

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 THIRD REPORT TO COURT

APRIL 27, 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, B.C. V6C 2V6**

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I. 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 provided for a Stay of Proceedings against the Companies until February 18, 2011. At the comeback hearing on February 18, 2011 the Supreme Court of British Columbia granted a further 90 day extension of the Stay of Proceedings to allow time for the Companies to develop a restructuring plan for the stakeholders.

On March 31, 2011 the Monitor provided a second report in these proceedings that included information with respect to certain changes in the Companies’ projected cash-flow. The Monitor was required to issue this report pursuant to Section 23(1)(d)(i) of the CCAA as the changes in the Companies’ projected cash-flow were considered to be a material adverse change.

On April 12, 2011 an application for an Order to lift the Stay of Proceedings was heard and the Court reserved its decision. On April 14, 2011 the Honourable Mr. Justice Grauer faxed a Memorandum to Counsel requesting that Gamma circulate the terms and conditions (“Terms”) of the Memorandum of Understanding executed on March 31, 2011 (“MOU”), if available, to the Monitor and Counsel and asked that the Monitor provide its comments and concerns on the MOU and the Terms.

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”).

II. PURPOSE AND LIMITATIONS OF MONITOR'S THIRD REPORT

The purpose of the Monitor's Third Report is to provide the Court with the Monitor's comments and concerns with respect to the MOU executed March 31, 2011 and the Terms that were circulated by Counsel for the Companies to the Monitor and Counsel on April 15, 2011.

III. MONITOR'S REPORT ON THE MOU AND TERMS

The Monitor has attached as Appendix A & B to this report the MOU and Terms, respectively, that provide details of negotiations between the Companies and Sukraj Kang, Bairaj Kang, Prabhdev Khara and Jagjit Toor (the "Investors").

The MOU outlines a two phase investment. Phase 1 being a purchase of the land and building ("Property") from Gamma and Phase 2 being an investment in 3S.

Since being asked by the Court to comment on the MOU and Terms, the Monitor has requested resumes from the Investors. The Investor information received has been attached as Appendix C to this report. Please note that the Net Worth amounts shown on the resumes have been blocked out by the Monitor for confidentiality reasons.

The Monitor has also requested bank reference letters from the Investors. At the date of this report the Monitor has received one reference letter that is attached as Appendix D to this report.

The Monitor has requested but not received further details of the proposed Phase 2 investment in 3S.

The Monitor offers the following comments and concerns on the information received to date with respect to the Investors and their proposed Phase 1 and 2 investments:

Investors

The Investors' information states that they have lengthy backgrounds in real estate construction, ownership and/or management. The information discloses substantial net worth amounts but does not provide any details of same. The Monitor has not tried to verify the information reported on the resumes. If the net worth of the investors is as

presented, it would appear that the Investors have the financial capability to complete the Phase 1 and 2 investments being proposed.

Although the Investors' information states that they have many years of business experience, they have not disclosed any experience within the printing industry. Accordingly, given the lack of industry experience it is uncertain how their involvement would provide an immediate impact on sales and profitability. In this regard, the Investors should be prepared to make a significant investment to fund the operations until the business becomes profitable.

The Monitor is aware from the materials filed with Mr. Sandhu's third affidavit that the Investors have commenced the process of setting up an on-line printing business independent of 3S. The Monitor is advised by Mr. Sandhu that this business would complement and benefit the operations of 3S but the Monitor does not have sufficient information to assess when or how this business will impact on the operations of 3S.

Phase 1 of Investment

The details of Phase 1, the purchase of the Property, as outlined in the MOU and Terms can be summarized follows:

- The MOU provides that upon receiving a favourable view of the proposed sale, the Investors are prepared to enter into negotiations for the purchase of land and building and leaseback to 3S;
- The proposed purchase price referenced in both the MOU and Terms is \$3,000,000, however, it appears that the final price is negotiable based on the comments in the Terms;
- The MOU and Terms provide for a 4 month rent free period after the purchase is completed, with rent at \$16,000/month payable thereafter;

- The Terms provide that upon receipt of an accepted offer to purchase the land and building the Investors shall commence the process of arranging purchase financing; and
- The MOU provides that a successful Phase 2 shall be predicated upon a satisfactory conclusion to Phase 1 and the Terms provide that upon reaching an agreement on the purchase of the building the Investors agree to commence a detailed due diligence process on Phase 2. Phase 2 is not guaranteed.

The proposed purchase price is significantly lower than appraised value of the property of \$4,100,000 by Simón Poon dated November 2, 2010. Based on the Monitor's conversation with Hart Buck, a commercial realtor with Colliers, we understand the highest sale price would more likely be achieved from a sale to an owner/occupier. A lower price would result in a sale/leaseback, particularly if the tenant cannot provide a strong covenant. The significance of a sale of the Property for \$3,000,000 is that the price is less than appraised value by greater than \$1,000,000 and the encumbrances are greater than the proposed purchased price set out in the MOU. At this level it is unlikely that Gamma would be able to provide clear title. The stakeholders holding security against the Property would have to agree to release their security interest in the Property or the Court would have to approve a sale of the Property over of the opposition of the stakeholders.

Counsel for the Monitor has asked counsel for CIT, who hold a first and second mortgage against the Property and are owed considerably more than \$3,000,000, if their client would agree to the sale as proposed in the MOU and Terms. On April 25, 2011 the Monitor's counsel was advised by CIT's counsel that CIT would not support a sale of the Property for \$3,000,000. CIT's counsel also indicated that the Property had not been exposed to the market and the price was significantly lower than the previously appraised value of \$4,100,000 without any basis offered for the decrease. CIT's position may be different if Phase 2 provided certainty of being paid in full.

It also should also be noted that the Investors appear to be seeking approval of the sale in the CCAA proceeding prior to formalizing their offer, arranging financing of the purchase and providing a deposit. In the Monitor's view seeking Court approval at this time would be premature.

Finally, the investment in Phase 1 is not tied to any firm commitment with respect to the Phase 2 investment. Accordingly, if Phase 1 is approved and a sale of the Property is completed, there is no assurance that the Investors will proceed with the Phase 2 investment. Without an investment in Phase 2 the Companies do not currently have adequate funding to carry on the business and make any payments to the stakeholders. This issue is discussed further in the next section of this report.

Phase 2 Investment

As mentioned above, the Monitor has requested further details of the proposed investment in Phase 2 but has not received any further information at the date of this report. The MOU and Terms do not provide any details with respect to the level and form of investment being considered. There is a suggestion in the Terms that the relationship may be in the form of a management buyout. The lack of details with respect to Phase 2 is not surprising given that the Investors have not commenced their due diligence with respect to Phase 2.

As mentioned above, the Investors are not making any firm commitment with respect to the Phase 2 investment. Given that the Phase 1 investment does not provide any funds for the operations and the Investors are not offering anything that will have an immediate effect on sales and profitability, the Companies will not have adequate funding to carry on the business and make payments to the stakeholders.

As reported in the Monitor's Second Report, the current cash flow being generated by the Companies is barely covering the operating costs excluding any payments to CIT, as

a mortgagee of the Property, or any other secured creditors. It was reported in Court that payments to CIT and other secured creditors that the Companies would be obligated to make in the ordinary course of business, absent the current Stay of Proceedings, is in excess of \$100,000 per month.

The Monitor believes that any restructuring plan presented to the stakeholders must include new working capital that can be used to sustain the operations and make some payments to the stakeholders until breakeven sales levels are achieved. The proposed investment in Phase 2 does not provided the stakeholders with a comprehensive plan that evidences the Companies' ability to continue operations after Phase 1 is complete. Only with this information will stakeholders be in a position to make an informed decision on whether or not to support the proposed sale of the property in Phase 1.

IV. CONCLUSION

The Phase 1 investment, being the purchase of the Property, is at a price considerably lower than the recently appraised value and which, in the absence a Phase 2 investment that provides certainty of a full payout, would not be supported by the first Mortgagee, who is owed more than the proposed purchase price.

The MOU and Terms provide no assurance of any investment in Phase 2. As the Companies are continuing to experience cash flow difficulties, it is imperative that Phase 2 of the MOU provide the necessary assurances that funding will be available in order that the business can continue operations and not further prejudice the stakeholders.

As previously reported by the Monitor, any restructuring plan presented to the stakeholders by the Companies must address the current cash flow difficulties. The current business is not viable over the long-term and will not be able continue operating and make any payments to the stakeholders without a significant injection of cash to fund the operations until breakeven sales levels are achieved.

Finally, the Monitor also has a general concern that, based on the restructuring progress made to date, the Companies will be not be in a position to present a comprehensive plan of arrangement by the expiration of the current Stay of Proceedings on May 20, 2011.

DATED At the City of Vancouver, British Columbia, this 27th day of April, 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

Memorandum of Understanding

(MOU)

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MEMORANDUM OF UNDERSTANDING

On this date March 31st, 2011, this Memorandum of Understanding ("MOU") is made,

Between

GAMMA INVESTMENTS INC. ("Gamma") a company organized and existing under the laws and regulations of the Province of British Columbia, Canada, having their head office addresses as: 23011 Fraserwood Way, Richmond, B.C. V6V 3B3 ("Building").

AND

3S PRINTERS INC. ("3S") a company organized and existing under the laws and regulations of the Province of British Columbia, Canada, having their head office addresses as: 23011 Fraserwood Way, Richmond, B.C. V6V 3B3.

AND

SUKHDEV SINGH SANDHU ("SANDHU") is the president and sole shareholder of both Gamma and 3S, having his place of business as: 23011 Fraserwood Way, Richmond, B.C. V6V 3B3.

AND

Sukhraj Kang, Balraj Kang, Prabhdev Khara, and Jagjit Toor ("Investors")

RECITALS:

- A) WHEREAS, Gamma is the owner of the Building.
- B) WHEREAS, Gamma wishes to sell the Building.
- C) WHEREAS, the Investors, upon receiving a favourable view of the proposed sale of the Building are willing to enter into negotiations for the purchase and sale of the Building.
- D) WHEREAS, 3S is a boutique specialist printer and is willing to entertain investment partners.
- E) WHEREAS, the Investors, upon receiving a favourable view of the proposed terms and conditions of investment in 3S are willing to enter into further negotiations with respect to investing in 3S.
- F) WHEREAS, the Investors shall proceed with the purchase of the Building as phase 1 and investment in 3S as phase 2.

- G) WHEREAS, a successful phase 2 shall be predicated upon a satisfactory conclusion to phase 1.
- H) WHEREAS, the investors are aware that both Gamma and 3S are under Companies Creditors arrangement Act ("CCA") proceedings before the Supreme court of British Columbia.


IN CONSIDERATION OF THE ABOVE, IT HAS BEEN AGREED AS FOLLOWING:

1. The investors shall through their counsel present to Gamma their terms and conditions for the purchase of the Building within 10 (ten) business days of the executing of this MOU.
2. Gamma, 3S and Sandhu shall provide to the investors, through their counsel, all information and disclosure requested in a timely manner.
3. Based on Sandhu's representations, and subject to further investigation, investors are willing to purchase the Building for \$3,000,000.00 (three million) as phase 1 with a lease back for \$20,000.00 ("Lease").
4. The investors shall forego the Lease payments for a period of 4 (four) months pending the completion of the due diligence process on 3S.
5. Gamma, 3S and Sandhu shall cooperate fully with the investors counsel in the timely provision of information requested and shall bear the cost of any unnecessary cost incurred due to delay, misrepresentation or lack of information.
6. This MOU is non binding in that the eventual proposed purchase agreement and the investment agreement if entered into shall be binding and have full contractual force and effect.
7. All proprietary and confidential information of either Party disclosed or otherwise made known to the others Parties under the performance of the present MOU shall be considered confidential property of the disclosing party (the "Confidential Information"). The Confidential Information shall be used by the receiving Parties and its employees only for purposes of performing the receiving Parties' obligations hereunder. For purposes of this paragraph, there shall be excluded any information that is known to the receiving Parties prior to disclosure by the disclosing Party or is or becomes available publicly other than as a result of a breach of this MOU by the receiving Parties or information that is required by any law, rule, regulation, order, subpoena or other judicial or administrative process. Each Party agrees that it will not reveal, publish or otherwise disclose the Confidential Information of the others Parties to any third party without the prior written consent of the disclosing Party.

In witness whereof, the Parties have caused this MOU to be duly executed on March 31st, 2011 in Richmond, British Columbia.


Parties to Agreement:

GAMMA INVESTMENTS INC.



Sukhdev Singh Sandhu
President


3S PRINTERS LTD.



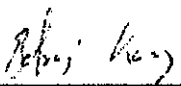
Sukhdev Singh Sandhu
President



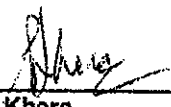
Sukhdev Singh Sandhu



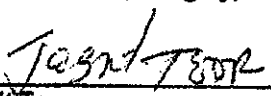
Sukhraj Kang
5228 - 157 Street, Surrey, BC V3S 0L2



Balraj Kang
5228 - 157 Street, Surrey, BC V3S 0L2



Prabhdev Khera
20682 - 84 Ave, Langley, BC V2Y 2B5



Jagjit Toor
3157 Swallow Place, Abbotsford, BC V2T 5K9

APPENDIX B

Terms of MOU

SAHOTA LAW OFFICE*

BARRISTER, SOLICITOR AND
NOTARY PUBLIC

#214-7928-128th STREET
SURREY, B.C. V3W 4E8

Tel: 604-507-9983
Fax: 604-596-9494

April 15th, 2011

GAMMA INVESTMENTS LTD. AND 3S PRINTERS INC.
23011 Fraser wood Way
Richmond, BC, V6V 3B3

Attention: **Dave Sandhu**

Dear Sirs:

Re: Gamma Investments Ltd. ("Gamma") and 3S Printers Inc. ("3S")
(collectively the "Companies")
Subject property: 23011 Fraserwood Way, Richmond, BC, V6V 3B3
(the "Building")
Our client: 0907548 B.C. Ltd (the "Company")

Our clients are pleased to present the following terms and conditions ("Terms") pursuant to the MOU entered into by the Companies and Investors as defined therein. Our clients are cognizant of the fact that the Companies must attempt to realize the maximum return on their assets. However, it is the intention of the Company to forge a long-term stable relationship keeping in mind market forces and conditions with respect to the very challenged print industry. The Company shall, to the best of its ability, attempt to invest as close to "realistic value" of the Companies in to for it to gain maximum value for its investment and for the approval of third parties. However, the Company must put "value" first and foremost for its investors. The Company and the Investors have demonstrated their desire to forge a long-term viable business with 3S by investing in and engaging 3S and its expertise with respect to the on-line print business.

Assumptions

Market Value of the **Building** is based on the following comparative sales:

Sr. No.	Property Address	Sq. Ft Building	Site Size (Acres)	Sale Price	Price per Sq. Ft.	Sale Date
1	2771 Viscount Way	54,060	2.22	\$5,628,888	#104	Dec 2010
2	6511 Graybar Road	51,340	2.13	\$5,100,000	\$99	Sept 2010
3	11720 Horseshoe Way	42,2000	1.72	\$5,368,000	\$127	Sept 2010
4	12080 Horseshoe Way	36,336	1.83	\$3,900,000	\$107	June 2010

Thus taking the average of the Price Per S. Ft. we arrive at \$\$109.00.

Thus $28,000 \times 109 = \$3,052,000.00$.

At the present market rental value for the Building is \$7 Per Sq. Ft.

Thus $28,000 \times 7 = \$16,000.00$ per month

Market Value of the **Equipment** is based on the report of Century Services Inc. dated October 27, 2009. Given that the report is somewhat dated and the market conditions we shall reduce the given value by 35%.

Fair Market Value: \$3,174,700.00 Reduced by 35% = **\$2,063,555**

Orderly Liquidation Value \$1,849,800.00 Reduced by 35% = **\$1,202,370**

1. Purpose

The purpose of the Terms is to commence negotiations on the hitherto discussed relationship between the Companies and the Company. The Company welcomes a constructive and realistic response to the Terms to further the intended structure, vision and monies worth of the eventual relationship.

The Companies are presently under CCAA proceedings and thus the Company is mindful of the necessary participation and acceptance of the Terms by a wider set of parties. The Companies have indicated a speedier resolution to matters, however, the Company is duty bound to perform its proper due diligence before final decisions can be made. The Company reminds the Companies that this process has not been long in the offing.

2. Process

The Company intends to engage in a two-stage process in this intended relationship. The latter is made necessary due the CCAA proceedings and the fact that the Companies are seeking an urgent resolution to the financial predicament it finds itself in. Whilst the matter of the Building is a relatively simple matter, the intended relationship with respect to 3S is a rather more complicated and necessitates the appropriate due diligence process.

3. Building

The Company offers to purchase the Building for \$3,000,000.00 (three million). Upon acceptance of the offer price the Company shall commence the process of arranging finance.

4. Lease Back

In anticipation of the future intended relations between the Companies and Company, the Company shall lease the Building back to 3S. The Company shall forgo the first 4 (four) months of rent calculated above at a rate of \$16,000.00 per month.

5. 3S

Upon reaching an agreement on the offer on the Building, the Company shall commence a detailed due diligence process on the operations of 3S and the structuring of relations between the parties. As indicated in our preliminary discussions we are committed in principle to working with 3S and forging a relationship perhaps in the form of a management buyout scenario, however, further investigation must be undertaken.

6. Equipment

Based upon the above, the Company must undertake further investigation on the Equipment before it can make an informed offer.

7. Security

It is understood that 3S is not in a position to offer any personal guarantees or security.

8. Due diligence

Upon the parties reaching an agreement on a suitable price for the sale of the Building and Leaseback, the detailed due diligence process with respect to 3S and the intended relationship can commence. The Company feels that this the best optimization of it's resources given the circumstances of the Companies needing approval from third parties.

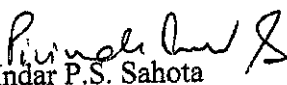
We trust the above is satisfactory. We look forward to your response at your earliest convenience.

If you need any other information please do not hesitate to contact the writer.

Yours truly,

SAHOTA LAW OFFICE

Per:


Pir Indar P.S. Sahota

Cc: client

APPENDIX C

Information on Investors

JAGJIT SINGH TOOR

D.O.B.

December 1956

QUALIFICATIONS:

Bachelor of Arts

BUSINESS EXPERIENCE:

In business since 1980

**Property development and rental. Owner of commercial and residential real estate.
Investor, entrepreneur and retailer.**

NET WORTH

PRABHDEV SINGH KHERA

D.O.B.:

February 1963

QUALIFICATIONS:

Bachelor of Arts

BUSINESS EXPERIENCE:

In business since 1988

Primarily in the construction and development industry both commercial and residential. Entrepreneur with diverse investment interests both in Canada and overseas. Has partaken in and facilitated many joint ventures and business arrangements enabling both investors to maximize their opportunities.

NET WORTH

BALRAJ SINGH KANG

D.O.B.:

January 1966

QUALIFICATIONS:

Bachelor of Arts

BUSINESS EXPERIENCE:

In business since 1988

Primarily in the construction industry and is the owner of an excavating company.

NET WORTH:

SUKHRAJ SINGH KANG

D.O.B.:

February 1968

QUALIFICATIONS:

Bachelor of Arts

BUSINESS EXPERIENCE:

Primarily in the construction industry and is the owner of an excavating company.

NET WORTH

APPENDIX D

Bank Reference Letter for Mr. Prabhdev Khera

Services:
Investment Advice
Insurance
Commercial
Personal Banking

Cloverdale Branch
500-6456 176th Street
Surrey, BC
V3S 4G3
Tel: 604.575.3900
Fax: 604.575.3940


To Whom it may concern,

April 20, 2011

Mr. Prabhdev Khara and his family have been members of our credit union since May of 2008. They hold a number of personal accounts, business accounts and credit facilities with G & F Financial Group, all of which are handled in a more than acceptable manner. The Khara's have attained and paid off over \$3.8 million in mortgages since establishing their relationship with this financial institution.

If you have any questions, please feel free to contact me at 604-575-4233

Sincerely,



Jag Pandher

Financial Services Manager

G & F Financial Group