

**COURT FILE NUMBER** 1603-13737  
**COURT** COURT OF QUEEN'S BENCH OF ALBERTA  
**JUDICIAL CENTRE** EDMONTON  
**PLAINTIFF(S)** ALBERTA MOTOR ASSOCIATION  
**DEFENDANTS** JAMES GLADDEN, DANA GLADDEN, SPROCKIT APPS INC.,  
1926378 ALBERTA LTD., MARATHON MARKETING INC., QUIET  
LIGHT BROKERAGE INC., AND EASETIME SOFTWARE LTD.  
**DOCUMENT** **THIRD REPORT OF THE RECEIVER**

**ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT**

Counsel

Bennett Jones LLP  
4500, 855, 2nd St SW  
Calgary AB T2P 4K7

Attention: Munaf Mohamed / Mathieu LaFleche

Telephone: (403) 298 4456 / (780) 917 5249

Fax: 403 265 7219

File No.: 000681-00019

Receiver

Deloitte Restructuring Inc.  
2000 Manulife Place  
10180 101 Street  
Edmonton, AB T5J 4E4

Attention: Garrett Chan

Telephone: (780) 421 3759

Fax: (780) 421 3782

Email: garrchan@deloitte.ca

# Table of contents

Introduction	1
Activities of the Receiver	2
Remaining Issues	2
Interim Distribution and Conclusion	4

# Appendices

App Schedule..... "A"

Proposed Interim Distribution  
Schedule..... "B"

# Introduction

1. On August 4, 2016, the Court of Queen's Bench of Alberta appointed Deloitte Restructuring Inc. (the "Receiver") as Receiver of the current and future assets, undertakings and properties of every nature and kind whatsoever of Sprockit Apps Inc. ("Sprockit") and 1926378 Alberta Ltd. ("1926378") (collectively, the "Companies").
2. Since its appointment, the Receiver has been managing the operations of the Companies. Sprockit's operations consist of the management and sale of mobile device applications ("Apps"), which were primarily offered for sale on the Apple App Store. 1926378 operates as the owner/landlord of a five story commercial building located in downtown Edmonton (the "Commonwealth Building").

## *Purpose of this report*

3. The purpose of this report (the "Third Report") is to:
  - 3.1. provide the Court with an update on the Receiver's activities since the Second Report of the Receiver dated March 14, 2017 (the "Second Report");
  - 3.2. advise the Court of the Receiver's remaining obligations to complete its mandate; and
  - 3.3. seek the Court's approval of the Receiver's actions to date and the authorization of an interim distribution to the plaintiff or its designate.

## *Terms of reference*

4. In developing this Third Report, the Receiver has relied upon unaudited financial information prepared by the Companies' management, the Companies' books and records and discussions with its management. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the information. Future-oriented financial information relied upon in this Third Report is based on management's assumptions regarding future events. Actual results achieved may vary from this information and these variations may be material, and as such the Receiver expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Third Report, or relied upon by the Receiver in preparing this Third Report.

## *Currency*

5. All currency references in this Third Report are in Canadian dollars.

## Activities of the Receiver

6. Since the Second Report, the Receiver has substantially completed the sale of the Commonwealth Building and funds in the amount \$892,409.62 (the "Commonwealth Sale Proceeds") are being held in trust by Bennett Jones LLP.
7. As discussed in the Second Report of the Receiver, many of Sprockit's Apps have been removed from the Apple App Store by Apple due to non-compliance with developer agreements or due to the Apps not being able to support newer version of iOS operating systems as they are released. As a result, App revenues have declined to less than \$500 per month and continue to decline for the above reasons.
8. The Receiver believes that the cost and administrative time required to bring the accounts and Apps into compliance with Apple requirements, exceed the potential revenue derived from the sale of the Apps. A schedule detailing the disposition of the App accounts under the Receiver's control is attached as Appendix "A".
9. Now that the Commonwealth Building has been sold and the economic benefit of maintaining the Apps is at an end, the Receiver has substantially completed realization of the Companies' property. The remaining issues to be completed in the Receiver's mandate are set out below.

## Remaining issues

### *Apps*

10. Since the Apps came under the Receiver's control, the Receiver has contemplated three methods of realization, which are detailed below:
  - 10.1. Private sale to the previous owners with the assistance of brokers who specialize in selling mobile apps;
  - 10.2. Public auction through online marketplaces specializing in mobile apps; or
  - 10.3. Continue collecting App revenues until the Receiver's discharge upon which the Apps will be abandoned.

11. The Receiver contacted the former owner and developer of the Apps who originally sold the Apps to Sprockit and they expressed no interest in reacquiring them. The app broker who originally sold the Apps provided the Receiver with an estimate of the fair market value of the Apps' source code, which would not justify the administrative cost of brokering a sale and transferring the accounts and code. Similarly, realization at public auction would likely not yield proceeds exceeding the Receiver's cost of disposal.
12. The Receiver has discussed with counsel the possibility of transferring the Apps to the plaintiffs upon its discharge. However, the Receiver is advised that the plaintiff's insurer would be the recipient and they are not interested in assuming responsibility for the Apps.
13. Unless the Receiver is able to locate a private buyer for the Apps who offers an amount exceeding the Receiver's costs to dispose of the Apps, the Receiver plans to collect revenues from the Apps and abandon them upon its discharge.

### *Commonwealth Building*

14. The Commonwealth Building's property manager collects operating costs and property taxes as part of the monthly rent from tenants and these amounts are based on estimates for the year. At the end of the year, the amounts collected from the tenants are reconciled to the actual costs incurred by the owner. If the estimated amount paid by the tenants are higher or lower than the actual operating costs, there may be additional amounts payable to or by the tenants. The results of this reconciliation should be known in February 2018 and any recovery or liability will be allocated between the Receiver and purchaser of the building.

### *GST*

15. The Receiver has filed GST returns for the Companies for the year ended October 31, 2016 and will need to file a return for the year ending October 31, 2017 after the year end.
16. The Receiver estimates that it will have GST liability, primarily from the collection of rental revenue from the Commonwealth Building, of approximately \$25,000.

### *Income tax*

17. The Receiver will need to file the corporate tax returns after the Companies' fiscal year ending on October 31, 2017, and it is anticipated that the Receiver will have income tax liability resulting from the collection of App revenue and from the rent collected from the Commonwealth Building. No capital gain tax is anticipated on the sale of the building as it was sold for less than its original cost.
18. The Receiver estimates that the liability for income tax should not exceed \$20,000 for Sprockit and \$48,000 for 1926378.

## Interim Distribution and Conclusion

18.1. The Receiver has realized on substantially all of the property of the Companies. The Receiver therefore recommends that an interim distribution be paid to the plaintiff or its designate, subject to a holdback for the accruals detailed above and for the Receiver's estimated professional fees to complete its mandate and seek its discharge.

18.2. The Receiver recommends that the sums of \$123,918.40 from the Sprockit estate and \$875,344.80 from the Commonwealth Sale Proceeds be paid to the AMA as an interim distribution. The Receiver also recommends that the balance of the Commonwealth Sale Proceeds, in the approximate amount of \$17,064.82, be paid to the 1926378 estate to cover the accrued costs to complete the administration of the receivership. The Receiver's Proposed Interim Distribution Schedule detailing the recommended distribution and accrued costs are detailed in Appendix "B".

19. This Report is made in support of an Order:

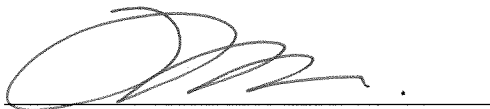
19.1. approving the Receiver's actions to date; and

19.2. directing the Receiver and Bennett Jones LLP to pay interim distributions to the plaintiff or its designate the sums of \$123,918.40 from the Sprockit estate and \$875,344.80 from the Commonwealth Sale Proceeds with the remaining balance from the Commonwealth Sale Proceeds paid to the Receiver.

All of which is respectfully submitted this 16<sup>th</sup> day of November, 2017.

**DELOITTE RESTRUCTURING INC.,**

In its capacity as Court-appointed Receiver of  
Sprockit Apps Inc. and 1926768 Alberta Ltd.  
and not in its personal capacity



Darren M. Crocker, CPA, CGA, CIRP, LIT  
Senior Vice-President

App Accounts	2017 Revenue YTD	Total Revenue for April, May, June 2017	Future Expected Earnings	Comments
Mega Rock LLC	\$2,438.86	\$947.85	Nil	The developer account has expired and the Receiver has not been able to renew it. There is a balance of \$37.09 remaining in the account that the Receiver is unable to access.
Worldwidedistributionhouse	\$420.05	\$152.77	Negligible	Apple terminated account due to non-compliance with agreement. There is a balance of \$420.05 and a small amount of revenue continues to be generated, but the Receiver is unable to access the developer account and the funds.
Dnovaes	\$873.26	\$853.76	Estimated \$200 per month	The Receiver no longer has access to the account and is unable to access the funds.
Novaesd182	\$2,440.46	\$20.74	Negligible	Developer membership expired
h2osales1234	\$56.50	\$16.32	Negligible	Developer membership expired



**Proposed Interim Distribution Schedule  
as at September 6, 2017  
re: Sprockit Apps Inc. and 1926378 Alberta Ltd.**

	<u>Sprockit Apps Inc.</u>	<u>1926378 Alberta Ltd.</u>	<u>Bennett Jones Trust Account</u>	<u>Total</u>
<b>Receipts</b>				
Commonwealth sale proceeds	-	-	892,409.62	892,409.62
Net rental income (10 months)	-	318,776.54	-	318,776.54
Income Tax Refunds	140,237.98	-	-	140,237.98
App revenue	108,691.25	-	-	108,691.25
Initial bank transfer	5,286.84	70,149.60	-	75,436.44
GST Collected	-	19,966.19	-	19,966.19
GST Refund	1,608.41	-	-	1,608.41
Insurance Refund	-	559.83	-	559.83
Utilities Refund	-	127.51	-	127.51
Transfer to receivership (proposed)	-	17,064.82	-	17,064.82
Bank Account Interest	18.02	11.75	-	29.77
<b>Total Receipts</b>	<b>255,842.50</b>	<b>426,656.24</b>	<b>892,409.62</b>	<b>682,498.74</b>
<b>Disbursements</b>				
Transfer to receivership (proposed)	-	-	17,064.82	17,064.82
Payment to Secured Creditors	-	147,182.76	-	147,182.76
Receiver's Fees	73,732.48	87,861.17	-	161,593.65
GST on Receiver's Fees	3,686.62	4,393.06	-	8,079.68
GST Remitted	-	18,748.85	-	18,748.85
Federal & Provincial Taxes	-	18,302.26	-	18,302.26
Legal Fees	-	6,494.63	-	6,494.63
GST on Legal Fees	-	324.68	-	324.68
Accounting Services	4,700.00	-	-	4,700.00
Appraisal fees	-	3,940.50	-	3,940.50
Insurance	-	2,581.30	-	2,581.30
Repairs and Maintenance	-	1,200.00	-	1,200.00
GST paid on disbursements	235.00	257.03	-	492.03
Filing fees paid to Official Receiver	70.00	70.00	-	140.00
<b>Total Disbursements</b>	<b>82,424.10</b>	<b>291,356.24</b>	<b>17,064.82</b>	<b>373,780.34</b>
<b>Estate balance</b>	<b>173,418.40</b>	<b>135,300.00</b>	<b>875,344.80</b>	<b>1,184,063.20</b>
<b>Proposed accruals (conservative estimates)</b>				
CRA Corporate Tax	20,000.00	48,000.00	-	68,000.00
CRA GST	-	25,000.00	-	25,000.00
Professional fees	25,000.00	50,000.00	-	75,000.00
10% Contingency	4,500.00	12,300.00	-	16,800.00
<b>Total to be retained in estate</b>	<b>49,500.00</b>	<b>135,300.00</b>	<b>-</b>	<b>184,800.00</b>
<b>Proposed interim distribution to AMA</b>	<b>\$ 123,918.40</b>	<b>\$ -</b>	<b>\$ 875,344.80</b>	<b>\$ 999,263.20</b>