

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

**BETWEEN:**

**CAISSE DESJARDINS ONTARIO CREDIT UNION INC.**

Applicant

- and -

**KORSON FURNITURE IMPORTS LIMITED**

Respondent

**FIRST REPORT OF THE RECEIVER**

**DATED JANUARY 23, 2025**

## Table of Contents

<b>INTRODUCTION .....</b>	<b>4</b>
<b>PURPOSE OF REPORT .....</b>	<b>5</b>
<b>TERMS OF REFERENCE.....</b>	<b>5</b>
<b>BACKGROUND .....</b>	<b>6</b>
<b>TAKING POSSESSION AND SAFEGUARDING ASSETS .....</b>	<b>6</b>
<b>MARKETING AND SALE PROCESS.....</b>	<b>7</b>
<b>PROPERTY CLAIMED BY STACKHOUSE HOLDINGS INC. ....</b>	<b>11</b>
<b>CONFIDENTIAL EXHIBITS .....</b>	<b>13</b>
<b>RECEIVER’S RECOMMENDATIONS .....</b>	<b>13</b>

**EXHIBITS**

- A** Appointment Order of the Honourable Madam Justice MacNeil dated October 31, 2024
- B** Notice and Statement of the Receiver dated November 8, 2024
- C** Inventory report dated November 16, 2024
- D** Call for offers of the Receiver published on November 19, 2024
- E** Correspondence between the Receiver and Mr. Crawley dated January 10, 2025
- F** Correspondence from the Receiver to Mr. McGovern dated December 19, 2024, with attachments
- G** Correspondence from counsel to Desjardins to Mr. McGovern dated December 19, 2024

**CONFIDENTIAL EXHIBITS**

- A** Inventory report with pricing
- B** Summary of offers received in second sale attempt
- C** Sale Agreement dated January 15, 2025

## INTRODUCTION

1. By Order of the Ontario Superior Court of Justice (the “**Court**”) dated October 31, 2024 (the “**Appointment Order**”), Raymond Chabot Inc. (“**RCI**”) was appointed as receiver and manager (the “**Receiver**”) over all the assets, undertakings and properties (collectively, the “**Property**”) owned by the Respondent, Korson Furniture Imports Limited (the “**Debtor**”), acquired for or used in relation to a business carried on by the Debtor. The Appointment Order is attached hereto as **Exhibit A**.
2. The Appointment Order authorizes the Receiver to, among other things, take possession of, and exercise control over, the Property, and all proceeds, receipts, and disbursements, arising out of, or from, the Property. In addition, the Receiver is authorized to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business:
  - a. without the approval of the Court in respect of any transaction not exceeding \$50,000, provided that the aggregate consideration for all such transactions does not exceed \$500,000; and
  - b. with the approval of the Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the foregoing amounts.
3. Following the issuance of the Appointment Order, the Receiver issued a Notice and Statement of the Receiver (the “**Notice to Creditors**”) pursuant to subsections 245(1) and 246(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) in respect of the Debtor. The Notice to Creditors is attached hereto as **Exhibit B**.
4. The Appointment Order, together with the Notice to Creditors and this First Report to the Court (the “**Report**”) have been posted on the Receiver’s website at <https://www.raymondchabot.com/en/companies/public-records/korson-furniture-imports-limited/>.
5. The Receiver retained Soloway Wright LLP (“**SW**”) as its independent legal counsel in respect of this matter.

## PURPOSE OF REPORT

6. The purpose of this Report is to:
  - a. provide a summary of the Receiver's activities to date;
  - b. provide details of the marketing activities undertaken by the Receiver with respect to the sale of the Property owned or used by the Debtor in its business operations; and
  - c. provide the Court with the evidentiary basis to make an Order:
    - i. approving the Receiver's Report and the activities and conduct of the Receiver as described in the Report including, without limitation, the steps taken by the Receiver pursuant to the marketing and sales process of certain assets of the Debtor as further described below;
    - ii. approving the sale transaction (the "**Transaction**") contemplated by an agreement (the "**Sale Agreement**") between the Receiver and the purchaser named therein (the "**Purchaser**") dated January 15, 2025 and appended as a confidential exhibit to the Report, and vesting in the Purchaser, the Debtor's right, title and interest in the assets describe in the Sale Agreement (the "**Purchased Assets**" or "**Finished Goods**" (as hereinafter defined));and
    - iii. sealing confidential exhibits "A" through "C" of the Report (the "**Confidential Exhibits**") until the closing of the Transaction or until further order of the Court.

## TERMS OF REFERENCE

7. In preparing this Report, the Receiver has been provided with, and has relied upon, unaudited, draft and/or internal financial information, the Debtor's books and records, discussions with management of the Debtor, and information from third-party sources (collectively, the "**Information**"). Except as described in this Report:
  - a. the Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Receiver has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and

- b. the Receiver has prepared this Report in its capacity as a Court-appointed officer to support the Court’s approval of the sale of the Property of the Debtor and the other relief being sought. Parties using the Report, other than for the purposes outlined herein, are cautioned that it may not be appropriate for their purposes.
8. Unless otherwise stated, all dollar amounts contained in the Report are expressed in Canadian dollars.
9. Unless otherwise provided, all other capitalized terms not otherwise defined in this Report are as defined in the Appointment Order.

## BACKGROUND

10. The Debtor is incorporated pursuant to the laws of Ontario and is the result of an amalgamation that occurred on August 9, 2022. The Debtor previously operated as a furniture importer and wholesaler, and leased a warehouse located at 7933 Huntington Road, Unit 4, in Woodbridge, Ontario (the “**Premises**”). At the time of the Receiver’s appointment, the Debtor was still carrying on business from the Premises.
11. The Debtor owns the Property, which is comprised of raw material inventory, finished goods inventory (the “**Finished Goods**”), machinery and equipment, furniture and fixtures, leasehold improvements, a vehicle, and other intangible assets such as various accounts receivables. A summary of these assets, including book values, is provided in the Notice to Creditors.
12. The Applicant creditor, Caisse Desjardins Ontario Credit Union Inc. (“**Desjardins**”), is a cooperative credit union and is the Debtor’s primary and senior secured creditor.

## TAKING POSSESSION AND SAFEGUARDING ASSETS

13. The Receiver has undertaken the following activities in accordance with the terms of the Appointment Order:
  - a. Established the Receiver’s website and issued the Notice to Creditors in respect of the Debtor;
  - b. Reviewed the Debtor’s available books and records;
  - c. Changed the locks at the Premises;

- d. Entered into a short-term occupancy agreement with the landlord;
- e. Arranged to have public utilities, phone and internet and security services at the Premises transferred to the Receiver's account;
- f. Maintained an open line of communication with the Debtor's principal Ms. Allana Stackhouse (the "**Guarantor**") and their counsel; and
- g. Insured the Property.

## MARKETING AND SALE PROCESS

### *Initial consultation with the Debtor, Guarantor and secured creditors*

14. As the Receiver is empowered and authorized by the Court and the Appointment Order to sell the Property, the Receiver consulted the Debtor, the Guarantor, Guarantor's counsel, Rory McGovern of Rory McGovern Professional Corporation ("**Mr. McGovern**") and Desjardins.
15. The Receiver's initial liquidation plan consisted of having the Guarantor communicate directly with the Debtor's clients, other industry contacts and potential purchasers to seek offers for the Finished Goods at a discounted rate. All sales were to be completed by the Debtor on a cash on delivery basis, with all payments to be received by the Receiver on or prior to the release of the goods. Offering the Finished Goods to existing clients and industry contacts was believed to be the most expedient way to maximize the realization of the assets. Any remaining Finished Goods would be offered in a single lot to liquidators by the Receiver in a call for offers process.
16. The Guarantor sent an email distribution to the Debtor's clients, other industry contacts and potential purchasers on or around November 7, 2024, to advise of the discounted sales. Very few clients attended the Premises the following day, but the Guarantor was not on site. In the Guarantor's absence, the Receiver completed 4 sales of Finished Goods totalling approximately \$12,000 generated from this email communication.
17. Concurrently, the Receiver engaged the services of Totals Inventory Professionals of Canada to complete a detailed count of the Finished Goods, which was provided to the Receiver on November 16, 2024. A copy of the report is attached hereto as **Exhibit C**.
18. Following receipt of the inventory report, the Receiver asked the Guarantor to amend the list to include additional columns for the per unit cost and the per unit price the Finished Goods are

typically offered to the Debtor's clients. A copy of the amended inventory report is attached hereto as **Confidential Exhibit A**.

*The Receiver's sales and marketing efforts*

19. Having completed very few sales of Finished Goods since November 7, 2024, the Receiver published a call for offers ("**Call for Offers**") on its website on November 19, 2024, and sent it to approximately 4,000 subscribers and auctioneers/liquidators.
20. The Call for Offers was for Finished Goods only, and was offered in a single lot in order to more efficiently deal with the assets. The documents were clear in advising potential purchasers that occupation of the Premises to conduct a liquidation sale on site was not possible, given the high occupancy costs and limited potential for realization. A copy of the Call for Offers is attached hereto as **Exhibit D**.
21. At the request of the Receiver, the Guarantor shared the Receiver's Call for Offers by email to the Debtor's existing clients and contacts on or around November 20, 2024. The Receiver followed up with these potential purchasers on November 21, 2024, to provide additional context and make clarifications to the Guarantor's email sent previously.
22. The offer deadline for the Call for Offers was November 29, 2024. Very few interested parties expressed interest, despite numerous follow ups, and no visits of the inventory were requested.
23. Ultimately, only two offers were received. The Receiver discussed the offers with SW and Desjardins and ultimately concluded that the offers were not acceptable.
24. Following this decision, the Receiver reached out to 7 more liquidators to see if there was interest in the Finished Goods and provide a second opportunity to submit purchase offers.
25. Based on correspondence with interested parties, the Receiver understands that there are a number of challenges with selling the Finished Goods, including specifically:
  - a. The cost associated with palletizing, removing and storing the inventory is significant, and the potential for realization difficult to estimate. This is a risk that not all potential purchasers are interested in assuming.



- b. The Debtor was a wholesaler of furniture, selling the inventory mainly to big box stores and other retailers. Most liquidators sell directly to individuals, which increases costs due to assembly of demo pieces, handling of the inventory and extended the time they would have needed to store the goods.
26. Other challenges included the 2024 Holiday Season and the typical purchasing cycles in the industry. As advised by the Guarantor, furniture retailers typically purchase in bulk in the fall and spring to stock up inventory. This is not something that is typically done in the winter months, and especially not before the Holidays. Retailers are looking for consumers to sell their current inventory as opposed to increasing their inventory levels.
27. In this second attempt to liquidate the remaining Finished Goods, the Receiver obtained two offers, one of which provides a higher realization than the initial Call for Offers. A summary of the offers received is attached hereto as **Confidential Exhibit B**.
28. The Guarantor presented a plan which consisted in one part to complete sales to existing clients of the Debtor. These were purportedly open sales orders made by the Debtor's clients that had not been paid or fulfilled prior to the appointment of the Receiver. Secondly, this plan would consist of palletizing, removing and storing the remaining inventory offsite until the spring. As mentioned above, spring is a time of year during which retailers build up inventory, and there may be more appetite for the Debtor's inventory at that time.
29. The Guarantor assured the Receiver that it would reach out to the Debtor's clients about the open sales and put the Receiver in direct communication with the Debtor's clients. Unfortunately, the Guarantor did not reach out as she indicated she would.
30. The Receiver, having the Debtor's client contact information, reached out to them once again to see if there was any interest in completing the previous open sales orders and provide potential payment terms. Two major clients indicated they were not interested, and the others simply did not respond to the Receiver's communications.
31. Subsequently, the Receiver consulted Desjardins to discuss the Guarantor's above approach to store the Finished Goods offsite in the hope of generating additional sales in the spring. Desjardins communicated that it did not support this approach given the results to date, the associated risk with storing the Finished Goods over the winter months, the additional storage costs, and the absence of

a guarantee from the Debtor that this would lead to a better realization in respect of the Finished Goods.

32. On January 10, 2025, the Receiver received an email from Peter Crawley (“**Mr. Crawley**”), a consultant from BDO Canada Limited, purportedly retained by the Guarantor. In this email, Mr. Crawley asks the Receiver if he would entertain a superior offer from the Guarantor if she could secure funds from a 3<sup>rd</sup> party.
33. The Receiver responded to Mr. Crawley, advising that the Receiver was preparing it’s report to court and motion materials, and that should the Guarantor wish to make an offer, they should do so as soon as possible. A copy of this correspondence is attached hereto as **Exhibit E**.
34. The Guarantor emailed the Receiver on January 14, 2025, advising they would not be making an offer to the Receiver.
35. On January 15, 2025, the Receiver entered into the Sale Agreement with the Purchaser. The Sale Agreement indicates the price the Purchaser has offered for the Finished Goods and agrees to the conditions set out therein by the Receiver. A copy of the Sale Agreement is attached hereto as **Confidential Exhibit C**.
36. The purchase price represents approximately 19% of the book value of the Finished Goods, as provided by the Debtor.
37. The Receiver extensively canvassed the market. Factors such as the time of year, client shopping habits, and the quality of the Finished Goods resulted in limited interest and poor prospects for realization. Even the Debtor’s existing clients showed no interest in purchasing the Finished Goods, either as a bulk sale or in smaller lots.
38. Approval of the proposed Transaction would enable the Receiver to leave the Premises before the short-term occupancy agreement expires. If the Receiver stays beyond the agreement date, it will incur significant costs, potentially reducing the net proceeds to a point where the proposed Transaction may no longer be commercially viable.
39. The Receiver also obtained a quote from a logistics company to assess the feasibility of relocating and storing the Finished Goods from the Premises. However, based on the cost estimate provided to the Receiver, this option was deemed impractical due to the associated expenses.

40. In addition to the foregoing:

- a. The Purchased Assets were widely marketed in a manner consistent with property of this nature and the furniture sales market;
- b. The Receiver does not believe that further marketing the Purchased Assets will result in a superior offer given the nature of the assets and the limited market and interest in the Purchased Assets. In this regard, none of the stakeholders, including the Debtor and the Guarantor who were given an opportunity to make an offer, could provide a superior offer;
- c. The Sale Agreement is now unconditional, except for requiring the Court's approval;
- d. Desjardins, the Debtor's senior secured creditor, supports the Transaction;
- e. As noted above, the ongoing carrying costs to sell the Purchased Assets, particularly the occupancy costs, are prohibitive, such that a sale of the Purchased Assets at this juncture is the most prudent course of action and favourable for the Debtor's estate.
- f. The Transaction that is subject to the Sale Agreement followed a thorough, impartial and fair sales process that fully tested the market.

41. For the reasons above, the Receiver recommends that the Court approve the Transaction and recommends entering into the Sales Agreement with the Purchaser for the Purchased Assets, and vesting in the Purchaser, the Debtor's right, title and interest in the Purchased Assets.

## PROPERTY CLAIMED BY STACKHOUSE HOLDINGS INC.

42. On November 26, 2024, the Guarantor sent to the Receiver a number of documents in support of the purported purchase of certain of the Debtor's inventory by the Guarantor's holding company, Stackhouse Holdings Inc. ("**Holdco**").

43. In essence, Holdco claims it has purchased inventory by way of advancing funds to the Debtor between August 2023 and August 2024 and building up its credit account.

44. Based on the Receiver's analysis, the funds advanced to the Debtor by either the Guarantor or Holdco appeared to be used to fund operations. Most deposits were recorded as advances from the Guarantor and later reversed to be recorded in Holdco's prepaid customer account. Further, an important deposit of \$99,738.70 which was said to be applied to one of the invoices cannot be traced to the Debtor's bank statements. For these reasons, the Receiver does not agree with the claim of the Guarantor and Holdco that this inventory was purchased from the Debtor.
45. During a meeting with Mr. McGovern on December 13, 2024, the Receiver communicated its initial position, mentioning that a detailed summary would follow that day. Mr. McGovern indicated he was waiting for additional information from the Guarantor and that the Receiver should wait until he communicated his client's position to the Receiver instead.
46. On December 17, 2024, Mr. McGovern provided supplemental information outlining the claim of the Guarantor and Holdco against the purported inventory.
47. After further investigation, the majority of the information was the same as what was initially provided by the Guarantor. The only exception was with respect to a purported collateral agreement between the Guarantor and Desjardins, that the Guarantor or Holdco would advance funds to the Debtor in exchange for the purchase of inventory. No supporting documentation was provided to the Receiver to support this assertion.
48. As such, on December 19, 2024, the Receiver communicated its position on the matter to Mr. McGovern, a copy of which is attached hereto as **Exhibit F**.
49. Subsequently, on December 19, 2024, counsel for Desjardins sent Mr. McGovern an email outlining Desjardins' position, supporting that of the Receiver that neither the Guarantor nor Holdco had any property claim in respect of the assets in issue. A copy of this correspondence is attached hereto as **Exhibit G**.
50. On January 14, 2025, Mr. McGovern advised the Receiver that the Guarantor was in the process of retaining new counsel and that he had not received any instructions on this matter.
51. At the date of this report, the Receiver has not been contacted by any new counsel confirming that they have been retained to act for the Guarantor.

52. The Receiver wishes to mention that the property being claimed by Holdco was included in the list of Finished Goods which is offered for sale.

## CONFIDENTIAL EXHIBITS

53. The Receiver is of the view that the **Confidential Exhibits** should be sealed and remain sealed until the earlier of the completion of the Transaction or further order of the Court, as the information contained therein is commercially sensitive and could prejudice the sale of the Debtor's Property in the event the said transaction does not close. The Receiver does not believe that any party will suffer prejudice if the Confidential Exhibits are sealed in this manner.

## RECEIVER'S RECOMMENDATIONS

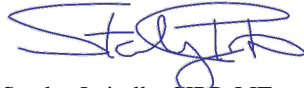
54. For the reasons set out above, the Receiver recommends that the Court grant the relief set out in Section 6 above.

All of which is respectfully submitted at Ottawa, Ontario this 23<sup>rd</sup> day of January 2025.

### **RAYMOND CHABOT INC.**

Receiver of the assets, undertakings and property of  
Korson Furniture Imports Limited,  
and not in its personal capacity.

Per:



Stanley Loiselle, CIRP, LIT