



S-110439
This is the 1st affidavit
of Sukhdev Singh Sandhu in this case
and was made on 21 / Jan / 2011

NO. _____
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.

PETITIONERS

AFFIDAVIT

I, **SUKHDEV SINGH SANDHU**, of 23011 Fraserwood Way, Richmond, British Columbia, Businessman, SWEAR (OR AFFIRM) THAT:

1. I am a Director and Officer of both 3S Printers Inc. ("**3S Printers**") and Gamma Investments Ltd. ("**Gamma**", and collectively, the "**Companies**"), and as such have personal knowledge of the facts and matters hereinafter deposed to by me except where stated to be made upon information and belief and where so stated I verily believe the same to be true. I am authorized to make this Affidavit on behalf of the Companies.

2. I have read the facts set out in the Petition to be filed in these proceedings and the facts set out therein are, to the best of my knowledge, true and correct.

BUSINESS AND FINANCIAL DIFFICULTIES OF THE COMPANIES

3. 3S Printers carries on business in Richmond, British Columbia, providing large scale commercial and retail printing services. 3S Printers utilizes state of the art printing equipment and technology, which allows it to provide its customers with a higher quality product in a shorter production time when compared to conventional printing systems,

and all in a more environmentally friendly manner. 3S Printers has been in the printing business since 1991. 3S Printers currently employs 28 employees (including myself).

4. In or around early 2006, 3S Printers moved its operations to a 28,000 square foot warehouse building located at 23011 Fraserwood Way, Richmond, British Columbia (the "Property"). Gamma is the registered owner of the Property, which was acquired in early 2006, and since that time the Property has been upgraded and improved to meet the specific business needs of 3S Printers. At the time of the move, 3S Printers also invested in new printing presses, other heavy duty printing equipment and screening and editing technology to support growing its business.

5. Unfortunately, shortly after these investments, the Companies suffered a series of challenges which have left them in financial difficulty. In or around mid 2006, the Companies were the victims of a burglary, in which several computers, servers and software programs were stolen, all of which were crucial to the ongoing business operations of 3S Printers.

6. While there was a significant replacement cost to the stolen equipment, the loss of this equipment also had a significant impact on the Companies' efficiency and profitability. For example, one of the important software programs that was lost in the burglary was a proofing system that allowed 3S Printers to digitally adjust multiple aspects of printing jobs, such as colour and print quality. Without this software, 3S Printers had to process these adjustments manually, which increased labour costs dramatically and reduced overall profitability.

7. In addition, 3S Printers' insurance claim arising from the burglary was disputed by its insurer, leading to protracted negotiations and requiring 3S Printers to incur further professional fees to protect its position. It took over a year to reach a settlement with the insurers, which left the company with a shortfall in operating funds to meet its ongoing business costs. This shortfall caused a significant interruption in 3S Printers' business and resulted in the loss of several clients and key salespeople.

8. Despite these difficulties, 3S Printers was able to expand its business overall through 2008, and remained a profitable business by the end of that year. This growth and success was largely made possible because the cash flow challenges introduced by the theft and insurance claim were partially addressed through large cash injections that

I made into the Companies, totalling approximately \$2.2 million over the period of 2007 to 2010.

9. Notwithstanding my injections of capital, the Companies were still facing cash flow issues throughout 2008. In early 2008, the Companies began to seek to refinance their operations with their largest secured creditor, CIT Financial Ltd. ("CIT"). This refinancing initially appeared to be feasible. However, in late 2008 and early 2009, apparently due to the receding global economy, CIT ultimately declined to assist with these refinancing efforts. Moreover, with the receding economy and the decreased value of the U.S. Dollar, 3S Printers faced increased competition from U.S. printing companies seeking to expand into Canadian markets.

10. To compound these issues, in December 2008, 3S Printers had a major accident at its main printing press, resulting in a shutdown lasting almost 2 months. The shutdown reduced the printing capacity by approximately 85%. Again, 3S Printers' insurance claim from this breakdown is being disputed, and this claim has yet to be resolved. As a result of these factors, among others, in mid to late 2009 3S Printers began falling behind on its various payments to secured creditors.

11. 3S Printers was initially able to work with its secured creditors for a period of time. However, this largely broke down when, on or around November 9, 2009, CIT delivered a notice of intention to enforce a security to each of the Companies (the "CIT Notices"), pursuant to Section 244 of the *Bankruptcy and Insolvency Act*. Now shown to me and attached hereto as **Exhibit "A"** are copies of the CIT Notices.

12. On or around December 3, 2009, and again on or around January 25, 2010, CIT and the Companies entered into successive forbearance agreements, pursuant to which CIT agreed not to enforce its security interests for a period of time. At that time, given the extreme financial difficulties facing the Companies, I felt I had no choice but to agree to the terms set by CIT in those agreements. In February, 2010, CIT sent bailiffs to lock down and effectively "seize" certain machinery and equipment belonging to 3S Printers, again leading to significant business interruptions. The equipment was "released" back to 3S Printers following further negotiations, when CIT and the Companies entered into a further forbearance agreement on or around March 17, 2010.

13. More recently, in or around November, 2010, CIT commenced two separate actions against the Companies. The first action is a foreclosure proceeding primarily

against Gamma in relation to the Property, while the second is a Civil Claim, primarily against 3S Printers, in which CIT is seeking (among other things) the court appointment of a receiver over all of 3S Printers' assets.

14. The CIT applications have been contested by the Companies. I understand that the CIT applications for an Order Nisi in the foreclosure proceeding and a court appointed receiver were set down for hearing on January 20, 2011, however the parties were unable to complete their submissions on that day and are currently seeking a date to finish arguments on those applications.

15. In addition, on or around December 8, 2010, another secured creditor of the Companies, Unisource Canada, Inc. ("**Unisource**"), delivered demand letters to each of the Companies (the "**Unisource Demands**"), demanding payment of its claim against the Companies and enclosing a notice of intention to enforce a security pursuant to section 244 of the *Bankruptcy and Insolvency Act*. Now shown to me and attached hereto as **Exhibit "B"** are copies of the Unisource Demands.

16. Finally, on or around January 13, 2011, Canada Revenue Agency ("**CRA**") delivered a letter to 3S Printers (the "**CRA Demand**") demanding repayment of a tax debt arising from a failure by 3S Printers to remit certain employee source deductions to CRA. The CRA Demand indicated that if 3S Printers failed to repay its indebtedness by January 28, 2011, CRA would take legal action to enforce that debt. Now shown to me and attached hereto as **Exhibit "C"** is a copy of the CRA Demand.

17. I am particularly concerned that if CRA takes legal action against 3S Printers, this may involve or include contacting the existing customers of 3S Printers seeking to garnish receivables or enforce 3S Printers' tax debt against those customers. I believe that this would have a devastating effect on the Companies, and would all but guarantee that the Companies would be forced to shut down their business.

18. As a result of the foregoing enforcement steps, the business of 3S Printers has faced increasing uncertainty, resulting in further losses to staff, clients and business. This has also made overall refinancing increasingly difficult. Nevertheless, I am still optimistic that an arrangement can be reached if the Companies are given time to negotiate with their creditors and potential new investors and/or lenders to restructure their business and financial affairs.

19. The employees of 3S Printers are also eager to ensure the Companies can successfully restructure. In addition to their ongoing commitment to 3S Printers despite its past difficulties, all employees (including myself) have accepted a 15% pay cut, which has been implemented and made effective as of January 1, 2011, in order to assist the business with its ongoing cash flow difficulties.

20. If the Companies are given time to successfully restructure and refinance their operations, I believe they will be able to restore the stability and certainty to their business and allow 3S Printers to rebuild the staff, goodwill and client base that has been lost over the past several years and compounded its past financial difficulties. I am confident that this restructuring will allow the business to resume the growth that it experienced in the 2006 to 2008 period, and return to being a profitable enterprise.

SECURED CREDITORS

21. The Companies have four general secured creditors, being Supreme Graphics Ltd. ("**Supreme**"), CIT, Unisource and HSBC Bank Canada ("**HSBC**"), as well as various equipment financiers holding security over particular equipment. The total secured obligations owed collectively by the Companies are approximately \$8.5 million.

22. In addition, 3S Printers owes approximately \$950,000 to CRA for certain employee deduction remittances, which I understand may have priority over the claims of certain secured creditors.

23. Now shown to me and attached hereto as **Exhibit "D"** is a copy of a B.C. Personal Property Registry (the "**PPR**") search in respect of 3S printers. Based on that search, and to the best of my knowledge, a summary of the general security interests over the personal property of 3S Printers (excluding security interests registered over specific equipment) is as follows:

Creditor	Nature of Interest	Date of Registration
CRA	Trust charge	N/A
Supreme	All PAAP	November 8, 2004 ¹

¹ Subject to subordination agreement with HSBC Bank Canada

CIT	All PAAP	September 28, 2006
Unisource	All PAAP	November 28, 2006
HSBC	All PAAP	April 22, 2010

24. Now shown to me and attached hereto as **Exhibit "E"** is a copy of a PPR search in respect of Gamma. Based on that search, and to the best of my knowledge, a summary of the general security interests over the personal property of Gamma is as follows:

Creditor	Nature of Interest	Date of Registration
HSBC	All PAAP	January 6, 2006
Unisource	All PAAP	March 5, 2007

25. Now shown to me and attached hereto as **Exhibit "F"** is a copy of a Land Title Search of the Property. Based on that search, a summary of the security interests over the Property, which is owned by Gamma, is as follows:

Creditor	Principal Amount Secured ²	Date of Registration
CIT	\$ 4,100,000	November 10, 2006
CIT	\$ 750,000	November 10, 2006
Unisource	Indebtedness	March 7, 2007
HSBC	\$ 1,300,000	September 3, 2008

Canada Revenue Agency

26. 3S Printers owes CRA approximately \$950,000, plus interest and penalties, for past unremitted employee source deductions, including income tax, Canada pension

² Other than the 1st CIT mortgage, these mortgage charges are all secure performance by Gamma of its Guarantee of 3S Printers' indebtedness to the respective Mortgagees, and are collateral to the main indebtedness.

plan contributions, and employment insurance contributions from the 2009 and 2010 tax years.

27. As of December 1, 2010 to the date of this affidavit, 3S Printers has remitted all accruing source deductions to CRA, and intends to remain current with these remittances going forward.

Supreme Graphics Ltd.

28. In or around 2004, 3S Printers and Supreme (then Lansdowne Press Inc.) entered into a transaction pursuant to which 3S Printers acquired certain printing equipment and other business assets from Supreme. 3S Printers' indebtedness to Supreme represents the remaining consideration owed by 3S Printers pursuant to that transaction.

29. Supreme registered notice of a security interest in all of 3S Printers' present and after acquired personal property in the PPR on November 8, 2004 under base registration no. 029458C.

30. Supreme further registered an amendment to the above registration under number 076230C, indicating that Supreme has subordinated its interests in the assets of 3S Printers to the security interest held by HSBC.

31. As of November 30, 2010, the amount owing to Supreme was approximately \$500,000.

CIT Financial Ltd.

32. CIT has entered into a master lease agreement with 3S Printers for various pieces of printing equipment, beginning in or around October, 2006. Notice of the lease, together with various addendums thereto in respect of additional equipment leases, has been registered in the PPR under base registration numbers 323319D, 424537D and 256748E.

33. CIT holds a security interest in all of 3S Printers' present and after acquired personal property (the "**CIT General Security**"), notice of which was registered in the PPR on September 26, 2006 under base registration number 263431D.

34. In addition, CIT has advanced a loan to Gamma for \$2.9 million, and has obtained two mortgages from Gamma (the "**CIT Mortgages**") registered in first and second position against title to the Property. The principal amount of the first CIT Mortgage is \$4.1 million, and was registered on November 10, 2006 under numbers BA335770 and BA335771. The principal amount of the second CIT Mortgage is \$750,000, and was registered on November 10, 2006 under numbers BA335772 and BA335773.

35. 3S Printers has guaranteed the repayment by Gamma of its indebtedness to CIT.

36. The Companies are in default of the payments owing to CIT under the various lease and loan agreements. As of December 31, 2010, the amount owed by 3S Printers to CIT and secured by the CIT General Security was approximately \$1 million. The amount owed by Gamma to CIT secured by the CIT Mortgages was approximately \$2.6 million.

37. As set out above, in or around November 12, 2010, CIT filed a Notice of Civil Claim (Vancouver Registry Action No. S-107490) and a Petition (Vancouver Registry No. H-101422) in the Supreme Court of British Columbia (collectively, the "**CIT Proceedings**") seeking, among other things, to appoint a receiver in respect of the CIT General Security and to commence foreclosure proceedings in respect of the CIT Mortgages. The amounts claimed by CIT in the CIT Proceedings are \$1,249,813.90 against 3S Printers, and \$2,638,491.83 against Gamma. CIT has further alleged that Gamma has guaranteed the repayment by 3S Printers of its indebtedness to CIT.

38. The CIT Proceedings are defended by the Petitioners and numerous affidavits have been filed by the Parties. The CIT Proceedings will be stayed in the event the Court grants the Initial Order in this proceeding, which will allow the Companies to focus on their restructuring efforts.

Unisource Canada, Inc.

39. Unisource was a paper supplier of 3S Printers. Gamma has guaranteed the repayment by 3S Printers of its indebtedness to Unisource.

40. Unisource registered notice of a security interest in all of the Companies' present and after acquired personal property in the PPR on November 28, 2006 under base

registration no. 374419D (in respect of 3S Printers), and on March 5, 2007 under base registration no. 536271D (in respect of Gamma).

41. In addition, Unisource holds a mortgage (the "**Unisource Mortgage**") registered against title to the Property in third position. The Unisource Mortgage secures all of Gamma's present and future obligations which arise pursuant to a guarantee dated March 6, 2007. The Unisource Mortgage was registered on March 7, 2007 under numbers BB457258 and BB457259.

42. 3S Printers is in default of payments owing to Unisource. As of November, 2010, the amount owing to Unisource was approximately \$380,000.

HSBC Bank Canada

43. HSBC provides an operating line of credit to 3S Printers.

44. HSBC registered notice of a security interest in all of Companies' present and after acquired personal property in the PPR on April 22, 2010 under base registration no. 519076F (in respect of 3S Printers), and on January 16, 2006 under base registration numbers 790648C and 790658C (in respect of Gamma).

45. In addition, HSBC holds a mortgage (the "**HSBC Mortgage**") registered against title to the property in fourth position. The principal amount of the HSBC Mortgage is \$1.3 million, and was registered on September 3, 2008 under numbers BB1001983 and BB1001984 (as modified on April 5, 2009 by CA1215583 and CA1215584).

46. The Companies have and continue to make interest payments on the amount outstanding under the operating line of credit. As of November 30, 2010, the amount owing to HSBC was approximately \$1.5 million, and the maximum credit available under that line of credit is \$1.5 million. In the last several months, the Companies have been operating very close to the maximum, essentially on a cash basis. The order sought contemplates that the line of credit will continue to revolve in its current way.

Other Equipment Lessors

47. 3S Printers has financed various printing and general business equipment to operate its business. Security interests in this equipment are registered in the PPR by the various financiers as follows:

Secured Party	Registration Date	Base Registration No.
Irwin Commercial Finance Canada Corporation	March 31, 2006	923427C
National City Commercial Capital	February 15, 2006	842744C
Xerox Canada Ltd.	June 21, 2006	078178D
National City Commercial Capital	June 27, 2006	088838D
Irwin Commercial Finance Canada Corporation	August 29, 2006	207254D
KBA Canada Inc.	July 16, 2010	666432F

48. As of December 31, 2010, the amount owing by 3S Printers in respect of equipment finance agreements (not including amounts owing CIT) was approximately \$3 million.

ASSETS

49. The Companies' assets are comprised primarily of the Property, inventory, equipment and accounts receivable. In total, the Companies' assets have a value of approximately \$8,359,322.03, broken down as follows:

- i. \$4,100,000 in the Property, based on a appraisal conducted by Simon Poon as at November 2, 2010;
- ii. \$457,222.06 in Inventory, as at December 31, 2010;
- iii. \$3,174,700 in Equipment, based on an appraisal by Century Services Inc. as at October, 2009³; and
- iv. \$627,399.97 in accounts receivable, as at December 31, 2010⁴.

³ However, as noted in that appraisal, the "liquidation value" of this property is significantly lower, around \$1,849,800.

50. Now shown to me and attached hereto as **Exhibit "G"** is a copy of the appraisal of the Property dated November 10, 2010 showing an appraised value of \$4.1 million.

51. Now shown to me and attached as **Exhibit "H"** to this my affidavit is a true copy of the appraisal of the equipment dated October, 2009 showing an appraised fair market value of \$3,174,700, and an appraised liquidation value of \$1,849,800.

THE COMPANIES' CURRENT FINANCIAL POSITION

52. In fiscal 2008, 2009 and 2010, 3S Printers had gross revenues of \$8,470,686, \$9,186,762 and \$5,816,747 (respectively). Over the past 12 months, 3S Printers' monthly gross revenues have averaged in excess of \$400,000. However, in the past two months, due to a combination of seasonal factors and the legal issues facing 3S Printers which have significantly distracted management as well as the business, monthly gross revenues for the past two months have been \$320,000 and \$250,000, respectively.

53. Although sales may remain slow in January and February as part of the seasonal cycle, I anticipate that the Companies will maintain gross cash receipts of approximately \$80,000 per week going forward. This is a conservative estimate, based on the recent slowing of monthly revenues, and I expect that revenues will increase in the following weeks as the busier months commence and the business regains some certainty through this restructuring process. In the event the Court grants the Initial Order, I believe we will regain some credibility with our customers that we are on the road to recovery allowing us to rebuild our sales.

54. At the same time, I estimate total operating expenses (excluding financing costs, but inclusive of restructuring costs) ranging from \$65,000 to \$100,000 per week.

55. Now shown to me and attached hereto as **Exhibit "I"** is a copy of the Companies' predicted cash flow⁵ on a weekly basis for the next 16 weeks. Based on those predictions, and assuming HSBC agrees to continue to operate the line of credit within the existing limit, I do not anticipate the need for any additional funding to maintain operations during the restructuring process.

⁴ With some allowance for bad debt.

⁵ The attached cash flow is based on credits and debits to the 3S Printers' revolving account with HSBC. As Gamma does not maintain a separate bank account, and as 3S Printers carries on all business activities, this therefore represents the cash flow for the Companies collectively, as well.

56. In Summary, as of December 31, 2010, the Companies had total liabilities to third parties of approximately \$10,436,107.69 consisting of the following:

- a. Current liabilities of approximately \$3,876,587, consisting of \$852,285.51 in trade creditors and \$3,024,301.53 in other current liabilities); and
- b. \$6,559,620.65 of long term liabilities, consisting of the amounts secured by the CIT Mortgage and all remaining equipment lease obligations.

In addition, the Companies owed approximately \$2,945,804.63 in respect of shareholder and intercompany loans and obligations, meaning the Companies have total overall liabilities of \$13,381,912.32.

57. Trade creditors owed in excess of \$10,000 are listed as follows:

Creditor	Total Owing
5908 Holdings Ltd.	\$ 27,154.83
Alfa Paper	\$ 19,700.80
Amex Bank of Canada	\$ 30,817.27
Arkwel Industries Ltd.	\$ 33,781.44
Casepak Manufacturing Ltd.	\$ 11,041.29
City of Richmond	\$ 49,019.03
Coast Paper	\$ 20,139.79
Fujifilm Canada Inc.	\$ 14,785.03
Grafix LP	\$ 13,930.01
Jassi Garden Services	\$ 15,883.70
KBA North America Inc.	\$ 44,953.55
Pacific Bindery Services	\$ 14,035.84
Unisource Canada Inc.	\$379,404.58
Xerox Canada Ltd.	\$ 33,345.98
XPEDX Canada West, Inc.	\$ 11,498.53

58. Now shown to me and attached hereto as **Exhibit "J"** and **Exhibit "K"** are copies of the most recent un-audited annual financial statements for 3S Printers for the years ended January 31, 2009 and January 31, 2010, respectively.

59. Now shown to me and attached hereto as **Exhibit "L"** are copies of the internal balance sheet for 3S Printers for the period from February 1, 2010 to December 31, 2010.

60. Now shown to me and attached hereto as **Exhibit "M"** and **Exhibit "N"** are copies of the most recent un-audited annual financial statements for Gamma for the years ended January 31, 2009 and January 31, 2010, respectively.

61. The Companies are unable to meet their financial obligations as they become due and are accordingly insolvent. The Companies' insolvency has been caused by a number of factors including decreased profitability associated with the burglary in 2006, the receding economy, and increased competition from the U.S. through 2009 and the loss of business associated with the financial uncertainty faced by the business in 2010.

62. Although the Companies currently maintain a viable business on a EBITDA basis, these factors have resulted in the Companies being unable to generate sufficient revenue to meet their ongoing financing costs. As a result, the Companies require a stay and time so that they can work with their restructuring advisors in an effort to develop a Plan to be filed under the CCAA. Without a Stay, the Companies will face increasing enforcement steps from creditors and will be unable to continue to operate.

RESTRUCTURING IN GENERAL

63. I am fully confident that if the Companies are given time to work a restructuring, which may involve, among other things, a restructuring of the various secured creditor arrangements, new investment or refinancing of some of the Companies' debt, the Companies will be in a position to file a Plan of Arrangement which will provide for a better recovery for all creditors than an immediate liquidation of the Companies' assets.

64. In the event the secured creditors proceed with their remedies under their security, it is my belief that the creditor group will be highly prejudiced and some unsecured creditors will receive a zero return.

65. In addition, in the absence of a stay, the liquidation of the Companies' assets will likely result in the permanent closure of the Companies' business leaving the 28


employees without employment and the loss of a business which has been in existence since 1991.

MONITOR

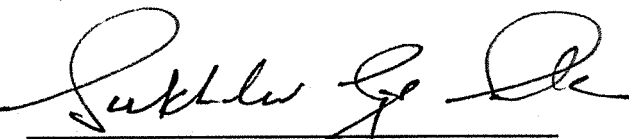
66. Boale, Wood & Company Ltd. has consented to act as Monitor in these proceedings and to oversee the operations of the Companies, provide assistance to the management of the Companies during the CCAA restructuring period and generally assist the Companies with their restructuring efforts. Now shown to me and attached hereto as **Exhibit "O"** is the consent to act as Monitor of Boale, Wood & Company Ltd.

67. I make this affidavit in support of the proposed Initial Order attached to the Petition to be filed in these proceedings.

SWORN (OR AFFIRMED) BEFORE ME
at Vancouver, British Columbia, on
21 / 01 / 2011.



A Commissioner for taking Affidavits
within British Columbia



SUKHDEV SINGH SANDHU

JORDAN D. SCHULTZ
Barrister & Solicitor
FRASER MILNER CASGRAIN LLP
20th Floor, 250 Howe Street
Vancouver, B.C. V6C 3R8
Telephone (604) 687-4460