



Tel: 905 524 1008
Fax: 905 570 0249
www.bdo.ca

BDO Canada Limited
25 Main Street West, Suite 805
Hamilton, Ontario
L8P 1H1 Canada

District of: Ontario
Division No. 12 - Ottawa
Court No. 33-3102341
Estate No. 33-3102341

IN THE MATTER OF THE BANKRUPTCY OF
THE UPPER ROOM HOME FURNISHINGS INC.
IN THE CITY OF OTTAWA, IN THE PROVINCE OF ONTARIO

PRELIMINARY REPORT OF THE TRUSTEE

BACKGROUND

The Upper Room Home Furnishings Inc. (the "Company") was incorporated on October 15, 2003 under the *Canada Business Corporations Act*, and was managed by Allan Nolan, sole shareholder and director.

The Company operated as a retailer of high-quality residential furniture serving the greater Ottawa community.

The Company's head office and primary showroom was located at 545 West Hunt Club Road, Nepean, Ontario. A second retail location was located at 1344 Youville Drive, Orleans, Ontario. The Company also had a warehouse facility at 2 Bill Leathem Drive, Nepean. All premises were leased.

On July 10, 2024 the Company filed a Notice of Intention to Make a Proposal pursuant to the Bankruptcy & Insolvency Act wherein Bernier & Associates Inc. was appointed as proposal trustee. While efforts were made to develop a viable proposal, the Company did not have the agreement of its senior secured lender and hence, the Company filed an assignment in bankruptcy on September 23, 2024 and BDO Canada Limited was appointed as trustee in bankruptcy (the "Trustee").

The Company had 34 employees at the time of entering into insolvency proceedings. All employment was terminated effective September 8, 2024.

On September 27, 2024, notice of the first meeting of creditors, a list of creditors, proof of claim form and proxy were sent to all known creditors of the Company and on October 1, 2024, notice of the bankruptcy and the first meeting of creditors was published in the Ottawa Citizen.

The activities of the Trustee since its appointment have primarily consisted of completing its statutory obligations in accordance with the *Bankruptcy and Insolvency Act* (Canada) (the "BIA") and, including:

- Taking possession of all three locations;
- Ensuring insurance remains in force;



- Communications with key stakeholders including creditors, landlords, former employees and customers;
- Beginning preparation of claims in accordance with the *Wage Earner Protection Program Act* (“WEPPA”); and
- Obtaining liquidation proposals for the sale of inventory.

CAUSES OF BANKRUPTCY AND FINANCIAL POSITION

The CEO attributes the insolvency of the Company to the effects of rising interest rates and an economic downturn that saw a significant decline in sales that began in the first quarter of 2023.

During the Covid pandemic the Company experienced an increase in sales and opened a third retail location in Kanata and a warehouse in Nepean. The Kanata store underperformed and overall sales levels did not recover to pre-Covid levels.

As a result of the continuing losses and sustained sales decline, lack of liquidity and the Company not being able to meet its obligations as they become due, Company management decided to place the Company into creditor protection and ultimately bankruptcy.

FINANCIAL POSITION/ASSETS

The Company has provided the Trustee with financial statements as at August 15, 2024.

As detailed in the Statement of Affairs, the Company had the following assets at the time of bankruptcy:

| <u>Asset</u> | <u>Historic Cost (rounded)</u> |
|------------------------------|---|
| Cash in the bank | \$ nil |
| Accounts Receivable | \$ 411,000 (net) |
| Inventory | \$ 2,797,000 |
| Office equipment & furniture | \$ 168,000 |
| Computer Equipment | \$ 21,000 |
| Vehicles | \$ 2 (vehicles subject to direct loans) |
| Prepaid Expenses | \$ 420,000 |
| Leasehold Improvements | \$ 391,000 |
| Signs | <u>\$ 135,000</u> |
| Total Cost | <u>\$ 4,345,000</u> |

An inventory count is being completed. It is uncertain at this time how much, if anything, will be available for distribution to the unsecured Creditors of the Company.

PRIORITY CREDITORS

The Trustee has been advised that remittances were up to date for the Company’s payroll account with Canada Revenue Agency. The Trustee is verifying this.



SECURED CREDITORS

A search of the Personal Property Security Act registration system indicates that there are seven (7) registrations against the personal property of the Company:

- i) Royal Bank of Canada (general security agreement) - \$1,051,000
- ii) Mega Group Inc. (general security agreement) - \$1,109,056
- iii) Penske Truck Leasing Canada Inc. (truck rental)
- iv) Toyota Industries Commercial Finance Canada Inc. (picker)
- v) Penske Truck Leasing Canada Inc. (truck rental)
- vi) Business Development Bank of Canada (general security agreement) - \$325,000
- vii) BMW Canada Inc. (vehicle)
- viii) Nissan Canada Inc. (vehicle)

The Trustee has not at this time conducted a detailed review of the respective security positions of each registrant and anticipates doing so prior to issuing distributions, if any.

SECURITY FOR UNPAID WAGES

Certain employees are owed wages and accrued vacation pay as of the date of bankruptcy and will have secured claims in accordance with sections 81.3 / 81.4 of the BIA, to a maximum of \$2,000 per person. The Trustee is evaluating these claims in conjunction with WEPPA and believes the total amount to be approximately \$46,000.

PREFERRED CREDITORS

The Company's Statement of Affairs indicates that, with the exception of employees, there were no other known preferred creditors as at the date of bankruptcy.

UNSECURED CREDITORS

The Company's Statement of Affairs indicates that, as of September 23, 2024, there were approximately 67 unsecured creditors with potential claims totaling \$2,887,169. In addition, there may be approximately 1,000 additional claimants been identified as unsecured creditors due to having prepaid deposits forfeited on orders that were not completed prior to the bankruptcy.



PROVABLE CLAIMS

As at the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

| | Per SOA (Sep 23) | Amount (\$) | Claims filed as at 4:00 p.m. Oct 9, 2024 | Amount (\$) |
|--------------|---------------------|-----------------------|--|---------------------|
| Secured | 9 | \$2,552,784.00 | - | \$ |
| Preferred | 34 | \$52,633.33 | - | \$ |
| Unsecured | 67 | \$2,887,169.14 | 12 | \$492,139.07 |
| TOTAL | 110 | \$5,492,586.47 | 12 | \$492,139.07 |

PREFERENCE PAYMENTS AND TRANSFERS AT UNDER VALUE

The Trustee has not performed a review with respect to potential preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of such a review if required with the Inspectors to be appointed, if any, in this estate.

LEGAL MATTERS

There have been no legal proceedings initiated by or against the Trustee or the Estate at this point in time.

The Trustee has retained Torkin Manes LLP as estate counsel and to review and opine on the validity of the asserted security positions of secured creditors.

Torkin Manes LLP has opined that the security held by Mega Group Inc. is valid and enforceable as against the Trustee. Mega Group Inc. has appointed BDO as its private receiver effective October 9, 2024 for the purposes of engaging a liquidator and realizing on the inventory.

The Trustee will obtain an independent security opinion as to the validity and enforceability of security held by the other secured creditors prior to making any distributions to those parties.

TRUSTEE'S FEES

The Trustee's fees will be based on its actual time charges at its normal hourly rates and disbursements, which fee will be paid from the assets of the Estate. The Trustee's fees will be subject to taxation by the Court upon conclusion of the administration.

Mega Group Inc. has guaranteed payment of the Trustee's reasonable fees in these proceedings.



Dated at Hamilton, Ontario, this 10th day of October, 2024.

BDO Canada Limited
in its capacity as Trustee of the estate of
The Upper Room Home Furnishings Inc. and not in its personal capacity

A handwritten signature in black ink, appearing to be 'Peter Crawley', written in a cursive style.

Per: Peter Crawley, MBA, CPA, CA, CIRP, LIT
Vice President