FOURTH REPORT OF DOYLE SALEWSKI INC. INTERIM RECEIVER AND PROPOSAL TRUSTEE

August 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 further extended by order of the Honourable Mr. Justice Farley dated January 13, 2005 (the "January 13 Order"), and by order of the Honourable Mr. Madam Justice Greer dated February 25, 2005 (the "February 25 Order") to April 13, 2005.
- 4. A Proposal dated April 12, 2005 was filed by the Company on April 13, 2005 (the "First Proposal"). The First Proposal was later amended by the Company (the "Amended First Proposal").
- 5. A final Meeting of Creditors to approve the Amended First Proposal was held on August 11, 2005. Further negotiations and discussions with the Purchaser left insufficient time to effect a close on August 31, 2005 and to meet the requirements of the Bankruptcy and Insolvency Act (Canada) ("BIA") which determines that fifteen days notice must be given to creditors in respect of the approval of a Proposal by the Court or the Registrar.
- 6. As such, the Proposal Trustee has notified creditors as set out in Appendix A that the hearing for the approval of the Amended First Proposal has been set down for Thursday, September 1, 2005. If the Amended First Proposal is approved, the Interim Receiver will issue its Bill of Sale and Vesting Order should this Honourable Court approve the transaction pursuant to our motion on Friday, August 26, 2005.

(b) Purpose

- 7. The purpose of the Fourth 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
 - (c) to seek the direction of this Honorable Court to the Interim Receiver to sell the assets of NAP as set out in the Amended First Proposal.

(c) Qualifications

- 8. 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.
- 9. 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.
- 10. 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. Current Financial Position

- 11. Included as Appendix B to this Fourth Report is a Statement of Receipts and Disbursements for the period Friday, November 2, 2004 to Friday, August 19, 2005.
- 12. With respect to the Administrative Charge, an estimated \$102,500 is due professionals covered by this charge as at August 19, 2005. With respect to the Critical Suppliers Charge, the Interim Receiver advises that an estimated \$7,500 is due these suppliers as at August 19, 2005.

- 13. The Interim Receiver is advised by Management of NAP that total accounts receivable is estimated at \$359,000 and trade accounts payable is \$82,000 as at August 19, 2005.
- 14. Generally, we observe that NAP is meeting its obligations as they are due.

III. Events Leading to the Proposed Transaction

- 15. The history of the Company and its financial circumstances which led to the filing of the "NOI" are set out in the Proposal Trustee and Interim Receiver's First, Second and Third reports. Relevant key dates are set out in Appendix C.
- 16. Following the Third Report of the Interim Receiver and Proposal Trustee dated February 22, 2005, the Honourable Madam Justice Greer granted an Order dated February 25, 2005 extending the filing date for a Proposal to April 13, 2005.
- 17. In the interim, the Company continued to deal with several prospective purchasers, investors and other interested parties. Round Oak Management Ltd. and DHB & Associates continued to act as advisors to identify strategic partners and to refinance the Company. Subsequently, the contract with Round Oak Management Ltd. and DHB & Associates was terminated by the Company on June 7, 2005.

(a) First Proposal

- 18. One interested party, Mr. Jim Russell of Arbor, Michigan and owner of Arbor Press expressed an intention to the Company to purchase its realty for \$1,110,000 in a sale/leaseback transaction. Further, a major supplier indicated a term facility might be available in an amount up to \$250,000. Pending appropriate bank financing on accounts receivable, NAP was in a position to file a Proposal dated April 12, 2005 on April 13, 2005, the First Proposal. This is enclosed as Appendix D.
- 19. Enclosed as Appendix E is the Proposal Trustee's Report on the Proposal of North American Printing Inc. dated April 20, 2005. The Trustee and the Company estimated that Unsecured Creditors could expect to receive between 9.13¢ and 16.64¢ on the dollar. The First Proposal sets out a process whereby the accounts receivable would be collected by the Interim Receiver and that all other assets would be sold by the Interim Receiver.
- 20. The First Meeting of Creditors in the Proposal was held on May 4, 2005. At that meeting the First Proposal was approved by creditors with 95% voting in favour by dollar volume and 81% in number. The minutes of this meeting are enclosed as Appendix F.
- 21. During the Meeting of Creditors, a motion was passed unanimously which allowed the Company to file an amended proposal prior to Court approval if another proposal was deemed to be more beneficial to creditors at the discretion of the Trustee.

(b) Amended Proposal

- 22. After the Meeting of Creditors it became evident that Mr. Russell was having difficulty securing appropriate financing for his building purchase in Canada. Concurrently, another party being the "Low Group" advised the Interim Receiver of their serious intent to purchase the assets of the Company. A Letter of Intent was subsequently drafted by them and substantial redrafts were exchanged by counsel.
- 23. An Amended Proposal was filed by the Company dated and filed on June 8, 2005 (the "Amended Proposal"). This proposed the continuation of operations of NAP with a dividend consisting of unsecured promissory notes offering 25¢ of proven claims payable over one year.
- 24. The Proposal Trustee called a Second Meeting of Creditors for June 30, 2005. Due to a lack of progress in the transaction, this meeting was adjourned by the creditors to July 21, 2005 and, again, to August 11, 2005.
- 25. Unexpectedly, on July 21, 2005 in the evening, the Low Group solicitor advised the Interim Receiver that they had terminated their interest in acquiring NAP for certain business reasons.

(c) The Michigan /Ohio Consortium

- 26. During the above process, Mr. Russell (of Michigan) maintained his interest in NAP. His sales team had determined that NAP products were saleable in the United States and were strategically better priced than local product.
- 27. Mr. Russell also enlisted the assistance of Mr. Dick Westfall and, subsequently, Mr. Niels Winther. Mr. Westfall, also the owner of printing establishments in Ohio known as Patented Printing, commenced selling NAP products to his clients and was encouraged by the response. On July 28, 2005 the Michigan/Ohio consortium issued a Memo of Intent. They retained the services of Kirwin & Partners LLP of Windsor, Ontario to commence the transaction process.

(d) The Proposed Sale Transaction

- 28. The proposed transaction with the Michigan/Ohio consortium (the "Purchaser") has been somewhat fluid. Bonafides and goodwill has prevailed throughout the discussions. Regular conference calls have been held by the Interim Receiver with the Company and the Purchasers.
- 29. The initial transaction with Mr. Russell was a sale-leaseback of the realty. At some point it evolved into a proposed sale of the assets with the Interim Receiver retaining the accounts receivable for collection.

- 30. A third iteration of the proposed sale was that there would be a sale to a new company. The same estimated dividend to unsecured creditors would prevail. However, the current principals of NAP (Messrs. Young and Somerville) would forego their right to a dividend through their corporation 1508925 Ontario Ltd. in return for a 25% interest in the new company ("Newco"). Accordingly, Newco would be owned by the Michigan/Ohio consortium (75%) and Young/Somerville (25%).
- 31. Notwithstanding the evolution of the transaction, the proposed dividend to unsecured creditors was targeted at 13.2% of proven claims based on estimated proven claims of \$1,350,000 which were net of the claim of 1508925 Ontario Ltd. Note that total proven claims filed with the Trustee are presently only \$923,374 net of the filed claim of 1508925 Ontario Ltd. of \$2,124,480.

(e) Fourth Meeting of Creditors

- 32. On August 11, 2005, a Fourth Meeting of Creditors was convened. Previous discussions were held with Unisource Canada Inc., being the largest creditor, who confirmed their approval of proposed amendments to the original First Proposal dated April 12, 2005. Subsequently, approval was also given by the Inspector (Appendix L).
- 33. The Amended Proposal dated June 8, 2005 was withdrawn by the Company at the meeting. Further, three amendments were proposed by NAP to the First Proposal of April 12, 2005 as follows:
 - 1. That 1508925 Ontario Ltd. controlled by the Messrs. Young and Somerville with an unsecured Proof of Claim of approximately \$2.2 million have agreed to and will not participate in the Proposal. The debt owing to 1508925 Ontario Ltd. will be deferred, will not participate in the dividend and will survive as an obligation by North American Printing Inc.
 - 2. As the First Proposal as accepted by the Creditors provided that the Interim Receiver was to sell the chattels and fixed assets to a Purchaser, it was determined that the Accounts Receivable would be collected by the Trustee/Interim Receiver. Mr. Young requests that the Accounts Receivable be included in the sales transaction to the proposed Purchaser.
 - 3. That Section II, paragraph 1.b. shall read: "The Proposal shall be approved by the Court;" The words: "and all appeal periods with respect to the approval order shall have expired;" are stricken.
- 34. These amendments were approved the creditors unanimously. Accordingly, this will be referred to subsequently as the "Amended First Proposal". Minutes of Creditors Meetings are enclosed as follows:
 - (i) Second Meeting of Creditors June 30, 2005 Appendix G.

- (ii) Third Meeting of Creditors July 21, 2005 Appendix H.
- (iii) Fourth Meeting of Creditors August 11, 2005 Appendix I.

(f) Proposed Sale Transaction

- 35. At the time of the writing of this Fourth Report, there is a verbal agreement in principle, but no signed Agreement of Purchase and Sale executed by the Purchaser, NAP and the Interim Receiver pending approval of this Court. Notwithstanding, it is our intention to seek Court approval of a transaction under the following terms:
 - (i) Sale price \$1,550,000 cash plus assumption of the principal balance outstanding of the "H&R Block First Mortgage" on the realty, plus the determined secured legal costs of H&R Block plus all obligations for labour and employees of NAP as at the proposed closing date of August 31, 2005.
 - (ii) The adjustment date is August 31, 2005 with a closing date on September 1, 2005.
 - (iii) The Interim Receiver from the funds paid on closing shall discharge all secured and priority payables, outstanding post NOI payables including trade payables, but not current source deductions particular to the payroll spanning the settlement date and the claims as set out in #1 above. The Purchaser will also assume sales commissions outstanding on uncollected accounts receivable as at August 31, 2005. The Purchaser shall acquire all accounts receivable, inventories, machinery and equipment, realty, goodwill, client lists and other intangibles of the Company adjusted as at August 31, 2005.
 - (iv) Purchaser shall acquire the assets of the Company free and clear of all obligations, liabilities whatsoever, save and except the realty mortgage plus secured legals and the employment obligations as set out in points (i) & (iii) above.

IV. Determination of Benefit to Creditors

(a) Unsecured Creditors

36. A Statement of Estimated Net Realizations and dividend has been enclosed as Appendix J for this Court's review. This includes a contingency reserve of \$64,000 which if not utilized, in whole or in part, may further increase the dividend available to unsecured creditors.

- 37. As set out earlier, it has been the Interim Receiver's intention to target a dividend to unsecured creditors of 13.2% based upon prior iterations of the sale and also upon previous estimates of realization as provided to creditors in the Proposal Trustee's Report on the Proposal of North American Printing Inc. dated April 20, 2005. The estimated dividend available to unsecured creditors, based upon two scenarios ranged from 9.13¢ to 16.64¢. On this basis, a substantial majority of the unsecured creditors of NAP accepted the Proposal.
- 38. Accordingly, the estimated 13.2¢ dividend under this proposed sale transaction would rank in the high end of the range provided to creditors in our report on the First Proposal.

(b) Secured Creditors and Priority Claimants

39. In the proposed transaction, secured creditors will either receive full cash consideration in respect of their claims or will receive continuing security, particularly, in the case of 2340472 Nova Scotia Company Limited ("H&R Block").

Details are as follows:

- (i) H&R Block to receive a first mortgage in the approximate amount of \$956,000 plus their secured legals.
- (ii) H&R Block will receive an estimated \$127,000 in payment of their post NOI legal costs in respect of the Arbitration Claim.
- (iii) CEFL/CIT will receive their requested payout of approximately \$226,000 plus accrued interest in respect of their first charge on equipment.
- (v) Century Services provider of the interim financing will be paid their full claim of \$500,000 plus accrued interest.
- (vi) Property taxes of an estimated \$94,000 will be paid on the realty and principal and interest arrears of approximately \$52,000 on the mortgage of H&R Block will be paid to H&R Block.
- (vii) Post NOI accounts payable and obligations will be paid by the Interim Receiver.

V. Walker Wilson LLP Mortgage

40. Walker Wilson LLP ("WW") acted for the Company in respect of the arbitration matter with H&R Block mentioned above and as reported to this Court previously. Presently, we are advised that WW filed a mortgage which secured their arrears of fees

and disbursements in the approximate amount of \$97,575 on the date of the filing of the NOI being November 2, 2004.

- 41. We are advised by NAP that fees and disbursements of WW after November 2, 2004 have been paid in full. In seeking Court approval for this transaction, the Interim Receiver is also seeking a vesting order in respect of the property over which WW holds its mortgage. A vesting order will remove the rights of WW and any other encumbrancers.
- 42. The Interim Receiver is presently concerned with two issues in seeking a vesting order in respect of the realty.
 - (i) Firstly, is the granting of security as at the filing date a preference which may be challenged under this Proposal?
 - (ii) Secondly, assuming the security is valid and enforceable, does the security attach to any value in the realty?
- 43. Enclosed as Appendix K is a calculation in respect of the estimated net proceeds in respect of the realty.
- 44. In light of this valuation, we have used three estimates of selling value for the realty. One is the full appraised value of \$1,200,000 (November, 2004). The second is the amount initially agreed upon with Mr. Jim Russell which was set at \$1,110,000. One normally expects a realistic selling price would be slightly lower than an appraised value, particularly, in a declining commercial market such as Windsor.
- 45. In the transaction in respect of the real estate, the outstanding first mortgage principal is estimated at \$956,000. Total mortgage arrears are approximately \$52,000. Arrears of property taxes are estimated at \$94,000. This would leave approximately \$98,000 if the property selling value is set at \$1,200,000 or \$8,000 if the property selling value is determined to be \$1,100,000.
- 46. The third depicts the transaction at hand. The Purchaser has advised that the value for the agreement will be \$1,000,000 for the realty. This will leave substantial negative equity in the real estate to subsequent encumbrancers based on this valuation.
- 47. Furthermore, we are advised that the secured creditor is entitled to add its legal costs in these proceedings to its first mortgage which will further reduce any equity of a encumbrancer subsequent to the first mortgage holder.
- 48. In order to convey the realty and not to impair this valued transaction, the Interim Receiver proposes to this Honourable Court that it hold the sum of \$100,000 out of the sale proceeds in trust pending further negotiations with WW. These monies will not be released for distribution to unsecured creditors or otherwise unless by agreement with WW or by further order of the Court.

VI. Conclusions

- 49. The Proposal Trustee and Interim Receiver recommend the proposed transaction to this Honourable Court for the following reasons:
 - (i) Secured Creditors and Priority Claimants will receive payment in full on their claims.
 - (ii) Unsecured Creditors are estimated to receive 13.2% of their provable claims.
 - (iii) The above realizations to creditors are above realizations projected in a bankruptcy as set out in the Proposal Trustee's Report to the Creditors.
 - (iv) The business of NAP continues in Windsor, Ontario. Continuing employment will exist for approximately 40 individuals in that community.

VII. Recommendations

- 50. The Interim Receiver and Proposal Trustee recommends approval of this transaction by the Court. It avoids a liquidation of assets and loss of employment.
- 51. Further, it embodies a cross border partnership which seeks to maximize the strengths of entities in both Canada and the United States.

All of which is respectfully submitted on this 22nd day of August, 2005.

DOYLE SALEWSKI INC.

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

Brjan P. Doyle, CA. CIRP

President