

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY**

BETWEEN:

ROYAL BANK OF CANADA

Plaintiff

-and-

**ALPINE QUARRIES INC., MARTIN MILLAIRE, SERGE AUBIN,
YANNICK TREMBLAY and JEAN-LUC GRAND-PIERRE**

Defendants

FIRST REPORT OF THE RECEIVER

ALGER & ASSOCIATES INC.

FEBRUARY 17, 2010

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Introduction

1. On January 25, 2010, Alger & Associates Inc. was appointed Receiver and Manager (the “Receiver”) of Alpine Quarries Inc. (“Alpine” or the “Company”) pursuant to a Consent Receivership Order (the “Appointment Order”) granted by the Court. A copy of the Appointment Order is attached as Appendix 1 to this report.
2. The Appointment Order authorized the Receiver, *inter alia*, to take possession and control of the property of Alpine (the “Property”) 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 subject to certain limits or otherwise subject to Court approval.
3. The purpose of the Receiver’s First Report is to provide this Honourable Court with:
 - A summary of the Receiver’s Initial Activities;
 - An overview of operations of Alpine;
 - A Statement of Receipts and Disbursements for the period January 25, 2010 to February 17, 2010;
 - A summary of Creditor Claims;
 - A summary of the sales process undertaken by the Receiver; and
 - The Receiver’s comments, analysis and recommendations regarding the sale of certain of the Property for this Honourable Court’s approval thereof.
4. The Receiver has also prepared a Supplement to the Receiver’s First Report (“Supplemental First Report”) which includes copies of the offers received by the Receiver and a copy of the independent appraisal on the value of the Property, excluding the Missing Property and Disputed Property (as defined below). This material is provided to this Honourable Court on a confidential basis to avoid disclosing certain information which would be prejudicial to the sales process in the event the Court does not approve the offer of the Highest Bidder (as defined below). The Receiver believes that certain parties may intend on submitting an offer directly to Court, however, we have not been formally advised of this.

Limitations of Report

5. The information contained in this report has been obtained from the records of the Company and is based upon discussions with, and representations made by Alpine's management and shareholders and other professional advisors retained in this matter. The Receiver has relied on this information and has not performed an audit, review or other verification of such information. The Receiver reserves the right to refine or amend its comments and/or findings as further information is obtained or brought to its attention subsequent to the date of this report.

Background

6. Alpine's principal business is operating a stone manufacturing company located in Calgary, Alberta. The business operated from a single leased facility ("Leased Premises") that consisted of approximately 15,000 sq feet of warehouse space, 5,000 sq feet of office space and 2.75 acres of yard. The Company has been in operations since 2002 and employed approximately 8 employees.
7. The Company is indebted to the Royal Bank of Canada ("RBC"), on a secured basis, in the amount of approximately \$1,776,000. In support of the RBC loans, it is our understanding that Martin Millaire, Serge Aubin, Yannick Tremablay and Jean-Luc Grand-Pierre (collectively "the Guarantors") have pledged personal guarantees on the amounts due to RBC.

Receiver's Activities

8. The Appointment Order authorizes the Receiver to take possession and control of the Property. On January 25, 2010, the Receiver attended at the Leased Premises to take possession. At the time of our appointment, the Company had already ceased business and all employees had previously been terminated.
9. The Receiver has taken possession of the Property, except for the Missing Property (as defined below), conducted an inventory of the Property and taken steps to safeguard the Leased Premises. Insurance has also been placed on the Property.

10. The Receiver is continuing to occupy the Leased Premises until the Property is sold and removed. Shortly after the Receiver's appointment, the Receiver obtained an estimate for the removal of the Property from the Leased Premises. The estimate indicated that the removal of the large equipment would require approximately 10 days and cost approximately \$74,000. The lease rate for the Leased Premises is \$44,577 per month. The significant costs related to the Leased Premises are a concern to the Receiver and a key consideration in preparing the Invitation for Offers (as defined below) package.
11. The Receiver attempted to negotiate with Landlord for a reduction in the lease rate for the Leased Premises but was unsuccessful. It is the Receiver's understanding that the Landlord will not interfere with the removal of the Property from the Leased Premises.
12. The Company's current records required for the Receiver's administration of the receivership, both electronic and hard copy, are in the process of being transferred to the Receiver's office.
13. The Receiver mailed to all known creditors the Notice and Statement of the Receiver and Manager ("Receiver's Notice") as required by the subsections 245(1) and 246 (1) of the *Bankruptcy and Insolvency Act*. The Receiver's Notice was mailed on February 1, 2010 and in addition, has been posted on the Receiver's website at www.alger.ca/alpine.
14. The Appointment Order authorizes the Receiver to sell the Property of the Company and therefore, the Receiver has conducted a process to obtain offers on the Property. This process is discussed in further detail in the Sales Activities section of this report.
15. The Receiver is attempting to collect any accounts receivables due to the Company. The Company's books and records show that approximately \$216,000 is due to Alpine. A letter to the customers who have amounts due to the Company was sent on January 27, 2010. A preliminary analysis indicates that much of the balance due will be difficult to collect as a result of uncompleted work. The Receiver will continue further efforts to collect amounts due to Alpine.

16. The Receiver became aware of certain Property that was removed from the Leased Premises prior to the Appointment Order and this Property is discussed in further detail in the Disputed Property and Missing Property section of this report.

Sales Activities

17. The Appointment Order authorizes the Receiver to market the Property including advertising and soliciting offers in respect of the Property.
18. The Receiver prepared an invitation for offers (“Invitation for Offers”) package for the Property. The Invitation for Offers was distributed to a number of companies across Canada that are in the stone manufacturing business and also to other potentially interested parties. A copy of this list is attached as Appendix 2. A copy of the Invitation for Offers package is attached as Appendix 3. The Invitation for Offers package was also posted on the Receiver’s website at www.alger.ca/alpine. The deadline for receiving offers was set for February 10, 2010 as a result of the high occupancy costs being incurred by the Receiver relative to the value of the Property.
19. The Receiver obtained an independent appraisal on the forced liquidation value of the Property. A copy of this appraisal is included in the Supplemental First Report.
20. The Receiver also canvassed Company management and the Guarantors for prospective purchasers of the Property and certain company names were provided to expand the Receiver’s list of prospective purchasers.
21. The Receiver received offers from 6 parties. The offers are included in the Supplemental First Report. The offers were disclosed to legal counsel of both the Plaintiff and the Defendants in this action, with the exception of the Martin Millaire, on a confidential basis. The offers were not disclosed to Martin Millaire as he indicated an interest in submitting his own offer and also due to the Receiver’s concerns about the confidentiality of the offers as a result of information the Receiver has that certain parties may present offers directly to the Court.
22. The Receiver has reviewed these offers with RBC, the primary secured creditor, and has been advised they support the Receiver accepting the offer from the highest bidder for the

assets on an enbloc sale (the “Highest Bidder”). The Receiver has also reviewed the offers with the counsel for the Defendants, except for Martin Millaire for the reasons discussed above, and we are advised the Defendants who have knowledge of the offers are in support of the Receiver accepting the offer from the Highest Bidder.

23. The Receiver accepted the offer from the Highest Bidder, subject to Court Approval, which is now being sought as discussed below.

Disputed and Missing Property

24. Shortly after the Receiver distributed the Invitation for Offers, the Receiver became aware of machinery, equipment and a vehicle that were not on-site at the Alpine premises, but was property of Alpine. The Receiver became aware that the following assets (“Disputed Property”) were removed from the Alpine premises and were being stored at Pacific Northwest Stone Company Inc. (“Pacific Stone”) located in Granum, Alberta. Pacific Stone’s directors include Robert Morin and Martin Millaire. The assets included:

- a. 2005 Park Industries Jaguar II S4000 Diamond Bridge Saw – Approximate purchase price of \$150,000;
- b. 2008 D160-Z Doosan Forklift – Approximate purchase price of \$136,000;
- c. 396126 Cobra Bridge Saw Park Industries – Approximate purchase price of \$20,000;
- d. Water Filter Press (Manual Press) including water tanks 4’ X 4’ weight scale with digital read out – Approximate purchase price of \$20,000;
- e. 2004 Audi A8L s/n – WAUML44E24N004370 – Estimated Black Book value of \$15,000; and
- f. Other miscellaneous assets.

25. The Receiver also became aware of other certain Alpine assets (“Missing Assets”) that were removed from the Leased Premises prior to the Appointment Order. The Missing Assets include:

- a. 2008 Doosan G 30P DD Forklift (Serial number- MM-00577) - Approximate purchase price of \$31,685;
- b. Various office equipment (2 coffee machines, stamp machine, paper shredder, security system); and
- c. Various small tools, (2 hand held grinders, Honda pressure washers, 2 wheel, table top grinder, 2 nail guns, drill press, motor lift).

When the Receiver attended at the Property on January 25, 2010, a window at the Leased Premises had been broken prior to possession. The landlord of the Leased Premises acknowledged breaking the window to gain entry to the Leased Premises to show the Leased Premises to a prospective tenant. Both the landlord and Alpine management deny any knowledge of the Missing Assets, but management did indicate the Missing Assets were present when they left the Leased Premises on January 22, 2010. The Receiver is in the process of filing a police report with respect to the Missing Assets.

26. The Receiver was able to obtain six invoices (“Morin Invoices”) from the books and records of Alpine dated December 15, 2009 that indicates that the Disputed Assets were sold to Robert Morin, a director of Pacific Stone for \$235,777.50 which was set off against the amounts allegedly due to Robert Morin by Alpine. Prior to the above transaction, the books and records of Alpine appear to show that \$217,501.49 was due to Robert Morin. Robert Morin and Pacific Stone effected personal property registrations against the Disputed Assets on January 21, 2010. The Receiver’s counsel made demands in accordance with the Section 18(1) of the *Personal Property Security Act (Alberta)* on February 10, 2010 for proof of security. No response has yet been received.
27. It is the Receiver’s understanding, based on discussions with Martin Millaire, that the Morin Invoices were prepared without the knowledge or approval of the Company, as Robert Morin had access to the accounting system of Alpine, and that the Disputed Assets ownership was transferred without the consent of Alpine management.
28. On February 12, 2010, the Receiver effected a seizure of the Disputed Assets, as provided for in paragraph 3(b) in the Appointment Order. The Disputed Assets are being held in

storage pending resolution of ownership of the Disputed Assets. Based on current information, it is the Receiver's position that the Disputed Assets belong to Alpine.

29. Provided the Receiver obtains Court approval to sell the Disputed Assets, the Receiver intends to either sell these assets at auction and/or allow the successful bidder of the Alpine Property to make an offer to purchase the Disputed Assets. The Receiver is in the process of obtaining an appraisal of the Disputed Assets.

Interim Statement of Receipts and Disbursements

30. Attached as Appendix 4 is a copy of the Receiver's Interim Statement of Receipts and Disbursements.

Receiver's Fees and Legal Fees

31. Attached as Appendix 5 is a summary of the professional fees and copies of the accounts are attached. The outstanding Receiver's fees and its counsel's fees are approximately \$25,120 as of February 17, 2010, not including unbilled work in process. These fees have not been paid and are therefore not reflected in the Interim Statement of Receipts and Disbursements. The professional fees will be paid as funds become available as provided for in the Appointment Order.

Creditor Claims

32. The primary secured creditor is the Royal Bank of Canada who is owed approximately \$1,776,000 as of the date of the Appointment Order. There may also be claims submitted by the Government of Canada for unpaid source deductions and GST. The quantum of these claims is currently unknown as no proofs of claim for the Government of Canada have been received, but it is estimated that the claim for unpaid source deductions may be as high as \$47,000, excluding interest and penalties. The Receiver's legal counsel is in the process of finalizing its independent legal opinion on the validity of the Royal Bank of Canada's security.
33. Management terminated all employees prior to the Receiver's appointment and paid all employees their final pay remittances. No material claims for amounts due to employees are

anticipated. Employees were notified of the *Wage Earners Protection Program Act* on February 1, 2010. A copy of the notification is attached as Appendix 6.

34. The amounts due to unsecured creditors, based on Company's records, is listed on the Receiver's Notice is \$1,590,328. As none of the current offers are sufficient to pay in full the amounts due to the primary secured creditor it is unlikely that a distribution will be available to the preferred or unsecured creditors.

Preliminary Conclusions and Recommendations

35. Since granting of the Appointment Order, the Receiver has safeguarded the Property and has been marketing the Property for sale. It is the Receiver's view that the Court may wish to approve the sale of the Property to the Highest Bidder for the following reasons:
 - a. This is the highest offer received in terms of dollar value and greater than the appraised value of the Property;
 - b. The primary secured creditor supports accepting this offer;
 - c. The Guarantors, except for Martin Millaire to whom the offers were not disclosed, are supportive of the Receiver's acceptance of this offer;
 - d. An extension of the sales process will not necessarily bring in a better offer but will certainly result in additional costs including occupation costs, insurance and professional costs; and
 - e. An extension of the sales process provides no guarantees that the Highest Bidder will keep its offer open through an extended sales process.
36. The Receiver respectfully requests Court approval of the following:
 - a. The Receiver's activities and conduct as outlined in this Report;
 - b. The sale of the Property to the Highest Bidder;

- c. The distribution of the net proceeds from the Receivership to the Royal Bank of Canada after deducting all receivership costs and any valid priority claims;
and
- d. Any further directions the Court wishes to provide to the Receiver.

All of which is respectfully submitted this 17th day of February, 2010.

Alger & Associates Inc.,
In its capacity as Court Appointed
Receiver and Manager of Alpine
Quarries Inc.



Per: Andrew H. Basi, CA•CIRP
Direct Line: (403) 296-2992
Email: abasi@alger.ca