

COURT FILE NUMBER

1403-10990✓

COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

PLAINTIFF

ROYAL BANK OF CANADA

DEFENDANT

SPRAGUE-ROSSER CONTRACTING CO. LTD.,
SPRAGUE-ROSSER DEVELOPMENTS INC., PACIFIC
FEDERATION EQUITY GROUP INC., JEFFERY JESSAMINE,
DANIEL EDWARDS AND MATTHEW MACKAY

DOCUMENT

**FIRST REPORT OF ALVAREZ & MARSAL CANADA INC.,
IN ITS CAPACITY AS COURT APPOINTED RECEIVER
OF SPRAGUE-ROSSER CONTRACTING CO. LTD.,
SPRAGUE-ROSSER DEVELOPMENTS INC., PACIFIC
FEDERATION EQUITY GROUP INC.**

AUGUST 21, 2014

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CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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**ALVAREZ & MARSAL**

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COURT COURT OF QUEEN'S BENCH OF ALBERTA

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ALVAREZ & MARSAL

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INTRODUCTION AND BACKGROUND

1. Alvarez & Marsal Canada Inc. was appointed Receiver (the “**Receiver**” or “**A&M**”) of all of the assets, undertakings and properties of Sprague-Rosser Contracting Co. Ltd., Sprague-Rosser Developments Inc. and Pacific Federation Equity Group Ltd. (“**Pacific**”) (collectively, “**SR**” or the “**Companies**”) pursuant to an order of Honourable Madam Justice J. B. Veit (the “**Receivership Order**”) granted on July 31, 2014 (the “**Receivership Date**”).
2. On August 7, 2014 this Honourable Court amended and restated the Receivership Order (the “**Amended Receivership Order**”) to provide for certain rights to Western Surety Company in respect of bonded construction projects undertaken by SR that the Receiver does not intend to complete.
3. SR’s head office is located in Edmonton, Alberta and prior to the Receivership Date its principal business was acting as a heavy construction contractor on projects located in Alberta and Saskatchewan.
4. Sprague Rosser Leasing Inc. (“**Leasing**”) is a wholly owned subsidiary of Pacific and the shares constitute Property as defined in the Receivership Order. The Receiver believes it prudent for it to have proper control over the operations of the Pacific subsidiaries to effectively manage the claims and assets of that Property.
5. Further background on the Companies is contained in the materials filed relating to the Receivership Order, including the affidavits of Mr. Gary Ivany sworn on July 29 and July 30, 2014. These documents, as well as a copy of the Amended Receivership Order, are posted on the Receiver’s website at www.alvarezandmarsal.com/sprague.
6. Capitalized terms not defined in the First Report are as defined in the Amended Receivership Order.
7. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

8. In preparing the First Report, the Receiver has relied primarily upon the representations of select former management and employees of SR as well as unaudited financial information contained in the Companies’ books and records. The Receiver has not performed an audit, review or other verification of such information.

PURPOSE OF REPORT

9. The First Report is a special purpose report intended to provide this Honourable Court with information with respect to the following matters:
- a) the activities of the Receiver since the Receivership Date; and
 - b) the Receiver's application for an order authorizing the Receiver to assign the Companies and Leasing into bankruptcy.

RECEIVER'S ACTIVITIES

10. The Receiver's initial activities since the Receivership Date include the following:
- a) securing possession and preparing an inventory of the capital assets of SR which consists primarily of a shop facility in Acheson, Alberta, bare land in Edmonton, Alberta, and machinery, equipment and materials inventory held at various locations in Alberta and Saskatchewan;
 - b) securing possession of and preforming a preliminary review of the books and records of the Companies ("**Books and Records**");
 - c) locating and arranging for storage of machinery and equipment located at job sites and third-party locations;
 - d) relocating certain machinery and equipment to the Company's shop facility in Acheson, Alberta;
 - e) reviewing lease and ownership claims of property in the possession of the Receiver;
 - f) pursuing collection of accounts receivable including issuance of collection notices;
 - g) performing preliminary review of supporting documentation and historic correspondence with respect to large accounts receivable and corresponding with representatives of the customers regarding same;
 - h) analyzing the potential equity available to the Receiver in projects underway at the Receivership Date;
 - i) corresponding with owners of projects underway at the Receivership Date as well as the surety bond company as applicable;
 - j) attending to insurance matters including review of insurance coverage and adding the Receiver as named insured and loss payee under the applicable insurance policies;

- k) attending to various employee matters;
- l) retaining certain former employees on a contract basis to assist with the administration of the Receivership;
- m) attending numerous meetings and discussions with former management and shareholders of the Companies;
- n) communicating with RBC with respect to the Receiver's borrowing powers and the issuance of and funding a Receiver Certificate;
- o) attending various meetings and discussions with legal counsel to SR and RBC;
- p) responding to various creditor enquiries; and
- q) attending to various statutory notices and other duties of the Receiver pursuant to the Receivership Order, the *Bankruptcy and Insolvency Act* ("BIA"), the *Wage Earners' Protection Program Act*, SC 2005, c 47 and other applicable statutes.

11. Summarized in the table below is an interim statement of cash receipts and disbursements to August 20, 2014 (the "R&D"):

Receiver's Interim Statement of Cash Receipts and Disbursements for the period July 31, 2014 to August 20, 2014 \$000's		
Receipts		
Receiver borrowings	\$	500
Collections of accounts receivable		36
Other receipts		2
Total Receipts		538
Disbursements		
Payroll		191
Rent		42
Other		20
Total Disbursements	\$	253
Net cash flow	\$	285
Closing cash balance	\$	285

12. The Receiver has incurred obligations in respect of Receiver fees, legal fees and other commitments that have not yet been paid and are not reflected in the R&D.

ASSIGNMENTS IN BANKRUPTCY

13. Pursuant to section 3 of the Amended Receivership Order the Receiver is empowered to among other things:

"3... (s) upon the application of the Receiver to this Court upon notice to all affected and interested parties, and where the Court is of the opinion on the making of such an application that it is proper and in the best interests of the estate, to assign the Debtor into bankruptcy or obtain a bankruptcy order against the Debtor"

14. The Receiver is seeking the authorization of this Honourable Court to assign the Companies and Leasing into bankruptcy for the following reasons:
- a) there are ownership claims over property in possession of the Receiver and a large number of creditors, some with potential priority claims against SR including but not limited to employee wage claims, claims in respect of real property leases, subcontractors with builder's liens against projects, Crown claims, financing leases and equipment financing. A bankruptcy proceeding will facilitate a process for creditors and third party owners to prove their claims and will define respective priorities pursuant to the scheme of distribution under the BIA; and
 - b) the Receiver's preliminary review of the Books and Records indicate that there have been numerous recent transactions with related and/or affiliated parties, some of which may be reviewable transactions and considered transfers at under-value, preferences or impeachable conveyances in a bankruptcy proceeding which may be pursued by a trustee in bankruptcy for the benefit of the estate.

RECOMMENDATION

15. The Receiver respectfully recommends that this Honourable Court grant an order authorizing the Receiver to make an assignment in bankruptcy on behalf of the Companies and to exercise the powers as sole shareholder in Leasing to cause Leasing to make an assignment in bankruptcy.

All of which is respectfully submitted to this Honourable Court this 21st day of August, 2014.

**Alvarez & Marsal Canada Inc.,
in its capacity as Receiver and Manager of
Sprague-Rosser Contracting Co. Ltd,
Sprague-Rosser Developments Inc. and
Pacific Federation Equity Group Inc.**



Per: Tim Reid
Senior Vice President



Per: Tom Powell
Director