

*ONTARIO*  
SUPERIOR COURT OF JUSTICE  
BANKRUPTCY AND INSOLVENCY

**BETWEEN:**

**ROYAL BANK OF CANADA**

Applicant

- and -

**LIQUIDATION KING INC.**

Respondent

**IN THE MATTER OF AN APPLICATION UNDER  
SUBSECTION 243(1) OF THE BANKRUPTCY AND  
INSOLVENCY ACT, R.S.C. 1985 c. B-3 AND  
SECTION 101 OF THE COURTS OF JUSTICE ACT, R.S.O. 1990, c. 43**

**FIRST REPORT TO THE COURT  
SUBMITTED BY BDO CANADA LIMITED,  
IN ITS CAPACITY AS PROPOSED RECEIVER OF**

**LIQUIDATION KING INC.**

**December 12, 2016**

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Appendix A - Liquidation Services Agreement

## ***1.0 INTRODUCTION AND PURPOSE OF REPORT***

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### **1.1 Introduction**

- 1.1.1** This report is submitted by BDO Canada Limited (“BDO”) in its capacity as proposed receiver of Liquidation King Inc. (“LKI” or the “**Company**”). In preparing this report BDO has reviewed the affidavit of Jim Sheehy dated December 7, 2016 (the “**Affidavit**”) in support of Royal Bank of Canada’s (the “**Bank**” or the “**Applicant**”) application for the appointment of a receiver (the “**Receiver**”) over the assets and undertakings of LKI.
- 1.1.2** LKI operates as a retail liquidator with six (6) retail stores in Southern Ontario located in Cambridge, St. Catharines, Arthur, Niagara Falls, Port Colborne and Paris. LKI’s head office is situated next to its Cambridge store location being a leased premises municipally known as 1001 Langs Drive – Unit 1, Cambridge, Ontario.
- 1.1.3** As of November 25, 2016, LKI was indebted to the Bank in the amount of \$952,546.39 plus accruing interests and the Bank’s costs of enforcement. LKI’s credit facilities and outstanding loan balances as at November 25, 2016 include: a revolving demand facility (the “**Revolver**”) with a credit limit of \$600,000 and a drawn balance of \$600,000 plus interest of 2,160.74; a Visa business facility with a credit limit of \$100,000 with an outstanding balance of \$98,937.40; a lease agreement dated June 23, 2015 (the “**Lease Agreement**”) for specific equipment for which there is \$150,810.79 outstanding; and a business vehicle loan (the “**Vehicle Loan Contract**”) with an outstanding balance of \$100,583.81 (collectively the “**Loans**”).
- 1.1.4** As security for the Loans, LKI provided the Bank with a General Security Agreement dated March 16, 2015 (the “**GSA**”), the Lease Agreement, the Vehicle Loan Contract, a Guarantee and Postponement of Claim from Mr. Richard King (“**Mr. King**” or the “**Guarantor**”) in the amount of \$450,000 and a Postponement and Assignment of Claim from Mr. King.
- 1.1.5** As outlined in the Affidavit, as a result of unusual activity in the Company’s operating business account and the risk to the Bank of LKI writing cheques on their business account that would have created an excess when funds were not available to cover same, the Bank placed LKI’s operating account on deposit only on November 23, 2016.
- 1.1.6** On November 25, 2016, the Bank issued to LKI demands for payment of its outstanding indebtedness together with a notice of intention to enforce security pursuant to section 244(1) of the *Bankruptcy and Insolvency Act* (“**BIA**”).
- 1.1.7** The Bank has filed its application with the Ontario Superior Court of Justice in Bankruptcy and Insolvency for an Order (the “**Appointment Order**”) appointing BDO as Receiver of the assets and undertakings of LKI which matter is to be heard December 13, 2016.

### **1.2 Purpose of this Report**

- 1.2.1** The purpose of this first report to the Court (the “**First Report**”) is to:
- Seek an order authorizing the Receiver to proceed immediately with an en bloc sale of the LKI inventory and store fixtures either directly from the existing locations or from a consolidated location as deemed appropriate by the Receiver; or authorizing the Receiver to execute the Liquidation Services Agreement, as defined herein, in the event that the Receiver, in its discretion, determines that the execution of same is appropriate.

## 2.0 ASSET SALE PROCESS

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### 2.1 Asset Sale Process

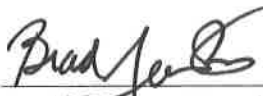
- 2.1 Pursuant to the proposed Appointment Order, the Receiver is authorized to continue or discontinue the Company's operations and to market any or all of the assets and operations of the Company, including advertising and soliciting offers and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate.
- 2.1.2 LKI advertises that its stores offer deeply discounted merchandise at 30-90% off regular retail prices on brand name clothing, shoes, housewares, home décor, electronics, furniture, bed and bath linens. LKI's merchandise is sourced from liquidations, overstocks, out of season goods, customer returns, and closeouts from retailers, distributors and manufacturers.
- 2.1.3 BDO attended three LKI retail stores to assess the status of operations and inventory composition and toured the premises with a retail liquidator, Bloch and Company Inc. ("Bloch"). Bloch has over 40 years of extensive experience in the appraisal and liquidation of assets subject to receiverships, bankruptcies and inventory close-outs in retail and other industries.
- 2.1.4 The Receiver observed that the stores were each about 50% vacant and that, besides the furniture at each location, most merchandise was of poor quality and low value. Each store also had food items for sale. It appears as though the Company had been depleting its stock over the last several weeks without replenishing the inventory. Each store had signs stating that all sales were cash only with steep discounts on the remaining, non-furniture merchandise.
- 2.1.5 It is the Receiver's opinion, with the support of Bloch, that the most cost effective realization of the inventory would be an en bloc sale to another retail store or liquidator that could incorporate the remaining inventory into its own inventory. Timing for such a sale is critical as a purchaser would likely want to incorporate the remaining inventory into its pre-Christmas or Boxing Day sales and to keep the costs of the estate down considering the holding costs (rent, utilities, insurance, etc.) of maintaining six store locations. Consequently, the Receiver is requesting an Order allowing for a brief targeted sales process that will request en bloc offers for the inventory and assets of one or more stores from each potential purchaser. If acceptable offers cannot be obtained for all of the store locations then the Receiver is requesting the Order allow the Receiver to engage Bloch to carry out a liquidation of the LKI inventory of the remaining locations pursuant to the form of liquidation services agreement (the "**Liquidation Services Agreement**") attached hereto as **Appendix A**.

3.1 We respectfully submit this First Report to this Honourable Court in support of the Proposed Receiver's motion to:

- Seek an order authorizing the Receiver to proceed immediately with an en bloc sale of the LKI inventory and store fixtures either directly from the existing locations or from a consolidated location as deemed appropriate by the Receiver; or authorizing the Receiver to execute the Liquidation Services Agreement, as defined herein, in the event that the Receiver, in its discretion, determines that the execution of same is appropriate.

All of which is respectfully submitted this 12<sup>th</sup> day of December, 2016.

**BDO CANADA LIMITED**  
**PROPOSED COURT-APPOINTED RECEIVER OF**  
**LIQUIDATION KING INC.**  
**and without personal or corporate liability**

  
Per: \_\_\_\_\_  
Brad Newton CPA, CIRP, CBV, LIT  
*Vice President*