

Nos. B200284

B200285

B200286

B200287

Vancouver Registry

Estate Nos. 11-2650763

11-2650762

11-2650761

11-2650764

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY**

IN THE MATTER OF THE BANKRUPTCIES OF
CONIAN DEVELOPMENTS INC.,
CONIAN DEVELOPMENTS (LA VODA) INC.,
CONIAN DEVELOPMENTS (LA VODA II) INC. AND
FLII CONSTRUCTION LTD.

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

DATED JULY 20, 2020

A. Introduction

1. On June 9, 2020, each of Conian Developments Inc. (“**Conian**”), Conian Developments (La Voda) Inc. (“**La Voda**”), Conian Developments La Voda II Inc. (“**La Voda II**”) and FLII Construction Ltd. (“**FLII Construction**”, and collectively with Conian, La Voda and La Voda II, the “**Companies**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to paragraph 50.4(1) of the *Bankruptcy and Insolvency Act* (“**BIA**”).
2. McEown and Associates Ltd. was appointed as proposal trustee in each of the NOI proceedings.
3. On June 19, 2020 each of the Companies filed a Projected Cash-Flow Statement with the Office of the Superintendent of Bankruptcy (the “**OSB**”) as required pursuant to paragraph 50.4(2) of the BIA.
4. On June 30, 2020, Romspen Investment Corporation (“**Romspen**”) filed a Petition for the following:
 1. a declaration that the stay of proceedings against La Voda and La Voda II, as well as any other entities that the court considers just, does not operate in respect of Romspen, *nunc pro tunc*, or in the alternative, an order that those companies’ respective proposals are deemed refused; and
 2. a receivership order appointing The Bowra Group Inc. as receiver and manager of all the undertakings, property and assets of La Voda and La Voda II.
5. The Companies opposed Romspen’s application and sought an adjournment of Romspen’s Petition to July 17, 2020 so that the Companies could pursue their restructuring plan and seek from the Supreme Court of British Columbia the following Orders:
 1. consolidating, for procedural purposes only, the British Columbia Supreme Court Registry files for the La Voda, La Voda II and FLII Construction to the Conian proceedings;
 2. extending the stay of proceedings to July 17, 2020;
 3. appointing McEown and Associates Ltd. as interim receiver of all of the assets, undertakings and property of the Companies;
 4. approving the interim financing facility from 528221 B.C. Ltd. substantially in accordance with the terms of the Debtor-in-Possession Term Sheet dated July 7, 2020; and

5. granting a priority charge over the assets, undertaking and property of the Companies in favour of the DIP Lender to secure all amounts owing under the Interim Facility in the amount of \$100,000, subordinate only to the Romspen Mortgage, the Gill Mortgage and the CBA Mortgage (as defined below).
6. On July 8, 2020, the Honorable Mr. Justice Sewell, heard Romspen's Petition and the Companies' requested relief. His Lordship dismissed the Companies' application to adjourn Romspen's Petition and made an Order appointing The Bowra Group Inc. as receiver and manager of all the undertakings, property and assets of La Voda and La Voda II (the "**Receiver**").
7. On July 9, 2020, the Companies were each deemed to have made an assignment in bankruptcy as a result of the failure to file a proposal within the required period in the NOI proceedings. McEown and Associates Ltd. was appointed as trustee in bankruptcy of each of the Companies (the "**Trustee**").
8. This report has been prepared by McEown and Associates Ltd. in its capacity as Trustee of each of the Companies based on information available as at July 20, 2020.
9. The purpose of this report is to provide information with respect to the following:
 1. Background information regarding the Companies;
 2. Disclaimer and Terms of Reference
 3. Conservatory Measures;
 4. The Companies' assets;
 5. The Companies' liabilities;
 6. Consolidation of the Companies' bankruptcy proceedings;
 7. Preferential payments; and
 8. Estimated Recovery to the Companies' creditors.
10. Further information in respect of NOI proceedings and these bankruptcy proceedings are posted on the Trustee's website at <https://www.mceownassociates.com/conian-developments-inc-et-al>.

B. Background

1. Conian is a company which was incorporated in British Columbia on January 17, 2007 for the purpose of acquiring and developing a multi-residential rental complex located on King George Highway in Surrey, BC (the "**La Voda Project**").

2. Conian, through its wholly owned subsidiaries, La Voda and La Voda II, acquired the lands for the La Voda Project. Construction of the first phase of the La Voda Project was commenced in 2016 and is currently approximately 35% complete. Construction of the La Voda Project was managed through a related company, FLII Construction.
3. La Voda is a company which was incorporated on November 2, 2004.
4. La Voda II is a company which was incorporated on September 6, 2018.
5. FLII Construction is a company which was incorporated on April 5, 2017.
6. Construction of the La Voda Project ceased in May 2020. This was primarily due to the Companies' inability to arrange further construction financing, although the Trustee understands that the COVID-19 pandemic also contributed to the cessation of construction.

C. Disclaimer and Terms of Reference

1. Except as specified, in preparing this report the Trustee has obtained and relied upon unaudited, draft and/or internal information which the Companies advise has been compiled from the Companies' books and records. Where available, the Trustee has reviewed external records and documentation including post-filing banking records, corporate searches and financial statements.
2. Except as otherwise described in this report:
 - a. the Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information which has been provided in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountant Canada Handbook; and
 - b. the Trustee has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the Chartered Professional Accountant Canada Handbook.
3. This report has been prepared solely for the purpose described and readers are cautioned that it may not be appropriate for other purposes.
4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

D. Conservatory Measures

1. Upon being appointed the Trustee notified Khalsa Credit Union of the Companies' bankruptcies and instructed the credit union to close any accounts in the name of the Companies.

2. The Trustee provided the Receiver with the information regarding the La Voda and La Voda II bank accounts. These accounts had small balances according to the controller of the Companies.
3. As the Receiver arranged to take possession the La Voda Project, the Trustee has not taken any steps to secure the La Voda Project and arrange insurance.
4. The Trustee has made arrangements to secure the books and records of the Companies.

E. The Companies' Assets

Cash

1. The only accounts of the Companies at the Kahlsa Credit Union are an account in the name of La Voda with a balance of approximately \$700 and an account in the name of FLII Construction with a balance of approximately \$7,000. The funds in the La Voda account will be paid to the Receiver and the cash in FLII Construction account will be paid to the Trustee.

Goods and Service Tax Refund

2. La Voda has applied for GST refunds totalling \$370,000 that are expected to be received from the CRA in the next month. The Receiver will request that any refund be paid to it.

The La Voda Project

3. As discussed earlier in this report, the Companies' sole purpose was to acquire and develop the La Voda Project.
4. Based on recent appraisals obtained by Conian on the two phases of the La Voda Project and a recent work in progress report prepared by a quantity surveyor, the value of the La Voda Project to date can be summarized as follows:

Land Phase I (as at April 14, 2020)	\$13,720,000.00
Work in Progress on Phase I	\$18,000,000.00
Land Phase II (as at April 14, 2020)	\$18,600,000.00
TOTAL	\$50,320,000.00

5. The Trustee understands that the Receiver intends to implement a Sales and Investment Solicitation Process ("SISP") in order to maximize the recovery to the stakeholders. The Trustee agrees that a SISP is likely the best process to maximize recovery.

6. The Trustee has been advised that there is a prospective purchaser that is prepared to submit a stalking horse bid as part of the SISP in the amount of \$35,000,000.

F. The Companies' Liabilities

1. The following is a summary of the creditors for each of the Companies:

Conian Developments Inc.

	As Per Statement of Affairs	Claims Filed to date
Secured Creditors	\$ 0	\$ 16,321,234
Unsecured Creditors	\$ 34,891,036	\$ 25,334,953
Totals	\$ 0	\$ 41,656,187

Conian Developments (La Voda) Inc.

	As Per Statement of Affairs	Claims Filed to date
Secured Creditors	\$10,673,333	\$17,013,361
Unsecured Creditors	\$ 785,109	\$10,002,182
Totals	\$11,458,442	\$ 27,015,42

Conian Developments (La Voda II) Inc.

	As Per Statement of Affairs	Claims Filed to date
Secured Creditors	\$ 47,318	\$18,479,229
Unsecured Creditors	\$12,665,000	\$ 9,757,447
Totals	\$12,712,318	\$28,236,676

FLII Construction Ltd.

	As Per Statement of Affairs	Claims Filed to date
Secured Creditors	\$ 0	\$ 568,266
Unsecured Creditors	\$ 3,709,514	\$10,430,679
Totals	\$ 3,709,514	\$10,998,945

2. The Trustee is also aware that numerous individuals and companies advanced funds on an unsecured basis for the La Voda Project (the “**Unsecured Lenders**”). These Unsecured Lenders are owed an aggregate amount of approximately \$24 million. The Unsecured Lenders are listed as creditors of Conian on its Statement of Affairs.
3. Many of these Unsecured Lenders advanced their money for the La Voda Project to B.C. Currency Exchange Ltd. (“**BCCE**”) on the understanding that the funds would be transferred to and utilized for the development of the La Voda Project. BCCE and the Companies are related companies by virtue of Mr. Rana Khaliq being the sole shareholder and director of each.
4. The Trustee is advised by the controller of BCCE that approximately \$10 million of BCCE’s funds were advanced to the La Voda Project and that BCCE’s funds were used to pay interest to certain Unsecured Lenders. The approximate \$10 million of BCCE’s funds that were advanced to the La Voda Project is shown as an unsecured claim of Conian on its Statement of Affairs.
5. On June 30, 2020, BCCE was deemed bankrupt.
6. Due to the intermingling of funds of BCCE and the Companies, including the funds advanced by the Unsecured Lenders, the Trustee expects that it will take significant time and effort to unravel, separate and determine the claims of the different stakeholders.

G. Consolidation of Bankruptcy Proceedings

1. The Trustee recommends that an application be made to Court to consolidate the court proceedings for each of the Companies into one proceeding for procedural purposes.
2. The Trustee further believes that a substantive consolidation of the Companies’ estates is fair and reasonable in the circumstances as it appears that the Companies’ liabilities to stakeholders are in relation to the La Voda Project, regardless of which of the Companies the stakeholders had agreements with. The Trustee will continue to consider whether a substantive consolidation is appropriate as it continues to administer the Companies’ estates.

H. Preferential Payments and Transfers at Undervalue

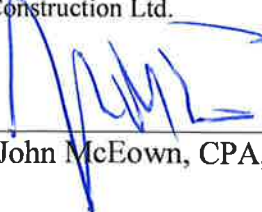
1. At the date of this report the Trustee has not completed its review of the books and records to determine if there have been any preferential payments and/or transfers at undervalue.

I. Estimated Realization

1. The Trustee is in not able to provide an estimate of the expected realization and recovery to the Companies' creditors until the SISP has been completed by the Receiver and the Trustee has completed its review of the claims against the Companies,

McEown and Associates Ltd.

Trustee in the Matter of the Bankruptcies of
Conian Developments Inc.,
Conian Developments (La Voda) Inc., and
Conian Developments (La Voda II) Inc.
FLII Construction Ltd.



Per: John McEown, CPA, CA, CIRP, LIT