

CANADA
Province of Alberta

Estate No: # 25-1239781

**IN THE MATTER OF THE PROPOSAL OF
354034 ALBERTA LTD. o/a KITCHEN & PATIO FURNITURE GALLERY**

**Carrying on business in the City of Calgary,
In the Province of Alberta**

TRUSTEE'S REPORT ON THE PROPOSAL

INTRODUCTION

On July 29, 2009, 354034 Alberta Ltd. o/a Kitchen & Patio Furniture Gallery ("Kitchen" or the "Company") filed a Notice of Intention to make a Proposal ("NOI"), pursuant to Part III, Division I, Section 50.4 of the *Bankruptcy and Insolvency Act* ("BIA"). The Company also operated, as a division, the business known as "Lane Furniture" in Calgary. We have been advised that the creditors and suppliers of Lane Furniture invoiced in the name of the numbered company or Kitchen & Patio.

Kitchen filed its Proposal at the Office of the Superintendent of Bankruptcy on October 9, 2009. Deloitte & Touche Inc. ("Deloitte") is named as the Trustee.

BACKGROUND

The director of the Company, Mr. Ken Toon, continues to act for the Company, filing the NOI and preparing the Proposal document.

Kitchen has encountered financial difficulty as result of over expansion of its retail operations and the global downturn in the economy. The Company filed for creditor protection and restructured its operations in order to provide its creditors with a partial repayment of outstanding claims and to avoid bankruptcy. In order to make the payments to its creditors in the manner proposed in the Proposal, the Company requires the agreement of its creditors. If the creditors of Kitchen are unwilling to accept the Proposal, the Company will be automatically deemed bankrupt.

Since the filing of the NOI on July 29, 2009 Kitchen has been working to streamline operations, analyze the costs and update its plan to maximize the distribution to its unsecured creditors. To date, Kitchen has disclaimed retail leases in the following locations:

- Gasoline Alley, Liberty Crossing Centre in Red Deer, Alberta;
- the Lane Furniture location on Heritage Gate, in Calgary, Alberta;
- the warehouse and office locations at A 6810 – 6 Street SE, Calgary, Alberta; and
- the warehouse located at 615 – 71 Avenue SE, Calgary, Alberta.

ASSETS

At the time of filing the NOI, Kitchen had assets with the following book values. The estimated realizable values based on their financial statements at the time were as follows:

	Book Value	Estimated Realizable Value before Administration Costs
Cash on Hand	\$ 330,000	\$ 330,000
Inventory	1,000,000	200,000
Real Estate in BC	<u>286,065</u>	<u>0</u>
TOTAL	<u>\$1,616,065</u>	<u>\$530,000</u>

LIABILITIES

Secured Creditors (Statement of Affairs \$nil)

The Company has set aside, in a separate account, funds of \$51,127 for Lane Furniture Industries against its claim, which is believed to be valid and enforceable. This claim is not part of Kitchen's Proposal and the payment of these segregated funds will be dealt with separately. The Company is not aware of any other secured claims, including Canada Revenue Agency.

Preferred Creditors (Statement of Affairs - \$nil)

In preparing the Statement of Affairs, the Company had not taken into account any preferred creditor claims. In accordance with Section 136(1) of the BIA, landlords may qualify to rank as a preferred creditor. The Proposal states that preferred creditors shall be paid in full as set forth therein in priority to all claims of Unsecured Creditors. Preferred claims will be paid in full no later than six months after Court ratification of the Proposal.

The amount of any preferred claims are limited to the estimated value of assets on hand at the time the NOI was filed where the lease has been disclaimed or is in arrears. Kitchen advised that only the Lane Furniture location had inventory as at the date of the NOI filing. The value of the preferred claim has been estimated to be \$61,470 and the Company advises that the book value of the Lane Furniture inventory on location exceeded this amount. The net realizable value of this inventory is yet to be determined for the purposes of determining the actual amount of the preferred claim.

Unsecured Creditors (Statement of Affairs - \$2,135,792)

After reviewing the leases and the claim amounts filed on the Statement of Affairs, the Trustee is of the opinion that the amounts of the landlord claims may vary to the Statement of Affairs amounts. The original amounts allocated to the landlords was based on base rent costs only while, in our opinion, they should also include amounts related to other costs attributable under the leases, such as common area costs and taxes.. Therefore, we have increased the unsecured creditor pool as follows:

Statement of Affairs Amount	\$2,135,792
Less: preferred claim	<u>61,470</u>
	2,074,322
Add: Our estimate of additional landlord claims	<u>345,047</u>
Total estimated unsecured claims	<u>\$2,419,369</u>

Comprised of:

Trade creditors	\$782,276
Landlords	<u>1,637,093</u>
Total estimated unsecured claims	<u>\$2,419,369</u>

In accordance with the terms outlined in the Proposal, payment to proven unsecured creditors will occur after full payment has been made to any secured, preferred and deemed trust claims. The funding of payments is outlined in the Proposal and the Company's updated cash flow projection and provides for an initial payment of \$300,000. This payment will be used first to pay all accepted proven preferred claims, then unsecured creditors will be paid the lesser of \$4,000 and the full value of their proven claim, with the balance to be paid from ongoing operational cash flow to the maximum of the lesser of \$1,300,000 (\$1,600,000 less the \$300,000 initial payment) in total payments or 105% of the Company's proven claims in the Proposal.

Reviewable Transactions and Preference Payments

The Trustee is not aware of any reviewable transactions or preference payments.

RECEIVER GENERAL OF CANADA

All outstanding source deductions which could be subject to a demand under subsection 224(1.2) of the Income Tax Act, or under any substantially similar provision of provincial legislation as at the date of filing the NOI will be paid within six months of Court approval of the Proposal; or as agreed to by Her Majesty. The Company does not believe that there is any amount due at this time. All outstanding unremitted Goods & Services Tax as at the date of filing the NOI will be paid in full within six months of Court approval of the Proposal. The Company advised that the amount of \$65,409 is owed for the month of July, 2009.

APPOINTMENT OF INSPECTORS

The Proposal provides for the appointment by the creditors of one or more, but not exceeding five, inspectors at any meeting of creditors to be held to consider the Proposal. The powers of the inspectors include: advising the Trustee from time to time with respect to any matter which the Trustee may refer to them, approval of the Trustee's accounts in respect of all receipts and disbursements relating to the administration of the Proposal; and approving the making of any distributions by the Trustee.

TRUSTEE'S FEES AND COSTS

The proper fees and disbursements of the Trustee, including any legal costs of the Trustee and legal costs of the Company, of and incidental to any proceedings relating to, arising out of, or under the Proposal, including the preparation and implementation of the Proposal, shall be paid in priority to all claims of preferred and unsecured creditors. The amount of the Trustee's fees and disbursements will be dependent on actual time incurred. The Trustee's fees and disbursements will be reviewed by the Inspectors of the Estate, if any are appointed, and are subject to taxation by the Court.

PROOF OF CLAIM AND VOTING LETTER

Enclosed with the proposal package was a proof of claim form and voting letter. In order to participate in the Proposal, creditors must complete the proof of claim and include the required supporting documentation. If you cannot attend the meeting, we encourage you to complete either the proxy or the voting letter. Documentation can be sent by fax to 403-260-4077 or it is also acceptable to submit your proof of claim and proxy or voting letter as a scanned document via email to Rick Anderson at rianderson@deloitte.ca. Should you have any questions regarding completion of the forms, please contact Rick Anderson of the Trustee's office at (403) 267-1739.

OTHER PROVISIONS

- The Proposal contemplates the release of all claims against present or former directors of Kitchen that relate to obligations by Kitchen where the directors are by law liable in their capacity as directors for the payment of such obligations.
- The Proposal contemplates that the Company's landlords related to the disclaimed leases may file a proof of claim pursuant to subsection 65.2 (4)(b) of the BIA, for the lesser of:
 - i) the aggregate of:
 - the rent provided for in the lease for the first year of the lease following the date on which the disclaimer or resiliation becomes effective, and
 - b) fifteen per cent of the rent for the remainder of the term of the lease after that year, and
 - ii) three years' rent

Claims of any landlords under this paragraph shall be included as part of the class of Unsecured Creditors, except where proper claims are filed that qualify to be preferred claims under Section 136.

PROPOSAL VS BANKRUPTCY COMPARISON

The comparison of the recovery to creditors (before administration costs) between the Proposal and a deemed assignment into bankruptcy has been estimated as follows;

	<u>Proposal</u>	<u>Bankruptcy</u>
Cash on Hand (est. to Oct. 31)	\$ n/a	\$ 859,000
Proposal Payments	1,600,000	n/a
Inventory at net realizable value	n/a	200,000
Other Assets	<u>n/a</u>	<u>0</u>
 Total Receipts	 1,600,000	 1,059,000
 Potential Preferred Claims*	 <u>61,470</u>	 <u>159,993</u>
Amount available for unsecured creditors before administration costs (A)	<u>\$1,538,530</u>	<u>\$899,007</u>

	<u>Proposal</u>	<u>Bankruptcy</u>
Estimated Total Claims	\$2,480,839	\$8,356,224
Preferred Claims (est.)*	<u>61,470</u>	<u>159,993</u>
Est. value of unsecured claims*	<u>\$2,419,369</u>	<u>\$8,196,231</u>
Estimated amount available to the unsecured creditors before administration costs:		
Est. value of unsecured claims*	\$2,419,369	\$8,196,231
Estimated initial payment** (B)	<u>205,732</u>	<u>nil</u>
Balance of unsecured claims	<u>\$2,213,637</u>	<u>n/a</u>
Funds to balance of unsecured (A-B)	<u>\$1,332,798</u>	<u>\$899,007</u>
Estimated% distribution to unsecured creditors before administration costs		
	60.2%	10.9%

* In the bankruptcy scenario, additional preferred and unsecured claims would arise due to all leased space being disclaimed by the Trustee which would result in higher preferred claim amounts, as well as the larger estimated remaining lease term periods that would not be part of a preferred claim that the landlord group would also have. The Proposal, calculates these claims as outlined in Section 65.2 (4)(b) of the BIA.

**Estimated initial payment to unsecured creditors up to the value of their claim or \$4,000

THE PROPOSAL AND TRUSTEE'S RECOMMENDATION

The Proposal calls for payments to the Company's unsecured creditors at specific points in time when the Trustee is holding a certain amount of funds, or at the direction of the Inspectors. We recommend that the creditors accept this Proposal as it will allow the Company to continue operations and generate and certainly result in a higher realization value. Payments will occur on a pro rata basis to all proven unsecured creditors after full payment has been made to any secured, preferred and deemed trust claims.

If the Proposal is not accepted by the creditors at the Meeting there will be a deemed bankruptcy. In a Bankruptcy, it is expected that the unsecured creditors will receive substantially less, as demonstrated above. It is expected that the Proposal provides a better return for all of the

unsecured creditors. Based on the above, the Trustee recommends the acceptance of the Proposal.

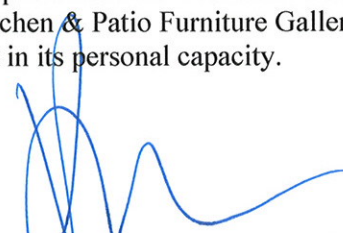
To review the filed documents, including the creditors' package, the Proposal, voting letter, proxy and cash flow projections visit our website at the link below.

http://www.deloitte.com/view/en_CA/ca/specialsections/insolvencyandrestructuringproceedings/Albertaltdkpf/index.htm.

Dated at Calgary, this 19th day of October, 2009.

DELOITTE & TOUCHE INC.

In its capacity as Trustee under the
Proposal of 354034 Alberta Ltd. o/a
Kitchen & Patio Furniture Gallery and
not in its personal capacity.



Victor P. Kroeger, CA, CIRP, CFE
Senior Vice President