

McEown + Associates LTD.

LICENSED INSOLVENCY TRUSTEE

CORPORATE INSOLVENCY AND RESTRUCTURING PROFESSIONALS

1140 - 800 West Pender St.
Vancouver, BC V6C 2V6

T: 604.558.8020

F: 604.558.8021

www.mceownassociates.ca

Estate No. 11-2642694

Court No. B200207

Vancouver Registry

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

**IN THE MATTER OF THE BANKRUPTCY OF
B.C. CURRENCY EXCHANGE INC.**

TRUSTEE'S PRELIMINARY REPORT TO CREDITORS

DATED JULY 20, 2020

A. Introduction

1. On April 30, 2020, B.C. Currency Exchange Inc. (the "**Company**") 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 (the "**Proposal Trustee**") in the NOI proceedings.
3. On May 4, 2020, the Company's largest creditor, Kuzco Lighting Inc. ("**Kuzco**"), commenced a civil action against the Company for amounts due of approximately \$9,000,000 (*Kuzco Lighting Inc. v. B.C. Currency Exchange Inc.*, BCSC Action No. S-204368). Upon being advised of the stay and the NOI proceedings, Kuzco made an application to the Court to have McEown and Associates Ltd. appointed as interim receiver ("**Interim Receiver**") in the NOI proceedings.
4. On May 6, 2020, the Honourable Madam Justice Fitzpatrick granted an Order appointing McEown and Associates Ltd. as Interim Receiver (the "**Interim Receiver Order**").
5. On May 8, 2020 the Company 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.
6. On May 28, 2020 the Proposal Trustee filed its First Report to the Court dated May 27, 2020 in response to the Company's application to Court to request an extension of the stay and time for filing a proposal (the "**Proposal Trustee's First Report**"). The Proposal Trustee's First Report included information with respect to the Interim Receiver's activities and investigations.
7. On May 29, 2020, the Honourable Mr. Justice Sewell granted an Order extending the stay of proceedings in the NOI proceedings to June 29, 2020, on certain conditions (discussed further below).
8. On June 30, 2020, the Company was 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 the Company (the "**Trustee**").
9. This report has been prepared by McEown and Associates Ltd. in its capacity as Trustee of the Company based on information available as at July 20, 2020.

10. The purpose of this report is to provide information with respect to the following:

1. Disclaimer and Terms of Reference
2. Background information regarding the Company;
3. Activities of the Proposal Trustee and Interim Receiver;
4. Conservatory Measures;
5. The Company's assets;
6. The Company's liabilities;
7. The La Voda Project Companies;
8. Preferential payments; and
9. Estimated Recovery to the Company's creditors.

11. Further information in respect of NOI proceedings and these bankruptcy proceedings are posted on the Trustee's website at <https://www.mceownassociates.com/b-c-currency-exchange-inc>.

B. 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 Company advises has been compiled from the Company's books and records. Where available, the Trustee has reviewed external records and documentation including 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.

C. Background

1. The Company was a foreign currency exchange dealer that had been in operations in British Columbia for approximately 20 years. Mr. Rana Khaliq is the sole director and shareholder of the Company. The Company operated from four store fronts in the lower mainland which are located in Vancouver, Surrey, White Rock and Abbotsford.
2. As a result of the freezing of the Company's bank account pursuant to the Garnishing Order, the Company could not continue to operate and therefore closed its stores on April 22, 2020.
3. The Company commenced the NOI proceedings in order to provide time to consider its restructuring options.
4. As discussed earlier in this report, the Order of the Honourable Mr. Justice Sewell granted on May 29, 2020 extended the stay of proceedings in the NOI proceedings to June 29, 2020, on certain conditions including that Mr. Rana Khaliq deliver his shares of the La Voda Project Companies (as defined below) to the Proposal Trustee as security for Mr. Khaliq's undertaking to assign the equity in the La Voda Project Companies for the benefit of the Company's creditors.
5. Mr. Khaliq is the sole director and shareholder of the La Voda Project Companies.
6. Based on the Interim Receiver's investigation into the affairs of the Company, the Interim Receiver discovered that M. Khaliq intermingled the Company's funds with funds in the La Voda Project which appears to have resulted in millions of dollars of the Company's funds being used for construction of the La Voda Project (defined below) and payments to investors in the La Voda Project.
7. On June 9, 2020, Conian Developments Inc., Conian Developments (La Voda) Inc. ("**La Voda**"), Conian Development (La Voda II) Inc. and FLII Construction Ltd. (collectively referred to as the "**La Voda Project Companies**") each filed a NOI pursuant to the BIA. McEown and Associates Ltd. was appointed as proposal trustee in each of the La Voda Project Companies' NOI proceedings.

8. The La Voda Project Companies are in the business of developing a multi-residential rental complex located in Surrey, BC (the "**La Voda Project**").
9. On July 8, 2020, the Honourable Mr. Justice Sewell 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**").
10. On July 9, 2020, the La Voda Project 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 La Voda Project Companies.

D. Activities of the Proposal Trustee and the Interim Receiver

1. The details of the activities of the Proposal Trustee and the Interim Receiver can be found in the Proposal Trustee's First Report.
2. The Proposal Trustee, amongst other things:
 - a. made enquiries of the Company's staff, Mr. Khaliq and his independent legal counsel regarding the financial affairs of the Company and in particular the use of the Company's funds for other purposes;
 - b. took steps to disclaim all leases and cancel all services that will no longer be required; and
 - c. engaged in numerous discussions with the Company's staff, Mr. Khaliq and legal counsel regarding a plan to repay the Company's creditors from a partially completed real estate project in Surrey and other properties that Mr. Khaliq owns or has an interest in personally or through his corporations.
3. The Interim Receiver, amongst other things:
 - a. secured all funds in the Company's bank accounts and the cash held at the retail premises;
 - b. had the funds paid into Court pursuant to the Garnishing Order in the amount of \$363,325.40 paid into the trust account of McEown and Associates Ltd.;
 - c. investigated the affairs of the Company;

- d. updated the Company's creditor list and prepared a separate list of individuals and companies that loaned funds to Mr. Khaliq that were intended to be for the La Voda Project; and
 - e. monitored the activities of the La Voda Project in order to preserve and protect the property as an asset of the Company's stakeholders.
4. The results of the Interim Receiver's preliminary investigation to date into the business affairs of the Company can be summarized as follows:
 - a. The Company was dealing with a high volume of transactions in the currency exchange business and has advised that the annual amount of funds exchanged exceeded \$800 million;
 - b. Mr. Khaliq intermingled the Company's funds with his other real estate businesses which appears to have resulted in millions of dollars of the Company's fund being used to fund the real estate businesses and to fund interest payments to the investors in Mr. Khaliq's real estate businesses;
 - c. As a result of the significant funds that were taken from the Company it was necessary for Mr. Khaliq to find new investors and/or lenders to replenish the cash that had been taken so that the Company's currency exchange business could meet its obligations;
 - d. Mr. Khaliq also negotiated terms with the Company's currency exchange customers that would give them preferred exchange rates if they delayed the payment of the exchanges funds for a few days, and in some cases even longer;
 - e. The funds paid by the Company to the real estate businesses' investors on account of interest were often paid in cash and were not properly recorded in the Company's records;
 - f. The books and records of the Company have not been kept up to date and will require significant effort and time to be brought up to date: and
 - g. The preliminary estimate of the amount owed to Mr. Khaliq's real estate investors is approximately \$25,000,000, which amount does not include the Company's creditors.
5. The Interim Receiver did not receive any documentation in relation to the advance of the funds to the Company or to the La Voda Project.

E. Conservatory Measures

1. Prior to the bankruptcy, the Interim Receiver recovered all the funds in the Company's bank accounts which totalled \$935,010.50 as well as the funds paid into Court pursuant to the Garnishing Order in the amount of \$363,325.40 paid prior to the bankruptcy.
2. The Trustee has made arrangements to secure the Company's books and records that are electronically stored.

F. The Company's Assets

1. The draft Statement of Affairs was prepared by the Trustee with the assistance of the Company's controller and sent to Mr. Khaliq for his review and execution. Mr. Khaliq has not responded to the Trustee.

Cash

2. The Company had an operating bank account with Khalsa Credit Union and an operating bank account with Prospera Credit Union.
3. At the date of bankruptcy, the Company's cash that is being held in trust by the Trustee can be summarized as follows:

Cash from Interim Receiver	\$1,237,649.59
Cash remaining from Proposal Trustee's Retainer	\$ 13,438.44

Accounts Receivable

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 accounts receivable on the draft Statement of Affairs with an estimated realization of \$7,000,000.

Office Furniture and Fixtures

5. The office furniture and fixtures are valued at \$1,000 on the draft Statement of Affairs. Based on the Trustee's experience the costs to move and sell the furniture and computer equipment will exceed the minimal value that could be realized from the sale of these assets.

Leased Vehicles

6. The Trustee, based on a corporate search, has determined that the Company owns or leases 4 vehicles. These vehicles are listed on the Statement of Affairs at their black book value as follows:

2017 Honda Accord	\$ 22,978
2018 Toyota Rav	\$ 23,081
2019 Acura MDX	\$ 40,571
2015 Honda Civic	\$ 10,445

The vehicle financiers have been notified of the bankruptcy proceeding and to date, have not filed claims in the bankruptcy. The Trustee intends to release its interest in the vehicles to the secured creditors on receipt of a valid secured claim and confirming that no equity exists.

G. The Company's Liabilities

1. The Trustee has performed a preliminary review of the claims filed to date which are summarized below:

	As Per Draft Statement of Affairs	Claims Filed to date
Secured Creditors	\$ 114,218	\$16,321,234
Unsecured Creditors	\$24,011,430	\$30,101,525
Totals	\$24,125,648	\$46,422,759

2. Romspen Investment Corporation ("Romspen") has filed a secured claim in the amount of \$16,321,234 in the bankruptcy of BCCE as BCCE is guarantor for the La Voda Project. Romspen has not valued its security. The Trustee has put a value of \$1.00 for its unsecured claim for the purposes of voting at the first meeting of creditors. The Trustee anticipates that Romspen will recover the amount of its claim in full from the sale of the La Voda project.
3. In addition to the creditors of BCCE, the Trustee is also aware of numerous individuals and companies that advanced funds to BCCE on the understanding that the funds would be transferred to and utilized for the development of the La Voda Project (the

“Unsecured Lenders”). These Unsecured Lenders are owed an aggregate amount of approximately \$24 million.

4. The Company intermingled its funds with those of the Unsecured Lenders La Voda Project and it will take considerable effort and time to sort out and determine the respective claims of the different creditors.

H. The La Voda Project Companies

1. McEown and Associates Ltd. has been appointed as trustee in bankruptcy of the La Voda Project Companies. The details with respect to the La Voda Project Companies can be found in the Trustee's Preliminary Report to Creditors dated July 20, 2020 and on the trustee's website at <https://www.mceownassociates.com/conian-developments-inc-et-al>.
2. 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 believes that the best source of recovery for the claims of the Company's stakeholders is in maximizing the value from the sale of the La Voda Project.

I. 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.

J. Estimated Realization

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

McEown and Associates Ltd.

In its capacity as Trustee in Bankruptcy of
B.C. Currency Exchange Inc.


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