

**SECOND REPORT OF DOYLE SALEWSKI INC.  
INTERIM RECEIVER AND PROPOSAL TRUSTEE**

**January 10, 2005**

**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 January 10, 2005.

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"). The terms of the Appointment Order were subsequently extended by order of the Honourable Madam Justice Lax dated November 30, 2004. (the "November 30 Order"). A copy of the Appointment Order and November 30 Order are included as **Exhibit "B"** and **Exhibit "C"** respectively in the affidavit of Michael J. B. Somerville sworn January 10, 2005.

**(b) Purpose**

3. The purpose of the second 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; and
- (c) NAP's request that it be granted a further extension of the time in which to file a proposal to February 27, 2005 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 and its debt was retired during the week ending November 26, 2004 as set out in the First Report of Doyle Salewski Inc., Interim Receiver and Proposal Trustee dated November 23, 2004 (the "First Report"). In addition, as set out in the First Report, CIBC Equipment Finance Limited ("CEFL"), has not taken a position with respect to these proceedings.

10. As set out in the First Report, NAP provided security for its parent, 1508925 Ontario Ltd. ("150") 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 the First Report, 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"). The Supply Agreement is currently the subject matter of arbitration in Toronto, Ontario (the "Arbitration").

14. As set out in the First Report, management of NAP is confident that the Arbitration will result in a significant damages award which, coupled with the identification of a strategic partner, will allow the company to become profitable. Management of NAP has indicated that a final arbitration hearing was held on December 20, 2004 and the decision of the arbitrator is pending. A decision is anticipated prior to the extension application of January 13, 2005.

**III. Recent Developments**

**(a) Current Financial Position**

15. Since the date of the First Report, the Interim Receiver has obtained a further \$184,675 to fund ongoing operations from Century Services. This results in borrowings under the facility to date total \$417,589.

16. Included as **Appendix "I"** to this Second Report is a Statement of Receipts and Disbursements for the period Friday, November 2, 2004 to Saturday, January 1, 2005. NAP has experienced a net cash flow which is favourable relative to the cash flow submitted at the extension application of November 30, 2004 and cited in the First Report dated November 23, 2004.

17. Significant variations from the projected cash flows are as follows:

(a) Cash receipts - \$33,705 positive variance. Major items include:

- i. \$65,151 less in receivables was collected than as forecasted. These amounts will be collected in future periods;
  - ii. An additional \$45,675 was advanced by Century Services Inc.;
  - iii. \$65,160 was advanced by customers for postage on production orders. Postage expense reflected in disbursements is \$60,840;
  - iv. \$10,063 less in GST refunds.
- (b) Cash disbursements - \$138,862 positive variance. Major items include:
- i. \$12,120 less in professional fees of the arbitrator;
  - ii. \$10,000 advance for investor services;
  - iii. \$35,083 less in professional fees of Interim Receiver;
  - iv. \$9,000 less in professional fees of Century Services;
  - v. \$849 increase in professional fees of Proposal Trustee;
  - vi. \$9,951 less in bank charges and interest;
  - vii. \$32,759 less in wages and benefits;
  - viii. \$4,402 less in equipment rental;
  - ix. \$30,356 increase in purchase costs of raw materials.
  - x. \$76,751 decrease in other payables.

18. With respect to the Administrative Charge, as at January 5, 2005, \$43,565.92 has been billed by the Interim Receiver, \$37,465.08 has been paid and \$6,101 remains unpaid. Management of NAP has advised that \$41,892.27 has been billed by legal counsel for services rendered to November 30, 2004, \$10,700 has been paid and \$31,192 has not been paid. There currently exists \$1,592 of unbilled time for legal counsel and \$1,168 for the Interim Receiver. These amounts will be billed prior to January 31, 2005.

19. With Respect to the Critical Suppliers Charge, the Interim Receiver advises that \$244,170 in goods were received from same of which \$18,897 was unpaid as at January 1, 2005. As can be seen from the revised cash flow, this amount will be paid during the week of January 8, 2005.

20. Since the filing of the NOI, the Interim Receiver is advised by management of NAP that total accounts receivable has increased to \$600,987 from \$561,556. This represents an increase of \$39,431. Included as **Appendix "II"** to this Second Report is a schedule detailing the Accounts Receivable Balance as at January 1, 2005.

21. The Interim Receiver is advised by management of NAP that the estimated total accounts payable as at January 1, 2005 is \$67,841. Included as **Appendix "III"** is a schedule of the Estimated Accounts Payable as at January 1, 2005.

22. Included as **Appendix "IV"** to this Second Report is a revised cash flow which was prepared by NAP with the assistance of the Interim Receiver for the period January 1, 2005 to March 26, 2005. NAP is projecting that they will require additional financing from Century Services of \$33,000 for the week ending January 29, 2005, \$22,000 for the week ending February 26, 2005 and \$20,000 for the week ending March 12, 2005. In the event the projected borrowings are advanced, this results in a total additional increase in the DIP financing of \$75,000 to a projected total borrowing of \$492,589. Although NAP is forecasting cash balances for the period ending March 26, 2005 which are at times minimal, during this NOI process NAP has been able to exceed projections and maintain a reasonable cushion in its bank balance.

### ***Status of Operations***

23. 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 Interim Receiver in this short interim period include:

- (a) Attended meetings with employees to discuss the receivership process and the resulting implications and implement cost cutting procedures, including reducing employee wages and expenses and resourcing to reduce purchase costs of raw materials;
- (b) Confirmed the adequacy of financial, operational and information technology controls and continuation of 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 with Round Oak Management Ltd. and DGHB and Associates advisor to identify a strategic partner, develop a refinancing and restructuring plan and put into action a marketing process.

24. The Interim Receiver is advised that the marketing process is yielding positive results. Management of NAP has advised that a list of primary and secondary targets were generated and distributed. 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.

25. 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.

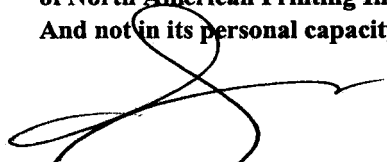
26. NAP is seeking an extension for the time to file its Proposal to February 27, 2005. The Proposal Trustee is satisfied that NAP is proceeding in good faith with a view to restructuring itself and that no creditors will be materially prejudiced by the extension.

27. 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 should be in a position to make a viable proposal.

All of which is respectfully submitted on this 10th day of January, 2005.

**DOYLE SALEWSKI INC.**

**In its capacity as Interim Receiver and Proposal Trustee  
of North American Printing Inc.,  
And not in its personal capacity.**

A handwritten signature in black ink, appearing to read 'Brian P. Doyle', with a large, stylized flourish extending to the right.

**Brian P. Doyle, CA, CIRP  
President**