

No. S-110439  
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57

AND

IN THE MATTER OF 3S PRINTERS INC. and GAMMA INVESTMENTS LTD.

(the "Applicants")

MONITOR'S FIRST REPORT TO COURT

FEBRUARY 15, 2011

**Boale, Wood & Company Ltd.**

Monitor appointed in the  
Companies' Creditors Arrangement Act proceedings of  
3S Printers Inc. & Gamma Investments Ltd.

**Suite 1140 – 800 West Pender Street  
Vancouver, BC V6C 2V6**

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## CCAA PROCEEDINGS

On January 24, 2011 3S Printers Inc. (“3S”) and Gamma Investments Ltd. (“Gamma”) (the “Applicants” or the “Companies”) obtained an Order from the Supreme Court of British Columbia (the “CCAA Order”) commencing proceedings under the Companies’ Creditors Agreement Act (the “CCAA”). Pursuant to the CCAA Order, Boale Wood & Company Ltd. was appointed Monitor (the “Monitor”) by the Court.

The CCAA Order provides for a Stay of Proceedings against the Companies until February 18, 2011.

Certain documentation with respect to the CCAA Proceedings is available on the Monitor’s website at <http://www.boalewood.ca/corporate-matters/3S-printers-ltd.-January-2011.html> (the “Website”)

## **I. PURPOSE AND LIMITATIONS OF THE MONITOR'S FIRST REPORT**

The purpose of the Monitor's First Report is to provide the Court with information with respect to the activities of the Companies and the Monitor since the date of the Initial Order, and to report on the Cash Flow Statement prepared by the Companies as required pursuant to Section 23(1)(b) of the CCAA.

This Report has been prepared by the Monitor based on information obtained from the records of the Companies, discussions with management of the Companies and other professional advisors retained in this matter.

The financial information received from the Companies has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness. As a result, readers are cautioned that this report has been prepared solely for the purposes of these proceedings and may not be suitable for any other purposes. The Monitor does not express an opinion or other form of assurance on the financial information presented in this report.

In addition, the Monitor assumes no responsibility or liability for and disclaims any and all liability for any loss or damage incurred by any party as a result of the use of this report in any manner or as a result of the circulation, publication or reproduction of it. Any use which any party makes of this report or any reliance on any decisions made based on it are the responsibility of that party.

## **II. BACKGROUND OF COMPANIES AND CAUSES OF INSOLVENCY**

3S, a Company incorporated in the Province of BC, has been operating a commercial and retail printing business since 1991. Gamma was also incorporated in the Province of BC. Gamma's only asset is the land and building it owns on Fraserwood Way in Richmond, BC, which is used by 3S to operate its business. Mr. Sukhdev Sandhu is the sole shareholder and director of both 3S and Gamma.

3S profitably operated its business until 2006 when we are advised it first encountered financial difficulties. In early 2006, 3S moved into new premises that were acquired by Gamma and started investing in new printing presses, equipment, and state of the art screening and editing technology to support growing the business.

Shortly thereafter, we understand that 3S was victim to a burglary that resulted in several computers, servers and software being stolen. This had a negative impact on the operations resulting in lost efficiencies and profitability. 3S's financial difficulties were further exasperated as a result of a protracted negotiation with the insurers that took in excess of a year to settle.

According to management, the poor global economy also contributed to 3S's financial difficulties and negatively impacted on 3S's refinancing its debts. Despite early attempts at refinancing with the existing lenders and new lenders, the Companies were unable to find a solution to these issues.

Prior to these proceedings, CIT Financial Ltd., the Companies largest secured creditor, commenced legal action against the Companies to enforce its security. Management has advised that 3S has suffered further losses of business and staff as a result of these enforcement proceedings.

### III. MANAGEMENT ACTIVITIES

Since the commencement of the CCAA Proceedings, the Companies business operations have been stabilized. These activities have included the following:

- Meetings with staff to explain about the CCAA proceedings and provide assurance to staff that the business is carrying on as usual while it develops its restructuring plan;
- Meetings and discussions with suppliers to arrange terms for continued supply of products and supplies;
- Meetings and discussions with customers to educate them on the CCAA proceedings, provide assurances that the business is carrying on as usual and to encourage their support of the Companies restructuring efforts;
- Made arrangements for an open house for customers and suppliers to attend and see the operations of the business;
- Meetings and discussions with prospective financiers regarding refinancing options;
- Meetings and discussions with the sales staff to develop and implement marketing strategies to increase sales and motivate the sales staff.

The Monitor has also met with certain sales staff and the internal accountant to discuss the CCAA proceedings and how best to deal with the suppliers and customers. Based on these discussions, the Monitor believes that the majority of the suppliers and customers are being cooperative and supportive of the Companies restructuring efforts.

#### IV. MONITOR'S ACTIVITIES

Since its appointment the Monitor's activities have included the following:

- Completing its duties and requirements pursuant to the provisions of the CCAA Order and the provisions of Section 23 of the CCAA. Activities include:
  - Making available certain documents and Orders on the Monitor's website;
  - Publishing notice of the CCAA proceedings in the local newspaper;
  - Sending notices to all known creditors owed more than \$1,000; and
  - Filing all required documents with the Office of the Superintendent of Bankruptcy and preparing a report on the Cash Flow Statement prepared by the Company;
- Meetings and discussions with the management and the internal accountant for the Companies to explain the implications of the CCAA proceeding on the suppliers of the business and to implement procedures to provide weekly reporting of the cash receipts and disbursements;
- Meetings and discussions with management and the external accountant to discuss the most recently prepared financial statements of 3S;
- Meetings and discussions with management to further explain CCAA proceedings and various restructuring options;
- Fielding calls from customers and suppliers regarding the CCAA process;
- Review of actual cash receipts and disbursements since the date of the Initial CCAA Order.

## V. MONITOR'S REPORT ON CASH FLOWS

The Monitor has attached as Appendix A to this report a copy of the Cash Flow Projection prepared by the Companies and included in the initial CCAA application materials along with the Monitor's Report on the Cash Flow Projections as required pursuant to section 23(1)(b) of the CCAA.

Since being appointed, the Monitor has reviewed the actual cash inflows and outflows of the Companies for the weeks ended January 28, February 4 and February 11. A comparison of the actual cash inflows and outflows to the projected cash inflows and outflows has been attached as Appendix B to this report. The Monitor's comments on the actual cash flows verses the projected cash flows are as:

- Actual cash inflows from sales were approximately 25% higher than projected, however readers should be cautioned that cash inflows fluctuate considerably from week to week and therefore the increase should not necessarily be considered a trend;
- Payroll costs were almost double the amount projected which is primarily a result of issued and outstanding pre-filing payroll cheques totaling approximately \$30,000. These were not subtracted from the opening cash balance and were not included in the projected disbursements.; and
- The cash outflows for legal and Monitor fees are significantly lower than projected by the Companies but do not account for all fees actually incurred. The Monitor has been advised that this is largely due to timing of the accounts being rendered. As well the Companies wanted to ensure that sufficient funds were on hand to purchase supplies for some larger printing jobs scheduled to be completed during the next few weeks. Management advises that the fees of the Companies' counsel and the Monitor will continue to be paid from operating funds throughout the CCAA proceedings.

The Monitor can also confirm that since the commencement of the CCAA proceedings, the Companies have kept current with its remittances for employee source deductions and Harmonized Sales Tax.

## **VI. RESTRUCTURING OPTIONS**

The Monitor has had some preliminary discussions with management of the Companies regarding different restructuring options that are being pursued. These options include but are not limited to the following:

- Sale and lease back of the building that would allow the business to carry on in the existing premises while providing as much \$4,000,000 that could be used to pay down the secured debt;
- Finding a financial partner willing to invest in the business that ideally is someone that has experience in the printing business;
- Refinancing the equipment through an asset based financier;
- Exploring a suitable strategic business alliance;
- Selling the business as a going concern while retaining a minority interest.

The Monitor's initial view is that the business is more valuable as a going concern and that the recovery to the creditors will be higher if the business is carried on as compared to a liquidation of the business assets.

## VII. CONCLUSIONS AND RECOMMENDATION

During this initial stay period the Monitor is satisfied that the Companies have been successful in stabilizing the business and have started to focus on the restructuring options that may be available.

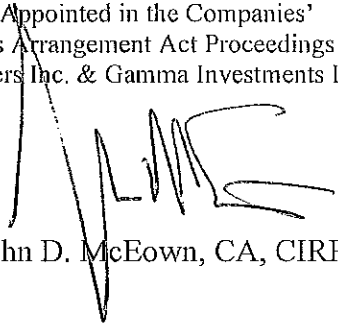
The Companies have requested that the stay be extended a further 90 days to allow time to develop a restructuring plan for the stakeholders.

The Monitor is of the view that the management of the Companies have been cooperative and have been and will continue to act in good faith and with due diligence. Based on the information currently available, the Monitor also believes that the relief being sought by the Companies is reasonable and that the stakeholders will not be materially prejudiced by a further extension of the Stay being sought. Accordingly, the Monitor respectfully recommends that the Court grant the extension.

DATED At the City of Vancouver, British Columbia, this 15<sup>th</sup> day of February, 2011

**Boale Wood and Company Ltd.**

Monitor Appointed in the Companies'  
Creditors Arrangement Act Proceedings of  
3S Printers Inc. & Gamma Investments Ltd.



Per: John D. McEown, CA, CIRP

# **APPENDIX A**

## **MONITOR'S REPORT ON THE CASH FLOW STATEMENT**

**IN THE SUPREME COURT OF BRITISH COLUMBIA**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c, C-36, AS AMENDED

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*,  
S.B.C. 2002, c. 57

AND

IN THE MATTER OF 3S PRINTERS INC. and GAMMA INVESTMENTS LTD.

**MONITOR'S REPORT ON THE CASH FLOW STATEMENT**

The attached statement of projected cash flow of 3S PRINTERS INC. and GAMMA INVESTMENTS LTD. (the "Companies"), as of the 21<sup>st</sup> day of January, 2011 consisting of projected cash inflows and outflows for the 16 weeks commencing on January 21<sup>st</sup> 2011 and ending on May 13<sup>th</sup> 2010 has been prepared by management of the Companies for the purpose of the above noted *Companies' Creditors Arrangement Act* Proceeding, using probable and hypothetical assumptions set out in Notes 1 to 4 on the statement.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by the insolvent person for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) The hypothetical assumptions are not consistent with the purpose of the projection;
- b) As at the date of this report, the probable assumptions developed by the insolvent person are not suitably supported and consistent with the plans of the insolvent person

or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or

c) The projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

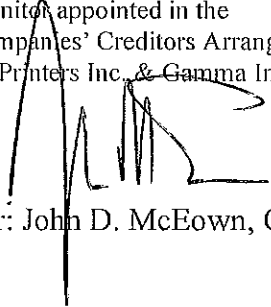
The projection has been prepared solely for the purpose of the above noted *Companies' Creditors Act* Proceedings and readers are cautioned that it may not be appropriate for other purposes.

Please also note that Gamma Investments Ltd. does not maintain a separate bank account. The projected cash outflows include disbursements that are made by 3S Printers Inc. on behalf of Gamma Investments Ltd.

DATED AT the City of Vancouver, British Columbia, this 14<sup>th</sup> day of February, 2011.

**Boale, Wood & Company Ltd.**

Monitor appointed in the  
Companies' Creditors Arrangement Act proceedings of  
3S Printers Inc. & Gamma Investments Ltd.

  
Per: John D. McEown, CA, CIRP

**3S Printers Inc. & Gamma Investments Ltd.**  
**Weekly Cash Flow Projection**

	Week Ending Jan. 28th	Week Ending Feb. 4th	Week Ending Feb. 11th	Week Ending Feb. 18th	Week Ending Feb. 25th	Week Ending Mar. 4th	Week Ending Mar. 11th	Week Ending Mar. 18th
	1	2	3	4	5	6	7	8
<b>Cash Inflows</b>								
Sales	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000	\$ 80,000
<b>Cash Outflows</b>								
Materials (35% of sales)	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000
Payroll - Production Staff	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Payroll - Admin. & Sales Staff	-	23,000	-	24,000	-	23,000	-	24,000
Payroll - Benefits	4,000	3,000	4,000	3,000	4,000	3,000	4,000	3,000
Advertising & Promotion	-	-	1,000	-	-	-	1,000	-
Utilities	-	10,000	-	-	-	10,000	-	-
Telephone	1,200	-	-	-	1,200	-	-	-
Office Supplies	100	100	100	100	100	100	100	100
Worksafe B.C.	-	-	-	-	-	-	-	-
Repairs & Maintenance	250	250	250	250	250	250	250	250
Insurance	-	-	5,000	-	-	-	5,000	-
Computer Consulting Fees	3,000	-	-	-	3,000	-	-	-
Accounting Fees	-	-	-	500	-	-	-	500
Legal Fees	10,000	10,000	5,000	5,000	10,000	5,000	5,000	5,000
Monitor Fees	10,000	10,000	5,000	5,000	10,000	5,000	5,000	5,000
Interest on HSBC Operating	-	10,000	-	-	-	10,000	-	-
	74,550	112,350	66,350	83,850	74,550	102,350	66,350	83,850
<b>Net Cash Inflows (Outflows)</b>	5,450	(32,350)	13,650	(3,850)	5,450	(22,350)	13,650	(3,850)
<b>Opening Cash Position</b>	(1,500,000)	(1,494,550)	(1,526,900)	(1,513,250)	(1,517,100)	(1,511,650)	(1,534,000)	(1,520,350)
<b>Closing Cash Position</b>	\$ (1,494,550)	\$ (1,526,900)	\$ (1,513,250)	\$ (1,517,100)	\$ (1,511,650)	\$ (1,534,000)	\$ (1,520,350)	\$ (1,524,200)

**Assumptions:**

- 1) Cash Inflows and Outflows are net of HST and are based on historical operating results adjusted for known changes to the operations.
- 2) Cash outflows assume that no payments will be made to equipment financiers, other lenders (excluding interest on operating line) and the landlord.
- 3) Cash outflows for payroll include amounts required to be remitted to CRA for source deductions.
- 3) These projections are made based on assumptions of future events. Accordingly, the actual results will vary from the information presented and the variances may be material.
- 4) The Projections have been prepared solely for the purposes of filing the CCAA petition. Readers are cautioned that the projections may not be appropriate for any other purposes.
- 5) Gamma Investments Inc. does not maintain a separate bank account. The cash outflows include disbursements made on behalf of Gamma for expenses related to the land and building.

**3S Printers Inc. & Gamma Investments Ltd.**  
**Weekly Cash Flow Projection**

	Week Ending Mar. 25th 9	Week Ending Apr. 1st 10	Week Ending Apr. 8th 11	Week Ending Apr. 15th 12	Week Ending Apr. 22nd 13	Week Ending Apr. 29th 14	Week Ending May 6th 15	Week Ending May 13th 16
<b>Cash Inflows</b>								
Sales	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
<b>Cash Outflows</b>								
Materials (35% of sales)	31,500	31,500	31,500	31,500	35,000	35,000	35,000	35,000
Payroll - Production Staff	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Payroll - Admin. & Sales Staff	-	23,000	-	-	-	23,000	-	24,000
Payroll - Benefits	4,000	3,000	4,000	3,000	4,000	3,000	4,000	3,000
Advertising & Promotion	-	-	1,000	-	-	-	1,000	-
Utilities	-	10,000	-	-	-	10,000	-	-
Telephone	1,200	-	-	-	1,200	-	-	-
Office Supplies	100	100	100	100	100	100	100	100
Worksafe B.C.	-	-	-	-	-	-	-	-
Repairs & Maintenance	250	250	250	250	250	250	250	250
Insurance	-	-	5,000	-	-	-	5,000	-
Computer Consulting Fees	3,000	-	-	-	3,000	-	-	-
Accounting Fees	-	-	-	500	-	-	-	500
Legal Fees	10,000	10,000	5,000	5,000	5,000	5,000	5,000	5,000
Monitor Fees	10,000	10,000	5,000	5,000	5,000	5,000	5,000	5,000
Interest on HSBC Operating	-	10,000	-	-	-	10,000	-	-
	78,050	115,850	69,850	63,350	71,550	109,350	73,350	90,850
<b>Net Cash Inflows (Outflows)</b>	11,950	(25,850)	20,150	26,650	28,450	(9,350)	26,650	9,150
<b>Opening Cash Position</b>	(1,524,200)	(1,512,250)	(1,538,100)	(1,517,950)	(1,491,300)	(1,462,850)	(1,472,200)	(1,445,550)
<b>Closing Cash Position</b>	\$ (1,512,250)	\$ (1,538,100)	\$ (1,517,950)	\$ (1,491,300)	\$ (1,462,850)	\$ (1,472,200)	\$ (1,445,550)	\$ (1,436,400)

**Assumptions:**

- 1) Cash Inflows and Outflows are net of HST and are based on historical operating results adjusted for known changes to the operations.
- 2) Cash outflows assume that no payments will be made to equipment financiers, other lenders (excluding interest on operating line) and the landlord.
- 3) Cash outflows for payroll include amounts required to be remitted to CRA for source deductions.
- 3) These projections are made based on assumptions of future events. Accordingly, the actual results will vary from the information presented and the variances may be material.
- 4) The Projections have been prepared solely for the purposes of filing the CCAA petition. Readers are cautioned that the projections may not be appropriate for any other purposes.
- 5) Gamma Investments Inc. does not maintain a separate bank account. The cash outflows include disbursements made on behalf of Gamma for expenses related to the land and building.

# **APPENDIX B**

## **WEEKLY CASH FLOW PROJECTION**

**3S Printers Inc. & Gamma Investments Ltd.**  
**Weekly Cash Flow Projection vs Actual**

Appendix B

	Actual Weeks 1-3	Projection Weeks 1-3	Variance Actual vs Projection
<b>Cash Inflows</b>			
Sales	\$ 302,216	\$ 240,000	\$ 62,216
<b>Cash Outflows</b>			
Materials (35% of sales)	88,395	84,000	(4,395)
Payroll - Production Staff	49,903	54,000	4,097
Payroll - Admin. & Sales Staff	53,366	23,000	(30,366)
Payroll - Benefits	33,563	11,000	(22,563)
Advertising & Promotion	-	1,000	1,000
Utilities	9,157	10,000	843
Telephone	1,914	1,200	(714)
Office Supplies	1,118	300	(818)
Worksafe B.C.	-	-	-
Repairs & Maintenance	-	750	750
Insurance	165	5,000	4,835
Computer Consulting Fees	-	3,000	3,000
Accounting Fees	2,240	-	(2,240)
Legal Fees	8,198	25,000	16,802
Monitor Fees	10,000	25,000	15,000
Interest & Bank Charges	10,240	10,000	(240)
	<u>268,259</u>	<u>253,250</u>	<u>(15,009)</u>
<b>Net Cash Inflows (Outflows)</b>	33,957	(13,250)	47,207
<b>Opening Cash Position</b>	<u>(1,499,860)</u>	<u>(1,500,000)</u>	
<b>Closing Cash Position</b>	<u>\$ (1,465,903)</u>	<u>\$ (1,513,250)</u>	<u>\$ 47,207</u>

Note: Actual Cash Inflows And Outflows include harmonized sale tax while the projections are shown net of the harmonized sales tax