

TRUSTEE'S PRELIMINARY REPORT
IN THE MATTER OF THE BANKRUPTCY OF

3550184 CANADA LTD. O/A HOME FASHION MARKET PLACE

OF THE CITY OF CAMBRIDGE, IN THE REGIONAL MUNICIPALITY OF WATERLOO,
IN THE PROVINCE OF ONTARIO.

General Comments

On the 27th day of April, 2007 an assignment for the General Benefit of Creditors was made by 3550184 Canada Ltd. o/a Home Fashion Market Place. BDO Dunwoody Limited was appointed as the Trustee. The company operated two retail locations in Ontario with a warehouse in Cambridge. A related company, Furniture Direct, closed at the same time and shares space in the warehouse.

The principals of the company had been considering restructuring options. The company was unable to continue operations or other restructuring alternatives considering government account remittance arrears, rent amounts due for current and prior months, restricted supplier shipping due to account terms as well as the ongoing monthly operating costs for rent, wages and other amounts.

Section A - Assets

Inventory - Statement of Affairs values: The three inventory locations \$1,820,000.

The Trustee has since completed a count of all inventory in the retail locations and the warehouse. Total retail value in the store locations is approximately \$2.6 million. Retail value in the warehouse is not yet confirmed.

Equipment and Office Equipment - Statement of Affairs value: \$50,000 office equipment.

The office equipment has been secured in all locations. Values will be assessed prior to any realization. There appears to be some lease claims to computers as well as one lift truck. Documents will be received and reviewed to determine if there is any surplus value available from these leased assets.

Buildings and Real Estate - Leased premises

Other Assets - Statement of Affairs value: \$422,000 all vehicles.

The vehicles were subject to lease agreements. The Trustee obtained copies of the leases to determine the balance due for each vehicle. Resale values were obtained from resale reports and/or dealerships. There was no surplus value in any vehicle related to the lease obligations. All vehicles have been released to the leasing companies. One vehicle remains in possession of the Trustee as an owned company vehicle.

General Comments Regarding Assets - The values on the bankruptcy documents were estimates by the company principals. They may not reflect the value ultimately realized for all of the assets in the bankruptcy.

Section B – Other Assets

Property of Bankrupt not divisible amongst Creditors - By virtue of Section 67(b), of the Bankruptcy and Insolvency Act, certain property is not property of the bankrupt. Thus, it is not available for the general benefit of the creditors.

Customer Orders/Deposits - Inventory items for customer orders or contracts of sale with a deposit may be property not available to the creditors.

For the item to be property of the customer, it must be clearly identified by customer name, order number and paid for or subject to a contract and payment terms. The Trustee has reviewed all tagged items in each retail location to identify customer owned items. These lists have been posted on the website and release to the customer will be arranged.

Items not clearly marked and matched to a specific customer invoice and payment do not belong to the customer. This was the case for many customers who had paid a deposit or the invoice amount in full.

The inventory in the warehouse is still being reviewed to conclude any lists for any clearly marked items belonging to customers.

Other Items - The Trustee expects to have other third party property that will be returned to creditors. This typically includes water coolers, vending machines and leased assets such as photocopiers. Claims for fabric samples have been received. These items will be reviewed and concluded as paperwork is received.

Property Placed Under the Guardianship of the Debtor - None. The Trustee has control and possession of all keys.

Section C - Other Trustee Actions Related to Assets

Conservatory and Protective Measures - All premises were secured on April 27, 2007 at approximately 5pm after receipt by BDO Dunwoody Limited of the Certificate of Appointment of a Trustee.

Books and Records -The Trustee has possession and control of all records.

Carrying on Business – None at this time.

Asset Realizations - The Trustee has circulated inventory information to various parties who are interested in buying or liquidating the inventory. Proposals are being received for consideration. The assets appear to be secured by various claims by CRA, PST and other creditors. See further comments below – Section E.

Section D - Creditor Claims

	<i>Provable #</i>	<i>Declared \$</i>	<i>Proven #</i>	<i>Declared \$</i>
Secured	14	\$1,672,000	7	\$1,151,806
Preferred – Rent	2 (Note 1)	\$ 146,001	5	\$ 639,780
Preferred –Employ.	71	1	40	\$ 70,457
Unsecured				
Customer Dep	715 (Note 2)	\$1,000,000		\$ 299,333
Employees		NIL	33	\$ 43,569
Furniture Held		\$ 500,000	-	-
Landlord		NIL	3	\$1,351,398
Secured		NIL	3	\$ 4,733
Trade	122 (Note 3)	\$1,600,000	48	\$2,104,371

(Note 1) Two claims totaling \$274,000 are being reviewed. These may be disallowed as they appear to be for premises of a related company, Home Fashion Market.
 (Note 2) Total per list subsequently provided \$1,408,385.
 (Note 3) Total per list subsequently provided \$1,807, 843.

HSBC and Moneris (for Visa and MasterCard) have filed claims that represent customer refunds. These claims will continue to be updated as the status of customer orders is concluded. There may be duplicate amounts claimed for purposes of this report. These will be eliminated at a later date and should funds be available to the unsecured creditors. Customers do not need to notify the Trustee of a refund from Moneris or HSBC at this time.

Section E - Secured Creditors

The creditors identified by the company with registered security interests were CRA, Minister of Finance, Broyhill Furniture, a private company and one individual. The Trustee has received some but not all claims and paperwork to confirm amounts or if the claims are valid. The Trustee is reviewing the secured claims to ensure that they are valid and in priority to the interests of the Trustee. This will be concluded before funds are distributed to any creditors. These amounts will be paid in priority to the general creditors if the security is valid. The Trustee has been in discussion with the secured creditors considering their potential priority to the assets and the options available to liquidate the assets.

Section F – Employees

Some employees have filed a proof of claim for any wages owing. Claims have been received representing the wages for the two weeks immediately preceding April 27th being the date of bankruptcy. There have also been some claims received for prior weeks/months amounts.

CRA appears to be the creditor with the first claim to any proceeds from the assets of the bankrupt company. At the date of the voluntary bankruptcy, it was requested by the company principals that the wages due at that date for the preceding two weeks be paid. Terms of understanding were agreed to and executed indicating agreement by CRA to allow these amounts to be paid from funds in the account.

As at the date of bankruptcy, there were no funds available to the Trustee in the bank accounts. CRA had issued a garnishment and was entitled to the funds that had already been withdrawn from the account as at the end of the day on April 27th. Thus, the Trustee has received no funds to pay the wages.

There are other priority creditors (ie. Secured, preferred) who also have an interest in the assets that now exist. The ability to complete the payment according to the terms of understanding is now subject to review by the other creditors. The status of payment will be reported to the employees as soon as possible and prior to distribution of funds to any creditors.

Wages were paid by this company as well as the related company, Furniture Direct. The Trustee has not yet been able to review the basis for sharing of salary expense between the two companies. This may be of relevance considering the government claims for remittance amounts and the employee wage claims that are being received in the bankrupt estate of each of these two companies. These amounts will be reviewed further as the claims are received and funds are realized from the assets for distribution to the creditors.

Section G - Reviewable Transactions and Preference Payments

The Trustee has reviewed the Canadian bank statements for the past 8-12 months. There do not appear to be any unreasonable payments. Payments to suppliers were converted to electronic transfers that appear to be transmitted to the proper supplier. The Trustee has not been able to confirm receipt by the third party; however, the reviewed paperwork appears to support payment to creditors. A minimum transaction amount of \$10,000 was used for the Trustee review and above noted comments.

The US bank statement activity is being reviewed but does not appear to be unusual.

The Trustee review identified a number of transfers of funds received from a related company, Furniture Direct. There were generally 5-10 transfers each month. There were shared expenses between the two companies. The Trustee has not yet been able to review the basis for cost sharing or the cash transfer amounts for reasonableness. Also, Furniture Direct registered a security interest in the assets of Home

Fashion in February 2007. This claim has not yet been reviewed for accuracy or if it is a valid security interest.

Section H - Anticipated Realization and Projected Distribution

Unknown at this time and may vary significantly for the general creditors depending on the secured creditor status.

Section I - Legal Proceedings

None by or against the estate at this time. The Trustee has retained counsel to consider customer claims to furniture and the secured claims.

Section J - Other Matters

The Trustee costs are being allowed by CRA in priority to their claim.

Dated at Kitchener Ontario, the 25th day of May, 2007.



BDO

BDO Dunwoody Limited
Trustee in Bankruptcy