \$12,419,500 plus purchase of inventory estimated to be approximately \$3.2 million;
- (c) The closing date is scheduled to be the day after all conditions precedent are satisfied which the Receiver expects to be within a few days after Court approval; if this Honourable Court grants the Approval and Vesting Order being sought;
- (d) The CLRA APA contemplates that the purchase price is adjusted for the net profit or loss (revenues less expenses) generated from the CLRA Acquired Stores between May 27, 2019 and the closing date (“**Interim Period**”). Effectively as long as the sale closes, CLRA will enjoy or be burdened with the net profit or loss that accrues from May 27, 2019 until the closing date;



- (e) Pursuant to the CLRA APA, the parties thereto, were to enter into a consulting services agreement, pursuant to which CLRA is granted access to the stores and may provide recommendations in respect of operations and inventory purchases during the Interim Period. Through their due diligence process CLRA became concerned about inventory levels and the type of inventory that Solo Group had been stocking in the stores. Since CLRA is purchasing a large number of operating stores, they did not want to lose customer goodwill from the time the CLRA APA was signed to the time it was closed. Accordingly, they wished to provide consulting services as to the amount and type of inventory that should be stocked in the shelves. CLRA was also willing to provide the funding to purchase this inventory given the Receiver's limited funding. Given CLRA's extensive experience and knowledge of the inventory required to maintain customer goodwill, the Receiver was comfortable with this consulting arrangement and inventory purchasing arrangement;
- (f) The CLRA APA is subject to the following major conditions precedent:
- i. this Honourable Court approving the CLRA APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. CLRA shall have entered into new leases on the CLRA Acquired Stores or the leases in respect of the CLRA Acquired Stores shall have been assigned to CLRA either by consent or through a sale Approval and Vesting Order; and
- (g) CLRA has paid a deposit of \$1,241,950 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

**1586638 Alberta Ltd.**

42. The Receiver entered into an asset purchase and sale agreement with 1586638 Alberta Ltd. (“**158 AB**”) on May 22, 2019 (“**158 AB APA**”). The 158 AB APA is attached as Appendix B. The 158 AB APA is for the sale of one closed store known as the North Haven store (“**North Haven Store**”) and includes the following major terms:

- (a) The purchased assets include:
  - i. One lease agreement dated April 6, 2016 between the Company and North Haven Plaza Ltd. (“**North Haven Store Lease**”);
  - ii. Tangible property located in the North Haven Store which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the North Haven Store;
- (b) Purchase Price – is \$130,000 plus purchase of inventory estimated to be nil for the North Haven location;
- (c) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (d) The 158 AB APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving the 158 AB APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the North Haven Store Lease shall have been assigned to 158 AB either by consent or through a sale Approval and Vesting Order; and

- (e) The purchaser has paid a deposit of \$13,000 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

**BSW Liquor Ltd.**

43. The Receiver entered into an asset purchase and sale agreement with BSW Liquor Ltd. (“**BSW**”) on May 31, 2019 (“**BSW APA**”). The BSW APA is attached as Appendix C. The BSW APA is for the sale of two stores and includes the following major terms:

- (a) The purchased assets include:
  - i. Two store leases;
    - a. Lease agreement dated May 4, 2011 between the Company and Kootney Holdings Ltd. (“**Salisbury Lease**”); and
    - b. Lease agreement dated May 16, 2015 between the Company and C&H Properties Inc. (“**Sherwood Park 1 Lease**”);
  - ii. Tangible property located in Salisbury Lease and Sherwood Park 1 Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Salisbury Lease and Sherwood Park 1 Lease premises;
- (b) Purchase Price – is \$375,000 plus purchase of inventory estimated to be approximately \$434,097;

- (c) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (d) The BSW APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving BSW APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Salisbury Lease and Sherwood Park 1 Lease shall have been assigned to BSW either by consent or through a sale Approval and Vesting Order; and
- (e) The purchaser has paid a deposit of \$75,000 (20%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

**The Liberty Group Holdings Inc.**

44. The Receiver entered into an asset purchase and sale agreement with The Liberty Group Holdings Inc. (“**Liberty Group**”) on May 28, 2019 (“**Liberty Group APA**”). The Liberty Group APA is attached as Appendix D. The Liberty Group APA is for the sale of four stores and includes the following major terms:

- (a) The purchased assets include:
  - i. Four store leases;
    - a. Lease agreement dated May 10, 2016 between the Company and Decker Properties Management Ltd. (“**Century Road Lease**”);

- b. Lease agreement dated December 19, 2014 between the Company and 1718789 Alberta Ltd. (“**Hawthorne Gate Lease**”);
- c. Lease agreement dated September 10, 2013 as amended August 10, 2015 between the Company and Brentwood Camrose Properties Inc. (“**Camrose Lease**”); and
- d. Lease agreement dated April 19, 2016 between the Company and Town Center Properties Inc. (“**Wetaskiwin**”),

(the Century Road Lease, the Hawthorne Gate Lease, the Camrose Lease and Wetaskiwin, collectively, the “**Liberty Group Acquired Stores**”);

- ii. Tangible property located in Liberty Group Acquired Stores which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Liberty Group Acquired Stores;
- (b) Purchase Price – is \$875,000 plus purchase of inventory estimated to be approximately \$510,954;
  - (c) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
  - (d) The Liberty Group APA is subject to the following major conditions precedent:
    - i. this Honourable Court approving Liberty Group APA and granting an Approval and Vesting Order in respect of the sale; and

- ii. the Liberty Group Acquired Stores leases shall have been assigned to Liberty Group either by consent or through a sale Approval and Vesting Order; and
- (e) The purchaser has paid a deposit of \$218,750 (25%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

### **Jiang Cui - Crowfoot**

45. The Receiver entered into an asset purchase and sale agreement with Jiang Cui (“Cui”) on May 22, 2019 (“**Crowfoot APA**”). The Cui Crowfoot APA is attached as Appendix E. The Cui Crowfoot APA is for the sale of one store and includes the following major terms:

- (f) The purchased assets include:
  - i. One lease agreement dated June 5, 2014 between the Company and 1240725 Alberta Ltd. (“**Crowfoot Lease**”);
  - ii. Tangible property located in the Crowfoot Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Crowfoot Lease premises;
- (g) Purchase Price – is \$200,000 plus inventory estimated at \$100,000;
- (h) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (i) The Crowfoot APA is subject to the following major conditions precedent:

- i. this Honourable Court approving Crowfoot APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Crowfoot Lease shall have been assigned to Cui either by consent or through a sale Approval and Vesting Order; and
- (j) The purchaser has paid a deposit of \$20,000 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

### **Jiang Cui -Fish Creek**

46. The Receiver entered into an asset purchase and sale agreement with Jiang Cui (“**Cui**”) on May 22, 2019 (“**Fish Creek APA**”). The Cui Fish Creek APA is attached as Appendix F. The Fish Creek APA is for the sale of one store and includes the following major terms:

- (k) The purchased assets include:
- i. One lease agreement dated May 31, 2015 between the Company and Glenmac Corporation Ltd. (“**Fish Creek Lease**”);
  - ii. Tangible property located in the Fish Creek Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Fish Creek Lease premises;
- (l) Purchase Price – is \$130,000 plus inventory estimated at approximately \$100,000;

- (m) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (n) The Fish Creek APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving Fish Creek APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Fish Creek Lease shall have been assigned to Cui either by consent or through a sale Approval and Vesting Order; and
- (o) The purchaser has paid a deposit of \$13,000 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

**NAP Liquor Ltd.**

47. The Receiver entered into an asset purchase and sale agreement with NAP Liquor Ltd. (“**NAP Liquor**”) on May 31, 2019 (“**NAP Liquor APA**”). The NAP Liquor APA is attached as Appendix G. The NAP Liquor APA is for the sale of one store and includes the following major terms:

- (p) The purchased assets include:
  - i. One lease agreement dated November 20, 2015 between the Company and K.A.R. Holdings Ltd. (“**Cold Lake Lease**”);
  - ii. Tangible property located in the Cold Lake Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Cold Lake Lease premises;



- (q) Purchase Price – is \$200,000 plus inventory estimated at approximately \$140,856;
- (r) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (s) The NAP Liquor APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving NAP Liquor APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Cold Lake Lease shall have been assigned to NAP Liquor either by consent or through a sale Approval and Vesting Order; and
- (t) The purchaser has paid a deposit of \$20,000 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

**2190404 Alberta Inc.**

48. The Receiver entered into an asset purchase and sale agreement with 2190404 Alberta Inc. (“**219 AB Inc.**”) on May 29, 2019 (“**Edgemont APA**”). The Edgemont APA is attached as Appendix H. The Edgemont APA is for the sale of one store and includes the following major terms:

- (u) The purchased assets include:
  - i. One lease agreement dated January 4, 2018 between the Company and Hamptons Shopping Centre Ltd. (“**Edgemont Lease**”);

- ii. Tangible property located in the Edgemont Lease premises which includes shelving, equipment and fixtures related to store operations; and
- iii. Inventory located in the Edgemont Lease premises;
- (v) Purchase Price – is \$150,100 plus inventory estimated at approximately \$113,933;
- (w) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (x) The Edgemont APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving Edgemont APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Edgemont Lease shall have been assigned to 219 AB Inc. either by consent or through a sale Approval and Vesting Order; and
- (y) The purchaser has paid a deposit of \$15,010 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

**2013341 Alberta Inc.**

49. The Receiver entered into an asset purchase and sale agreement with 2013341 Alberta Inc. (“**201 AB Inc.**”) on June 3, 2019 (“**Chestermere APA**”). The Chestermere APA is attached as Appendix I. The Chestermere APA is for the sale of one store and includes the following major terms:

- (z) The purchased assets include:

- i. One lease agreement dated October 2, 2017 between the Company and Truman Development Corporation. (“**Chestermere Lease**”);
  - ii. Tangible property located in the Chestermere Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Chestermere Lease premises;
- (aa) Purchase Price – is \$110,000 plus inventory estimated at approximately \$116,306;
- (bb) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (cc) The Chestermere APA is subject to the following major conditions precedent:
- i. this Honourable Court approving Chestermere APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Chestermere Lease shall have been assigned to 201 AB Inc. either by consent or through a sale Approval and Vesting Order; and
- (dd) The purchaser has paid a deposit of \$11,000 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

## Cornerstone Co-operative

50. The Receiver entered into an asset purchase and sale agreement with Cornerstone Co-operative (“**Cornerstone Co-op**”) on May 31, 2019 (“**Vermillion APA**”). The Vermillion APA is attached as Appendix J. The Vermillion APA is for the sale of one store and includes the following major terms:

- (ee) The purchased assets include:
  - i. One lease agreement dated April 14, 2015 between the Company and Developments 2 Inc. (“**Vermillion Lease**”);
  - ii. Tangible property located in the Vermillion Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the Vermillion Lease premises;
- (ff) Purchase Price – is \$195,000 plus inventory estimated at approximately \$136,886;
- (gg) The closing date is scheduled for the day after Court approval is granted or a later date a reasonably agreed to by both parties;
- (hh) The Vermillion APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving Vermillion APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the Vermillion Lease shall have been assigned to Cornerstone Co-op either by consent or through a sale Approval and Vesting Order; and

- (ii) The purchaser has paid a deposit of \$19,500 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

### **North Central Co-operatives Association Limited**

51. The Receiver entered into an asset purchase and sale agreement with North Central Co-operatives Association Limited (“**North Central Co-op**”) on May 31, 2019 (“**North Central APA**”). The North Central APA is attached as Appendix K. The North Central APA is for the sale of two stores and includes the following major terms:

- (f) The purchased assets include:
  - i. Two store leases;
    - a. Lease agreement dated April 5, 2013 between the Company and 1333627 Alberta Ltd. (“**St. Albert Lease**”); and
    - b. Lease agreement dated January 31, 2018 between the Company and Alldrit Land Corporation LP. (“**Granville Lease**”);
  - ii. Tangible property located in St. Albert Lease and Granville Lease premises which includes shelving, equipment and fixtures related to store operations; and
  - iii. Inventory located in the St. Albert Lease and Granville Lease premises;
- (g) Purchase Price – is \$375,000 plus purchase of inventory estimated to be \$191,885;

- (h) The closing date is scheduled for the day after Court approval is granted;
- (i) The North Central APA is subject to the following major conditions precedent:
  - i. this Honourable Court approving North Central APA and granting an Approval and Vesting Order in respect of the sale; and
  - ii. the St. Albert Lease and Granville Lease shall have been assigned to North Central Co-op either by consent or through a sale Approval and Vesting Order; and
- (j) The purchaser has paid a deposit of \$37,500 (10%) of the purchase price, which is refundable only if Court approval cannot be obtained and/or the conditions precedent in favour of the purchaser are not satisfied.

#### **THE RECEIVER'S ANALYSIS OF THE PROPOSED SALES**

52. The Receiver has concluded that the Proposed Sales represent the best value that could reasonably be obtained for the stores and assets being sold in the present circumstances based on following:
- (a) The Selling Agent has significant experience in this industry. The advertising methods and timelines of the Sales Process were appropriate and consistent with prior receivership sales of this nature. It is the Receiver's view that the stores being sold in the Proposed Sales have been adequately exposed to the market through the Sales Process completed by the Selling Agent;

- (b) The Sales Process created competing interest in the assets and operations of the Company as supported by the number of bids received. The combination of stores included in each of the Proposed Sales was carefully selected in order to maximize overall aggregate purchase price for the stores and assets being sold as well as reduce closing risk;
- (c) The outstanding secured debt owed to ATB and Crown Capital is significantly more than the value for the Business and assets as demonstrated by the results of the Sales Process. Accordingly, Crown Capital and ATB are the fulcrum creditors. Both ATB and Crown Capital are supportive of the Proposed Sales;
- (d) The Receiver understands that it is the purchasers' intention to hire the majority of the current workforce at the operating store locations; and

- (e) The Proposed Sales all contemplate that rental arrears owed to landlords with stores included in the Proposed Sales will be paid prior to the assignment of the leases. This is a benefit to landlords as they will have their rental arrears caught up, and in addition will have an immediate tenant going forward. The assignment of the leases included in the Proposed Sales is critical to the Receiver's ability to maximize value to the stakeholders. All of the Proposed Sales are conditional on the assignment of leases and accordingly the Receiver is seeking sale Approval and Vesting Orders that request that the Court order the assignment of leases to the purchasers. Further details on the rental arrears and assignment of leases is provided in the following section. Without the ability to assign leases to purchasers, the Receiver would have no ability to sell the stores as a going concern and would therefore, be effectively liquidating inventory. The going concern value of the Proposed Sales is estimated to be approximately \$20.2 million, allocated as \$15.2 million for going concern value and \$5.1 million for inventory]. If the Receiver was simply liquidating inventory, the estate would lose the \$15.2 million of going concern value generated through the Proposed Sales. The going concern value represents 75% of the total recoveries.

## **RENTAL ARREARS**

53. According to the Solo Group books and records the rental arrears owing on the stores included in the Proposed Sales is \$229,222. All the Proposed Sales contemplate that the rental arrears ("**Cure Costs**") be paid prior to the assignment of the leases included in the Proposed Sales.



54. The Receiver has provided a list of Cure Costs by lease generated from the Solo Group's books and records at Appendix L. The Receiver is proposing to send this listing to each of the landlords on June 10, 2019 and requesting that they review the list and advise the Receiver if their records differ from the amounts identified in Appendix M prior to the June 17, 2019 Court application to ensure the Company's books and records and Appendix L reflect complete and accurate information in regard to Cure Costs.

### **ASSIGNMENT OF LEASES**

55. As previously noted, the Proposed Sales contemplate the assignment of 46 leases ("**Assigned Leases**") to the proposed purchasers. The Assigned Leases represent a significant asset of the estate. The Receiver is selling the liquor retail businesses that operate out of these stores. All of the Proposed Sales require as a condition that the existing leases be assigned to the purchasers. Accordingly, the Receiver is requesting an Approval and Vesting Order for each of the Proposed Sales that orders the assignment of the existing leases from the Solo Group to the purchasers once Cure Costs have been paid in full.
56. The Receiver notes the following in respect of its request for the Approval and Vesting Order, including the provision related to the assignment of the leases:
- (a) Paragraph 3(l) of the Receivership Order provides the Receiver the authority to assign the Property. Leases/contracts form part of the definition of Property within the Receivership Order as it is defined as all of the Company's current and future assets, undertakings and properties of every nature and kind.
  - (b) Paragraph 3(m) empowers the Receiver to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property.

- (c) The Receiver is of the view that the landlords are not being prejudiced and are in benefiting from the completion the Proposed Sales for the following reasons:
- i. Financial Defaults will be cured - Any rental arrears owing are considered Cure Costs in the Proposed Sales and must be paid up in full prior to closing the transaction and assigning the leases. Therefore, there will be no monetary defaults under the lease agreements prior to the leases being assigned; and
  - ii. Purchasers performance of the obligations under the respective leases, based on the Receiver's review, it has no reason to believe that the purchasers of the Proposed Sales will be unable to perform the obligations under the leases. The purchasers range from large established liquor retailers (CLRA, Cornerstone Co-op, North Central Co-op) to smaller startup retailers. However, all purchasers have paid substantial deposits and will be required to fund the full purchaser price which will fund any Cure Costs prior to being assigned. All of the purchasers have a stronger credit and ability to perform the obligations under the respective leases than the Solo Group, which is insolvent and has been insolvent for an extended period of time.
  - iii. It is appropriate to assign the rights and obligation to the purchasers of the Proposed Sales for the following reasons:
    - a. All purchasers intend to take on the leases and continue to operate the liquor store business; therefore, there is no change in the use of the space;
    - b. The Receiver has no reason to believe that the purchasers will not be able to meet the obligations under the lease;

- c. Landlord's will not be prejudiced as rental arrears will be paid prior to assigning leases and the landlords will have the same rights and remedies against the new tenant as they had against Solo Group prior to the Receivership Proceedings;
- d. Based on the Receiver's review of the 46 Assigned Leases it notes the following with respect to assignment/transfer provisions therein:
  - i. 40 include assignment/transfer provisions that state generally, that the landlord cannot unreasonably withhold consent to assign or transfer the leases;
  - ii. 1 is silent on assignment/transfers provisions;
  - iii. 4 state that landlord consent is required but there is no mention of reasonableness; and
  - iv. 1 that the landlord may withhold consent unreasonably at their unfettered discretion.
- e. All landlords have been served with the materials for this application; and
- f. Allowing the Receiver to assign the leases provides a significant benefit to the maximization of recoveries for the estate. The creditors of the estate would be severely financially prejudiced if the Receiver is unable to assign the leases.

- (d) Based on the above, the Receiver respectfully recommends that this Honourable Court issue the Approval and Vesting Orders being sought for each of the Proposed Sales.

## **BANKRUPTCY OF COMPANY**

- 57. The Receiver expects that it will be at some point required to investigate potential reviewable transactions involving the Company, and will require a Bankruptcy Order in respect of the Company to assist with this task and help facilitate the crystallization of claims and the streamlined administration of the Solo Group estate. For these reasons, the Receiver recommends that the Bankruptcy Order be granted which will permit the assignment of the Company into bankruptcy.
- 58. The Receiver believes it is appropriate that the Bankruptcy Order be granted in the present circumstances, and that the Receiver is permitted to assign the Company into bankruptcy for the following reasons:
  - (a) paragraph 3(h) of the Receivership Order specifically empowers and authorizes the Receiver to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name of Company, for any purpose pursuant to the Receivership Order;
  - (b) paragraph 28 of the Receivership Order provides that nothing in the Receivership Order shall prevent the Receiver from acting as the trustee in bankruptcy of the Company;
  - (c) Solo Liquor and Solo Holdings are currently in receivership and are considered insolvent persons within the meaning of the Bankruptcy and Insolvency Act, and have failed to meet their respective obligations generally as they became due, in that they have failed to meet their obligations to ATB and others, such obligations which exceed \$1,000;

- (d) Solo Liquor and Solo Holdings are currently indebted to their respective creditors for an aggregate total of \$49.7 million, comprising of both secured and unsecured creditors;
  - (e) assigning Solo Liquor and Solo Holdings into bankruptcy will allow for an efficient and orderly wind-down of both estates;
  - (f) a bankruptcy of Solo Liquor and Solo Holdings will allow for the aligning of priority claims and the crystalizing of various creditor claims; and
  - (g) ATB supports the Receiver's intention to assign both Solo Liquor and Solo Holdings into bankruptcy.
59. FTI is the Court-appointed receiver and manager of Solo Liquor and Solo Holdings and has been administering the receivership of both estates. In this role, FTI has been in consultation with various of Solo Liquor's and Solo Holdings' creditors. FTI is knowledgeable with respect to the remaining assets, properties, undertakings and specific issues facing Solo Liquor and Solo Holdings and is well positioned to effectively assume the role as the licensed insolvency trustee for these two estates. FTI is not aware of any conflict to act as licensed insolvency trustee for Solo Liquor and Solo Holdings and is willing to act in such capacity.

## **NEXT STEPS**

60. The following table presents a summary reconciliation of the store leases that the Solo Group had at the Date of Appointment to the leases that will remain ("**Remaining Leases**") if the Proposed Sales are approved.

<b>Lease Reconciliation</b>				
	<b>At Date of Appointment</b>	<b>Terminated by Receiver</b>	<b>Proposed Sales</b>	<b>Remaining</b>
Operating	43		(40)	3
Non-operating	51	(35)	(6)	10
<b>Total</b>	<b>94</b>	<b>(35)</b>	<b>(46)</b>	<b>13</b>

61. Should this Honourable Court approve Proposed Sales and related Approval and Vesting Orders, the Receiver's remaining steps would include:

- (a) Completing and closing the Proposed Sales;
- (b) Developing a strategy to deal with the Remaining Leases. Given the extensive marketing efforts that have been completed to date the Receiver is of the view that the market has been fully canvassed and it is unlikely that it will be able to complete a going concern sale for the Remaining Leases. Accordingly, the strategy will likely include terminating the non-operating leases and liquidating the inventory in the operating locations and then terminating those leases.
- (c) Complete a security review, report to this Honourable Court on this review and recommend distributions from the estate's recoveries; and
- (d) Complete the remaining administrative tasks.

## **RECEIVER'S RECOMMENDATIONS**

62. The Receiver respectfully requests that this Honourable Court grant the following relief:

- (a) Approving the Receiver's activities to date;

- (b) Approving the Proposed Sales and granting the related sale Approval and Vesting Orders; and
- (c) Approving the Bankruptcy Order, which will permit the Receiver to assign the Company into bankruptcy.


All of which is respectfully submitted this 7<sup>th</sup> day June 2019.

FTI Consulting Canada Inc.,  
in its capacity as receiver of Solo Liquor Stores  
Ltd. and Solo Liquor Holdings Ltd.



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Deryck Helkaa  
Senior Managing Director



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Dustin Olver  
Managing Director