

IN THE MATTER OF THE BANKRUPTCY OF

DOWLAND CONTRACTING LTD.

OF EDMONTON

IN THE PROVINCE OF ALBERTA

**REPORT ON THE TRUSTEE'S
PRELIMINARY ADMINISTRATION**

ESTATE NO. 24-115714

Alvarez & Marsal Canada Inc. ("A&M") was appointed Receiver and Manager (the "Receiver") of Dowland Contracting Ltd. (the "Company" or "DCL"), 0849809 B.C. Ltd. (formerly, Dowland Industrial Works Ltd.) ("084") and 6070 N.W. Limited (collectively, the "Dowland Group") on May 21, 2013 (the "Receivership Date") pursuant to an order (the "Receivership Order") of the Court of Queen's Bench of Alberta (the "Court"). A copy of the Receivership Order is attached as Appendix "A".

On June 9, 2014 (the "Bankruptcy Filing Date"), the Receiver filed a voluntary assignment in bankruptcy on behalf of DCL pursuant to paragraph 3(s) of the Receivership Order and A&M was appointed trustee (the "Trustee"), subject to affirmation by the creditors of the Company at the first meeting of creditors to be held on June 27, 2014. A copy of the certificate of appointment is attached as Appendix "B".

Background

DCL is privately held and duly incorporated under the Business Corporations Act (Northwest Territories) and is an extra-provincially registered company with its head office formerly located in Edmonton, AB.

DCL provided a full suite of construction services for commercial, industrial, institutional and design-build projects. The type of services provided included design, construction, management, logistics, foundation installations, soil investigation and general contracting. The Dowland Group also provided support services for oil and gas exploration and energy infrastructure projects.

In early 2013, the Dowland Group experienced financial difficulties due to numerous circumstances including, without limitation, a number of disputes with owners and contractors with respect to various construction projects in which the Dowland Group was involved. As a result, the Dowland Group could not sustain their operations on an ongoing basis.

Pursuant to the Receivership Order, the Receiver completed a sales process to solicit offers for the purchase of the property and equipment, which consisted primarily of equipment, vehicles, office furniture, real estate and leasehold improvements. The Receiver also collected miscellaneous accounts and payments. Attached as Appendix "C" is a copy of the Receiver's Statement of Cash Receipts and Disbursements as at June 9, 2014.

Further background on the Company's business affairs and financial difficulties is disclosed in the Receiver's reports which, along with other related materials, are available on the Receiver's website at www.alvarezandmarsal.com/dowland.

Conservatory & Protective Measures and Preliminary Evaluation of Assets

As at the Bankruptcy Filing Date, the Receiver was in possession and control of all the assets of DCL, which are limited to cash on hand of approximately \$8.6 million, project accounts receivable of approximately \$2.7 million, machinery and equipment of approximately \$10,000, and real property of approximately \$1.5 million. The estimated net realizations to secured creditors is approximately \$12.5 million before additional costs of realization and professional fees, which is further detailed below.

Books and Records

The Receiver has taken possession of the books and records of the Company and the Trustee will have access as required to complete the administration of the bankruptcy estate. The records of the Company are currently being held at a third party storage facility in Edmonton, AB.

Provable Claims and Secured Claims

The Royal Bank of Canada ("RBC") is owed approximately \$21.1 million which is secured by among other things, a General Security Agreement against all present and after acquired personal property of the Company.

Continental Casualty Company ("CNA") and Intact Insurance Company ("Intact") have registered security interests but the amounts are not quantified as at the date of this report.

The Trustee has obtained independent legal opinion on the security interest held by RBC, CNA and Intact which indicates that the security held by the secured creditors is legal, valid and binding obligation against the Company, subject to standard qualifications.

In addition to the secured claims, there are two prior ranking claims by Service Canada for the Wage Earner's Protection Program of \$117,000 and the Canada Revenue Agency ("CRA") for payroll withholdings for an estimated potential amount of \$156,000. The trust audit examination by the CRA remains ongoing and the payroll withholdings amount may change pending the outcome of the examination.

The estimated shortfall to the secured creditors is summarized as follows:

Dowland Contracting Ltd. Estimated Shortfall to Secured Creditors As At June 9, 2014 (000's)	
Assets available for realization (Note 1):	
Cash	\$ 8,623
Project accounts receivable	2,689
Machinery and equipment	10
Real property	1,500
	<u>12,822</u>
Estimated potential prior ranking claims:	
Wage Earner's Protection Program	(117)
Payroll source deductions (CRA) (Note 2)	<u>(156)</u>
	<u>(273)</u>
Net realizations available to secured creditors before additional costs of realization and professional fees	12,549
Amounts due to secured creditors:	
RBC	21,105
CNA	unknown
Intact	<u>unknown</u>
	<u>21,105</u>
Less:	
Estimated realizations from 084 (Note 3)	<u>(364)</u>
Estimated shortfall to secured creditors	\$ (8,920)
Notes:	
(1) As per the Statement of Affairs of DCL filed June 9, 2014.	
(2) Amount is the potential payroll source deductions owed per the preliminary trust audit examination report; the examination remains ongoing and the amount may change pending the outcome of the examination.	
(3) Amounts owed to secured creditors are in respect of both DCL and 084.	

As indicated above, the Trustee expects that the realization from the assets of the Company will be insufficient to satisfy the secured creditors. Accordingly, it is not expected that there will be any distributions available for the unsecured creditors.

As disclosed in the Statement of Affairs of the Company, there are 642 unsecured creditors with total unsecured claims of \$25.5 million and additional unknown claim amounts.

Legal Proceedings

The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the estate.

Reviewable Transactions and Preference Payments

The Trustee has conducted a preliminary review of the books and records of the Company with respect to reviewable transactions and preference payments and has not noted any transactions of significance.

Trustee's Intention to Act and Possible Conflict of Interest

On May 21, 2014, A&M became the Receiver, without security, of all of Dowland Group's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof.

The Trustee has had an independent legal opinion of the security of RBC, CNA and Intact which indicates it is valid and enforceable against the assets of DCL and the Trustee and consequently, there is no conflict of interest.

Third Party Deposits and Guarantees

The Receiver has guaranteed the Trustee with respect to reasonable fees, expenses and claims in its activities as Trustee of the estate.

ALVAREZ & MARSAL CANADA INC.
in its capacity as the Trustee in Bankruptcy of
Dowland Contracting Ltd.
and not in its personal capacity

A handwritten signature in black ink, appearing to be 'Tim Reid', written over a horizontal line.

Tim Reid
Senior Vice President