

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE PROPOSAL OF MPH GRAPHICS
INC., A COMPANY INCORPORATED PURSUANT TO THE LAWS OF THE
PROVINCE OF ONTARIO, WITH A HEAD OFFICE IN THE CITY OF
MARKHAM, IN THE PROVINCE OF ONTARIO**

**FIRST REPORT OF IRA SMITH TRUSTEE & RECEIVER INC.,
in its capacity as Trustee in re the Proposal of MPH Graphics Inc.**

**DATED DECEMBER 23, 2013
VOLUME 1**

1.0 INTRODUCTION

1. On December 23, 2013, MPH Graphics Inc. (the “**Company**” or “**MPH**”) lodged a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**Act**”) with Ira Smith Trustee & Receiver Inc. as the Proposal Trustee (the “**Proposal Trustee**”). The NOI was filed with the Official Receiver on the same day. Attached as **Exhibit “A”** is a copy of the confirmation evidencing the electronic filing of the documents with the Official Receiver, and the NOI documents. It is the normal practice of the Office of the Superintendent of Bankruptcy to have a Certificate of Appointment issued after an Official Receiver reviews the filing, rather than to be automatically issued by the electronic filing system.
2. MPH has advised the Trustee that it filed the NOI to effect a sale of its assets, properties and undertaking, in order to attempt to preserve as much value as possible for the Company’s stakeholders, while preserving as many jobs as possible¹.

¹ See Affidavit of Stephen Pugh sworn December 23, 2013.

3. The Company, with the consent of its first secured creditor, The Royal Bank of Canada (“**RBC**”), has entered into an Agreement of Purchase and Sale to sell the Purchased Assets, as defined in the Agreement of Purchase and Sale entered into with Thistle Printing Limited (“**Thistle**”) (the “**Stalking Horse APA**”), as further described in the Affidavit of Stephen Pugh, sworn December 23, 2013 (the “**Affidavit**”). Attached hereto as **Exhibit “B”** is a copy of the Stalking Horse APA.
4. The Affidavit states that MPH carries on a full service commercial printing business, has been experiencing liquidity problems and without either a sale of its assets or an injection of new capital, it will not be able to survive.

2.0 THE PROPOSED STALKING HORSE SALES PROCESS

5. As stated in the Affidavit, Thistle has agreed to allow its APA to stand as a Stalking Horse bid in accordance with the terms contained in the Stalking Horse APA. Working with MPH, Thistle and their respective legal counsel, the Proposal Trustee proposed a Sales Process that would allow for the marketplace to become aware of the opportunity to purchase all or substantially all of the assets, properties and undertaking of MPH. The purpose of this proposed Stalking Horse Sales Process is to determine if there is another party, being aware of the terms of the Stalking Horse APA who would be willing to pay more for the assets, properties and undertakings of MPH. Attached hereto as **Exhibit “C”** is a copy of the proposed Terms and Conditions of Sale for which MPH is seeking the approval of this Honourable Court.
6. The proposed Sales Process time line was developed based upon the support MPH could obtain from RBC, the negotiations between MPH and Thistle and the ability of MPH to survive such a process as projected in the Company’s cash flow statement (also see below).

3.0 MPH CASH FLOW STATEMENT

7. Attached as **Exhibit “D”** is a copy of the MPH cash flow statement and related reports filed with the Superintendent of Bankruptcy on December 23, 2013, in accordance with the requirements of Section 50.4(2)(a) of the Act. The cash flow statement is for the period from December 23, 2013 to March 1, 2014. The cash flow indicates that, with the continued support of RBC, MPH can operate during the Stalking Horse Sales Process timeline and no party will be prejudiced.

4.0 STATEMENT OF ESTIMATED REALIZATION IN LIQUIDATION

8. At the request of the Proposal Trustee, MPH obtained an appraisal of the sale of its assets in liquidation by auction and a commercial realtor’s opinion on the value of the lease of its premises described as 35 Valleywood Drive, Unit #2, Markham, ON L3R 5L9.
9. MPH provided a copy of such appraisal and opinion of value to the Proposal Trustee. The Proposal Trustee has prepared a comparative analysis of the liquidation value of the assets, properties and undertakings of MPH as compared to the value to be obtained by completing the sale contemplated under the Stalking Horse APA.
10. So as to not taint the proposed Stalking Horse Sales Process, the Proposal Trustee will supply such analysis to this Honourable Court in a Volume 2 of this First Report. The Proposal Trustee, through its legal counsel, will seek the approval of this Honourable Court to have such Volume 2 of this First Report sealed until a sale of the assets, properties and undertaking of MPH is completed.

5.0 REQUIREMENT FOR AN EXTENSION OF THE INITIAL 30 DAY PERIOD

11. A review of the proposal Stalking Horse Sales Process time line as contained in Exhibit “C” of this First Report indicates that the Proposal Trustee did not believe that a completion of a sale could be completed within 30 days of the filing of the NOI. Without knowing if Thistle, under the Stalking Horse APA, will be the purchaser, MPH will not be able to lodge its Proposal with the Proposal Trustee within the 30 day period prescribed by section 50.4(8) of the Act. Accordingly, MPH will require at least one extension in order to complete a sale and to then know what type of Proposal, if any, it can file.

12. The Trustee advises this Honourable Court that:

- (a) MPH has acted, and is acting, in good faith and with due diligence;
- (b) MPH will not know if it likely would be able to make a viable proposal until the completion of a sale which will take place after the extension being applied for were granted; and
- (c) no creditor would be materially prejudiced if the extension being applied for were granted.

6.0 RECOMMENDATION

13. The Proposal Trustee recommends to this Honourable Court, as further described in Volume 2 of this First Report, that the Stalking Horse APA, and the Stalking Horse Sales Process designed to determine if the Stalking Horse APA is the best offer under the circumstances, will produce a higher realization and save employment, than will be obtained under a liquidation of the assets, properties and undertakings of MPH.

14. The Proposal Trustee recommends to this Honourable Court that the Stalking Horse APA and the Stalking Horse Sales Process be approved by this Honourable Court and that MPH be allowed to carry out such Stalking Horse Sales Process.

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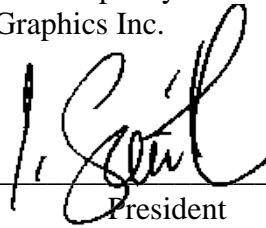
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All of which is respectfully submitted at Toronto, Ontario this 23rd day of December, 2013.

IRA SMITH TRUSTEE & RECEIVER INC.

solely in its capacity as the Trustee in re the Proposal of MPH Graphics Inc.

Per: _____



President