

**IN THE MATTER OF THE BANKRUPTCY OF
SPRAGUE-ROSSER CONTRACTING CO. LTD.**

**OF EDMONTON
IN THE PROVINCE OF ALBERTA**

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

ESTATE NO. 24-1906774

Background

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" or the "Company"), Sprague-Rosser Developments Inc. ("Developments") and Pacific Federation Equity Group Inc. ("Pacific") (collectively, "SR") pursuant to an order of Honourable Madam Justice J. B. Veit (the "Receivership Order") granted on July 31, 2014 (the "Receivership Date"). On August 7th, 2014 an amended and restated order was granted (the "Amended Receivership Order") to provide for certain rights to Western Surety Company ("Western") in respect of bonded construction projects undertaken by SR that the Receiver does not intend to complete. A copy of the Amended Receivership Order is attached as Appendix "A".

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;
- b) act as trustee of Contracting pursuant to the provisions of the *Bankruptcy and Insolvency Act*.

On September 3, 2014 (the "Bankruptcy Date") the Receiver filed a voluntary assignment in bankruptcy on behalf of Contracting pursuant to paragraph 3(s) of the Amended 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 September 22, 2014. A copy of the certificate of appointment is attached as Appendix "B".

The principal business of Contracting was to act as a heavy construction contractor on projects in Alberta and Saskatchewan from its head office located in Edmonton, Alberta.

Further background on the Company is contained in the Receiver's first report dated August 21, 2014 and in the materials filed in support of 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 Trustee's website at www.alvarezandmarsal.com/sprague.

Conservatory and 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 Contracting, which include project accounts receivable with a book value of approximately \$72.0 million (gross of provisions for doubtful accounts), machinery, equipment and vehicles ("Fixed Assets") with a book value of approximately \$4.5 million, and real property with a book value of \$2.4 million. The Receiver has taken all necessary conservatory measures to secure and insure the assets.

Pursuant to the Amended Receivership Order, the Receiver is undertaking a sales process to solicit offers for the Fixed Assets and real property owned by SR including that of Contracting and is pursuing collection of various accounts receivable and is otherwise seeking to realize on the assets of SR.

A number of the accounts receivable reported by Contracting are significantly aged, subject to dispute or otherwise impaired. The Receiver is reviewing the receivables and has instructed its legal counsel, McCarthy Tetrault LLP, to provide advice regarding legal alternatives for pursuing certain larger accounts. It is highly probable that some of the accounts will proceed to litigation.

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

Provable Claims and Secured Claims

The Royal Bank of Canada ("RBC") has filed a proof of claim indicating they are owed approximately \$20.2 million which is secured by a General Security Agreement ("GSA") against all present and after acquired personal property of the Company and a mortgage against certain real property owned by Contracting in the amount of approximately \$1.6 million.

Business Development Bank of Canada has registered a GSA against all present and after acquired personal property of Contracting and the records of SR indicated they are owed approximately \$4.3 million.

Western has registered a GSA but the amount of their debt, if any is unknown as at the date of this report.

Pacific has registered a GSA against all present and after acquired personal property of Contracting and the Receiver of Pacific has filed a proof of claim advising they are owed approximately \$22.3 million.

The Trustee has obtained an independent legal opinion of the security of RBC, BDC, Western and Pacific which indicates that the security held by these secured creditors is valid and enforceable against the assets of Contracting and against the Trustee.

In addition to the secured claims, there is a prior ranking claim by Service Canada for the *Wage Earners' Protection Program Act* which is estimated to be \$150,000.

Canada Revenue Agency is conducting a trust examination which may result in priority amounts due in respect of payroll withholdings following the outcome of the examination.

As disclosed in the Statement of Affairs, there are 402 unsecured creditors with total unsecured claims of \$26.4 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.

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 the Company's shop and office facility in Acheson, Alberta which is owned by Developments.

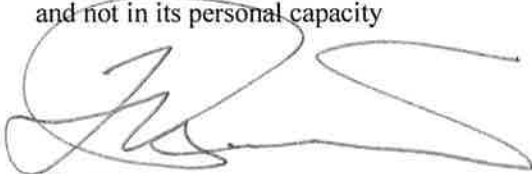
Reviewable Transactions and Preference Payments

The Trustee has not undertaken a complete review of the Company's books and records but a preliminary review in its capacity as Receiver indicates 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 or preferences which could be pursued by the Trustee for the benefit of the estate. The Trustee and its legal counsel are following up on these transactions.

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
Sprague-Rosser Contracting Co. Ltd.
and not in its personal capacity

A handwritten signature in dark ink, appearing to be 'Tim Reid', written over a faint circular stamp or seal.

Tim Reid
Senior Vice President