



**COUR SUPÉRIEURE DU QUÉBEC
PALAIS DE JUSTICE**

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For **ABN AMRO**

RE: *In the matter of the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36 of:*
QUEBECOR WORLD INC./ERNST & YOUNG INC.
500-11-032338-085

EXPÉDITEUR	
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SUPERIOR COURT

Commercial division

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

No: 500-11-032338-085

DATE: January 22, 2008

IN THE PRESENCE OF: THE HONOURABLE ROBERT MONGEON, J.S.C.

In the matter of the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36 as amended:

QUEBECOR WORLD INC., and its other Petitioners listed on Schedule "A"
Petitioner

-and-

ERNST & YOUNG INC.
Monitor

**TRANSCRIPT OF REASONS FOR JUDGMENT
GIVEN ORALLY ON JANUARY 21, 2008**

On Petitioner's Motion for the issuance of an Initial Order pursuant to sections 4, 5 and 11 of the Companies' Creditors Arrangement Act, (R.S.C. 1985, c. C-36)

[1] I have before me a Motion on behalf of Quebecor World Inc. and approximately fifty-one subsidiaries (collectively referred to as ("QWI") seeking the issuance of an Initial Order pursuant to Section 4, 5 and 11 of the Companies' Creditors Arrangement Act (the "CCAA").

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[2] QWI is a world leader in providing printing services and print solutions around the world. QWI employs approximately 28,000 people in Canada, the United States, Latin America and Europe. It has world assets of approximately 5.550 billion U.S. dollars.

[3] QWI is currently facing a severe liquidity crisis and is in desperate need of funding. Notwithstanding its heavy debt burden QWI has been able to secure interim financing of one billion U.S. dollars to see it through its present crisis.

[4] The current situation of QWI has been well publicized in the recent news. There is no need at this stage to review in detail the various causes of its financial difficulties. Suffice it to say however that, despite bank debts of some 773 million dollars, equipment financing debts of some 155 million dollars, unsecured notes issued to the public amounting to 1.5 billion dollars and trade payables of 500 million dollars (for a total of approximately 2.9 billion dollars), QWI was able to enter has into a DIP lending facility of one billion dollars with Credit Suisse and Morgan Stanley Senior Funding Inc., which facility, once authorized and disbursed would rank after the security currently held by the Bank Syndicate headed by the Royal Bank of Canada as well as the security of Société Générale, its principal equipment financier¹.

[5] QWI further alleges in its Petition that it received in the last hours, not one but two DIP Lending offers, the second in the amount of 1.2 billion dollars from its Bank Syndicate. In the opinion of the Company and of the Proposed Monitor, it was decided that it would be in the best intents of the company and all of its stakeholders to accept the DIP Financing Term Sheet of Credit Suisse and Morgan Stanley (See exhibit R-18).

[6] This rather new development (at least to the eyes of outsiders) explains why there is a general consensus amongst the Company, the Monitor and the various stakeholders present today that an Initial Order should issue under CCAA provisions providing for a DIP Lending Facility as chosen by the Company and its business advisors. There seems to be, at the present time utmost urgency in doing so and the amount of the DIP financing does not appear to be inappropriate having regard to the overall value of QWI as a going concern².

[7] I am therefore satisfied that:

- a) QWI and its subsidiaries listed on Schedule A to the Petition are all debtor companies to which the CCAA applies;

¹ The total debt due to the Bank Syndicate and to Société Générale totals approximately 928 million dollars, of which only 170 million dollars are secured by a charge over the assets of QWI, the balance is secured only through a personal guarantee of the various entities concerned.

² The mere fact that two institutional lenders are prepared to advance up to 1.2 billion dollars to the Company which, despite its current liquidity crisis is still generating some 400 million U.S. dollars of EBITDA on an annual basis, suggest that there is some margin available to the Monitor to put a plan of restructurization in place.

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- b) QWI is in serious need of relief and is entitled to benefit from the protection of the said Act;
- c) QWI, although heavily indebted needs time to effect its restructuring and in doing so needs the injection of the one billion U.S. dollars offered to it through the DIP Financing Facility;
- d) the said DIP Facility will have little impact upon QWI's other secured creditors, in that:
 - i) it will rank after the security held by the Bank Syndicate and after the security held by Société Générale related to equipment financing;
 - ii) there are no other known secured creditors which would see their position adversely altered by the issuance of the Initial Order or the DIP Lending Facility.
- e) there is a very strong case for urgency given the current situation of the company which without an intervention of this Court by January 24, 2000 would be literally out of cash to pay its employees and day-to-day operations;
- f) the DIP Lending Facility will also leave as an immediate result the buy-out of an agreement with ABN AMRO with respect to financing of the company's operations through the discount of its accounts receivable. Without the contemplated DIP, QWI would continue to remain in default towards, ABN AMRO under the said agreement and would not be able to benefit from that important source of cash flow. With the DIP in place, QWI would be able to count not on 70% but on 100% of the collection of its receivables as an important source of financing.

[8] I have also heard and reviewed the submissions of Counsel for the Bank Syndicate and of Société Générale who suggest that certain adjustments or limitations be made to the proposed Initial Order. In summary, they are:

- a) the preservation of a certain status quo in controlling or keeping track of the allocation of monies from the DIP loan to the various subsidiaries of QWI (whether covered by the Initial Order or not);
- b) limitations with respect to downsizing, selling or otherwise disposing of QWI's assets without considering the Bank Syndicate rights into the proceeds of these dispositions;
- c) a limitation of the DIP facility to only what is currently needed before the stakeholders are given the chance to come back before me to argue their respective rights and positions over these issues (that is to say: use of sale proceeds or allocation of funds to the various subsidiaries).

[9] I do not treat these issues lightly and I fully understand the importance of debating them in a subsequent Motion. However, this is clearly not the time to do so because it would require much more evidence than what is presently before me (in point

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of fact there is no affidavit evidence on the part of the Bank Syndicate supporting any of their positions).

[10] These matters will therefore have to be addressed at a later time by way of Motion.

[11] I do not pretend having covered all of the issues raised by Counsel for QWI or for the Monitor an support of the issuance of an Initial Order they are numerous and convincing.

[12] It is however imperative to grant the relief sought and I am prepared to sign the draft Initial Order submitted to me by Me Gouin.

A handwritten signature in black ink, appearing to read 'R. Mongeon', with a horizontal line underneath it. The signature is written in a cursive style.

ROBERT MONGEON, J.S.C.

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