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DEFENDANT

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

DOCUMENT

**FIFTH 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.**

July 6, 2015

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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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. (“**Contracting**”), Sprague-Rosser Developments Inc. (“**Developments**”) 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. Sprague-Rosser Leasing Inc. (“**Leasing**”) is a wholly owned subsidiary of Pacific and the shares of Leasing constitute Property as defined in the Receivership Order.
3. 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 (“**Western**”) in respect of ongoing bonded construction contracts undertaken by SR in Alberta and Saskatchewan that the Receiver does not intend to complete (the “**Ongoing Bonded Projects**”).
4. On August 28, 2014, upon application of the Receiver, a Court 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.
5. On September 3, 2014 A&M assigned SR into bankruptcy and A&M is now acting in a capacity as Trustee in Bankruptcy (the “**Trustee**”) as well as Receiver.
6. The Receiver is filing a Notice of Application to be heard on July 17, 2015 seeking an order:
 - a) authorizing it to make distributions to Royal Bank of Canada (“**RBC**”); and
 - b) transferring the Receivership action to the judicial centre of Calgary.
7. Further background including a copy of the Amended Receivership Order, the previous four reports of the Receiver and other motion materials are posted on the Receiver’s website at www.alvarezandmarsal.com/sprague.
8. Capitalized terms not defined in this Fifth report of the Receiver (the “**Fifth Report**”) are as defined in the Amended Receivership Order.
9. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

10. In preparing the Fifth Report, the Receiver has relied upon unaudited financial information, company records and discussions with management of SR. The Receiver has not performed an audit, review or other verification of such information.

PURPOSE OF REPORT

11. The Fifth Report is intended to provide this Honourable Court with information with respect to the following:
- a) an update on the status of the receivership;
 - b) a summary of the Receiver's interim statement of cash receipts and disbursements for the period July 31, 2014 to July 3, 2015 (the "**July 3 R&D**"); and
 - c) the Receiver's comments and recommendations with respect to its application for authorization to make a distribution and a transfer of the within proceedings.

UPDATE ON THE STATUS OF THE RECEIVERSHIP

12. An estimated consolidated balance sheet of SR (including Contracting, Developments and Pacific) as at the Receivership Date is summarized below:

Sprague-Rosser Contracting Co. Ltd. et al Balance Sheet Summary As at July 31, 2014 \$000's		Reported Net Book Value July 31, 2015
Assets		
Accounts receivable	\$	56,726
Work in progress		2,111
Prepaid expenses		410
Machinery and equipment		4,955
Acheson shop property		3,600
Maple Ridge development land		2,400
Total assets	\$	<u>70,202</u>
Liabilities and shareholders' equity		
Accounts payable and accrued liabilities	\$	29,316
Equipment financing and leases		714
RBC operating facility		17,892
RBC lease facility		434
RBC first mortgage - Maple Ridge		1,636
BDC first mortgage - Acheson		4,486
BDC Capital subordinate debt		4,000
		<u>58,478</u>
Shareholders' equity		11,724
Total liabilities and shareholders' equity	\$	<u>70,202</u>

Accounts Receivable

13. Reported accounts receivable as at the Receivership Date is summarized as follows:

Sprague-Rosser Contracting Co. Ltd. et al Accounts Receivable Summary As at July 31, 2014 \$000's		
Customer	Description	Reported Net Book Value July 31, 2015
Regional Municipality of Wood Buffalo ("RMWB")	Damages claimed by SR for three municipal works contracts in Fort McMurray for which RMWB issued notices of "termination for convenience" in February and March 2014.	\$ 30,649
K+S Potash Canada GP ("K+S")	Various claims under two contracts for site preparation and underground works performed in 2012 and 2013 at a potash mining project in Bethune, Saskatchewan.	14,114
South Rock Ltd. ("South Rock")	Damages claimed by SR for wrongful termination of a highway construction subcontract in Fort McMurray that was terminated in May 2010.	3,434
Canadian Natural Resources Ltd. ("CNRL")	Standby and delay claims resulting from changes to the work schedule of a civil works contract in May 2013.	2,901
ATCO Electric Ltd. ("ATCO")	Disputed progress billings and claims for work performed on a construction contract entered into in October 2011.	4,061
Other	Various project accounts receivable.	1,567
Total Accounts Receivable		\$ 56,726
Notes (1) In some cases the total claim amount significantly exceeds the reported net book value of the disputed project accounts receivable.		

14. Each of the five major accounts receivable listed above relates to disputed project accounts receivable and construction claims which, in aggregate, represent approximately \$105 million of claims alleged and/or filed by SR prior to the Receivership Date. Since the commencement of the receivership, the Receiver and its legal counsel have spent considerable time and expense on matters relating to four of those claims (K+S, RMWB, CNRL and South Rock) which are now staged for advanced settlement negotiation and/or commencement of litigation. In some cases, the claims advanced by the Receiver vary from the claim amounts listed on the reported book values summarized above as result of further review and due diligence conducted by the Receiver in conjunction with its legal counsel and with the assistance of former management who were retained by the Receiver.

15. Documentation reviewed by the Receiver with respect to the reported accounts receivable from ATCO confirmed that the claim had been settled prior to the Receivership Date.
16. Other than filing statements of claim against various project sponsors or general contractors to preserve its position and avoid statute of limitation issues, the Receiver has not commenced litigation or arbitration proceedings but rather, has sought to advance settlement negotiations so as to avoid protracted and costly litigation. That position may change in the future depending on on-going discussions and negotiations with respective counterparties.
17. Prior to the Receivership Date, RMWB and K+S had made a series of payments totaling approximately \$23.5 million into a trust account maintained by SR's former legal counsel, Burstall Winger Zammit LLP ("BWZ"). The payment were subject to certain trust conditions, primarily requiring that the funds be used to discharge of liens and make payments to sub-trades before any funds were released to SR. Payments totaling \$18.3 million were released from trust to either subcontractors and vendors and the Company and as at the Receivership Date, there was approximately \$5.2 million remaining in the BWZ trust account. Of the remaining balance, approximately \$5.1 million related to advances from RMWB projects (\$4.5 million in respect of the project known as Saline Creek Drive and Bridge Phase 1 and \$585,000 in respect of the project known as Saline Creek Sanitary Outfall Sewer and Water Supply Line) and \$87,000 related to advances from K+S.
18. Net builders' liens of \$8.7 million have been registered against the RMWB projects by suppliers and subcontractors of SR (registered builders' liens of \$12.0 million less \$3.3 million of payments that were made by SR to the lien claimants subsequent to registration of the liens). Total liens of approximately \$38.1 million have been registered against the K+S projects including a lien of approximately \$21.5 filed by SR prior to the Receivership date in respect of its claims against K+S. The Receiver is reviewing the various liens registered against K+S to determine which, if any, are valid and registered by suppliers and subcontractors of SR.
19. SR and the Receiver dispute the validity of certain of the liens but to the extent they are valid and enforceable, they may serve to reduce recoveries available to the Receiver from the accounts receivable from RMWB and K+S.

Work in Progress

20. The work in progress balance largely relates to unbilled work on the Ongoing Bonded Projects, the majority of which are being completed by the project owners and/or the surety provider, Western.

21. On or around August 7, 2014 the Receiver notified the project sponsors and Western that it did not intend to complete a number of the ongoing projects and that it was terminating the underlying contracts. The Receiver's decision not to complete the projects was based on several factors including but not limited to a lack of available financing to complete the projects and the risks associated with attempting to complete the projects such as the potential departure of key employees of SR and the uncertainty surrounding the use of leased equipment.
22. The Receiver directed former management of SR which had been retained by the Receiver to submit progress payment certificates to each of the project owners of the Ongoing Bonded Projects for approval in order for the sponsors to be invoiced for work performed during the month preceding the Receivership Date.
23. None of the sponsors approved the July 2014 progress payment certificates citing construction deficiencies, necessity to confer with their legal counsel and in some cases referencing collection letters they had received from Western directing the owners not to pay the Receiver but rather to make payment to Western.
24. On November 24, 2014, Western made an application for an order (the "**Set-off Order**") granting the following relief:
 - a) a declaration that Western is not stayed from pursuing any and all set-off claims with respect to the certain Ongoing Bonded Contracts;
 - b) alternatively, an order lifting the stay of proceeding to allow Western to pursue any and all set-off claims with respect to the Ongoing Bonded Contracts;
 - c) directing the Receiver not to take any steps to collect payment of any monies from the owners named in the Ongoing Bonded Contracts;
 - d) directing the owners named in the Ongoing Bonded Contracts to make all payments to Western;
 - e) authorizing Western to enforce its rights with respect to the Ongoing Bonded Contracts, including but not limited to:
 - i) setting-off the amounts it is to expend or has expended to complete the Ongoing Bonded Contracts against any amounts payable under the Ongoing Bonded Contracts; and
 - ii) exercising all rights of the owners named on the bonds and Ongoing Bonded Contracts as equitable subrogee.

25. The application was adjourned and on January 9, 2015, the Receiver, RBC, BDC Capital and Western reached an agreement whereby:
- a) Western's application for the Set-off Order would be suspended by agreement pending completion of the Ongoing Bonded Contracts and delivery by Western to the Receiver of an accounting for the completion of the Ongoing Bonded Contracts;
 - b) collections of earned but unpaid amounts under the Ongoing Bonded Contracts by either Western or the Receiver would be held in trust during the suspension period; and
 - c) the rights of Western, the Receiver and secured creditors would be reserved.
26. The Receiver has not yet received an accounting for project completion of the Ongoing Bonded Projects, nor does it have confirmation of the amounts held in trust by Western. The Receiver does not currently hold any funds in trust in respect of this agreement.

Machinery, Equipment and Real Property

27. The Receiver undertook a sales process (the "**Sales Process**") to solicit offers for the machinery and equipment and real property of SR which is described in the Third Report of the Receiver dated October 21, 2014. The Sales Process resulted in the sale of the Company's machinery and equipment and the Acheson real property (office and shop facility) for net proceeds of approximately \$5.1 million and \$6.5 million, respectively. These transactions were approved by order of this Honourable Court on October 27, 2014. The first mortgage debt in the amount of approximately \$4.6 million of Business Development Bank of Canada ("**BDC**") was repaid from the sales proceeds of the Acheson real property.
28. The Sales Process did not result in a transaction for the Company's 4 acre industrial development land in the Maple Ridge subdivision of Edmonton (the "**Maple Ridge Property**") and on May 8, 2015 the Receiver entered into a six month listing agreement with Colliers McCaulay Nichols LLP to act as exclusive broker to market the property for a list price of \$3.75 million. To date, the Maple Ridge Property remains listed for sale.

Priority and Statutory Claims

29. The only identified priority and statutory creditor claim that may rank in priority to SR's secured creditors (refer to Sections 31 to 34) is for amounts owed to employees under the *Wage Earner's Protection Program Act* which are estimated to be \$98,000.
30. The Company did not have any unpaid payroll source deductions owing as at the Receivership Date.

Secured Creditors

31. In aggregate, Royal Bank of Canada (“**RBC**”) was owed approximately \$20.0 million as at the Receivership Date under its operating facility, a lease facility and a real estate loan supported by a mortgage against the Maple Ridge Property.
32. A&M in its capacity as Trustee obtained an independent legal opinion with respect to the security of RBC, BDC Capital Corp. (“**BDC Capital**”) and Western from its legal counsel, McCarthy Tetrault LLP, which indicates that its security against Contracting is valid and enforceable, subject to the standard qualifications, and the Receiver anticipates receiving opinions in respect of the remaining debtors before the return date for the application.
33. BDC held a first mortgage against the Acheson shop property supporting indebtedness of approximately \$4.6 million. As noted, the BDC debt was repaid and the mortgage discharged upon sale of the Acheson property. BDC Capital hold security subordinate to RBC for its loans to Pacific of approximately \$4.0 million.
34. Equipment lessors and financiers were owed \$715,000 secured with purchase money security interests in certain equipment and have either had their collateral returned, were paid out from the proceeds of equipment sales or will be repaid once payment arrangements are finalized.

Unsecured Creditors

35. Unsecured creditors of \$29.3 million include approximately 400 trade suppliers and vendors. As described in Section 14, there are a number of liens by suppliers and subcontractors of SR registered against projects owned by RMWB and K+S, some of which are disputed by SR.

RECEIVER’S INTERIM STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

36. A summary of the Receiver’s interim statement of cash receipts and disbursements for the period ending July 3, 2015 is summarized in the table below.

Sprague-Rosser Contracting Co. Ltd. et al
Receiver's Interim Statement of Cash Receipts and Disbursements
For the period July 31, 2014 to July 3, 2015
\$000's

Receipts

Receiver borrowings	\$ 1,000
Sale of equipment	5,070
Sale of land and buildings	6,538
EHER Settlement Agreement proceeds	470
Insurance settlement proceeds	262
Equipment lender cost allocation	177
Collections of project accounts receivable	216
Other receipts	99
GST collected	254
Total Receipts	14,087

Disbursements

Wages and contractor payments	484
Equipment demobilization and transportation	129
Insurance	94
Security	39
Utilities and services	73
Rent	41
Property tax	81
Other disbursements	32
Professional fees	1,564
GST paid	104
Receiver borrowings repayment	1,000
Receiver borrowings interest and fees	13
Repayment of BDC mortgage	4,574
Total Disbursements	8,230

Net cash flow **5,857**

Closing cash balance **\$ 5,857**

37. In summary, and as reflected in the July 3 R&D, the Receiver has generated cash receipts of approximately \$13.0 million (excluding Receiver borrowings of \$1.0 million) to July 3, 2015. The Receiver is currently holding approximately \$5.9 million in its trust account (including GICs) representing net realizations arising largely from the Receiver's disposition of all of SR's real property, machinery and equipment and settlement of various claims.
38. The Receiver borrowed a cumulative amount of \$1,000,000 from RBC against Receiver Certificates to fund the initial receivership proceedings. The Receiver's borrowings as well as approximately \$13,000 of interest and fees were repaid in full on November 4, 2014.

39. The Receiver realized net proceeds of approximately \$5.1 million for sale of machinery and equipment and \$6.5 million for the sale of the Acheson real property through transactions resulting from the Sales Process (refer to Section 27).
40. The Receiver realized net proceeds from the sale of the Acheson real property of approximately \$6.5 million of which \$4.6 million was repaid to BDC on December 16, 2014, to discharge a first mortgage held by BDC over the Acheson real property.
41. The Receiver realized net proceeds of \$470,000 as a result of a settlement agreement (the “**EH**ER Settlement”) between SR, Leasing and Edmonton Heavy Equipment Rentals Ltd. (“**EH**ER”) with respect to the distribution of proceeds from the sale by EH
- ER of certain construction equipment. The nature of the dispute and details with respect to the settlement are set out in the Third Report and are not repeated herein. The settlement was approved by this Honourable Court on June 16, 2015.
42. The Receiver reached a settlement with the Company’s insurers with respect to a series of disputed claims arising from work performed on the Edmonton Light Rail Transit in 2010, resulting in net proceeds to the estate of \$262,000.
43. On June 16, 2015, upon application of the Receiver, this Honourable Court approved the allocation of costs (the “**Cost Allocation**”) incurred by the Receiver to secure and safeguard heavy equipment on behalf of the lessors and financiers and directing each of the lessors and equipment financiers to pay their respective obligations to the Receiver, resulting in net proceeds of \$177,000.
44. The Receiver has collected miscellaneous project accounts receivable totaling approximately \$216,000.
45. Excluding the repayment of the Receiver’s borrowings and repayment of indebtedness to BDC, the Receiver has incurred cash disbursements of approximately \$2.6 million including the following:
 - a) wages and contractor payment for individuals retained by the Receiver to assist with the collection of equipment, project accounts receivable matters and general administration of the estate;
 - b) cost incurred by the Receiver to secure and safeguard the Company’s fixed assets, a portion of which was recovered pursuant to the Cost Allocation;

- c) professional fees for the Receiver and its legal counsel which has involved considerable time and expense on matters relating to four major project accounts receivable and construction claims (refer to Sections 13 to 19) which are now staged for advanced settlement negotiation and or commencement of litigation. The professional fees incurred to date are summarized as follows:

Sprague-Rosser Contracting Co. Ltd. et al. Summary of Professional Fee Disbursements For the period July 31, 2014 to July 3, 2015 \$000's					
	Fees	Disbursements	Tax	Total	
A&M	\$ 820	\$ 23	\$ 42	\$ 885	
McCarthy Tetrault LLP	668	10	34	712	
Stevenson Hood Thornton Beaubier LLP	24	0	2	27	
Burstall Winger Zammit LLP	16	2	1	18	
Other	1	-	-	1	
Total	\$ 1,530	\$ 35	\$ 79	\$ 1,644	

INTERIM DISTRIBUTION

46. The Receiver is seeking an order which provides for, among other things:
- a declaration that the security granted by Company in favor of RBC is valid and enforceable and, subject to the charges created in the Receivership Order, constitutes a first charge against the property of the Company; and
 - authorization for the Receiver to make distributions to RBC up to the amount of the indebtedness, liabilities and obligations owed by the Company to RBC.
47. As reflected in the July 3 R&D, the Receiver is holding approximately \$5.9 million in its trust account (including GICs) and expects to recover further proceeds from, among other things, the following assets:
- collection of disputed project accounts receivable; and
 - sale of the Maple Ridge property.
48. The Receiver anticipates that costs to complete the administration of the estate will largely be comprised of professional fees of the Receiver and its legal counsel to advance settlement discussions and/or continue to pursue litigation in respect of the four major project accounts receivable.

49. Given the uncertainty surrounding the timing and quantum of expected recoveries on the project receivables and sensitivity of settlement negotiations currently underway, the Receiver has not provided an estimated total recovery. However, it is expected that the recoveries realized on the remaining assets of the estate will far exceed the costs of administering the estate to its conclusion and discharging statutory claims that rank in priority to the Company's secured creditors.
50. Accordingly, the Receiver is respectfully of the view that it should be authorized to make distributions to RBC on a timely basis.

TRANSFER OF THE RECEIVERSHIP ACTION

51. The Receiver has filed a Notice of Application seeking an order which provides for, among other things, transfer of the Receivership action to the judicial centre of Calgary, provided that any existing actions involving the Company or future actions that the Receiver causes the Company to commence are continued or commenced, as the case may be, in the appropriate judicial centre.
52. The Receiver is seeking the Transfer Order for the following reasons;
- a) interested parties in the receivership proceedings including RBC, BDC Capital, Western and the Receiver have retained legal counsel who are based in Calgary;
 - b) the majority of the remaining work to administer the estate will relate to settlement negotiations and litigation matters in respect of project accounts receivable several counterparties of which have retained legal counsel in Calgary; and
 - c) the Receiver has concluded its disposition of SR's machinery and equipment located in and around Edmonton and resolved the EHER Settlement and the Cost Allocation which involved creditors and counterparties in Edmonton.
53. The transfer of the within action to the judicial centre of Calgary will not impact the determination of the proper judicial centre for the litigation of project accounts receivable and those actions (to the extent it is necessary to pursue them) will be commenced or continued in the appropriate judicial centre as determined by the *Alberta Rules of Court*.
54. Accordingly, the Receiver is respectfully of the view that it is appropriate for the Receivership action to be transferred to the Calgary judicial centre.

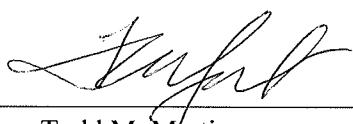
RECOMMENDATIONS

55. The Receiver respectfully recommends that this Honourable Court approve the following:

- a) the authority of the Receiver to make distributions to RBC; and
- b) the transfer of the within action to the judicial centre of Calgary.

All of which is respectfully submitted to this Honourable Court this 6th day of July, 2015.

**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: Todd M. Martin
Senior Vice President



Per: Tom Powell
Director