

IN THE MATTER OF THE BANKRUPTCY OF

EPIC ALLIANCE REAL ESTATE INC.  
OF THE CITY OF SASKATOON,  
IN THE PROVINCE OF SASKATCHEWAN

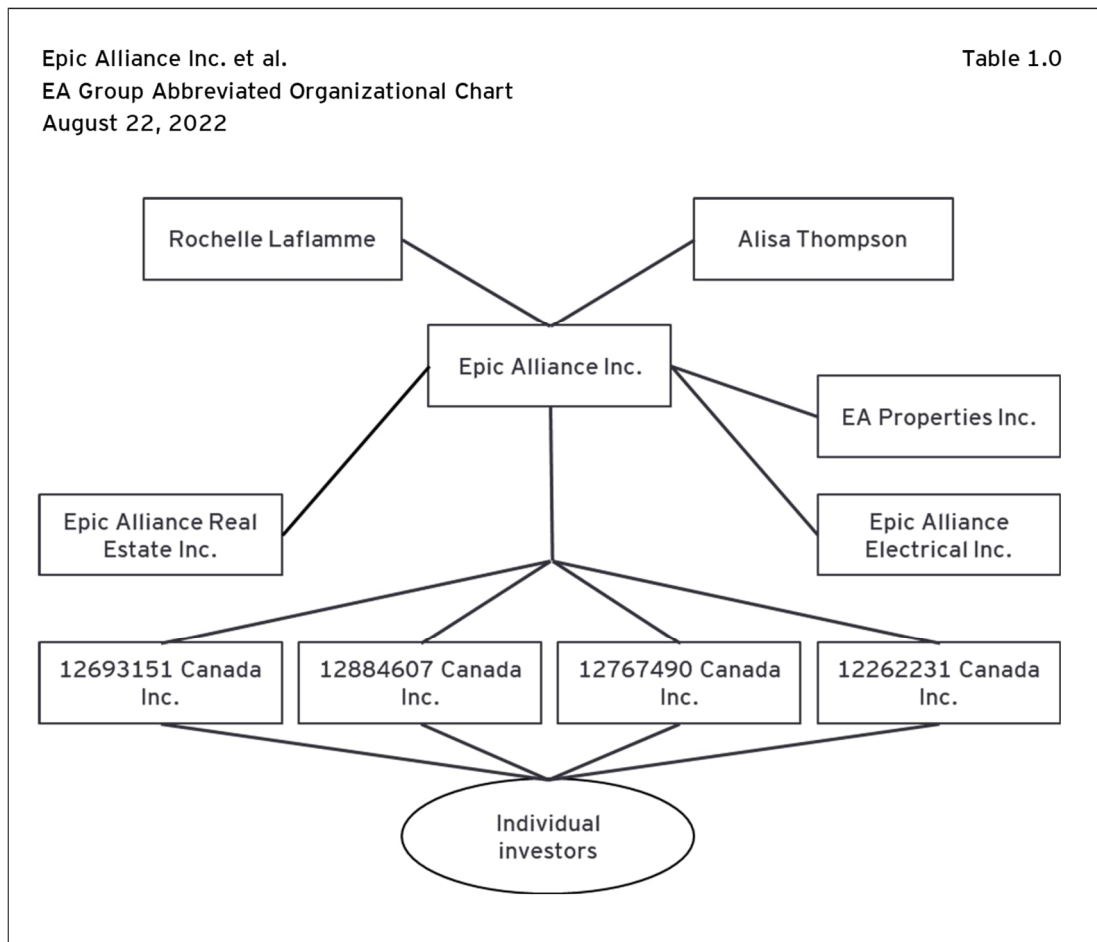
REPORT ON THE TRUSTEE'S  
PRELIMINARY ADMINISTRATION

ESTATE NO. 23-035261

On August 4, 2022 (the "Bankruptcy Date"), a bankruptcy order (the "Order") was issued by the Court of Queen's Bench for Saskatchewan (the "Court") pursuant to Section 43 of the Bankruptcy and Insolvency Act against Epic Alliance Real Estate Inc. ("EA Real Estate"). Pursuant to the Bankruptcy Order, Ernst & Young Inc. was appointed as Trustee in Bankruptcy of EA Real Estate, subject to affirmation by the creditors of the trustee's appointment or substitution of another trustee by the creditors at the First Meeting of Creditors.

Background

EA Real Estate was incorporated on August 13, 2013 in the Province of Saskatchewan and was part of a group of companies (the "EA Group") formed by Rochelle Laflamme and Alisa Thompson with the stated purpose of "Real Estate". An abbreviated organization chart of the EA Group is as follows:



The EA Group facilitated the buying, selling, renting, subletting, and renovating of residential real estate, with the majority of the EA Group's real estate transaction being conducted through EA Real Estate. The EA Group's activities were financed through retail private investor funds.

The EA Group primarily offered the following four investment products to retail Investors:

- a) Fund-A-Flip ("FAF") - EA Real Estate acquired residential properties in Saskatoon, Saskatchewan and North Battleford, Saskatchewan to renovate and sell as investment properties. The purchase and renovation of these properties was funded by mortgages secured from private retail Investors. EA Real Estate would obtain mortgages in excess of the properties' purchase price in order to provide funding to renovate the properties. Investors would earn interest of 12% on the FAF mortgages advanced and mortgages would generally be outstanding for a period of 3 to 12 months. Based on the unaudited books and records of the Company, EA Real Estate acquired at least 700 residential properties with total principal amounts of capital contributed by Investors exceeding \$170.2 million during the period of 2014 to 2021. During the period of 2019 to 2021, mortgage proceeds in excess of the purchase price of \$14.6 million flowed to EA Real Estate. The amount of mortgage proceeds obtained prior to 2019 is unknown due to incomplete accounting records;
- b) Hassle-Free-Landlord Program ("HFLP") - EA Real Estate sold residential properties, generally from its inventory of FAF properties, to retail Investors and then leased the properties back from the Investors for a period of two years. EA Real Estate would undertake to sub-lease the HFLP property to a tenant or to generate income through Airbnb short term rental transactions, in order to cover payment of:
  - a. the property taxes, repairs and maintenance associated with such HFLP properties;
  - b. the mortgage payments required to be made by the owners of the HFLP properties; and
  - c. a return of 15% - 17% per annum to be paid to the owner of the HFLP property;

EA Real Estate sold at least 280 FAF properties to HFLP Investors with an aggregate purchase price of \$72.6 million. Based on the unaudited books and records of the Company, HFLP Investors invested a total of \$14.7 million (comprising a 20% down payment and closing costs of the homes) during the period of 2014 - 2021;

- c) Promissory Notes - EA Real Estate issued promissory notes in amounts ranging from \$40,000 to \$1,848,000. These promissory notes were generally outstanding for a period of 12 months. Interest rates to be paid to the noteholders ranged from 5% to 20% per annum. No restrictions on the use of the proceeds raised from issuing the promissory notes were identified or communicated to the Investors. The proceeds raised from such promissory notes were used for general corporate purposes of the Company, including making FAF mortgage payments, making HFLP rental payments, and making interest and principal payments on promissory notes and other costs incurred by the EA Group. EA Real Estate raised total proceeds of \$23.2 million from the issuance of promissory notes during the period 2014 - 2021; and
- d) Common Shares - The EA Group incorporated four Canada numbered corporations for the purpose of issuing shares to retail investors in order to raise capital. The Inspector

understands that retail investors were advised by the EA Group that the capital raised through the share issuance would be used to expand the EA Group's business into the United States. The four Canada numbered corporations raised \$3.8 million through these share issuances. As identified below, these funds were used to fund operating losses incurred by EA Real Estate in Canada and do not appear to have been used to fund the EA Group's expansion into the United States.

Across all investment products, the EA Group obtained funding from Investors in the total aggregate amount of approximately \$211.9 million.

On May 4, 2021, the EA Group announced to Investors that it had been contacted by the FCAA and that it acknowledged its obligation to comply with the FCAA. In the same announcement, the EA Group assured Investors that their investments were not in jeopardy.

On October 21, 2021, the FCAA issued a temporary Cease Trade Order (the "CTO") against the EA Group. The CTO provided that, among other things, the EA Group shall cease trading in securities and derivatives in Saskatchewan and cease giving advice respecting securities and derivatives up to and including November 5, 2021. On November 5, 2021, the FCAA extended the CTO up to and including November 19, 2021. On November 16, 2021, the FCAA terminated the cease trade order, effective that same day.

On January 19, 2022 the EA Group publicly announced that it was ceasing business operations, that it was "closing the doors", that it was "bankrupt", and that all funds advanced to the Respondents by Investors making unsecured loans were "gone". The Trustee understands that the term "bankrupt" was used by Ms. Laflamme and Ms. Thompson to describe the insolvency of the EA Group and that none of the EA Group were bankrupt until the Bankruptcy Order was issued against EA Real Estate on August 4, 2022.

On February 25, 2022, 120 creditors of the EA Group applied to this Honourable Court for the Inspector Order appointing Ernst & Young Inc. (the "Inspector") as Inspector to investigate the business and financial affairs of the Respondents pursuant to Division XVII of *The Business Corporations Act*, RSS 1978, C B-10 and Part XIX of the *Canada Business Corporations Act*.

The first report of the Inspector dated April 26, 2022 (the "First Report of the Inspector") outlines the Inspector's investigation and findings with respect to the financial affairs of the EA Group and can be found at [www.ey.com/ca/epicalliance](http://www.ey.com/ca/epicalliance)

#### Preliminary Evaluation of Property, Assets and Undertakings

As detailed in the First Report of the Inspector, the Inspector did not identify any property owned by EA Real Estate that was not fully encumbered as of February 25, 2022, the date of the issuance of the Inspector Order, with the exception of certain miscellaneous equipment located at the former head office of the EA Group. In accordance with an Order of the Court dated May 6, 2022, the Inspector took possession of and sold the miscellaneous property to settle a portion of the fees and costs of the Inspector and its legal counsel incurred in carrying out its duties under the Inspector Order.

As a result, the Trustee does not anticipate that there will be any assets available to the bankrupt estate.

#### Conservatory & Protective Measures

As discussed above, there are no estate assets or property available for the Trustee to secure.

#### Books and records

The Trustee took possession of the books and records of EA Real Estate while acting as Inspector of the EA Group. The Inspector reviewed and copied all electronic and hardcopy books records deemed relevant to investigating and understanding the financial affairs of the EA Group. The EA Group's servers, laptops and hardcopy documents were returned to Ms. Laflamme and Ms. Thompson in May 2022. The Trustee has access to all records retained by the Inspector.

#### Provable Claims and Secured Claims

The known creditors and liabilities are listed in the Statement of Affairs.

The Trustee assigned a placeholder claim value of \$1.00 on the statement of affairs for FAF and HFLP creditors as EA Real Estate's books and records were not complete as at the Bankruptcy Date and did not account for the underlying value of security (i.e. personal residences that FAF Investors held mortgages against) or loss mitigation efforts undertaken by these creditors.

The Trustee, while acting in its capacity as Inspector of the EA Group, was advised by Ms. Laflamme that the EA Group was indebted to the Canada Revenue Agency ("CRA") for a material balance of unremitted source deductions. Unremitted source deductions owed by EA Real Estate to the CRA would represent a deemed trust claim; however, EA Real Estate's accounting records did not quantify the balance of unremitted source deductions as at the Bankruptcy Date. The Canada Revenue Agency was served with a creditors package including notice of the first meeting of creditors and a proof of claim. As at the date of this report, a proof of claim has not been filed in the bankruptcy by the CRA.

With the exception of certain proof of claims which have been filed as part of the bankruptcy, and which are described in more detail in the Claims Register attached to this report, no additional liabilities or claims have been identified since the Bankruptcy Date.

#### Legal Proceedings, Reviewable Transactions and Preference

The Trustee does not anticipate a need for legal services. In the event that legal services are required, the issue will be addressed with the inspectors or creditors of the Estate, as applicable, and proper counsel will be engaged.

The Inspector disclosed the following two transactions entered into by EA Real Estate within the First Report of the Inspector which may represent reviewable transactions, transfers at undervalue or preferences:

- a) On November 19, 2018, various entities within the EA Group, including EA Real Estate entered into a series of non-ordinary course transactions with Saretzky Holdings Ltd. as described in the First Report of the Inspector; and
- b) The Inspector identified a payment of \$33,750 paid by EA Real Estate to Kevin Thompson ("Mr. Thompson"), the former spouse of Ms. Thompson, on January 5, 2022. The payment arose from a non-ordinary course transaction which involved Mr. Thompson advancing funds to EA Real Estate gained from a refinancing of his personal property arranged by EA Real Estate.

The Trustee will report to and seek instructions from the estate inspector(s) regarding its findings once this review is completed.

#### Third-Party Deposits or Guarantees

The Trustee has arranged limited funding of \$23,575 from a group of creditors, represented by W Law LLP, to fund the costs of the bankruptcy administration. These funds are not estate monies.

#### Possible Conflict of Interest

As noted above, EYI was appointed as the Inspector of the EA Debtors pursuant to the Inspector Order dated February 25, 2022. The Inspector was acting as a Court-appointed officer and its role was limited to investigating and reporting to the Court on the financial affairs of the EA Debtors.

EYI is not aware of any possible conflicts of interest with respect to it acting as Trustee in the bankruptcy of EA Real Estate.

#### Anticipated Realization and Projected Distribution

The Trustee does not anticipate any assets becoming available for distribution within the Estate.

The Trustee will be available at the Meeting of Creditors should creditors have any questions regarding this report or other related matters.

ERNST & YOUNG INC.

In its capacity as Trustee in the bankruptcy  
of Epic Alliance Real Estate Inc. and not its  
personal capacity

A handwritten signature in black ink, consisting of a stylized 'N' followed by a horizontal line and a loop.

Neil Narfason, CA, CIRP, LIT, CBV  
President