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ROYAL BANK OF CANADA

DEFENDANT

DOWLAND CONTRACTING LTD.,
DOWLAND INDUSTRIAL WORKS LTD.,
DOWLAND CONSTRUCTION, INC., AND
6070 N.W.T. LIMITED

DOCUMENT

**SECOND REPORT OF ALVAREZ & MARSAL CANADA
INC., IN ITS CAPACITY AS COURT APPOINTED
RECEIVER OVER THE PROPERTY OF DOWLAND
CONTRACTING LTD., DOWLAND INDUSTRIAL WORKS
LTD., AND 6070 N.W.T. LIMITED**

AUGUST 7, 2013

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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File#: 182818.1



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INTRODUCTION

1. Effective May 21, 2013 (the “Receivership Date”), pursuant an order of the Honourable Associate Chief Justice J.D. Rooke (the “Receivership Order”), Alvarez & Marsal Canada Inc. (“A&M”) was appointed as receiver and manager (the “Receiver”), without security, of all of the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the “Property”) of Dowland Contracting Ltd. (“DCL”), Dowland Industrial Works Ltd. (“DIW”), and 6070 N.W.T. Limited (“6070”) (collectively, the “Dowland Group” or the “Company’s”) pursuant to section 13(2) of the Judicature Act, R.S.A. 2002, c.J-2 and section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended., (the “BIA”) and 65(7) of the Personal Property Security Act, R.S.A. 2000, c. P-7 in the within action (the “Receivership Proceedings”).
2. The Receivership Order authorizes the Receiver, among other things, to manage, operate and carry on the business of the Dowland Group and to take possession and control of the property of the Dowland Group and any and all proceeds, receipts and disbursements arising out of or from the Property, and to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business.
3. The purpose of this second report of the Receiver (the “Second Report”) is to provide this Honourable Court with information in respect of the following:
 - a) the initial activities of the Receiver since the Receivership Date;
 - b) the Dowland Group’s statement of affairs as at the Receivership Date;
 - c) a summary analysis of some of the Dowland Group’s on-going construction projects and outstanding matters with certain bonding companies who have extended bonding on a number of Dowland Group projects;

- d) the status of a sales process initiated by the Receiver soliciting offers for the purchase of the Property, out of the normal course of business;
 - e) the extent and terms of borrowings by the Receiver pursuant to the terms of the Receivership Order; and
 - f) the Receiver's future course of action.
4. Capitalized words or terms not defined or ascribed a meaning in the Second Report are as defined or ascribed a meaning in the First Report and the Receivership Order.
5. All references to dollars are in Canadian currency unless otherwise noted.

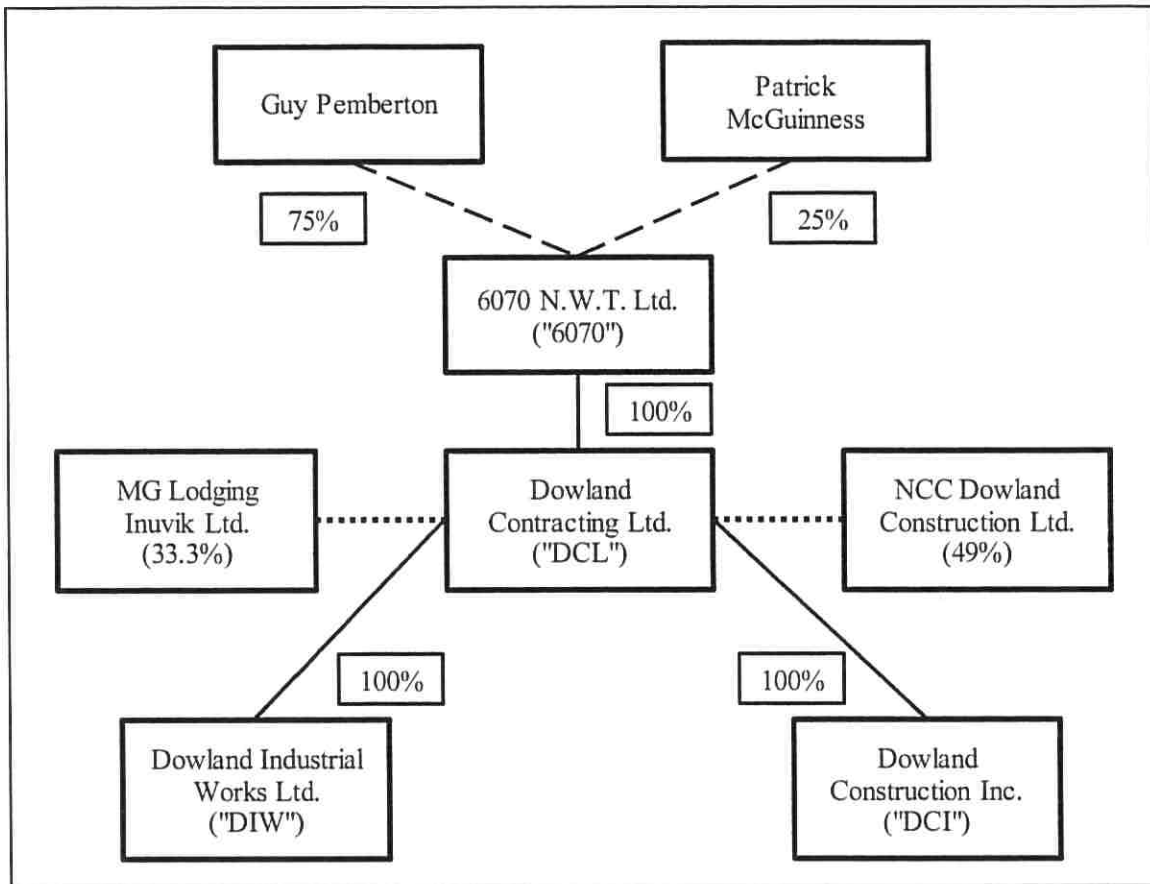
TERMS OF REFERENCE

6. In preparing this Second Report, the Receiver has relied primarily upon the representations of select former management and employees of the Dowland Group as well as unaudited financial information contained in the Dowland Group's books and records. The Receiver has not performed an audit, review or other verification of such information.

BACKGROUND

7. The Dowland Group's operational and financial management was centralized in Edmonton, Alberta. Operations were managed from Edmonton as well as from various project and branch office locations in Northern, Central and Western Canada and Alaska, USA which included:
- Inuvik, NWT
 - Whitehorse, YT
 - Iqaluit, NU
 - Thunder Bay, ON
 - Kamloops, BC

- Edmonton, AL
 - Anchorage, Alaska
8. The Dowland Group has been in business for approximately 30 years providing a full suite of construction services for commercial, industrial, institutional and design-build projects. The type of services that the Dowland Group provided included design, construction, management, logistics, foundation installations, soil investigation and general contracting. The Company also provided support services for oil and gas exploration and infrastructure, such as ice-profiling, pressure testing, conductor hole drilling, pipefitting and welding, tank cleaning, inspection and repair, and explosives supply services.
 9. In or about February and March 2013, the Dowland Group was experiencing financial difficulty by reason of numerous circumstances including, without limitation, a number of disputes with owners and contractors respecting various construction projects in which the Dowland Group were involved. As a result, the Dowland Group could not sustain their current operations on an ongoing basis.
 10. DCL, DIW and 6070 are privately held companies that are subject to common ownership of two individual shareholders: Mr. Guy Pemberton and Mr. Patrick McGuinness. As depicted in the summary organization chart below, the two individual shareholders own 100% of the parent company of the Dowland Group operating entities, 6070.



11. DCL has seven (7) wholly-owned subsidiaries, including DIW, which is also in receivership and another subsidiary, DCI (an Alaska entity), which is not in receivership, but is included as a defendant in the proceedings commenced by Royal Bank of Canada ("RBC"). The remaining five (5) other wholly-owned subsidiaries of DCL are also not part of the Receivership Proceedings and the Receiver has been advised by the Dowland Group management that these are dormant companies with no assets and have no apparent value. The Receiver is currently reviewing these companies to determine if any value exists.
12. DCL also has a minority interest in five (5) companies. Two of these investments are active companies, NCC Dowland Construction Ltd. ("NCC") and MG Lodging Inuvik Ltd. ("MG Lodging"), and there are intercompany receivables from these entities that may be recoverable, as discussed further below. The

remaining three (3) other investments that DCL has a minority investment in are dormant companies with no assets and have no apparent value.

13. DCI is a named defendant in the legal proceedings, but is not one of the entities in receivership. DCI is a U.S. incorporated company and has one on-going project which the Receiver understands is being funded directly by a surety that has extended bonding to the owner of the project. It appears that there is limited equity in the one particular project being undertaken by DCI and after consideration of the potential costs associated in commencing ancillary insolvency proceedings in the US jurisdiction, it does not appear to make economic sense to enjoin DCI in the Receivership proceedings. Certain equipment in the possession of DCI that is owned by DCL has been identified and the Receiver has taken the necessary steps to secure and arrange for realization of this equipment.
14. A copy of the Dowland Group's corporate organizational chart is attached as Appendix "A" to the Second Report indicating the complete corporate structure of the Dowland Group and a complete listing of all the wholly-owned subsidiaries and investments of DCL.
15. Further background on the Dowland Group is contained in the materials filed relating to the Receivership Order, including the affidavit of Mr. Gary Ivany sworn April 29, 2013 and the statement of claim filed on April 29, 2013. These documents, including the Receivership Order, and the First Report have been posted by the Receiver on its website at: www.amcanadadocs.com/dowland (the "Receiver's Website")

INITIAL ACTIVITIES OF THE RECEIVER

Custody, Control and Securing the Property

16. Since the Receivership Date, the Receiver's initial activities have included the following:

- a) attending the multiple various branch and head office locations of Dowland as well as numerous project sites located in multiple jurisdictions to take possession and control of the Property;
- b) changing the locks, security pass codes (where applicable) and restricting computer access and codes as appropriate and generally securing and safeguarding the Property of the Dowland Group. The Receiver also engaged local security services to monitor certain remote locations in northern Canada to ensure proper security over the Property;
- c) confirming all known corporate bank accounts of the Dowland Group and providing the respective bank representatives with notices to freeze all accounts and remit net balances to the Receiver;
- d) completing inventory counts at each of the Dowland locations and project site locations and created a current equipment, tool and materials listing;
- e) redirected all mail for the Company's to the office of the Receiver;
- f) conducting an initial meeting of the majority of salaried employees of the Dowland Group on May 21 & 22, 2013 to explain the powers and duties of the Receiver, its role as an Officer of the Court, to discuss proposed terms of retention to assist the Receiver during the Receivership Proceedings and to retain those employees necessary for the administration of the receivership;

- g) meeting and discussions the with the Dowland Group's former chief executive officer ("CEO") and chief financial officer ("CFO"), including an explanation of the powers and duties of the Receiver and the Receiver's possible further course of action;
- h) meetings and discussions with certain of Dowland Group's management, in-house legal counsel and project managers regarding all current and completed on-going projects and any outstanding matters on these projects;
- i) retention of and instruction to the Receiver's independent legal counsel, Miller Thomson, LLP, in respect of various matters;
- j) compilation and analysis of accounts receivable sub-ledgers and preparation of accounts receivable collection letters to customers and account debtors of the Dowland Group;
- k) investigation and compilation of the estimated statement of affairs of the Dowland Group as at the Receivership Date;
- l) analysis and reconciliation of amounts owned to DCL in respect of the KIA project and subsequent settlement negotiations with NCC Dowland and representatives of KIA;
- m) arranging for the provision of a third party appraisal of the equipment in the various location and project sites;
- n) day to day management of operations of the Dowland Group including employee supervision, payroll matters, WEPPA matters (discussed below);
- o) compilation and organization of various corporate materials, documentation and analysis in contemplation of the continuation of any on-going projects of the Dowland Group;

- p) notifying the Dowland Group's insurance brokers of the Receivership Order and making arrangements for continuation of the policies, adding the Receiver as a named insured and named insured's under the Dowland Group umbrella property, equipment and liability coverage.
- q) numerous and on-going meetings and discussions with various creditors (or their representatives), legal counsel to the Receiver regarding various matters and with secured creditors, shareholders, interested parties and other Dowland Group stakeholders regarding the receivership generally;

Employees and Consultants

- 17. As at the Receivership Date, the Dowland Group employed approximately 85 employees.
- 18. Pursuant to paragraph 13 and 14 of the Receivership Order, the Receiver has terminated, on behalf of the Applicants, all the employees of the Dowland Group as the Receiver was not continuing on with the active business of the Company's.
- 19. The Receiver entered into several short-term contractor agreements (the "Contractor Agreements") with certain former employees of the Dowland Group (i.e. CFO, accounts receivable and payroll administrator, etc.) ("Contractors") to primarily assist with the accounting, legal and certain other duties of the Receiver in the overall administration of the Receivership Proceedings. The Contractor Agreements allow for termination at any time and Contractor's are currently being engaged on an "as needed" basis.

Wage Earner Protection Program & s.81.4(1) Priority Claims

- 20. The Receiver forwarded a termination of employment package to all known Dowland Group employees, which included a termination letter, a record of employment, information pertaining to existing insurance health care benefits and

information regarding the Wage Earner Protection Program (“WEPP”), along with a proof of claim form. The employee’s T4 notice for tax purposes have been completed and sent out to all employees.

21. The Receiver is currently receiving and reviewing the various proofs of claims filed by former employees of the Dowland Group as against their entitlement under section 81.4(1) of the BIA and WEPP. The Receiver received an extension from Service Canada to enter in the multiple WEPP claims on behalf of each employee to August 2, 2013.
22. The accrued wages, vacation, termination and severance owing at the time of the Receivership Order to the Dowland Group employees totalled approximately \$1.17 million, representing approximately 150 employees. The entitlement to unpaid wages and salaries that each of these employees have per s.81.4(1) of the BIA is a maximum of \$2,000 for each employee (severance and termination pay is not included), which the Receiver estimates this will total approximately \$150,000.
23. Once these claims have been accepted and paid by Service Canada to the employees, this portion of the employee claim (wages and salaries), will be subrogated to Service Canada having a “super secured” charge over the current assets of the Dowland Group.

Accounts Receivable Collection Notices

24. In June 2013, the Receiver sent out collection notices to all companies and individuals who currently were indebted to the Dowland Group per its books and records. As at July 12, 2013, the Receiver has collected approximately \$302,000 in accounts receivable receipts as discussed further below. The Receiver will take the necessary steps and remedies to protect the interests of the stakeholders in these receivership proceedings with the respect to collecting the remaining amounts outstanding to the Dowland Group, including the exercise of any legal remedies available.

Customers, Project Owners and Bonding Companies

25. Since the Receivership Date, the Receiver has been in contact with the multiple owners, customers and bonding companies regarding the Dowland Group's on-going projects to discuss whether the Receiver intended to complete these projects.
26. On July 5, 2013, the Receiver accepted an invitation from Intact Insurance Company (formerly known as AXA Pacific Insurance Company) ("Intact"), one of the bonding companies, for a formal meeting in Vancouver, BC to discuss a variety of matters, concerns and the next steps of the Receiver.

Statutory Mailing by Receiver

27. The Receiver mailed the notices required by sections 245 and 246 of the *Bankruptcy and Insolvency Act* ("BIA") to the Dowland Group's creditors and the Office of the Superintendent of Bankruptcy on May 30, 2013. A copy of the Receiver's Notice can be found on the Receiver's Website.

PRELIMINARY STATEMENT OF AFFAIRS – MAY 21, 2013

28. Summarized in the table below is an estimated combined statement of affairs of the Dowland Group that was prepared by the Company's as at May 21, 2013. The information contained in the summary tables is based primarily on the books and records of the Dowland Group and has not been audited or otherwise verified by the Receiver; however, where information has been obtained by the Receiver during the course of the receivership and certain asset or liability amounts have been confirmed, these adjusted balances are reflected herein.
29. The statement of affairs of the Dowland Group is prepared on a net book value basis and the proceeds recovered during the Receivership will be less than the net book value. As such, the statement of affairs listed below is not indicative of what the Receiver will be able to recover and distribute to the stakeholders in these proceedings.

Dowland Group (Combined) Statement of Affairs as at May 21, 2013 (\$000's)	
	May 21, 2013 Combined
Assets Available for Realization:	
Accounts receivable	\$ 55,388
Property and equipment	14,219
Due from subsidiaries	4,137
Other Assets	872
Investments in significantly influenced companies	343
Total assets available for realization	\$ 74,959
Priority and Statutory Creditors:	
WEPPA claims	\$ 150
Payroll withholdings	300
HST	50
	500
Secured Creditor:	
Long term debt and bank indebtedness	21,372
Other	-
	21,372
Unsecured Creditors:	
Trade accounts payable and accrued liabilities	49,847
Deferred revenue	2,561
Due to related parties and shareholders	924
	53,332
Other Potential Liabilities	
Bonding companies potential liability	60,000
	60,000
Total liabilities	135,204
Net equity (deficit)	(60,245)
	\$ 74,959

Assets

30. *Accounts receivables and unbilled revenue.* The books and records of the Dowland Group indicate that as at the Receivership Date, approximately \$55.3 million was outstanding in accounts receivables and unbilled revenue. The Receiver's preliminary investigation indicates that approximately \$49.9 million relates to uncompleted project progress billings and holdbacks and the remaining approximate \$5.4 million relates primarily to a promissory note owed to DCL by the Diocese of the Arctic of approximately \$3 million and for claims that DCL

had recognized as potential “delay impact” claims on various projects of approximately \$2.4 million. The progress billing receivables are mainly from certain large projects where the Receiver anticipates difficulty in collecting because of potential set-off claims against these receivables by the bonding companies and/or owners of the projects. As a result, the Receiver believes that the anticipated realizations and collections of these outstanding accounts receivables and unbilled revenues will be significantly lower than the net book value of \$55.3 million.

31. *Property and equipment.* The recorded net book value of Dowland Group’s property and equipment as at the Receivership Date was approximately \$14.2 million, which consists primarily of equipment, vehicles and office furniture of approximately \$7.4 million; real estate property of approximately \$6.6 million and leasehold improvements of approximately \$153,000.
32. *Due from subsidiaries.* This category represents approximately \$4.1 million in due from DCI (not in receivership). As discussed above, the Receiver understands that there is little to no value in DCI to be recovered by DCL. The Receiver has also been advised that there is an intercompany advance between DCL and DIW, where DIW owes approximately \$9.9 million to DCL. The Receiver understands that a general security agreement is in place between DCL and DIW where DCL is secured on the advances it made to DIW. The Receiver has not reviewed the security agreement between DCL and DIW at this time, but anticipates doing so in due course. The intercompany balance of \$9.9 million has not been included in the table above.
33. *Other assets.* This category represents GST, prepaid expenses and other inventory of DCL totalling approximately \$872,000, which is not likely to yield any realizations for the estate.
34. *Investments in significantly influenced companies.* This category represents DCL’s minority interest in two companies totalling approximately \$434,000, namely; NCC of approximately \$81,000 and MG Lodging of \$262,000. The

Receiver is advised that there may be some value in these two companies and is looking at its options to maximize realizations on them.

Liabilities

35. As indicated in the table above, the Dowland Group reported total potential liabilities of approximately \$135.2 million, which is made up of priority and statutory creditors of approximately \$500,000; secured creditors of approximately \$81 million and general unsecured creditors of approximately \$53 million. Based on the Dowland Group's liabilities, it appears that there will be a significant shortfall in the recoveries to the secured creditors and the unsecured creditors will likely not receive any recoveries.
36. *Priority and statutory creditors.* Priority and/or statutory claims that may rank ahead of the secured creditors are estimated to be \$500,000 and include WEPPA claims, potential GST, HST and other employee claims that the Receiver is currently investigating and calculating these amounts to determine its accuracy.
37. *Secured Creditors.* The secured creditor claim against the Dowland Group relates to the indebtedness to RBC totaling \$21,371,606 as at April 25, 2013 (the "RBC Loan"). Intact and CNA have also registered security interests against various Dowland Group entities but these amounts are unknown at this time (discussed further below). The Receiver's legal counsel completed an independent security review opinion of the RBC Loan and Intact's security interests against the Dowland Group and has concluded that both the RBC Loan and Intact's security interest against the Dowland Group is valid and enforceable, but the independent security review opinion did not conclude priority of such claims. The Receiver has requested the security documents of CNA from its legal counsel in order to complete an independent security review of CNA's security interest against the Dowland Group.
38. *Unsecured creditors.* The unsecured creditors consists of amounts owing to suppliers and vendors of the Dowland Group of approximately \$52.3 million and

shareholder loans payable to the two shareholders of 6070 of approximately \$924,000.

39. *Other potential liabilities.* As discussed above, both Intact and CNA have registered security interests against various Dowland Group entities. While the claims of Intact and CNA remain uncertain at this time, based on the information currently available, it is possible that these claims may be as high as \$50 to \$ 60 million depending on the outcome of a number of projects being completed under Performance Bonds.

PROJECT STATUS AND BONDING COMPANIES

Overview

40. As at the Receivership Date, the Dowland Group had over 30 on-going projects at various stages of completion. Prior to the Receivership Date, most of the on-going projects were in default or shortly became in default thereafter.
41. The Receiver has undertaken a detailed analysis on a project-by-project basis to determine if there was any significant equity in the projects for the estate in order to assess the cost/risk-benefit of completing certain projects. This analysis considered, among other things, reviewing the project owners' potential rights of set off of delay and other damage claims against outstanding accounts receivables owed to DIW and DCL, potential claims that DIW and DCL may have against the owner of the projects and other such matters. Based on the Receiver's preliminary assessment, the majority of the on-going projects were in a significant loss position and/or did not appear to have sufficient margin remaining in the project for the Receiver to assume the risk of funding and completing the various construction works.
42. Below is a table summarizing the outstanding projects of the Dowland Group as at the Receivership Date along with a brief description on certain significant projects.. For the projects identified as "bonded projects" in the below chart, the

Receiver has determined that it will not complete these projects and/or the surety has already replaced DCL or DIW with another general contractor.

Dowland Contracting et al Summary of Contracts per Bonding Company as at May 21, 2013			
Project	Bond Type	Province/Territory	Dowland Entity
CAN Bonded Contracts			
RCMP Cadet Accomodations Building	L&M Performance	Regina, Saskatchewan	DCL
Baffin Regional Hospital	L&M Performance	Iqaluit, Nunavut	NCC
PCS Area 623 Thickener MPEI Installation (CC110)	Performance	Rocanville, Saskatchewan	DIW
PCS Area 621 Raw Ore Handling MPEI Installation (CC111)	Performance	Rocanville, Saskatchewan	DIW
Dasque Cluster Hydroelectric Project	Performance	Terrace, BC	DIW
Intact Bonded Contracts			
Inuvik School	L&M Performance	Inuvik, Northwest Territory	DCL
Ecole McTavish School	L&M Performance	Ft. McMurray, Alberta	DCL
GNWT Multi-Use Facility	L&M Performance	Inuvik, Northwest Territory	DCL
Western Arctic Research Facility	L&M Performance	Inuvik, Northwest Territory	DCL
Ahtahkakoop School Addition	L&M Performance	Sandy Lake, Saskatchewan	DCL
Dawson City Hospital	L&M Performance	Dawson City, Yukon	DCL
Watson Lake Hospital	L&M Performance	Watson Lake, Yukon	DCL
RCMP Detachment	L&M Performance	Lloydminster, Alberta	DCL
Arviat Arena	L&M Performance	Arviat, Nunavut	NCC
English River Nursing Station	L&M Performance	Patuanak, Saskatchewan	DCL
Drumheller Insititure, 96 Bed Espension	L&M Performance	Drumheller, Alberta	DCL
Selkirk Pump House	L&M Performance	Whitehorse, Yukon	DCL
Vehicle Maintenance Facility	L&M Performance	Wainwright, Alberta	DCL
Mt. Milligan Mine - Phase 1 Expansion	L&M Performance	Mt. Milligan, BC	DIW
Non-Bonded Contracts			
KIA Office Building	Not applicable	Cambridge Bay, Nunavut	NCC
St. Judes Cathedral	Not applicable	Iqaluit, Nunavut	DCL
IDC 3rd Floor Renovations	Not applicable	Inuvik, Northwest Territory	DCL
Club Residence Condo	Not applicable	Thunder Bay, Ontario	DCL
Tank F Upgrade	Not applicable	Inuvik, Northwest Territory	DCL
Bulk Fuel Tank Upgrade	Not applicable	Inuvik, Northwest Territory	DCL
Propane Storage Unit	Not applicable	Inuvik, Northwest Territory	DCL
NWT Power Corp Systems Upgrades	Not applicable	Inuvik, Northwest Territory	DCL
Inuvik Gas Facilities	Not applicable	Inuvik, Northwest Territory	DCL
4-Plex Residential Unit	Not applicable	Iqaluit, Nunavut	DCL
Pin-M Sand Blast	Not applicable	Inuvik, Northwest Territory	DCL

43. DCL and DIW acted as the general contractor on most of its projects or as the “prime sub-contractor”, through its involvement with NCC. DCL had approximately 23 projects where it acted as the general contractor (13 bonded and 10 non-bonded) and three projects where it acted as the “prime sub-contractor” with NCC. DIW had four on-going projects where it acted as the general contractor.
44. During the Receivership Proceedings, the Receiver was required to investigate and address several large on-going projects with the owner and bonding companies. The following is a brief discussion on some of the more significant project matters that the Receiver encountered:

NCC

45. As previously noted, DCL has a minority shareholder interest (49%) in NCC. Pursuant to a unanimous shareholders agreement dated effective July 1, 2013 (the “USA”), DCL and NCC Investment Group Inc. agreed to incorporate NCC primarily for the purpose of submitting bids for and obtaining contracts for construction projects in Nunavut. If a bid was made by NCC on a project and it was accepted, NCC would be the general contractor but then outsourced the contracting work to DCL as the “prime sub-contractor” in consideration of a participation fee and mark-up fee. Essentially, NCC is a flow-through entity and earned a management/participation fee on bids that DCL would be successful in securing and then acting as the “prime sub-contractor” on the project.
46. During the Receivership Proceedings, the Receiver had multiple conversations and/or meetings with the representative of NCC to discuss the various project matters where NCC was the general contractor and DCL was the “prime sub-contractor”. The following are two of the more significant projects that were addressed:

Baffin Regional Hospital

47. DCL was the prime sub-contractor (NCC is the general contractor) on the Baffin Regional Hospital project located in Iqaluit, Nunavut (the “BRH Project”) and the owner of the project is the Government of Nunavut (“GNU”). The project value was approximately \$24 million and the total outstanding accounts receivable and holdback to DCL from NCC is approximately \$530,000. The Receiver is advised that the project is approximately 25% complete and the GNU and/or CNA are in the process of securing a replacement general contractor to complete the project.
48. During the Receivership Proceedings, the GNU made certain claims of ownership to a significant amount of materials located at DCL’s office/warehouse in Iqaluit. The substance of the claim of GNU was that certain materials in the possession of the Receiver were previously paid for by the GNU on progress payments to NCC / DCL. Due to the large quantity and high potential value of the materials (over 230 crates of materials), the Receiver performed the necessary and appropriate investigations to confirm rightful ownership to these materials that were located on the premise of DCL. On July 4, 2013, the Receiver completed its investigation and informed the surety (CNA) and the owner that it was satisfied that the materials are the property of the GNU and arranged to have a representative of the Receiver to attend the premise on July 8/9, 2013 to release the materials to the GNU. All materials that are owned by the GNU have now been released to them, with the exception of materials secured in six containers that are owned by DCL. The Receiver is making arrangements to release these “loose” materials located in the six containers in due course.

KIA Office Building

49. DCL was the prime sub-contractor (NCC is the general contractor) on the KIA Office Building located in Cambridge Bay, Nunavut (the “KIA Project”). The owner of the KIA Project is the Kitikmeot Region Properties Inc. (“Kitikmeot”). NCC entered into a construction contract (the “KIA Contract”) with Kitikmeot, as owner, dated October 19, 2011, in relation to the construction of an office

building. The forecast project values for the KIA Project was approximately \$22 million and the current outstanding accounts receivables and holdback owed to DCL as sub-contractor is approximately \$5.3 million, less any set-offs and lienable payables. On June 6, 2013, the Receiver filed a lien under the *Mechanics Lien Act* on the estate of Kitimeot with respect to the lands that the KIA Project relates to in Cambridge Bay, Nunavut to preserve the rights the Receiver has in collecting its outstanding receivables owed to DCL. On June 17 and 18, 2013, the Receiver and its legal counsel met with representatives of NCC and Kitimeot and their legal counsel and advisors regarding the amounts owed by Kitimeot to DCL. The Receiver, KIA and NCC continue to pursue a settlement of amounts owed to DCL under the KIA Project. Those settlement negotiations are on-going.

Other Significant Projects

PCS Area 621 & 623 Project

50. DIW was the general contractor on the PCS Area 621 & 623 project (the “Potash Corporation Projects”) located in Rocanville, Saskatchewan. The owner of the project is the Potash Corporation of Saskatchewan Inc. (“PSC”). The combined project value was approximately \$45 million and the total holdback owing to DIW of approximately \$2.7 million. There is currently a Performance Bond on the Potash Corporation Project. Shortly after the Receivership Date, PCS and the Receiver were in discussions to assign certain subcontractor agreements between DCL and its subcontractors to PCS in exchange for certain releases provided by PCS and the surety (CNA) and the payment of \$100,000 to cover the time and costs of the Receiver.
51. On June 1, 2013, DIW and PCS entered into a settlement agreement that, amongst other things, cancelled the contract between DIW and PCS on the Potash Corporation Project, provided the required releases to the Receiver, assigned the various sub-contractor agreements to PCS and the payment by PCS to DIW employees for all of its outstanding wages and source deductions. There is currently DCL owned equipment located at the Potash Corporation Project site

and this equipment and tools have been included as part of the Receiver's sales process.

Dasque Cluster Hydroelectric Project

52. DIW was the general contractor on the Dasque Cluster Hydroelectric project (the "Swift LP Project") located in Terrace, British Columbia. The owner of the Swift LP Project is Swift Power L.P. ("Swift LP") which is directly or indirectly controlled by Veresen Inc. The project value of the Swift LP Project was approximately \$37 million and the total outstanding accounts receivable and holdback owing to DIW as at the Receivership Date was approximately \$9.6 million, before any potential claims by DIW against Swift LP which the Receiver is currently investigating.
53. The Swift LP Project was a significant energy related project that experienced significant cost overruns which as noted previously, comprised the liquidity of the Dowland Group and was one of the causes of its insolvency.
54. The Receiver understands through discussion with management and review of certain documentation that on February 26, 2013, DIW suspended its operations on the Swift LP Project in accordance with section 5(7) of the Builders Lien Act, as a result of certain alleged defaults committed by Swift LP under the contract between the parties (the "Swift Contract"). However, the Receiver also understands that on March 19, 2013, Swift LP provided a letter to DIW terminating the Swift Contract due to DIW allegedly having abandoned the project.
55. On July 10, 2013, the Receiver was contacted by counsel of Swift LP requesting an assignment of a sub-contract agreement to Swift LP by the Receiver, along with settling certain other matters such as Swift LP's alleged ownership of certain materials and equipment located on the project site that the Receiver also claims ownership to these materials and equipment. The Receiver and counsel for Swift LP are currently in discussions on these various matters.

St. Judes Cathedral

56. DCL was general contractor in building the St. Judes Cathedral located in Iqaluit, Nunavut (the “St. Judes Project”) and the owner of the project is the Diocese of the Arctic (the “Diocese”). In consideration of the work performed by DCL, the Diocese issued a promissory note dated June 3, 2011, due and payable to NCC for approximately \$3.9 million (the “Promissory Note”). On April 24, 2013, the Promissory Note was amended to reflect an error noted in the Promissory Note where the creditor information was changed from NCC to DCL (the “Amended Promissory Note”). The current balance outstanding on the Amended Promissory Note payable is approximately \$3 million. The Receiver has been in communication with Diocese and is in the process of arranging a meeting with the Diocese in Yellowknife, NWT in the coming weeks to discuss the Receivership Proceedings and what arrangements can be made with respect to the payment of the balance owing under the Amended Promissory Note to the Receiver. DCL assigned the Promissory Note to the RBC prior to the Receivership Date in consideration of RBC’s agreement to forbear the enforcement of RBC’s security against the Dowland Group.

Surety’s

Intact

57. During the Receivership Proceedings, the Receiver has been in contact with Intact on a variety of matters including specific project related issues and the sales of assets on particular sites/projects.
58. As discussed above, on July 5, 2013, the Receiver and its counsel along with representatives of Intact and their counsel met in Vancouver, BC at the offices of Intact. The purpose of the meeting was to hold, without prejudice, discussions on the various overreaching issues and outstanding matters on the projects where Intact has provided bonding.

CNA

59. The Receiver has had limited dealings with CNA to date, although there have been various discussions with CNA's adjusters on a variety of matters, including the Rocanville contract settlement, the materials in Iqaluit and other related issues.

THE SALES PROCESS

Overview

60. Pursuant to paragraph 3(k) of the Receivership Order, the Receiver is empowered and authorized, but not obligated, to market any or all of the Property, including advertising and soliciting offers in respect of the Property or any parts thereof and negotiating such terms and conditions of the sale as the Receiver in its discretion may deem appropriate.
61. In addition, pursuant to paragraph 3(l) of the Receivership Order and as amended in an order granted by this Court on June 26, 2013, the Receiver is empowered and authorized to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business:
- a) without the approval of this Court in respect of any transaction not exceeding \$250,000, provided that the aggregate consideration for all such transactions does not exceed \$1,000,000 (however, this does not include the sale of any building materials or supplies located on any construction site except with the consent of an affected party or a Court Order); and
 - b) with the approval of this Court in respect of any transaction in which the purchase price or the aggregate purchase price exceeds the applicable amount set out above;

Invitation For Offers to Purchase

62. On June 26, 2013, the Receiver initiated a sales process to solicit offers for the purchase of the Property.
63. An extensive process has commenced and offers were to be received by the Receiver by July 22, 2013. To date, a large number of offers have been received and the Receiver continues to work through these with a view to bring recommended offers to purchase for Court approval in mid-August 2013.
64. The Receiver will be submitting a special purpose report to the Court in advance of any notice of application to consider recommended offers to purchase the Property (or parts thereof) in the near term.

Sale of Miscellaneous Equipment

65. As noted, the Receiver is empowered and authorized to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business without the approval of this Court in respect of any transaction not exceeding \$250,000, provided that the aggregate consideration for all such transactions does not exceed \$1,000,000.
66. To date, the Dowland Group has sold several pieces of equipment and miscellaneous tools, etc. totaling \$190,120 in aggregate.

CONSOLIDATED RECEIPTS AND DISBURSMENTS – MAY 21, 2013 TO JULY 19, 2013

67. The table below provides a summary of the actual consolidated cash flows for the Reporting Period, which contains the cash receipts and disbursements relating to the Dowland Group.

Dowland Group Consolidated Actual Receipts and Disbursements May 21, 2013 to July 19, 2013 (\$000's)		
Receipts		
Receiver's borrowing	\$	500
Accounts receivable collection		302
Sale of equipment and assets		190
Rocanville settlement receipts		100
Rental of equipment and assets		59
Rental equipment deposit		15
Rental equipment deposit (held in trust)		(15)
GST refund		55
Other receipts		40
Total		<u>1,246</u>
Disbursements		
Contractor services		(89)
Storage fees		(7)
Lease for offices		(125)
Utilities		(20)
Security		(11)
Appraisal fees		(8)
Bank charges		()
Professional fees		(25)
Other disbursements		(3)
Total		<u>(289)</u>
Net cash flow	\$	<u>957</u>
July 21, 2013 closing cash balance	\$	<u>957</u>

68. The consolidated receipts during the Reporting Period totalled approximately \$1,245,675, which include the following:

- a) Receiver's borrowings of \$500,000 pursuant to a Receiver's Certificate;
- b) accounts receivables collection of \$302,334 primarily from DCL customer receivables;
- c) sale of redundant equipment of \$190,120 mainly relating to the sale of used trucks and vehicles, fencing and tools that are owned by DCL;

- d) Rocanville settlement receipts \$100,000 relating to the settlement agreement for the Rocanville Project in DIW with respect to the assignment of certain sub-contractor agreements (as discussed above) to PCS;
- e) rental of equipment of \$58,500 relating to the rental of certain pieces of equipment in Alaska that were located on a project site that are owned by DCL;
- f) equipment rental deposit of \$15,000 that was collected on the equipment rentals in Alaska that have been placed in the Receiver's trust account and this deposit is not available for operational use;
- g) GST refunds collected of \$55,012 from CRA relating to pre-receivership refunds to DCL of approximately \$9,000 and DIW of approximately \$46,000; and
- h) other receipts of \$39,709 mainly relating the collection of rent from tenants on apartment units owned by DCL in northern Canada of approximately \$15,000 and other miscellaneous receipts.

69. The consolidated disbursements during the Reporting Period totalled approximately \$289,055, which include the following:

- a) contractor services of \$89,203 relating to various Contractor's engaged by the Receiver, such as former Dowland employees, to assist in the operations and administration of the receivership proceedings;
- b) storage fees of \$7,497 relating to offsite storage locations used by the Receiver to store the Dowland Group's various equipment in remote locations;

- c) lease costs of \$124,626 for payment of Dowland Group office space in various locations utilized by the Receiver. These costs will be significantly reduced in the future as the Receiver is making arrangements to vacate the majority of the leased premises shortly after the sales process on the Property has concluded;
- d) utility costs of \$20,133 that consist of hydro, water, gas, telephone and internet/server services required for the Receiver at the various locations of the Dowland Group;
- e) security costs of \$11,062 for the services of certain security companies to provide security services at remote locations (i.e. Nunavut) to ensure that DCL's equipment and other assets are protected;
- f) appraisal fees of \$8,373 for the completion of a "desk top" appraisal report conducted on all of DCL's equipment by Accuval, which provided appraisal values based on both on an orderly and forced liquidation basis;
- g) bank charges of \$337;
- h) professional fees of \$24,856 were paid for professional services rendered during the Reporting Period. There is an additional approximate \$630,000 in professional fees that were accrued, but not paid, in the Reporting Period relating to the Receivers and its legal counsel; and
- i) other miscellaneous costs of approximately \$2,969

70. The Dowland Group's ending cash balance as at July 19, 2013 was \$956,620.

71. Given the nature and remote locations of much of the Dowland Group's Property, the Receiver has incurred significant costs in taking possession of and securing

the Property but has managed to mitigate the holding costs going forward. Once the determination of priority has been established amongst the secured creditors, the Receiver will need to determine an appropriate cost-allocation basis of the fees and costs incurred to date.

RECEIVER'S BORROWINGS

72. The Receiver has been empowered to borrow up to \$1 million (or such greater amount as this Court may further Order) and did so effective May 27, 2013 by way of issuance of Receiver's Certificate No. 1 in the amount of \$500,000. The Receiver's Certificate No. 1 is attached as Appendix "B" to this report.
73. The terms of the Receiver's borrowings under the Receiver's Certificate No. 1 include a per annum interest rate of 5% above the prime commercial lending rate of RBC from time to time, which, in the Receiver's view, is commercially reasonable in the circumstances. Pursuant to paragraph 19 of the Receivership order, the Receiver's Certificate No. 1 has a charge over the whole of the Property by way of a fixed and specific charge as security for the payment of the monies borrowed, together with interest and charges, in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, but subordinate in priority to the Receiver's Charge (as defined in the Receivership Order)..

RECEIVER'S FUTURE COURSE OF ACTION

74. The Receiver's next steps include:
 - a) completing and finalizing the sales process initiated by the Receiver on the sale of the Dowland Group Assets, subject to court approval;
 - b) continued collection efforts of all outstanding accounts receivables and the Promissory Note;

- c) addressing various equipment ownership disputes between the Receiver and Canada on the Drumheller Project and RCMP Regina Project;
- d) downsizing the Dowland Group operations and getting out of the various lease space to reduce operational costs and overhead;
- e) continued discussions with the stakeholders in these proceedings, including both Intact and CNA over collections and realizations of amounts owing to the Dowland Group on bonded projects;
- f) analyzing the potential right of set-off and other claims that stakeholders may have on the bonded projects as well as any and all potential counter claims and insurance claims outstanding with the Dowland Group on various projects;
- g) continued discussions and resolutions with Swift LP on matters relating to the Swift LP Project; and
- h) possibly assigning DIW and DCL into bankruptcy.

All of which is respectfully submitted this 7th day of August, 2013.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Receiver of Dowland
Contracting Ltd., Dowland Industrial Works Ltd.,
and 6070 N.W.T. Limited**

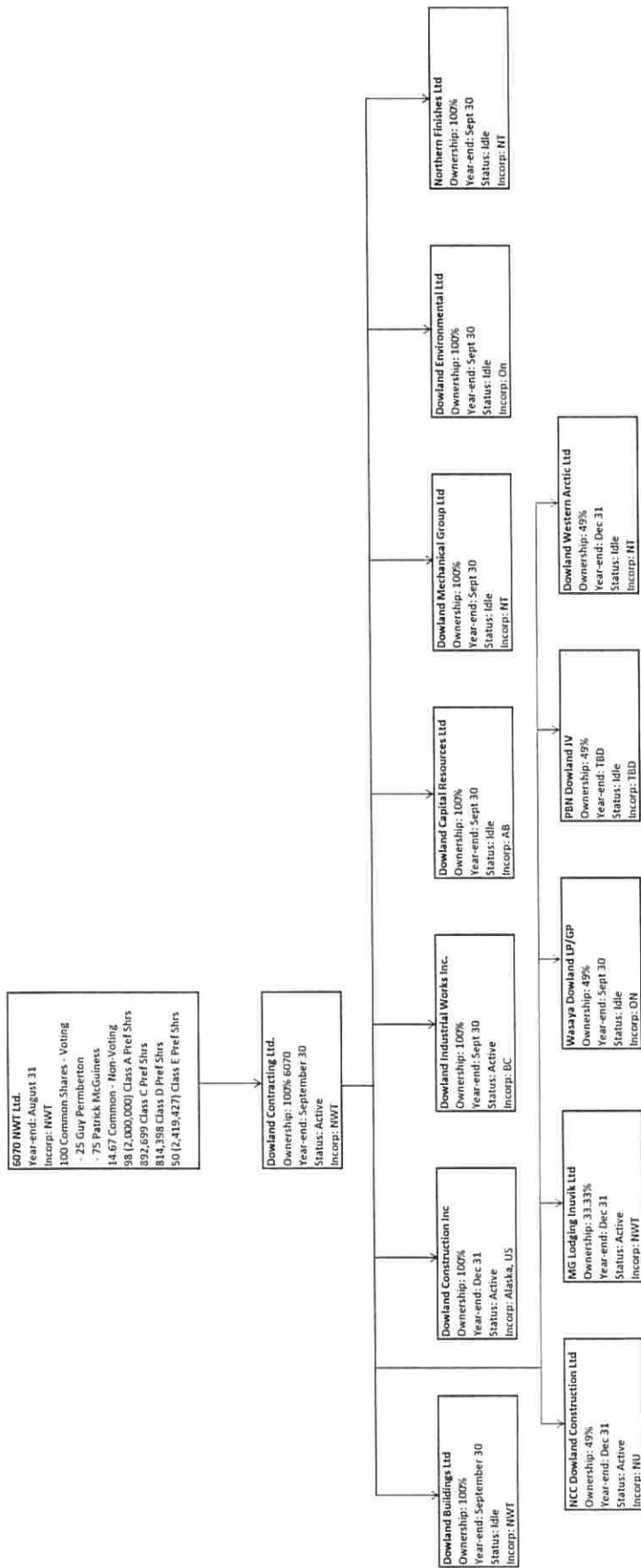


Tim Reid, CA•CIRP
Senior Vice-President



Orest Konowalchuk, CA•CIRP
Director

APPENDIX A



APPENDIX B

SCHEDULE "A"

RECEIVER CERTIFICATE

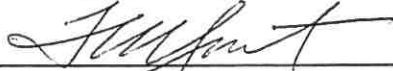
CERTIFICATE NO. 1AMOUNT \$ 500,000.00

1. THIS IS TO CERTIFY that Alvarez & Marsal Canada Inc., the receiver and manager (in each capacity the "Receiver") of all the assets, undertaking and property of DOWLAND CONTRACTING LTD., DOWLAND INDUSTRIAL WORKS LTD., DOWLAND CONSTRUCTION, INC. and 6070 N.W.T. LIMITED APPOINTED BY Order of the Court of Queen's Bench of Alberta (the "Court") dated the 6th day of May, 2013 (made effective May 21, 2013) (the "Order") made in action #130306092, has received as such Receiver from the holder of this certificate (the "Lender") the principal sum of \$500,000.00, being part of the total principal sum of \$1,000,000.00 which the Receiver is authorized to borrow under and pursuant to the Order.
2. The principal sum evidenced by this certificate is payable on demand by the Lender with interest thereon calculated and compounded monthly not in advance on the 1st day of each month after the date hereof at a notional rate per annum equal to the rate of five per cent above the prime commercial lending rate of Royal Bank of Canada from time to time.
3. Such principal sum with interest thereon is, by the terms of the Order, together with the principal sums and interest thereon of all other certificates issued by the Receiver pursuant to the Order or to any further order of the Court, a charge upon the whole of the Property (as defined in the Order), in priority to the security interests of any other person, but subject to the priority of the charges set out in the Order, and the right of the Receiver to indemnify itself out of such Property in respect of its remuneration and expenses.
4. All sums payable in respect of principal and interest under this certificate are payable at the main office of the Lender at 20 King Street West, 9th Floor, Toronto, Ontario, M5H 1C4.
5. Until all liability in respect of this certificate has been terminated, no certificates creating charges ranking or purporting to rank in priority to this certificate shall be issued by the Receiver to any person other than the holder of this certificate without the prior written consent of the holder of this certificate.

6. The charge securing this certificate shall operate so as to permit the Receiver to deal with the Property (as defined in the Order) as authorized by the Order and as authorized by any further or other order of the Court.
7. The Receiver does not undertake, and it is not under any personal liability, to pay any sum in respect of which it may issue certificates under the terms of the Order.

DATED the 27th day of May, 2013.

Alvarez & Marsal Canada Inc., solely in its capacity as
Receiver of the Property (as defined in the Order),
and not in its personal capacity

Per: _____

Name: Todd M. Martin

Title: Senior Vice President