

Estate 35-123181
Court 35-123181

In the Matter of Bankruptcy of
2031581 Ontario Ltd.
O/A Furniture Direct
of the city of Cambridge, In the province of Ontario

Report on the Official Receiver section 161 Examination

History

The corporation filed an assignment on April 27th, 2007 with BDO Dunwoody Limited. The individual examined was Ella Marie West who was an officer of the corporation, and 100% shareholder. The corporation was a furniture store, incorporated in September 2001 to sell furniture to customers at affordable prices. It was stated to the examiner that this company was showing a profit and was expected to continue to do so in future years. The sister company was experiencing some slow periods, and she stated that a restructuring plan was in process to dissolve it and focus sales and attention into this corporation. In February 2006, the media presented a segment depicting the corporation as not being able to provide furniture to customers who paid deposits, and Canada Revenue Agency got involved. It was when CRA seized the company's bank accounts and payroll could not be met that the decision was made to file a bankruptcy.

Reviewable Transactions, Preferential Payments and Settlements

Once the corporation's bank accounts were seized, it was known that they could no longer operate. The director immediately had the employees stop work, along with the delivery drivers whom had furniture in transit. This was to prevent additional wages from incurring, and no future business from occurring. It was stated that the corporation did not give any security within 3 months of the bankruptcy, sell, dispose or remove any property, or be any party to any settlement within 5 years prior to the bankruptcy. It was stated that Furniture Direct would often assist Home Fashion Market with an "inter-company" loan if additional money was required. All sales prior to the bankruptcy were at normal mark up. Stated by Ella that the bankruptcy was not expected.

Customer Deposits

It was stated that customers had the option of how they wanted to make a deposit for an order of furniture. The requirement was at least 33%, and could be paid by cash, credit card, or through financing with HSBC. Customers had the option to put more down if they choose to. This amount of deposit was consistent with the industry standard and has not increased in recent years.

It was questioned as to company policy with processing financing applications for HSBC, and the response was given that HSBC brought in point of sale equipment to process applications immediately. There were many plans for customers to choose from for financing. When questioned on why applications were submitted to HSBC prior to customers getting their furniture, and the answer given was that this was how HSBC set it up, financing was immediate. It was questioned as to whether there was any cash on hand from deposits made, and the response was that cash was in the seized bank accounts by CRA.

A handwritten signature in black ink, appearing to read 'Kyla Nauman', written over a horizontal line.

Kyla Nauman
Official Receiver

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FORM 28

Questions To Be Put to an Officer of the Bankrupt
Corporation, or a designated person, by the Official Receiver
(Sections 159 and 161 of the Act)

Instructions to Official Receiver

The following questions, or questions to a like effect, are to be put to the person examined under section 159 by the official receiver. The questions should be expanded or supplemented by the official receiver in an endeavour to extract from the examination the maximum of essential information and to determine as nearly as possible the true cause of the bankruptcy, the disposition of the property and the conduct of the bankrupt corporation. The books, statements, etc., of the bankrupt corporation should be available to the official receiver for reference or for the purpose of a more detailed examination of any phase of the corporation's business or conduct which the official receiver may deem warranted.

1. Are you an officer of the corporation referred to in these proceedings?

100% SHAREHOLDER, EMPLOYEE, NOT A DIRECTOR / OFFICER

2. Have you been made aware of your duties pursuant to sections 158 and 159 of the Act?

YES

3. What is your full name and what position do you hold in the corporation?

ELLA MARIE WEST

4. What is the full name of the corporation and what is the address of its head office?

2031581 ONTARIO LTD O/A FURNITURE DIRECT
255 HOLLINAY INN DRIVE, CAMBRIDGE, ON

5. When and under what Act of Parliament or of a province was it incorporated?

2001 ~~1997~~, ONTARIO.

EW
Official Receiver's Initials

[Signature]
Individual Examined Initials

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6. What is the authorized capital of the corporation?

NOTHING.

7. What amount of the capital has been subscribed and what amount of subscribed capital has been paid in full?

NOTHING - N/A.

8. What amount of the capital was paid in cash and what was the consideration for any other issue of the share capital?

NOTHING - N/A.

9. Did the corporation have a share register containing particulars of the allotment, issue and transfer of all shares?

MINUTE BOOK AT LAWYERS OFFICE
↳ SHORT + HANBRIGE IN WATERLOO

10. Does it disclose the amount paid, whether by cash or otherwise, on each share of the corporation?

NO AMOUNT PAID FOR SHARES

11. What is the total amount, if any, unpaid on the shares of the corporation and by whom is that amount owing?

NO AMOUNT OWING TO MYSELF AS 100%
SHAREHOLDER

KN.
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12. What are the names of the principal shareholders?

ELLA MARIE WEST

13. What are the names of the directors and officers of the corporation?

STAN WEST - DIRECTOR
ELLA WEST - TREASURER

14. Has the corporation any wholly-owned subsidiary corporations? If so, give particulars.

NO.

15. Has the bankrupt corporation or any of its subsidiaries ever been in bankruptcy before or made a proposal or arrangement with the creditors?

NO.

16. When did the corporation commence business?

~~SEPTEMBER 1999~~ SEPTEMBER 2001

17. What was the nature of its business?

RETAIL FURNITURE

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18. Was a proper set of books kept, and are they up to date?

YES

WERE UP TO DATE UNTIL BANKRUPTCY FILED.

19. Were the books audited annually?

ACCOUNTANT AUDITED ANNUALLY, CRA AUDITERS IN JAN. 2007

20. What is the name of the auditor and when was the last statement drawn up?

DONALD FARROW FROM CRA

LAST STATEMENT IN MARCH 2007

21. Have all proper returns been made to the various government departments requiring them?

YES.

22. When did the corporation first become aware of its insolvency?

WHEN BANK ACCOUNTS WERE SEIZED IN APRIL 2007.

APRIL 25, 2007 - CRA SEIZED BANK ACCOUNTS AT
ROYAL BANK

23. Did the corporation continue to carry on business and contract liabilities after it became aware of its insolvency?

NO. - LET EMPLOYEES GO IMMEDIATELY

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24. Did the corporation make any payments, return any goods, deliver any property or give security to any of its creditors during the 3 months before the date of the initial bankruptcy event or since it became aware of its insolvency, except in the ordinary course of business? If so, give particulars.

No.

25. Did the corporation, within the 12 months before the date of the initial bankruptcy event,

(a) execute any bill of sale or chattel mortgage or pledge any of its property?

No.

(b) sell, dispose of or remove any of its property, except in the ordinary course of trade? If so, give particulars.

No.

26. Did the corporation make or was it a party to any settlement of property within the 5 years before the date of the initial bankruptcy event? If so, give particulars.

No.

KW
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27. What are the causes of the bankruptcy of the corporation?

SEE NOTES ATTACHED.

EARLY JAN 2006 SALES BEGAN TO DROP. DECIDED TO CLOSE
HIGH END STORE "HOME FASHION MARKET", FEB 2006 CTV GAVE MEDIA
SEGMENT ABOUT UNHAPPY CUSTOMERS, CRA DID AUDIT IN MARCH, WOULD
NOT ACCEPT PROPOSAL, SEIZED BANK ACCOUNTS + DEMANDED WE FILE

A VOLUNTARY BANKRUPTCY

28. What were the sales for the past 3 years and what percentage of the sales
represented the profit or mark-up?

SALES FOR PAST YEAR WAS ABOUT 15 MILLION.

UNSURE OF PROFIT %.

FURNITURE DIRECT WAS DOING FINE.

29. When did the corporation last show a profit?

GROSS PROFIT SHOWN ON LAST YEAR END OF AUGUST 2006

30. Did the corporation, within the last twelve months pay a cash dividend or redeem
any of its shares, notes, debentures, or any other long-term liabilities? If so, when and
for what amounts?

NO.

31. What was the total amount of salary and expenses for the officers and directors of
the corporation during the twelve months prior to the initial bankruptcy event?

STAN'S SALARY WAS APPROXIMATELY \$90,000 - \$100,000 -

I WAS NOT PAID BY FURNITURE DIRECT.

KN.

Official Receiver's Initials

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32. Did you personally keep track of the corporation's financial position?

I WORKED WITH THE CONTROLLER

33. Are you involved as director, officer or manager in any other business or corporation? If yes, give details.

TREASURER OF HOME FASHION MARKETPLACE
EMPLOYEE ALSO.

34. In the last 12 months prior to the date of the initial bankruptcy event, has the corporation entered into any transactions with the following persons:

(1) Employees, officers or directors

NO.

(2) An individual related to any employee, officer or director of the corporation

NO.

(3) Another corporation, in which you or any of the persons mentioned in 1 or 2 above, or any individual related to them, had a financial interest?

IF HOME FASHION NEEDED \$, FURNITURE DIRECT
TRANSFERRED \$ TO ASSIST - "INTER COMPANY LOAN"

35. Did the corporation have any creditors or customers who fall within questions number 34(1), (2) or (3) above? If yes, give details.

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36. Were all sales made just prior to bankruptcy recorded?

YES.

37. Was the corporation selling at a normal markup just prior to bankruptcy? If not, give details.

YES.

38. Have you ever been involved as an officer in a corporation which has previously gone bankrupt? If so, give details.

NO.

39. At the date of bankruptcy, were there any orders previously accepted but unfilled? If so, what has been the disposition of these orders?

YES - CUSTOMERS ORDERS WERE NOT ALL DELIVERED
- CALLED TRUCKS BACK ON WED. APRIL 25 - CAUSE UNSURE
IF DRIVERS WAGES COULD BE PAID.

40. Does the Corporation have any other assets other than those shown on the Statement of Affairs, or are any assets held in trust by anyone for the Corporation?

NO

NO

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41. What Banks or other Financial Institutions did the Corporation use for banking purposes?

ROYAL BANK

42. Were all business receipts deposited in these bank accounts?

YES.

43. Were all goods and services provided by the creditors solely for the corporate use and not for use by an officer, Director, or other person/business?

YES.

44. Have any other assets been disposed of or seized in the year prior to the date of the initial bankruptcy event other than as already disclosed?

NO.

45. How do you account for the deficiency created by the business? Example: How or where were the major losses incurred?

N/A.

FURNITURE DIRECT WAS MEETING ALL OBLIGATIONS
TO CRA

KN.
Official Receiver's Initials


Individual Examined Initials

1. What was the company policy in receiving customer deposits for orders (i.e. percentage required on ordering)?

- CUSTOMERS HAD THE OPTION OF HOW TO DO IT
- MINIMAL REQUIRED WAS 1/3 OF TOTAL OWED
- COULD GIVE 100% IF WANTED.
- DEPOSIT COULD BE CASH, C.C. OR FINANCING OPTION.

2. Did the company increase the required deposit percentage in recent years?

- NO

3. What is the common percentage deposit required by the industry?

- USUALLY IT IS 33%
- WITH OPTION OF MORE IF SO WANTED.

KN.

O.R INITIALS

EW
DEBTOR EXAMINED

4. Over the years what was the company policy to process financing applications for purchases (re: HSBC)?

- HSBC BROUGHT IN POINT OF SALE EQUIPMENT (SIMILAR TO A VISA MACHINE)
- PROCESSED AT STORE WITH SIGNATURE.
- ALL KINDS OF PLANS TO CHOOSE FROM

5. HSBC has confirmed more that 350 individuals who have not received furniture but funds were advanced. Why did you submit applications to HSBC before delivery of furniture?

- THEY BROUGHT IN POINT OF SALE EQUIPMENT
- MOST CUSTOMERS CHOOSE 9-12 MONTH PLANS
- DELIVERY WAS ALWAYS W/IN 6 WEEKS
- ONLY RECENTLY THAT DELIVERY WAS SLOW
- HSBC OFFERED "SNAP" IMMEDIATE CREDIT
- SIGNATURES REQUIRED.

6. NO CASH ON HAND WAS LISTED ON STATEMENT OF AFFAIRS, PLEASE EXPLAIN.

CRA SEIZED BANK ACCOUNTS THAT WOULD HAVE INCLUDED ANY CASH GIVEN BY CUSTOMERS.

CTV NEWS DESTROYED THE BUSINESS WITH THE SCHEMATIC DONE, CUSTOMERS CAME INTO THE STORES DEMANDING THEIR MONEY BACK AND SALES THEN DROPPED OFF.

KN

O.R.'S INITIALS


DOCTOR'S INITIALS
EXAMINER

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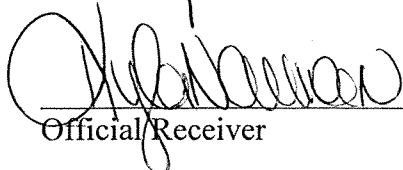
ADDITIONAL QUESTIONS

As provided on separate pages, and thereby attached.

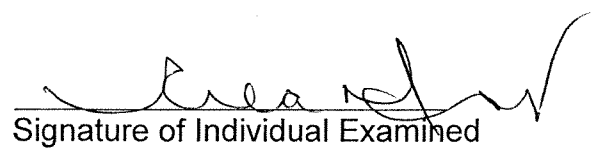
I ELLA NEST of the CITY/TOWN of MANNHEIM
in the Province of **ONTARIO** do swear (or solemnly declare) that to the best of my
knowledge the above answers are true and complete in every respect.

I understand that this examination is being adjourned *sine die* and may be
continued at a later date if necessary.

SWORN (or SOLEMNLY DECLARED))
)
before me in the City of London)
)
in the Province of Ontario, this 14th day)
)
of MAY, 2007.)
)
)
)
)
)
)
)
)



Official Receiver



Signature of Individual Examined