

COURT FILE NUMBER 1403-10990
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE EDMONTON
PLAINTIFF ROYAL BANK OF CANADA

Clerk's Stamp

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

DOCUMENT **SECOND 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.**

OCTOBER 1, 2014

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

RECEIVER AND MANAGER
ALVAREZ & MARSAL CANADA INC.
Tim Reid
Todd Martin
Tom Powell
Bow Valley Square I
Suite 570, 202 – 6th Avenue SW
Calgary, Alberta T2P 2R9
Phone: (403) 538-4756
Email: treid@alvarezandmarsal.com

COUNSEL
MCCARTHY TETRAULT LLP
Sean Collins
Suite 4000, 421 – 7th Avenue SW
Calgary, Alberta T2P 4K9
Phone: (403) 260-3531
Email: scollins@mccarthy.com

TABLE OF CONTENTS OF THE SECOND REPORT OF THE RECEIVER

INTRODUCTION AND BACKGROUND..... - 3 -

TERMS OF REFERENCE - 3 -

PURPOSE OF REPORT..... - 4 -

RECEIVER’S ACTIVITIES - 4 -

ASSIGNMENT IN BANKRUPTCY OF CONTRACTING..... - 5 -

RECEIVER’S INTERIM STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS AND
REQUIRED BORROWINGS..... - 6 -

RECOMMENDATION - 7 -

INTRODUCTION AND BACKGROUND

1. Alvarez & Marsal Canada Inc. was appointed Receiver and Manager (the “**Receiver**” or “**A&M**”) of all of the assets, undertakings and properties of Sprague-Rosser Contracting Co. Ltd. (“**Contracting**”), Sprague-Rosser Developments Inc. and Pacific Federation Equity Group Inc. (“**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. On August 28, 2014, upon application of the Receiver, a Court order (the “**August 28 Order**”) was granted authorizing and empowering A&M to:
 - a) cause Contracting to make a voluntary assignment in bankruptcy; and
 - b) act as trustee of Contracting pursuant to the provisions of the *Bankruptcy and Insolvency Act* (the “**BIA**”).
5. Further background including a copy of the Amended Receivership Order and the First Report of the Receiver dated August 21, 2014 (the “**First Report**”) are posted on the Receiver’s website at www.alvarezandmarsal.com/sprague (the “**Receiver’s Website**”).
6. Capitalized terms not defined in this second report of the Receiver (the “**Second 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 Second 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 Second Report is intended to provide this Honourable Court with information with respect to the following matters:
 - a) the activities of the Receiver since the date of the First Report;
 - b) the voluntary assignment in bankruptcy filed by the Receiver on behalf of Contracting; and
 - c) the Receiver's application for an increase in the borrowing powers authorized in the Amended Receivership Order from \$500,000 to \$1.0 million.

RECEIVER'S ACTIVITIES

10. The Receiver's activities since the date of the First Report include the following:
 - a) preparing a marketing package and running a sales process for the capital assets of SR (the "**Capital Assets**") which consist 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) reviewing lease and ownership claims of property in the possession of the Receiver and, when appropriate, arranging for release of same;
 - c) performing a review of supporting documentation and historic correspondence with respect to project accounts receivable and holdback receivables and corresponding with representatives of the customers and their legal counsel regarding same;
 - d) attending various meetings and discussions with the Receiver's legal counsel to review among other things, disputed project accounts receivable and obtain legal advice regarding alternatives for pursuing recoveries, various matters involving Western Surety, competing secured claims to leased equipment and other matters;
 - e) corresponding with customers regarding July 2014 progress billings and holdback accounts receivable;
 - f) relocating the Companies' head office premises to its shop/storage and maintenance facility in Acheson, Alberta;
 - g) attending to various employee matters;
 - h) attending to payment of contractors and suppliers and updating the Receiver's interim statement of cash receipts and disbursements;

- i) retention of certain former SR employees on a contract basis to assist with the administration of the Receivership;
- j) attending numerous meetings and discussions with former management and shareholders of the Companies;
- k) preparing for and attending at the Court hearing of the application for the August 28 Order;
- l) communicating with the primary secured lenders (and/or their legal counsel) in this matter including various equipment lease financiers, BDC Capital Inc., Western Surety and Royal Bank of Canada (“**RBC**”) (collectively, the “**Secured Creditors**”) and providing updates on the Receiver’s realization efforts and the Receivership generally;
- m) communication with RBC with respect to the Receiver’s requirement to increase its borrowing powers and the willingness of RBC to advance additional funds to the Receiver, subject to Court approval;
- n) responding to various creditor enquiries; and
- o) attending to various duties of the Receiver pursuant to the Receivership Order, the BIA, the *Wage Earners’ Protection Program Act*, SC 2005, c 47 and other applicable statutes.

ASSIGNMENT IN BANKRUPTCY OF CONTRACTING

11. On September 3, 2014 (the “**Bankruptcy Date**”) the Receiver filed a voluntary assignment in bankruptcy on behalf of Contracting and A&M was appointed trustee (the “**Trustee**”). The appointment of A&M as Trustee was affirmed at the first meeting of creditors held in Edmonton, Alberta on September 22, 2014.
12. The Receiver has guaranteed the Trustee with respect to reasonable fees, expenses and claims in its activities as Trustee of the estate.
13. The Trustee’s Report to the Creditors on the Preliminary Administration in the Matter of the Bankruptcy of Contracting, the minutes of the first meeting of creditors and other materials related to the bankruptcy proceedings are available on the Receiver’s Website. The Trustee Report notes that the realization from the assets of the Companies will likely be insufficient to satisfy the Secured Creditors and, accordingly, it is not expected that there will be any distributions available for the unsecured creditors.

RECEIVER’S INTERIM STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS AND REQUIRED BORROWINGS

14. Summarized in the table below is an interim statement of cash receipts and disbursements to September 25, 2014 (the “R&D”):

Receiver’s Interim Statement of Cash Receipts and Disbursements for the period July 31, 2014 to September 25, 2014 \$000’s	
Receipts	
Receiver borrowings	\$ 500
Collections of accounts receivable	123
Other receipts	2
Total Receipts	<u>625</u>
Disbursements	
Wages and contractor payments	310
Equipment transportation and storage costs	94
Rent	44
Insurance	37
Other	20
Security	15
Utilities and services	13
Appraisals	4
Total Disbursements	<u>\$ 537</u>
Net cash flow	<u>\$ 87</u>
Closing cash balance	<u>\$ 87</u>

15. Pursuant to paragraph 20 of the Amended Receivership Order, the Receiver is empowered to borrow up to \$500,000 (or such greater amount as the Court may by further Order authorize) for the purpose of funding the powers and duties conferred upon the Receiver.
16. The Receiver has issued one Receiver Certificate to date for \$500,000 which supported advances made by RBC and has thereby exhausted its current borrowing capacity under the Receivership Order as outlined in the above R&D.
17. 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. Additionally the Receiver will incur additional out of pocket costs prior to closing the sale of Capital Assets or collecting any significant accounts receivable.
18. Accordingly, the Receiver requires further funding and is bringing an application to increase the borrowing powers of the Receiver to \$1.0 million which the Receiver estimates should be sufficient funding to cover the Receiver’s disbursements until sales transactions have closed with respect to some or all of the Capital Assets.

RECOMMENDATION

19. The Receiver respectfully recommends that this Honourable Court grant an order increasing the authorized Receiver borrowings from \$500,000 to \$1.0 million.

All of which is respectfully submitted to this Honourable Court this 1st day of October, 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