



Court File No. 04-CL-5603

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF AN APPLICATION UNDER
SECTION 47.1(1) OF THE *BANKRUPTCY AND
INSOLVENCY ACT*, R.S.C. 1985, C. B3, AS
AMENDED**

**AND IN THE MATTER OF THE APPOINTMENT OF
AN INTERIM RECEIVER OF NORTH AMERICAN
PRINTING INC.**

Applicant

**FIRST REPORT OF DOYLE SALEWSKI INC.
INTERIM RECEIVER AND PROPOSAL TRUSTEE
November 23, 2004**

**DOYLE SALEWSKI INC.
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TO: SERVICE LIST ATTACHED

**FIRST REPORT OF DOYLE SALEWSKI INC.
INTERIM RECEIVER AND PROPOSAL TRUSTEE
November 23, 2004**

I. Introduction, Purpose and Qualifications

(a) Introduction

- 1. On November 2, 2004 North American Printing Inc. ("NAP" or the "Company") filed a Notice of Intention to Make a Proposal (the "NOI") naming Doyle Salewski Inc. ("DSI") as the proposal trustee (the "Proposal Trustee"). The cash flow projections were subsequently filed with the official receiver on November 4, 2004. A copy of the NOI is included as Exhibit "A" in the affidavit of Michael J.B. Somerville sworn November 23, 2004. A copy of the cash flow is included as Exhibit "B" in the affidavit of Michael J. B. Somerville sworn November 23, 2004.
- 2. DSI was subsequently appointed as interim receiver (the "Interim Receiver") of NAP by order of the Honourable Madam Justice Lax dated November 12, 2004 (the "Appointment Order"). A copy of the Appointment Order is included as Exhibit "C" in the affidavit of Michael J. B. Somerville sworn November 23, 2004.

(b) Purpose

- 3. The purpose of the first report is to provide information to the Court in connection with the following:
 - (a) the activities of the Interim Receiver;
 - (b) the status of NAP's operations and cash flow, on a preliminary basis, in the short period, subsequent to the Appointment Order; and
 - (c) NAP's request that it be granted an extension of the time in which to file a proposal pursuant to section 50.4(9) of the Bankruptcy and Insolvency Act.

(c) Qualifications

- 4. The information contained in this report has been obtained from the records of NAP and is based on discussions with, and representations made by, management of the Applicants and other professional advisors retained in this matter.

5. The financial information of NAP has not been audited, reviewed or otherwise verified by the Interim Receiver or Proposal Trustee as to its accuracy or completeness, nor has it necessarily been prepared in accordance with generally accepted accounting principles and the reader is cautioned that this report may not disclose all significant matters about NAP. Accordingly, the Interim Receiver and Proposal Trustee do not express an opinion or any other form of assurance on the financial or other information presented herein. The Interim Receiver and Proposal Trustee may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.

6. The Interim Receiver and Proposal Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction or use of this report. Any use that any party makes of this report or any reliance on or decisions that are made based on this report is the sole responsibility of such party. All dollar amounts identified in this report are expressed in Canadian dollars, unless otherwise specified.

II. NAP - Background

(a) Overview of NAP's Business

7. NAP specializes in the printing and delivery of catalogues, magazines and direct mail pieces to customers located in Canada and the United States.

8. The company is incorporated pursuant to the laws of Nova Scotia and has its head office in Windsor, Ontario. NAP owns one production facility located in Windsor (the "Windsor Facility"), which also serves as the company's headquarters. Mr. Guy Young is the president and sole director of NAP. Mr. Michael Somerville is the company's chief financial officer and secretary. NAP is a wholly owned subsidiary of 1508925 Ontario Ltd. ("150"), which is a company incorporated pursuant to the laws of Ontario. Mr. Young and Mr. Somerville hold 55% and 45%, respectively, of 150's shares

9. The company's senior secured creditor, Canadian Imperial Bank of Commerce ("CIBC"), has not taken a position with respect to these proceedings. CIBC was owed, at the date of the court application for the appointment of the Interim Receiver, approximately \$125,000 on account of a line of credit, which is secured by way of a general security agreement against all of NAP's assets. CIBC did not freeze this account as at the date of the NOI. As at the date of the first advance of the debtor-in-possession ("DIP") financing (which is described below) CIBC was owed \$70,414. This amount is being repaid to them during the week ending November 26, 2004 from a DIP financing advance. In addition, CIBC Equipment Finance Limited ("CEFL"), allegedly a separate corporation, is owed approximately \$450,000 secured by specific equipment leases. The latter has not taken a position with respect to these proceedings.

10. Through a series of transactions, NAP provided security for 150's obligations to 2430472 Nova Scotia Company ("243") (a member of the H&R Block group of

companies). This represents the company's most significant secured liability. 243 is owed approximately \$990,000, which is secured by way of a charge for \$3.3 million on the Windsor Facility and a general security agreement.

11. The company's most significant unsecured creditors are trade suppliers who are owed, collectively, approximately \$1.4 million.

(b) The Proceedings

12. As set out in NAP's motion materials in support of the Appointment Order, the company's financial performance deteriorated significantly over the past few years. The reasons for this include a number of external market pressures, including (a) a strong Canadian currency; (b) increases in the price of paper from mills; (c) increases in the freight costs; and (d) increased competition.

13. The company has also suffered a significant cash flow loss due to the alleged breach of a supply agreement by H&R Block Services, Inc. ("HRB"), which was executed on March 15, 2002 (the "Supply Agreement").

14. Due to the alleged breach of the Supply Agreement, the company estimates that it lost approximately \$3 million in gross revenues. An arbitration is currently underway in Toronto, Ontario between NAP and HRB. The company has advised the Interim Receiver that it expects a decision on the matter within the next three months. Since the Appointment Order, the company has remitted \$21,400 to the arbitrator in accordance with the cash flow projections that was filed in support of the initial application.

III. Recent Developments

(a) The Interim Receiver's Activities

15. During the week of November 15, 2004, the Interim Receiver advised all creditors having claims in excess of \$250 of the Appointment Order. A copy of the Appointment Order was mailed to each creditor.

16. The Appointment Order provides the Interim Receiver with the authority to borrow up to \$500,000 from Century Services Inc. ("Century Services") pursuant to receiver certificates. These funds are to be used to fund on-going operations and to retire the company's senior secured debt of \$70,414, which is owed to CIBC. The Appointment Order also provides for an administrative charge of \$50,000 for professional fees incurred in these proceedings (the "Administrative Charge") and a \$100,000 charge for five critical suppliers (the "Critical Supplier Charge").

17. In accordance with the terms of the Appointment Order, during the week ending November 26, 2004, the Interim Receiver obtained \$70,414 from Century and retired CIBC's debt.

18. A further \$162,500 in interim receiver's certificates were issued to Century Services. This results in borrowings under the facility to date of \$232,914.

(b) Current Financial Position and Status of Operations

Current Financial Position

19. Included as Exhibit "D" in the affidavit of Michael J.B. Somerville sworn November 23, 2004 is the original cash flow for the period November 6, 2004 to December 25, 2004 that was prepared by NAP with the assistance of the Proposal Trustee and filed in connection with the Appointment Order.

20. Included as Exhibit "E" in the affidavit of Michael J.B. Somerville sworn November 23, 2004 is a revised cash flow dated November 23, 2004 which was also prepared by NAP with the assistance of the Interim Receiver for the period November 2, 2004 to February 12, 2005. This includes actual cash flow information for the period ending November 19, 2004.

21. As relatively little time has lapsed since the date of the Appointment Order, the Interim Receiver is not in a position at this time to provide a meaningful update with respect to the status of NAP's post-filing operations and cash flow. However, as at November 19, 2004, and based on preliminary information, NAP has experienced net cash flow which is favourable relative to the cash flow submitted as part of NAP's initial filing.

22. As at November 19, 2004 NAP's cash flow was \$531,000 better than forecasted. This was as a result of timing differences in the receipt of accounts receivable and payment of operational costs. In fact, account receivable collections were \$139,500 greater than forecasted and \$162,500 in DIP financing that was received. Disbursements were \$224,000 less than estimated due, in a great part, to \$172,500 less in critical suppliers payments. The company has also continued to meet its on-going obligations to creditors.

23. With respect to the Administrative Charge, as at November 19, 2004, \$4,848 has been paid to the Interim Receiver. This represents complete payment of billings issued to that date. There currently exists \$30,000 of unbilled time for legal counsel and \$11,388 for the Interim Receiver. These amounts will be billed prior to November 30, 2004.

24. With Respect to the Critical Suppliers Charge, the Interim Receiver advises that \$77,526 in goods were received from same of which \$58,439 was unpaid as at November 19, 2004. As can be seen from the revised cash flow, this amount will be paid during the week of November 26, 2004.

25. NAP has also obtained updated appraisals on the Windsor Facility and its machinery and equipment. To preserve the integrity of the proposed marketing and sale process, the figures will not be disclosed. However, the Interim Receiver can advise that the appraisal for the Windsor Facility indicates that the property value exceeds 243's

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+ Proposed
L7K pool.
last week

security. The machinery and equipment appraisals also indicate that there is equity available in the equipment in excess of the monies owed to CEFL.

Status of Operations

26. As part of its role as Interim Receiver, DSI has met with management of NAP to discuss and implement restructuring initiatives. Some of the specific actions taken by the company in this short interim period include:

- (a) Attended meetings with employees to discuss the receivership process and the resulting implications;
- (b) Confirmed the adequacy of financial, operational and information technology controls and set up a daily and weekly reporting system regarding operations and cash flow requirements;
- (c) Assisted in coordinating a comprehensive communication program for key stakeholders, including suppliers, customers and creditors; and
- (d) Attended a review of the corporate office operations in Windsor, Ontario.

27. NAP has also engaged Round Oak Management Ltd. and DGHB and Associates Inc. to assist it with its marketing efforts. These parties are working together to identify a strategic partner for NAP.

28. The Interim Receiver is advised that the parties have held a number of serious discussions with potential purchasers/investors. The Interim Receiver has also facilitated a number of these discussions. It is evident that the company requires more time to formalize these discussions so that it may formulate a proposal that is in the best interest of all stakeholders.

29. To date, the Interim Receiver and the Proposal Trustee are not aware that NAP has experienced any significant negative impact on operations and cash flow. The Interim Receiver has received only a few inquiries from third parties relating to these proceedings.

30. NAP is seeking an extension for the time to file its Proposal to January 13, 2005. The Proposal Trustee is satisfied that NAP is proceeding in good faith with a view to restructuring itself and that no creditors will be materially prejudiced by the extension.

31. The Proposal Trustee has been monitoring NAP's affairs since it filed its NOI. As previously reported, there has not been a material negative change in the cash flow of the debtor. The projected cash position of the company indicates that it should be able to continue meeting its obligations throughout the extension period. Given its review, the Proposal Trustee believes NAP might be in a position to make a viable proposal.

All of which is respectfully submitted on this 23rd day of November, 2004.

DOYLE SALEWSKI INC.
In its capacity as Interim Receiver and Proposal Trustee
of North American Printing Inc.,
and not in its personal capacity.



Brian P. Doyle, CA- CIRP
President