

**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 FIRST REPORT TO COURT

MCEOWN AND ASSOCIATES LTD.

DATED JANUARY 13, 2022

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A. Introduction

1. On April 30, 2020, B.C. Currency Exchange Inc. (the “**Company**” or “**BC Currency**”) 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 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).
6. 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**”).
7. This report has been prepared by the Trustee based on information available as at December 10, 2021.
8. The purpose of this report is to provide information with respect to the following:
 - a) Background Information Regarding the Company;
 - b) Activities of the Trustee;
 - c) Bankruptcy Offences and OSB Investigation;
 - d) RCMP and BCSC Investigations;
 - e) Section 163 Examination of Rana Khaliq pursuant to the BIA;
 - f) Forensic Review by E&Y;
 - g) Summary of and Description of Claims Filed;

- h) Proposed Claims Process;
 - i) The La Voda Project Companies;
 - j) Conflict of Interest;
 - k) Statement of Receipts and Disbursements
 - l) Conclusions and Recommendations
9. 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

10. 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.
11. 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.
12. This report has been prepared solely for the purpose described and readers are cautioned that it may not be appropriate for other purposes.
13. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

C. Background

14. The Company was a foreign currency exchange dealer that had been in operation in British Columbia for approximately 20 years. Rana Khaliq is the sole director and shareholder of the Company. The Company operated from four store fronts

in the lower mainland, which were located in Vancouver, Surrey, White Rock and Abbotsford.

15. Prior to the filing of the NOI, on March 23, 2020, the Exchange Bank of Canada ("**EBC**") was granted a Garnishing Order before Judgment in the amount of \$1,412,465 (the "**Garnishing Order**") which was served on the Company's bank, Khalsa Credit Union. Upon receipt of the Garnishing Order, Khalsa Credit Union immediately froze the bank account and paid funds into Court to the credit of EBC's action. EBC's civil action against the Company was commenced on April 20, 2020, in which EBC claims a debt of \$1,000,000 USD (or approximately \$1,412,000) (*Exchange Bank of Canada v. B.C. Currency Exchange Inc.*, BCSC Action No. S-204090).
16. 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.
17. The Company commenced the NOI proceedings in order to provide time to consider its restructuring options.
18. 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 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.
19. Mr. Khaliq is the sole director and shareholder of the La Voda Project Companies.
20. Based on the Interim Receiver's investigation into the affairs of the Company, the Interim Receiver discovered the following:
 - Mr. Khaliq had borrowed money from individuals/companies that were deposited to account(s) in the name of B.C. Currency. The lenders of these funds were advised by Mr. Khaliq that the borrowed funds were for the La Voda Project;
 - Mr. Khaliq intermingled the lender funds intended for the La Voda Project with the Company's funds;
 - Mr. Khaliq paid interest to the lenders from funds in the B.C. Currency accounts;
 - Funds paid to lenders on account of interest were often paid in cash and were not properly recorded in the Company's records; and

- 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;
21. On June 9, 2020, Conian Developments Inc. ("**Conian**"), Conian Developments (La Voda) Inc. ("**La Voda**"), Conian Development (La Voda II) Inc. ("**La Voda II**") and FLII Construction Ltd. ("**FLII**") (collectively referred to as the "**Conian 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 Conian La Voda Project Companies' NOI proceedings.
 22. The Conian La Voda Project Companies were in the business of developing a multi-residential rental complex located in Surrey, BC (the "**La Voda Project**").
 23. 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**").
 24. On July 9, 2020, the Conian 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.
 25. Details of the Conian La Voda Project Companies and their relationship to the bankruptcy of the Company are discussed further below.

D. Activities of the Trustee

26. The Trustee's activities since being appointed include, but are not limited to, the following:
 - a) Prepared and sent out notices of the first meeting of creditors to all known creditors.
 - b) Prepared draft Statement of Affairs for the Company with the assistance of the former accountant, Ronnie Gill. The Statement of Affairs was sent to Mr. Khaliq for review and signature but Mr. Khaliq did not respond or return a signed copy of the Statement of Affairs.
 - c) Prepared the Trustee's preliminary report to the creditors.
 - d) Reviewed the creditor claims filed for purposes of voting at the first meeting of creditors.

- e) Prepared for and attended the first meeting of creditors.
- f) Communicated with creditors regarding the administration of the estate.
- g) Meet with Inspectors regarding the status of the administration of the estate and sought instructions regarding investigations into the affairs of the Company.
- h) Communicated with Ernst and Young with respect to its engagement to conduct a forensic investigation of the banking records of the Company.
- i) Attended to the required statutory filings of the Company for all periods up to the date of bankruptcy.
- j) Contacted and communicated with representatives of the RCMP, BC Security Commission and the Office of the Superintendent of Bankruptcy regarding possible criminal proceedings against Mr. Khaliq.
- k) Attended to the filing of employees claims pursuant to the Wage Earners Protection Act.
- l) Reviewed the supporting documentation included with the filed creditor proofs of claim and considering a claims process for lenders.
- m) Identified and pursued preferential payments.
- n) Arranged for the examination under oath of Mr. Khaliq and his wife.
- o) Analyzed the information and transaction reports produced by Ernst & Young LLP in its forensic review of the banking records.
- p) Monitored the activities of the Receiver appointed with respect to the La Voda Project Companies and attended at Court proceeding to approve the sale of the La Voda properties.

E. Bankruptcy Offences and OSB Investigation

- 27. The Trustee made investigations into the affairs of the Company and determined that certain offences were committed with respect to the bankrupt estate. The offences identified by the Trustee are outlined in the Trustee's Report on Bankruptcy Offences dated September 21, 2020 (the "**Offences Report**"), including the failure by Mr. Khaliq to submit a Statement of Affairs and to attend the First Meeting of the Creditors as required pursuant to the *Bankruptcy and Insolvency Act*.
- 28. In the Offences Report, the Trustee confirmed the following:

- a) The Company was dealing with a high volume of transactions in the currency exchange business;
 - b) At the direction of Mr. Khaliq, millions of dollars were transferred from the Company to the La Voda Project, which rendered the Company insolvent;
 - c) In order to keep the currency exchange business going, Mr. Khaliq found 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; and
 - d) Mr. Khaliq would entice new customers to leave their money in the Company by giving them preferred exchange rates if they delayed the payment of the exchanged funds for a few days, and in some cases even longer.
29. The Office of the Superintendent of Bankruptcy has now referred the matter to its Special Investigations Unit to consider possible criminal charges against Mr. Khaliq.

F. Investigations by RCMP and BCSC

30. The Royal Canadian Mounted Police (the "RCMP"), the BC Securities Commission (the "BCSC"), and the Office of the Superintendent in Bankruptcy (the "OSB") each launched their own investigations into the Company.
31. The BCSC investigation is ongoing, however, the Trustee does not have any update on their investigation.
32. The RCMP commenced an investigation but after speaking to and reviewing documents from certain creditors the RCMP has determined that there is insufficient evidence available to support the alleged criminal activities.

G. Section 163 Examination of Rana Khaliq pursuant to the BIA

33. On April 29, 2021, counsel for the trustee examined Mr. Khaliq in relation to the business activities of both the Company and Conian Developments. Mr. Khaliq confirmed that private lenders had loaned millions of dollars to the Company in return for the payment of interest at rates ranging from 12% to 16%. These loans were evidenced by way of a promissory note or were based on a handshake. These funds had been used by the Company to fund the Company's currency exchange business, to make interest payments to the lenders, and to fund the La Voda development. In conclusion, Mr. Khaliq ran an unlawful lending Ponzi scheme, which required Mr. Khaliq to use funds received from lenders to pay interest over the time period the lending scheme was running.

H. Forensic Review by E & Y

- 34. Ernst & Young LLP (“E & Y”) has completed its initial review and has provided the Trustee with transaction details for the 3 and 6 month period prior to the filing of the NOI on April 30, 2020. E & Y’s review included a detailed review of the bank transactions for both inflowing and outflowing funds and a review of certain Company records.
- 35. The forensic review was complicated due to the large number of daily currency transactions in both US\$ and CAN\$ that were often in cash and not properly recorded in the Company’s records.
- 36. The information provided by E & Y to the Trustee allows the Trustee to identify customers that have received substantially more back from BC Currency Exchange than invested (“Net Profits”).
- 37. The Trustee is currently in the process of reviewing and attempting to verify the accuracy of this information before issuing demands to these customers requesting the return of the Net Profits.
- 38. The customers include lenders that have been receiving regular interest payments from BC Currency Exchange.

I. Summary of and Description of Claims Filed

- 39. The Trustee has received a large number of proofs of claim from both BC Currency Customers and lenders. The claims filed to date can be summarized as follows:

BC Currency Customer Claims	\$25,512,816
Lender Claims	<u>\$21,887,542</u>
	<u>\$47,400,358</u>

- 40. The proofs of claim received from lenders are mostly addressed to both BC Currency and Conian Developments.
- 41. The Trustee is unable to accept or disallow most of the lender claims due to the fact that the lenders have failed to attach the necessary documentation in order for the Trustee to determine whether the quantum of the claims are valid or not.
- 42. The Trustee’s review and determination of the lender claims is further complicated because it is apparent from the Trustee’s investigation that Rana Khaliq ran a Ponzi like lending scheme that resulted in new lenders lending money to the Company which was used to pay earlier lenders or BC Currency customers.

43. Most of the lenders were also receiving regular interest payments that were being funded by either the BC Currency customers or new lenders. As mentioned earlier the borrowed funds were comingled with the BC Currency funds. The borrowed funds were also not invested and generating a return that could be used to pay lenders' interest.

J. Proposed Claims Process

44. As indicated above, numerous individuals and companies advanced funds on an unsecured basis to the Company (the "Lenders"). Based on the Trustee's investigation the Lenders were promised that their funds would be invested in the La Voda Project.
45. The funds advanced by the Lenders were deposited to BC Currency and not segregated from the Company's operating funds. Accordingly, it appears that the Lenders are creditors of the Company, rather than the La Voda Project Companies.
46. The Company and the La Voda Project Companies are related companies by virtue of Mr. Khaliq being the sole shareholder and director of each.
47. The Trustee has also been advised by the former controller of the Company that approximately \$10 million of its funds were advanced to the La Voda Project. Assuming the advances by the Company to the La Voda Project can be verified, the Company may have a right to file a proof of claim in the bankruptcies of the La Voda Project Companies for the advances by the Company to the La Voda Project Companies.
48. The Lenders may have provable claims against the Company. The Trustee is not aware of any of the investor/lenders having loaned monies directly to the La Voda Project Companies and therefore would not have a direct claim against the La Voda Project Companies.
49. As a result of the Lenders being involved in a Ponzi like investment scheme, the Trustee is of the view that the Lenders claims should be based on the net funds advanced being the total of the funds advanced less any payments received including both principal or interest payments. The claims adjudication process is different than the claims process under the provisions of the BIA and therefore should be a claims process sanctioned by the Court.
50. The Trustee will be making an application for a claims process order that will give the Lenders the opportunity to submit their claims with the appropriate backup documentation. The claims process is designed to provide those Lenders who have already submitted a claim, the opportunity to provide proper back-up documentation that will substantiate their claim.

51. As the Lenders unwittingly participated in an illegal Ponzi lending scheme, the Trustee will be tasked with ensuring that all principal and/or interest payments that were received by the Lenders will be properly accounted for in the calculation of each claim. Accordingly, the investors/lenders will be required to substantiate all payments received by them in their back-up documentation attached to their proofs of claim. The proposed claims process order directs the Trustee to advertise in the Vancouver Province paper, a notice that anyone who has lent money to the Company or Rana Khaliq should file a Proof of Claim with backup documentation evidencing the investment or loan. The claims process incorporates a Claims Bar Date by which all Lenders will need to file their claim by in order to participate in any distribution.
52. The hearing for the approval of the claims process will take place once the court confirms a hearing date. Once the court approves the claims process, the Trustee will proceed to issue claim packages. The Lenders who loaned money to either Mr. Khaliq or the Company may file proofs of claim supported by documents that confirm the advance of money and any interest payments received.

K. The La Voda Project Companies

53. As discussed earlier in this report, 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>.
54. The Trustee anticipates net recovery from the sale of the La Voda project and other assets, after payment of the secured creditor claims and the bankruptcy administration costs, to exceed \$6,000,000.
55. Subject to any trust claims that could be advanced by Lenders, the net funds recovered would be available to distribute to the creditors of the La Voda Companies including claims advanced by BC Currency.

L. Conflict of Interest

56. Given that McEown and Associates Ltd. has been appointed as trustee in the bankruptcy of both BC Currency Exchange and the La Voda Project Companies, the Trustee will have a conflict in adjudicating claims advanced by BC Currency against the La Voda Project Companies and claims advanced by the Lenders against both BC Currency and the La Voda Companies. Lenders may also be in a position to file trust claims against the estate of Conian in relation to the funds they advanced to the Company or Mr. Khaliq.
57. The Inspectors are currently interviewing other Trustee firms that are willing to be substituted as trustee in bankruptcy of the La Voda Project Companies.

58. The Trustee substitution will require approval by way of special resolution at a properly constituted meetings of creditors of the La Voda Companies.

M. Statement of Receipts and Disbursements

59. The Trustee has attached as Appendix A to this Report an Interim Statement of Receipts and Disbursements as at December 31, 2021 which indicates funds currently held in trust of \$1,784,142.11.

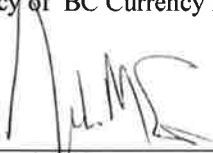
N. Conclusions and Recommendations

60. The Trustee will be proceeding with an application for claims process that is considered necessary to properly adjudicate the claims of the Lenders that unwittingly participated in an illegal Ponzi lending scheme.

61. The Trustee will be meeting with the Inspectors of the La Voda Companies to discuss the Trustee substitution and then organize a meeting of creditors of the La Voda Companies.

McEown and Associates Ltd.

in its capacity as Trustee in Matter of the
Bankruptcy of BC Currency Exchange Ltd.



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

APPENDIX A
Interim Statement of Receipts and Disbursements
as at December 31, 2021

District of British Columbia
 Division No. 03 - Vancouver
 Court No. B200207
 Estate No. 11-2642694

**In the matter of the bankruptcy of
 B.C. CURRENCY EXCHANGE INC.
 of the city of Surrey
 in the Province of British Columbia
 Form 12**

Interim

Interim Statement of Receipts and Disbursements

RECEIPTS

1. Miscellaneous

Funds from retainer	78,438.44	
Interest allocation	3,907.45	
Miscellaneous other receipts	25,224.00	
Advance from Interim Receivership	1,166,261.96	
Settlement of Preferential Payment	1,010,188.26	
		2,284,020.11

TOTAL RECEIPTS

2,284,020.11

DISBURSEMENTS

2. Fees Paid

To official receiver	150.00	150.00

3. Notice of first meeting

Local paper	457.98	457.98

4. Premium

Bond or Surety premium	8,300.00	8,300.00

5. Postage on general correspondence

	313.53	313.53

6. Trustee's remuneration

Trustee's fees	124,938.53	
GST charged on Trustee remuneration	6,246.93	
		131,185.46

7. Federal and Provincial taxes

GST paid on disbursements exclusive of fees	15,798.39	
QST paid on disbursements exclusive of fees	4.92	
		15,803.31

8. Miscellaneous

Search Fees	17.00	
Bank charges	12.60	
Photocopies	2,176.85	
Telephone	533.23	
Storage	609.25	
Change of locks	131.04	
Baillifs	766.86	
Computer services	34.50	
Accounting services	236,337.93	
Redirection of mail	670.00	
Legal fees/disbursements	100,824.88	
Ascend License Fee	190.00	
Consultant Fees	1,329.09	
GST on Ascend License Fee	9.50	
PST on Ascend License Fee	13.30	
Registered Mail	11.69	
		343,667.72

TOTAL DISBURSEMENTS

499,878.00

Note: How much of the total disbursements was paid for services provided by persons related to the trustee?

0.00

Amount available for distribution

1,784,142.11