

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

**February 22, 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”).

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”).

3. The terms of the Appointment Order were again extended by order of the Honourable Mr. Justice Farley dated January 13, 2005 (the “January 13 Order”).

**(b) Purpose**

4. The purpose of the third 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 April 13, 2005 pursuant to section 50.4(9) of the Bankruptcy and Insolvency Act.

**(c) Qualifications**

5. 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.

6. 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.

7. 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. Recent Developments**

### **(a) Current Financial Position**

8. Since the date of the Second Report, the Interim Receiver has obtained a further \$62,755 to fund ongoing operations from Century Services. This results in borrowings under the facility to date total \$480,344.

9. Included as **Appendix "A"** to this Third Report is a Statement of Receipts and Disbursements for the period Friday, November 2, 2004 to Saturday, February 19, 2005. NAP has experienced a net cash flow which is favourable relative to the cash flow submitted at the extension application of January 13, 2005 and cited in the Second Report dated January 10, 2005.

10. Significant variations from the projected cash flows are as follows.

(a) Cash receipts - \$166,789 positive variance. Major items include:

- i. \$112,063 more in receivables were collected than as forecasted; included in the cash collected on receivables is \$121,235 in advances from customers on productions orders and postage;
- ii. An additional \$29,755 was advanced by Century Services Inc. over the budgeted amount;
- iii. \$10,272 increase in GST refunds;
- iv. \$81,140. was advanced by customers for postage on production orders. Postage outlay reflected in disbursements is \$70,174.

(b) Cash disbursements - \$24,054 positive variance. Major items include:

- i. \$10,700 increase for investor services;
- ii. \$13,985 less in professional fees of Interim Receiver and Proposal Trustee;
- iii. \$7,213 increase in arbitration fees
- iv. \$8,622 less in wages and benefits;
- v. \$2,813 less in equipment and vehicle rental;
- vi. \$74,584 increase in purchase costs of raw materials;
- vii. \$87,762 less in other payables.

11. With respect to the Administrative Charge, as at February 19, 2005, \$77,911 has been billed by the Interim Receiver, \$70,479 has been paid and \$7,432 remains unpaid. Management of NAP has advised that legal counsel for services rendered to November 30, 2004 has billed \$42,192, \$31,192 has been paid and \$11,000 has not been paid. There exists unbilled time for legal counsel and for the Interim Receiver.

12. With respect to the Critical Suppliers Charge, the Interim Receiver advises that \$449,537 in goods were received from same of which \$ nil was unpaid as at February 19, 2005. Prepayments in the amount of \$5,664 are outstanding for materials to be received.

13. Since the Second Report, the Interim Receiver is advised by Management of NAP that total accounts receivable has decreased to \$421,731 from \$600,987. This represents a decrease of \$179,256. Included as **Appendix "B"** to this Third Report is a schedule detailing the Accounts Receivable Balance as at February 19, 2005. There is currently \$25,412 in materials that have been shipped but unbilled. An additional \$60,447 has been completed and is awaiting shipment as at February 19, 2005.

14. The Interim Receiver is advised by management of NAP that there is approximately \$475,000 of work in progress scheduled for the next three weeks, for which a significant portion of materials have been purchased and paid. The material cost is reflected in the Statement of Receipts and Disbursements.

15. The Interim Receiver is advised by management of NAP that the estimated total accounts payable as at February 19, 2005 is \$56,483. Included as **Appendix "C"** is a schedule of the Estimated Accounts Payable as at February 19, 2005. (Note: There exists \$363,000 in legal fees awarded to H&R Block by binding arbitration, which are not included in Appendix "C" and have not been scheduled to be paid in the cash flow filed with this report).

16. Included as **Appendix “D”** to this Third Report is a cash flow projection which was prepared by NAP with the assistance of the Interim Receiver for the period February 20, 2005 to May 21, 2005. NAP is projecting that they will require additional financing from Century Services of \$8,000 for the week ending February 26, 2005. In the event the projected borrowings are advanced, this results in a projected total borrowing of \$488,344. Although NAP is forecasting cash balances for the period ending May 21, 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.

**(b) Result of Arbitration Proceedings**

17. As set out in the Second Report, NAP was engaged in arbitration with H & R Block Services, Inc. (“HRB”).

18. As reported to the court on January 13, 2005, NAP lost the arbitration. As a result, litigation costs of \$363,000 were awarded to HRB. The priority and status of these costs are presently to be determined. Although the costs award was post-filing of the NOI, certain of the legal services were performed pre-filing (before November 2, 2004).

**(c) Secured Creditors**

19. A significant amount of equipment is leased or financed through CIBC Equipment Finance Ltd. (“CEFL”). Legal opinions are pending in order that NAP determine its positions on various leases.

20. The Interim Receiver is advised by counsel to NAP that Wilson Walker has registered a mortgage on the NAP realty in the amount of \$150,000 in respect of outstanding legal accounts. Further research of this matter will be required to determine its status, priority and enforceability.

**III. Status of Operations**

21. As part of its role as Interim Receiver, DSI has met with management of NAP to discuss and implement restructuring initiatives. Additionally, DSI has attended meetings with prospective investors/purchasers and are maintaining a daily interaction with DGHC & Associates Inc. who are engaged by NAP to locate a strategic partner or investor.

22. The Interim Receiver is advised that the marketing process is yielding positive results. DSI is aware of several parties interested in NAP. At least two of these parties appear to be in position to issue non-binding letters of intent. It is evident that the company requires more time to negotiate with these parties so that it may formulate a proposal that is in the best interests of all stakeholders.

23. 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.

24. NAP is seeking an extension for the time to file its Proposal to April 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.

25. 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 22nd day of February, 2005.

**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**