

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C36, AS AMENDED**

AND

**IN THE MATTER OF THE *CANADA BUSINESS*
CORPORATIONS ACT, R.S.C. 1985, c. C-44**

AND

**IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF PAKIT INC.**

**FIRST REPORT OF ALVAREZ & MARSAL CANADA INC.
IN ITS CAPACITY AS MONITOR OF PAKIT INC.
AUGUST 24, 2011**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C36, AS AMENDED**

**AND IN THE MATTER OF THE CANADA BUSINESS
CORPORATIONS ACT, R.S.C. 1985, c. C-44**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
PAKIT INC.**

TABLE OF CONTENTS

1.0	INTRODUCTION	3
2.0	PURPOSE OF REPORT	4
3.0	TERMS OF REFERENCE	4
4.0	INITIAL ACTIVITIES OF THE MONITOR.....	5
5.0	UPDATE OF THE PAKIT GROUP'S BUSINESS AFFAIRS.....	6
6.0	SELECTED FINANCIAL INFORMATION	10
7.0	CCAA CASH FLOW FORECAST AND VARIANCE ANALYSIS	14
8.0	EXTENSION OF THE STAY PERIOD	19
9.0	MONITOR'S CONCLUSION AND RECOMMENDATIONS	19

APPENDICES

Appendix A – Alvarez & Marsal Canada Inc. Notice to Creditors (dated August 2, 2011)

Appendix B – The Updated Cash Flow Forecast (for the 13-week period ending October 21, 2011)

Appendix C – Shareholder Letters (dated July 22, July 29, August 10, August 11 and August 20, 2011)

1.0 **INTRODUCTION**

- 1.1 Alvarez & Marsal Canada Inc. ("**A&M**" or the "**Monitor**") was appointed as Monitor pursuant to the order pronounced by this Honourable Court on July 28, 2011 in respect of the petition filed by Pakit Inc. ("**Pakit**", the "**Company**" or the "**Petitioner**"), under the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36*, as amended (the "**CCAA**"). The proceedings brought by the Company under the CCAA will be referred to herein as the "**CCAA Proceedings**" and the order granted by this Honourable Court on July 28, 2011, as amended, is hereinafter referred to as the "**Initial Order**". Prior to July 28, 2011, Pakit filed a Notice of Intention to make a Proposal (the "**NOI**") on July 12, 2011 which was converted into a CCAA Proceeding upon granting of the Initial Order.
- 1.2 Capitalized terms not defined in this report are used as defined in the affidavit of Mr. Dwayne Yaretz sworn July 26, 2011 (the "**Yaretz Affidavit**") filed in support of the Company's application for relief under the CCAA. Attached as Appendix E to the Yaretz Affidavit is a copy of the Pakit Group's cash flow forecast for the 13-week period July 23 to October 21, 2011 (the "**Cash Flow Forecast**").
- 1.3 Pakit USA Company Inc. ("**Pakit US**") and Pakit International Trading Company Inc. ("**Pakit International**") are wholly owned subsidiaries of Pakit. Pakit International is incorporated under the laws of Barbados. Pakit International is the sole owner of Packaging International Technology Sweden AB ("**PIT**"), a company incorporated under the laws of Sweden. Pakit International has interests in other dormant subsidiaries. References herein to the "**Pakit Group**" are references to the global enterprise as a whole.
- 1.4 The Initial Order provides for, amongst other things, an initial stay of proceedings against Pakit until and including August 25, 2011, or such later date as ordered by this Honourable Court (the "**Stay Period**").
- 1.5 The affidavit sworn by Mr. Yaretz, Interim President of Pakit, dated August 23, 2011 was filed in support of the Company's application for the Stay Extension Order (the "**Yaretz Aug 23 Affidavit**"). This First Report does not repeat all of the background information contained in the Yaretz Affidavit and the Yaretz Aug 23 Affidavit and readers of this report are encouraged to obtain copies of these documents as well as other materials relating to the CCAA Proceeding by accessing the Monitor's Website.
- 1.6 The Initial Order together with select motion materials and other documentation filed in the CCAA, the Yaretz Affidavit, the Proposed Monitor's Report on the Cash Flow Forecast, the

Monitor's First Report and the notice to creditors dated August 2, 2011 as prescribed under the CCAA are posted on the Monitor's website at www.alvarezandmarsal.com/pakit (the "**Monitor's Website**").

2.0 **PURPOSE OF REPORT**

2.1 This is the Monitor's first report (the "**First Report**") and is intended to provide this Honourable Court and the stakeholders of the Petitioners with an update on the business and financial affairs of the Company and the status of its restructuring efforts to date. Specifically, the First Report includes:

- a) A summary of the initial activities of the Monitor;
- b) The current status of the Pakit Group's operations, including background, corporate organization chart and employee, creditor, shareholder and customer matters;
- c) A summary of select Pakit Group financial information including the estimated indebtedness of the Pakit Group as at July 12, 2011 (the date of the NOI);
- d) An update of the Pakit Group's cash flow forecast and comments on variances of actual cash receipts and disbursements from forecast for the period ended August 19, 2011;
- e) A summary of the Pakit Group's updated cash flow forecast for the 13-week period ending October 21, 2011, including four weeks of actual results and nine weeks of forecast results (the "**Updated Cash Flow Forecast**");
- f) An update on the Company's restructuring efforts since the date of the Initial Order;
- g) The Monitor's comments and views with respect to the Company's restructuring efforts since the date of the Initial Order;
- h) The Monitor's comments and views on the Company's request for an extension of the Stay Period beyond August 25, 2011 to September 27, 2011 (the "**Stay Extension Period**"); and
- i) The Monitor's conclusions and recommendations to this Honourable Court.

3.0 **TERMS OF REFERENCE**

3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to us, by certain senior management of Pakit

(“**Senior Management**”). Although this information has been subject to review, A&M has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information provided by the Company. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy of any information contained in this report, or otherwise used to prepare this report.

- 3.2 Certain information referred to in this report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, as outlined by the Canadian Institute of Chartered Accountants, has not been performed. Future oriented financial information referred to in this report was prepared based on Senior Management’s estimates and assumptions. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections and the variations could be significant.
- 3.3 Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is the Company’s common reporting currency.

4.0 **INITIAL ACTIVITIES OF THE MONITOR**

- 4.1 Up to and including the date of the First Report, the Monitor’s activities have included the following:
- a) numerous meetings and discussions with Senior Management and Pakit’s legal counsel regarding the Pakit Group’s business and financial affairs, including the Cash Flow Forecast, the status of funding contemplated to be received in the four week period ended August 19, 2011, the status of forecast receipts from a key customer, Industrias San Cayetano S.A. (“**Cayetano**”) and employee, creditor and shareholder matters as well as other matters relating generally to the CCAA Proceedings;
 - b) establishment of the Monitor’s Website and posting thereto of available Court materials and other relevant documentation;
 - c) review and consultation with the Monitor’s legal counsel regarding funding status and related documentation as well as the overall restructuring currently being pursued by the Company;
 - d) attendance to correspondence and conference calls with legal counsel for the Company and Fairfax Financial Holdings Limited (“**Fairfax**”), represented by Blake, Cassels & Graydon LLP;

- e) attendance as an observer to a shareholders' meeting held on August 17, 2011 and review of certain related shareholder communications; and
- f) preparation and issuance of notices required under the CCAA and the Initial Order including the following creditor communication and notices:
 - i. notice to creditors published in the Globe and Mail on August 5 and 12, 2011,
 - ii. notice in the prescribed form as referenced in paragraph 46(ii)(B) of the Initial Order that were mailed on August 2, 2011 to approximately 150 Pakit creditors regarding the CCAA (with reference that the Initial Order and other related Court materials may be accessed through the Monitor's Website) a copy of which is attached as Appendix "A",
 - iii. Form 1 and Form 2 notices issued to the Office of the Superintendent of Bankruptcy ("OSB") in the prescribed form as required under section 23(1)(f) of the CCAA, and
 - iv. notification to the OSB that the matter of the NOI filed by Pakit on July 12, 2011 was converted into a CCAA Proceeding upon granting of the Initial Order.

4.2 In addition to the aforementioned, the Monitor continues to monitor the business and financial affairs of the Petitioner in accordance with the CCAA.

4.3 The Monitor has not completed a review of any potential preferences, fraudulent conveyances or transactions at undervalue as of the date of the First Report but will complete its review and report to this Honourable Court of same in due course in the event the CCAA Proceedings continue beyond August 25, 2011.

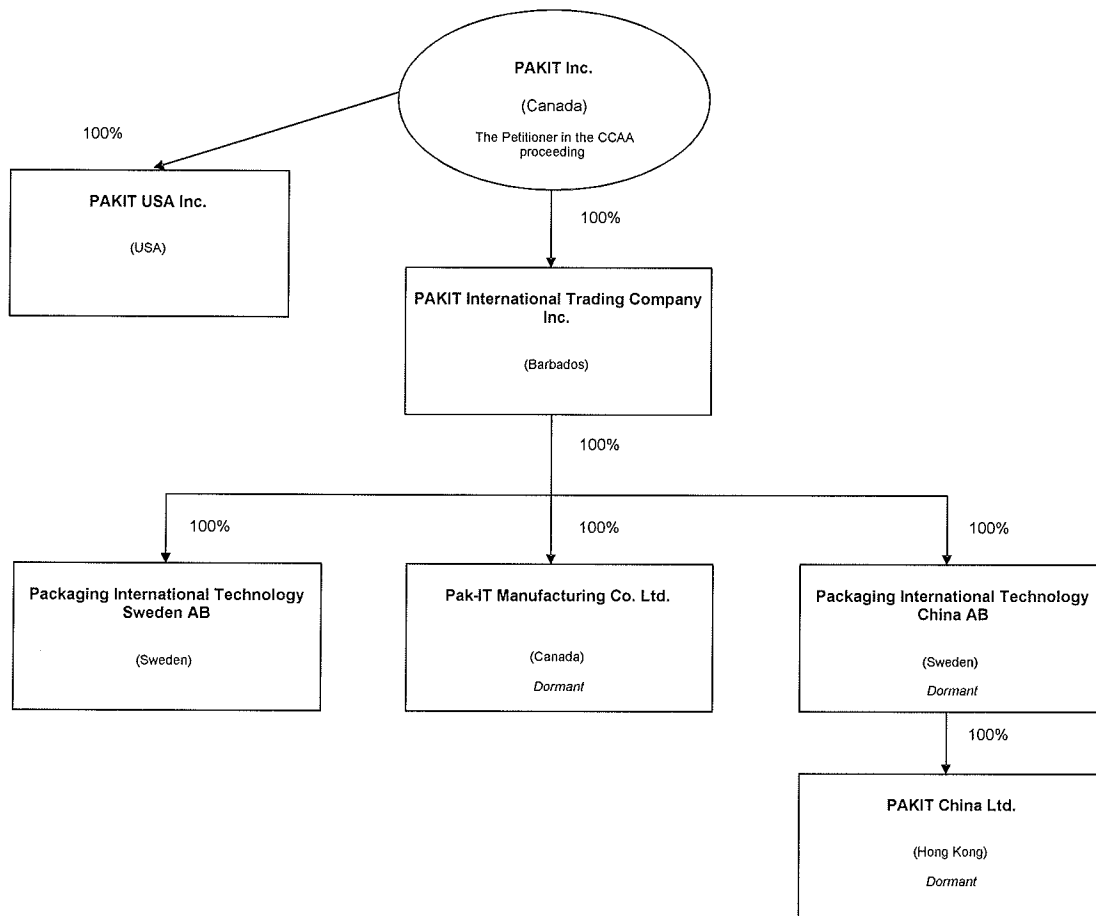
5.0 **UPDATE OF THE PAKIT GROUP'S BUSINESS AFFAIRS**

Pakit Group's Operations

5.1 Pakit is in the business of developing clean technology solutions for the packaging industry and its strategy is to replace the technology in use to produce petrochemical-based rigid plastics and styrofoam. Pakit's current target market is focused on the food and beverage market. The Pakit Group's current commercial proprietary product is the "Pakit100 machine" and the Pakit Group holds various related patents.

5.2 The Company is a privately held entity federally incorporated in 2000 under a predecessor name pursuant to the Canada Business Corporations Act. Since incorporation the Company has raised in excess of \$75 million which has been used to fund research and development to develop the patents currently held by the Pakit Group and fund the manufacturing of the five machines, of which two are currently held at a customer site, two are near or partially completed and located at the PIT premises and one is held at the PIT premises as a demonstration machine.

- 5.3 In 2008 Pakit developed its first commercial ready version of the Pakit100 machine. In 2009, a supplier relationship was established with ATS Automation Tooling Systems Inc. (“ATS”) for the manufacture of the Pakit100 machines.
- 5.4 In 2009 and 2010 sales contracts were entered into with Cayetano for the sale of four machines. The first two machines have been delivered to Cayetano (Senior Management has advised the Monitor that the title to these units are in ATS’ name) and up until August 22, 2011 Senior Management anticipated site acceptance testing to be completed in September 2011. However, a letter, dated August 19, 2011, was received on August 22, 2011 from Cayetano (the “**Cayetano Letter**”) purporting to repudiate the 2009 and 2010 contracts for the four machines. Senior Management is urgently working with Cayetano to resolve the issues raised in the Cayetano Letter. At this time the status of the completion of the Cayetano contract and related collection of receipts is at risk.
- 5.5 The corporate organization chart of the Pakit Group is as follows:



- 5.6 Pakit functions as the corporate head office of the Pakit Group operations and provides finance, marketing and overall corporate governance support to its direct and indirect subsidiaries within the Pakit Group.
- 5.7 The Pakit Group holds 17 patent families containing filings globally, including Europe, China, India, USA and South America. Pakit International, the Barbados entity, holds the patents and either directly or indirectly is the vendor to Pakit customers.
- 5.8 PIT, the Swedish company, is the research and development operations of the Pakit Group.

Employees

- 5.9 The Pakit Group employs 31 individuals of which ten are employed by Pakit, one is employed by Pakit US, one is employed by Pakit International and 19 are employed by PIT.
- 5.10 Pakit, Pakit International and Pakit US employees are paid on the 15th and last day of the month and wages, excluding vacation pay, are current.
- 5.11 PIT employees are paid once a month typically during the third week of the month current wages are due. July 2011 wages were paid in the beginning of August 2011. To date, August wages remain outstanding and are anticipated by the Company to be paid subsequent to the granting of any extension of the stay of proceedings, by way of funding received by Pakit which will be, in part, loaned to PIT through Pakit International for on-going wages and certain other operating costs. The PIT employees are unionized in Sweden. Senior Management has advised that the union has been notified of late payment to the employees. However, PIT management has indicated that delayed payment has not caused any disruptions or changes to the operations or employee attendance.
- 5.12 In addition to the above noted, the Monitor understands that there have been no material changes or disruptions to the employment status of the other individuals within the Pakit Group since the Initial Order.
- 5.13 Mr. Yaretz has advised that he has opted to defer his wages, which will be payable based on his regular compensation arrangement upon a successful restructuring. The Monitor understands that there is currently no available documentation related to Mr. Yaretz's compensation arrangement and has encouraged the Company to attend to this as soon as possible.

Creditors

- 5.14 Management advises that significant creditors continue to provide services as required by the Company, albeit some may be on a cash basis.
- 5.15 On July 14, 2011, Fairfax and Mr. Craig Barton, a former director and current shareholder filed an application for an Order seeking the appointment of a receiver and manager of all the assets, undertakings and property of Pakit. This application remains pending.

Customers

- 5.16 While the Pakit Group is developing new potential customer relations and is making progress in that respect, at present Pakit's primary customer is Cayetano, the only customer who has received installed Pakit100 machines which are substantially site acceptance testing ready according to Senior Management.
- 5.17 On August 22, 2011, the Monitor received a copy of the Cayetano Letter which is an unexpected negative development for Pakit and its restructuring efforts. As noted previously, Cayetano has indicated that it is not satisfied with the operating function of the installed machines and that it has advised the Pakit Group that the 2009 and 2010 contracts relating to the four machines are both "annulled". Senior Management believes from their discussions and negotiations with Cayetano on August 23, 2011, that there may be an opportunity for an immediate resolution. However, as at the time of writing this report the terms of a potential resolution are not available. The Monitor has advised Pakit in writing on August 23, 2011, that absent an immediate resolution to the Cayetano matter, which would include confirmed payment arrangements between the Pakit Group and Cayetano ensuring that the 30% payment of the purchase price of the machines is received for each of the units by the weeks ending September 2 and 16, 2011, that the Monitor does not support an extension of the stay of proceedings on August 25, 2011. A resolution of the issues with Cayetano may or may not alter the Monitor's position as it will depend on the terms of such resolution as well as other restructuring matters, including the status of the receipt of the equity funding forecast for the week ending August 26, 2011 in the amount of \$595,000. The Monitor will take into consideration any change in circumstances between now and August 25, 2011 and will provide a supplementary report to the Court if necessary.

Insurance

- 5.18 The Company has approximately \$18.3 million of property insurance coverage, \$1.0 million of commercial general liability coverage and \$4.0 million of excess liability coverage in place under

policy extension endorsements to November 30, 2011. The Company also holds a \$5.0 million directors and officer liability policy that expires on March 12, 2012.

Compliance with the Initial Order

- 5.19 Based on the Monitor's review of the Company's business affairs since the date of the Initial Order including regular and on-going discussion with Senior Management and Pakit's legal counsel, it appears that the Company has been in compliance with the terms of the Initial Order. Comments related to the budget filed in the CCAA Proceeding and the related variance to actual results are provided further below.

6.0 **SELECTED FINANCIAL INFORMATION**

Historical Balance Sheet

- 6.1 Detailed information with respect to the historical financial information of Pakit is attached to the Yaretz Affidavit, which is accessible on the Monitor's Website.
- 6.2 A summary of Pakit's consolidated historical balance sheet as at June 30, 2011 is tabled below:

Summary Balance Sheet (unaudited)				
As at June 30, 2011				
(\$'000s)				
	Pakit			
	Pakit Inc.	International	PIT	Consolidated
Cash and short term investments	\$ 48	\$ 22	\$ 31	\$ 101
Accounts receivable	33	175	8	216
Contracts in progress/Inventory	-	8,448	246	8,694
Other short term assets	549	14	77	640
Fixed assets	98	911	617	1,626
Total assets	\$ 728	\$ 9,570	\$ 979	\$ 11,277
Accounts payable and accrued liabilities	\$ 1,583	\$ 2,355	\$ 2,812	\$ 6,750
Customer deposits	-	3,017	-	3,017
Other current liabilities	3,310	-	-	3,310
Debentures payable and accrued interest	9,163	-	-	9,163
Due to (from) affiliates	(72,847)	75,966	(3,119)	-
Total liabilities	(58,791)	81,338	(307)	22,240
Shareholders' surplus (deficit)	59,519	(71,768)	1,286	(10,963)
Total liabilities and shareholders' surplus (deficit)	\$ 728	\$ 9,570	\$ 979	\$ 11,277

- 6.3 The Company's audited annual financial statements for the year ended June 30, 2011 were not available at the time of the First Report. The Company's audited fiscal 2010 financial statements are attached to the Yaretz Affidavit. The Monitor anticipates receiving the month ended July 31, 2011 internally prepared financial statements during the week of September 16, 2011.

Creditor Profile

- 6.4 The Pakit Group's creditors estimated as at July 12, 2011 (the date of the NOI) are as follows:

Estimated Creditor Profile				
July 12, 2011				
(\$'000s)	Pakit Inc.	Pakit International	PIT	Total
Accounts payable and accrued liabilities	1,405	2,086	972	4,463
Other *	3,310	-	-	3,310
Amounts owing to shareholders and employees	115	23	658	796
Potential statutory liabilities	85	7	402	494
Debenture holders	8,893	-	-	8,893
Total	\$ 13,808	\$ 2,116	\$ 2,032	\$ 17,956

* Represents True Partners Financial Services, LLC, which is noted in the Yaretz Affidavit as an alleged liability claim that Pakit has contested.

- 6.5 The table above does not reflect intercompany balances outstanding as at July 12, 2011. The Company has provided intercompany balances as at June 30, 2011 summarized below:

As at June 30, 2011	(\$'000s)
Due from Pakit International to Pakit Inc.	72,113
Due from PIT to Pakit Inc.	734
Due from Pakit International to PIT	3,853

- 6.6 The Company has issued convertible debentures to approximately 90 holders (the "**Debenture Holders**") who are due in aggregate approximately \$8.67 million in principal and approximately \$223,000 in interest as at July 12, 2011. Fairfax holds debentures in the principal amount of \$5.0 million and the remaining Debenture Holders represent the balance of \$3.67 million. Based on the Yaretz Affidavit, the Debenture Holders hold security interests in the assets and undertakings of Pakit and Fairfax is subordinated to the remaining Debenture Holders.

Restructuring/Funding Activities

- 6.7 Immediately prior to the initial application, the Company received two non-binding letters of intent ("**LOIs**"): (1) from a group referred to as the Coronado Group of Arizona (apparently representing Smuckers' Pension Fund and Zach Easton) with reference to joint funding in part from JumpSport and, (2) the Hussein Group, Inc. of California. The LOIs contemplated receipt of two payments of CAD\$470,000 equivalent (US\$500,000) to be received on August 1 and 10, respectively, and one payment of \$500,000 to be received on August 15, 2011.

- 6.8 It is noted earlier, that the funding as contemplated by the LOIs was not received. Instead, payment of CAD\$457,000 equivalent was received in three separate instalments during the weeks ended August 5 and 12, 2011 in place of the initial payment of CAD\$470,000 expected on August 1, 2011. While these payments were received in part directly from Mr. Yaretz and indirectly through other parties, Senior Management has advised that the \$457,000 advance is a loan from Mr. Yaretz to PIT. However, the Monitor understands the loan document has not yet been executed. The balance of the funding (\$970,000) described above has not been received. Senior Management has provided a subscription agreement dated August 18, 2011 which appears to support the Coronado Group's intention to fund a further US\$500,000 in the near future. A representative of the Coronado Group contacted the Monitor on August 24, 2011, to inform the Monitor that they provided wire instructions to their investment broker the morning of August 24, 2011 to remit proceeds to Pakit. As subsequently noted, receipt of US\$500,000 from the Coronado Group is required in order to maintain minimum cash balance requirements for Pakit to operate. Absent some form of substantive comfort beyond verbal commitments related to receipt of these funds, prior to the Company's application for an extension at the hearing scheduled on August 25, 2011 ("**Extension Application**"), the ability of Pakit to continue operations under the CCAA Proceedings is at risk.
- 6.9 The Company has contacted its shareholders and held a shareholders' meeting on August 17, 2011 to provide a status update and request funding of up to \$1.0 million to assist the Company with its motion for the Extension Application. A summary of the meeting is provided in the shareholder communication letter dated August 20, 2011 and attached as Appendix "C". Three other shareholder communication letters were delivered by the Company within the CCAA Proceedings, copies of which are all attached in Appendix C.
- 6.10 To date, a total of \$608,000 of subscription agreements have been received from various investors, including the Coronado Group referred to previously for US\$500,000 (or approximately CAD\$495,000). However, cash received by the Company which has been or is in the process of being forwarded to the Company's counsel pursuant to the subscription agreement funding terms is \$33,000. As noted previously, absent receipt of substantial proceeds or confirmation of the immediate pending receipt of such proceeds, Pakit's ability to continue to operate and pay on-going post obligations is at risk beyond August 25, 2011.

Senior Management October-December 2011 Funding Initiatives

- 6.11 Senior Management has indicated they have identified at least eight parties with whom they have direct or indirect contact for purposes of preliminary discussions for equity injection funding of in excess of \$10 million. These parties primarily represent groups that are either local or Canadian based, US based or backed by overseas funding. It is noted that the discussions, either direct or indirect, are at very preliminary stages and the parties have not commenced recent due diligence procedures. It is noted that some of these parties are current shareholders and have done some previous due diligence.
- 6.12 Senior Management has advised the Monitor that it intends to table a timeline associated with a more formalized equity funding initiative in October 2011, including milestones relating to issuing a confidential information memorandum, and establishing a letter of intent deadline, due diligence period and final binding subscription offer due dates.

Customers and Potential Customers with LOIs

- 6.13 The Company has received non-binding letters of intent to purchase machines from the following parties:
- a) A U.K. based sustainable packaging converter signed a letter of intent on June 17, 2011 for the purchase of 10 Pakit100 machines including two (2) for order in September 2011, three (3) for order in June 2012 and five (5) for order in January 2013;
 - b) A Malaysian packaging converter signed a letter of intent for two (2) machines on June 1, 2011 subject to obtaining favourable financing terms and indicated an expectation of purchasing two (2) additional machines once the market has been developed;
 - c) An international paper and packaging supplier signed a letter of intent on June 28, 2011 for up to five (5) lines including a demonstration unit at their facility in Arizona, USA, and four (4) units to be installed at a manufacturing site in China; and
 - d) A British Columbia based forestry company has provided an email expressing that they plan to aggressively complete due diligence and plan to provide a business plan to the executive team.

7.0 **CCAA CASH FLOW FORECAST AND VARIANCE ANALYSIS**

- 7.1 Pakit prepared The Cash Flow Forecast for the 13-week period ending October 21, 2011 which was attached to the Pre-filing Report of the Proposed Monitor as well as the Yaretz Affidavit filed by the Company in support of its initial request for relief under the CCAA.

Cash Flow Forecast for the Four Weeks Ended August 19, 2011

- 7.2 The Monitor has undertaken a review of the Pakit Group's cash receipts and disbursements as part of its on-going oversight and monitoring of the Pakit business and financial affairs. The actual cash flow results as compared to the Cash Flow Forecast for the four weeks ended August 19, 2011 (the "Four Week Period"), is summarized below:

Pakit Group Unaudited Summary of Actual versus Forecast Cash Flows (Note 1) For the 4-week Period Ended August 19, 2011 (\$000's)			
	Consolidated		
	Actual	Forecast	Variance
Receipts			
Customer collections	-	-	-
Funding	457	1,440	(983)
Other receipts	168	85	83
Total Receipts	625	1,525	(900)
Disbursements			
Raw materials and production	2	21	(19)
Payroll, benefits and payroll taxes	290	321	(31)
Sales and marketing costs	-	3	(3)
Research and development costs	3	10	(7)
Other general and administrative costs	12	49	(37)
Rent	76	116	(40)
Consulting fees	8	37	(29)
Professional fees	132	124	8
Pre-filing liabilities - Pakit Inc.	95	25	70
Other liabilities pre July 12, 2011 (Pakit International and PIT)	356	285	71
CCAA Contingency	3	10	(7)
Total Disbursements	976	1,000	(24)
Net Cash Flow	(351)	525	(876)
Opening Cash Position	726	726	-
Closing Cash Position	375	1,251	(876)

Note 1 Readers are referred to the Terms of Reference as set out previously in this report.

Overall, for the Four Week Period, the Pakit Group has experienced an unfavourable net cash flow variance of \$876,000 relative to the Cash Flow Forecast. The primary components of the unfavourable variance are described below:

- a) *Funding receipts – unfavourable variance of \$983,000.* Funding from the Coronado Group of US\$500,000 and funding from The Hussein Group of \$500,000 were not received by Pakit Inc. as forecast during the Four Week Period. The Coronado Group of Companies have each signed a subscription agreement dated August 18, 2011 for a combined equity investment of US\$500,000 (CAD\$495,000). Senior Management advises the Monitor that the proceeds are expected to be received by September 2, 2011. Timing and amount of the remaining receipts are uncertain. The Company has received alternative subscription agreements totalling \$113,000 which are anticipated to be received by September 2, 2011 (\$33,000 received as at August 23, 2011).
- b) *Other receipts – favourable variance of \$83,000.* The Other Receipts variance is primarily attributable to the redemption of cash collateral posted by Pakit Inc. with HSBC Bank Canada with respect to corporate credit cards. The additional receipts are offset by an unfavourable variance of \$70,000 for disbursements from Pakit Inc. for pre-filing liabilities as the cash collateral was applied against pre-filing credit card balances of \$79,000.
- c) *Payroll, benefits and payroll taxes – favourable variance of \$31,000.* The variance is primarily due to certain Pakit management salaries that were deferred during the Four Week Period.
- d) *Other general and administrative expenses – favourable variance of \$37,000.* The variance is primarily due to Pakit travel costs of \$15,000 that were not incurred as expected in the Four Week Period as well as timing differences for general and administrative expenses of Pakit International and PIT.
- e) *Rent – favourable variance of \$40,000.* The variance is primarily attributable to a timing difference with respect to utility costs charged by the PIT landlord.
- f) *Other liabilities pre July 12, 2011 (Pakit International and PIT) – unfavourable variance of \$71,000.* The variance is primarily attributable to additional pre-filing VAT and payroll taxes made.

Updated Weekly Cash Flow Forecast

- 7.3 Senior Management has updated the Cash Flow Forecast for the period ending October 21, 2011, including actual results for the four weeks ended August 19, 2011 and forecast for the nine weeks ending October 21, 2011 (the Updated Cash Flow Forecast), as follows:
- a) Receipt of funding of \$470,000 and \$500,000 that was previously expected to be received in the week ending August 12 and 19, 2011, respectively, has been deferred to the week ending August 26, 2011 and the aggregate amount has now been reduced to \$595,000 (a decrease of \$375,000 from the previously forecast amount of \$970,000).
 - b) Cayetano receipts of \$641,000 forecast for each of the weeks ending August 26 and September 2, 2011 for the first and second Pakit100 machines, have been pushed out to September 2 for the first machine and September 16 for the second machine. As previously noted by the Monitor, Cayetano has provided a written letter to the Pakit Group indicating that it will not be continuing with the contracts. Unless the Cayetano Letter and the issues outlined in it are resolved forthwith, the total cash receipts of \$1.3 million forecast in September 2011 and \$3.0 million forecast for the week ending October 21, 2011 will not be received by the Pakit Group as reflected in the Updated Cash Flow Forecast prepared by Senior Management. Senior Management has indicated that they are urgently discussing the matter with Cayetano in efforts to resolve the issues prior to the Extension Application.
- 7.4 The Updated Cash Flow Forecast is attached as Appendix “C”.
- 7.5 A summary of the Updated Cash Flow Forecast is set out in the table below:

Pakit Group Unaudited Summary of Updated Cash Flow Forecast (Note 1) For the 13-week Period Ended October 21, 2011 (\$000's)				
	Pakit Inc.	Pakit International	PIT	Pakit Group (Consolidated)
Receipts				
Customer collections	88	4,337	-	4,424
Funding	595	-	457	1,052
Other receipts	79	357	4	440
Total Receipts	762	4,694	462	5,917
Disbursements				
Raw materials and production	-	365	50	415
Payroll, benefits and payroll taxes	385	98	754	1,237
Research and development costs	-	39	37	75
Other general and administrative costs	75	18	48	142
Rent	53	18	209	280
Consulting fees	60	5	29	94
Professional fees	507	17	10	534
Taxes (Sweden VAT)	-	-	340	340
Pre-filing liabilities - Pakit Inc.	95	-	-	95
Other liabilities pre July 12, 2011 (Pakit International and PIT)	-	216	710	926
Contingency	32	1	-	33
Total Disbursements	1,207	777	2,187	4,171
Net Cash Flow	(445)	3,916	(1,725)	1,746
Intercompany inflow/(outflow)				
Pakit Inc.	-	275	-	275
Pakit International	(275)	-	1,725	1,450
PIT	-	(1,725)	-	(1,725)
Total Intercompany	(275)	(1,450)	1,725	-
Net Cash Flow Post Intercompany	(720)	2,466	-	1,746
Cash Position				
Opening Cash Position	720	6	-	726
Closing Cash Position	-	2,472	-	2,472

Note 1 Readers are referred to the Terms of Reference as set out previously in this report for information regarding the preparation of the Cash Flow Forecast. The above noted includes actuals for the 4 week period ending August 19, 2011 and forecast for the 9 weeks ending October 21, 2011.

7.6 With respect to the Updated Cash Flow Forecast:

- a) The Pakit Group had consolidated cash resources in the order of approximately \$720,000 at the beginning of the week that the CCAA Proceedings commenced. Senior Management advises that it requires minimum cash reserves in the order of \$300,000 in order to manage its payments cycle, including timing differences that can occur in its customer receipts, and in the funding of major disbursement items such as payroll, occupancy costs and other. It is noted that cash on hand as at August 23, 2011 is \$365,000 (excluding \$43,000 of receipt of funds related to subscription agreements) which is below the average forecast monthly cash disbursements. The Company had

anticipated a \$100,000 deposit from a customer on August 22, 2011 and believes payment is forthcoming.

- b) The Monitor has serious concerns about the current liquidity of the Company based on cash on hand with respect to its ability to continue to operate beyond a very limited time period. In addition, the current Updated Cash Flow Forecast assumes that the PIT wages are paid in the week ending September 2, 2011 up to two weeks late for the August wages.
- c) The Monitor is of the view that the \$1.3 million forecast to be received in September 2011 and the \$3.0 million forecast to be received in the week ending October 21, 2011 are at risk given that Cayetano, has purported to repudiate the contracts which support the payment terms reflected in the Updated Cash Flow Forecast. Absent receipt of \$1.3 million in the Updated Cash Flow Forecast period, the Company has insufficient cash to continue to honour post-filing obligations and will not be able to operate during the requested stay extension period to September 27, 2011.

7.7 In the event there are changes in circumstances subsequent to the issuance of this report that would indicate the Pakit Group has access to sufficient equity funding and/or the Cayetano receipts in the Extension Stay Period which would support forecast liquidity requirements of \$2.0 million, the Monitor will provide an update to the Court.

7.8 A summary of the uses of cash (\$2.0 million) for the period August 26 to September 30, 2011 is as follows:

Sources of Uses of Cash (August 26 to September 30, 2011)				
(\$'000s)	Pakit			Total
	Pakit Inc.	International	PIT	
Payroll (including source deductions)	183	35	347	565
Rent	36	12	156	204
Potential statutory liabilities	-	-	387	387
Other (suppliers, insurance, G&A, etc)	86	223	372	681
Professional fees	145	47	5	197
Total	\$ 450	\$ 317	\$ 1,267	\$ 2,034

7.9 The above noted is in excess of the average monthly cash requirements due to certain pre-existing PIT liability payments, two months of wages, rent and value added tax payments for PIT and additional supplier payments for materials related to the preparing the third and fourth machines for shipment to Cayetano.

8.0 EXTENSION OF THE STAY PERIOD

8.1 The Initial Order provides for a stay of proceedings against Pakit until and including August 25, 2011. The Monitor understands that Pakit will be making an application to this Honourable Court for an extension of the Stay Period until September 27, 2011.

8.2 The Monitor has considered the following with respect to Pakit's request for an extension of the Stay Period:

- a) the cash flow forecast of the Pakit Group up to and including October 21, 2011 and the liquidity of the Pakit Group during that period of time;
- b) receipt of the Cayetano Letter;
- c) the delays experienced since the Initial Order was granted related to forecast funding during the period July 29 to August 19, 2011. However, it is noted that the uncertain nature of CCAA Proceedings can lead to unanticipated delays despite efforts of management; and
- d) whether there would be any material financial prejudice to any of Pakit's creditors, employees, customers or supplier partners as a result of an extension of the Stay Period.

9.0 MONITOR'S CONCLUSION AND RECOMMENDATIONS

9.1 The Monitor's conclusions include the following:

- a) The Monitor is of the view that the Company is acting in good faith and with due diligence in its efforts to raise funding in the short to mid-term with the overall goal to extending the funding efforts to a level to allow the Company to emerge from the CCAA Proceedings as a viable business with a financially strong balance sheet. The Company has made progress in a relatively short period of time since the Initial Order to raise funding of \$490,000 (\$457,000 plus \$33,000 which the Monitor understands the latter amount is subject to trust arrangements) with additional executed share subscriptions in the amount of \$575,000 (receipt of funds pending) and continues to proceed with advancing customer LOI's. As such, the Monitor is of the view that an extension of the stay of proceedings may be supported if the Cayetano matter is resolved in a satisfactory manner with some certainty of timely receipt of funds consistent with the Updated Cash Flow Forecast and if there is some degree of certainty surrounding the balance of the pending receipts of \$575,000.

b) The Company's liquidity is challenged and the net cash inflow forecast during the period August 20 to September 30, 2011 is expected to be \$2.3 million of which approximately \$600,000 is forecast to be funded by equity injections and \$1.3 million by receipt of customer collections from Cayetano, \$273,000 value added tax refunds and \$188,000 other customer collections. If the Company is not successful in its fund raising efforts or timely collection of the Cayetano payments, the Company will have insufficient liquidity to meet its obligation on a timely basis within the CCAA Proceedings beyond a short period of time.


9.2 While the Company is acting in good faith and making progress with its restructuring efforts in the relatively short period of time since the commencement of the CCAA Proceedings, the results of these efforts are now at risk as a result of the recent Cayetano Letter. It is recognized there is an urgent need for funding during the extension period and beyond.

9.3 Based on the foregoing information currently available as at the time of issuing the First Report, the Monitor respectfully submits to this Honourable Court that unless there is some clarity and a degree of certainty around the timing of cash receipts relating to Cayetano and the other funding sources, the Monitor does not support the Company's application for an Order extending the relief granted in the Initial Order, including the stay of proceedings, to September 27, 2011 as it would appear that post filing obligations of Pakit and its subsidiaries will not be met on a timely basis.

9.4 As previously noted, the Monitor will endeavour to provide a supplemental update in the event there are subsequent significant developments.

All of which is respectfully submitted to this Honourable Court this 24th day of August, 2011.

**Alvarez & Marsal Canada Inc., in its capacity as
Monitor of Pakit Inc.**



Per: Pam K. Boparai
Vice President

APPENDIX A



400 Burrard Street
Suite 1680, Commerce Place
Vancouver, BC V6C 3A6
Phone: 604.638.7440 Fax: 604.638.7441
www.alvarezandmarsal.com

August 2, 2011

To: whom it may concern

Re: Pakit Inc. ("Pakit" or the "Petitioner")

On July 12, 2011 Pakit filed a Notice of Intention to Make a Proposal pursuant to Division I, Part III of the *Bankruptcy and Insolvency Act* ("BIA"). Subsequently, the Petitioner filed a petition for an order (the "Order") before the Supreme Court of British Columbia (the "Court") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") and the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 converting the proceedings under the BIA to proceedings under the CCAA.

On July 28, 2011, the Court issued the Order, which provides for, among other things, a stay of proceedings until August 25, 2011 (the “Stay Period”). The Stay Period may be extended by the Court from time to time. Alvarez & Marsal Canada Inc. was appointed pursuant to the CCAA as monitor (the “Monitor”) of the business and financial affairs of the Petitioner.

A copy of the Order and copies of the materials filed in the CCAA proceedings including the Monitor's pre-filing report and subsequent post-filing reports may be obtained at www.alvarezandmarsal.com/pakit or on request from the Monitor at: (+1) 604-639-0846.

The Petitioner is continuing to operate in the ordinary course pursuant to the terms of the Order.

Pursuant to the Order, all persons having oral or written agreements with the Petitioner or mandates under enactment for the supply of goods and/or services are restrained until further Order of the Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Petitioner, provided that the normal prices or charges for all such goods or services received after the date of the Order are paid by the Petitioner in accordance with normal payment practices of the Petitioner or such other practices as may be agreed upon by the supplier or service provider and each of the Petitioner and the Monitor, or as may be ordered by the Court.

Pursuant to the BIA proceedings and the Order, the Petitioner may not make payments of amounts relating to the supply of goods or services prior to July 12, 2011, other than under certain conditions as set-out in the Order. During the Stay Period, all parties are prohibited from commencing or continuing legal action against the Petitioner and all rights and remedies of any party against or in respect of the Petitioner or their assets are stayed and suspended except with the written consent of the Petitioner and the Monitor, or leave of the Court.

To date, no claims procedure has been approved by the Court and creditors are therefore not required to file a proof of claim at this time.

If you have any questions regarding the foregoing or require further information, please consult the Monitor's website at www.alvarezandmarsal.com/pakit or should you wish to speak to a representative of the Monitor, please contact Mr. Tom Powell at: (+1) 604-639-0846.

Yours very truly,

Alvarez & Marsal Canada Inc.
in its capacity as court-appointed
Monitor of Pakit Inc.



Per:
Pam K. Boparai
Vice President

APPENDIX B

Pakit Inc.
CONSOLIDATED Weekly Cash Flow Forecast (Note 1)
For the 13-week period ending October 21, 2011
(\$'000's)

	July		August		September						October		Notes	
	Week 1 Actual 29-Jul	Week 2 Actual 5-Aug	Week 3 Actual 12-Aug	Week 4 Actual 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct		Week 13 Forecast 21-Oct
Receipts														
Customer collections	-	-	-	-	100	-	728	-	641	-	-	-	2,956	
Funding	-	152	306	-	595	-	-	-	-	-	-	-	4,424	
Other receipts	84	79	-	4	-	86	107	-	-	80	-	168	1,052	
Total Receipts	84	231	306	4	695	86	835	-	641	80	-	625	5,917	
Disbursements														
Raw materials and production	-	-	2	-	16	140	-	22	-	16	-	-	413	
Payroll, benefits and payroll taxes	112	94	30	54	-	199	15	152	138	61	-	290	947	
Research and development costs	-	3	-	-	-	12	-	18	12	18	-	3	73	
Other general and administrative costs	7	2	2	2	-	50	-	16	21	-	-	12	130	
Rent	-	17	6	53	-	24	-	98	-	82	-	76	204	
Consulting fees	-	-	8	-	15	21	-	15	7	-	6	-	86	
Professional fees	61	22	44	5	95	20	40	30	72	5	10	90	534	
Taxes (Sweden VAT)	-	-	-	-	-	-	-	-	-	-	-	-	340	
Pre-filing liabilities - Pakit Inc.	-	-	-	-	-	-	-	227	-	-	113	-	95	
Other liabilities pre July 12, 2011 (Pakit International and PIT)	-	15	238	103	-	321	152	-	8	-	72	-	570	
Contingency	8	(5)	(0)	0	10	-	-	-	-	-	-	30	33	
Total Disbursements	188	227	345	217	140	786	207	578	258	205	232	177	3,195	
Net Cash Flow	(103)	4	(39)	(212)	555	(700)	629	(578)	382	(125)	(232)	(351)	4,171	
Intercompany inflow/(outflow)													1,746	
Pakit Inc.	(36)	-	-	-	-	(475)	-	-	-	-	-	(36)	(375)	
Pakit International	36	-	-	-	-	66	(152)	(450)	(164)	(92)	(158)	36	(1,486)	
PIT	-	-	-	-	-	409	152	450	164	92	113	-	1,725	
Total Intercompany	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Cash Flow Post Intercompany	(103)	4	(39)	(212)	555	(700)	629	(578)	382	(125)	(232)	(351)	1,746	
Cash Position														
Opening Cash Position	726	622	626	587	375	930	229	858	280	662	537	306	375	
Closing Cash Position	622	626	587	375	930	229	858	280	662	537	306	129	2,472	

Estimated Minimum Cash Balance Required

Notes:

1. The purpose of these cash flow forecasts is to set out the liquidity requirements of the Pakit Companies during the CCAA proceedings. Since projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.
 2. Customer collections primarily relate to collection from one customer based in Spain. The customer has provided a letter to Pakit repudiating the contracts with Pakit and the related contract payments. Management assumes they can reach a negotiated settlement resulting in the collection of the receipts as shown above. A non-related customer deposit of \$100,000 is also forecast to be received in Week 5.
 3. A number of investors have submitted subscription agreements for the purchase of shares for approximately \$100,000 in Week 5. In addition, an investor group has signed a subscription agreement for an equity investment of US\$500,000 (CAD\$495,000) to be received in Week 5.
 4. Raw materials and production costs have been forecast based on estimated costs to complete units and prototypes for delivery in the period.
 5. Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses.
 6. Other general and administrative expenses include travel, insurance and office costs.
 7. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.
 8. Pre-filing amounts generally relate to credit card cancellation, which were cash collateralized.
- Other liabilities relate to amounts owed by Pakit International Trading Company Inc. ("Pakit International") and Packaging International Technology Sweden AB ("PIT") prior to the Pakit Inc. filing date and are assumed to be paid in order to support the ongoing operations of these entities and related receipts. These payments include PIT payroll taxes of \$200,000 (\$120,000 paid to date), VAT of \$215,000 (\$135,000 paid to date), payments to suppliers required to complete machines for completion in the forecast period of \$341,000 (\$40,000 paid to date) and patent related legal fees of \$170,000 (\$15,000 paid to date).

Pakit Inc.

Non-Consolidated Weekly Cash Flow Forecast (Note 1)

For the 13-week period ending October 21, 2011

(\$000's)

	July		August		September				October				Week 1 to Week 4 Actual Total	Week 5 to Week 13 Forecast Total	Week 13 Total	Notes
	Week 1 Actual 29-Jul	Week 2 Actual 5-Aug	Week 3 Actual 12-Aug	Week 4 Actual 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 13 Forecast 21-Oct			
Receipts																
Customer collections	-	-	-	-	-	-	88	-	-	-	-	-	-	88	88	2
Funding	-	-	-	-	595	-	-	-	-	-	-	-	-	595	595	3
Other receipts	79	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Receipts	79	79	-	-	595	-	88	-	-	-	-	-	-	683	762	
Disbursements																
Raw materials and production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Payroll, benefits and payroll taxes	75	-	6	54	4	61	-	61	-	-	-	61	-	250	385	4
Research and development costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other general and administrative costs	6	2	1	2	-	44	-	-	-	21	-	-	-	65	75	4
Rent	-	17	-	-	-	18	-	-	-	18	-	-	-	36	53	4
Consulting fees	-	-	5	-	15	5	-	15	-	-	5	-	15	55	60	4
Professional fees	61	22	44	5	95	5	40	30	65	5	40	10	85	375	507	5
Pre-filing liabilities	-	79	16	-	-	-	-	-	-	-	-	-	-	-	95	
Contingency	8	(3)	(2)	0	10	-	-	-	-	-	-	-	20	30	32	
Total Disbursements	151	115	70	61	124	133	40	106	65	106	45	71	120	811	1,207	
Net Cash Flow	(151)	(36)	(70)	(61)	(471)	(133)	(48)	(106)	(65)	(106)	(45)	(71)	(120)	(128)	(445)	
Intercompany																
Intercompany inflow/(outflow) - Pakit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
International	(36)	-	-	-	-	(475)	-	-	-	-	45	71	120	(239)	(275)	
Net Cash Flow Post Intercompany	(187)	(36)	(70)	(61)	(471)	(608)	(48)	(106)	(65)	(106)	(0)	-	-	(366)	(720)	
Cash Position																
Opening Cash Position	720	533	497	427	366	838	229	277	171	106	0	-	-	366	720	
Closing Cash Position	533	497	427	366	838	229	277	171	106	0	-	-	-	-	-	

Notes:

1. The purpose of this cash flow forecast is to set out the liquidity requirements of Pakit Inc. during the CCAA proceedings. Since projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.
2. The \$88,000 receipt in Week 7 relates to an amount due from Pepsico under a research agreement.
3. A number of investors have submitted subscription agreements for the purchase of shares for approximately \$100,000 in Week 5. In addition, an investor group has signed a subscription agreement for an equity investment of US\$500,000 (CAD\$495,000) to be received in Week 5.
4. Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses. Other general and administrative costs include travel, insurance and office costs. These disbursements include the cost of one employee employed in Pakit USA.
5. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.

Pakit International Trading Company Inc.
Non-Consolidated Weekly Cash Flow Forecast (Note 1)
For the 13-week period ending October 21, 2011
(\$'000's)

	July			August			September			October			Week 1 to Week 4 Actual Total	Week 5 to Week 13 Forecast Total	Week 13 Total	Notes
	Week 1 Actual 29-Jul	Week 2 Actual 5-Aug	Week 3 Actual 12-Aug	Week 4 Actual 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct				
Receipts																
Customer collections	-	-	-	-	100	-	641	-	641	-	-	-	-	4,337	4,337	2
Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other receipts	84	-	-	-	86	86	107	-	-	80	-	-	84	273	357	
Total Receipts	84	-	-	-	100	86	747	-	641	80	-	-	84	4,609	4,694	
Disbursements																
Raw materials and production	-	-	-	-	16	124	-	22	-	-	-	-	-	365	365	3
Payroll, benefits and payroll taxes	36	-	12	-	-	10	15	-	10	-	-	15	48	50	98	
Sales and marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Research and development costs	-	3	-	-	-	12	-	-	12	-	-	-	3	36	39	
Other general and administrative costs	-	0	0	-	-	6	-	-	5	1	-	-	1	17	18	
Rent	1	0	6	-	-	6	-	-	-	6	-	-	6	12	18	
Consulting fees	-	-	3	-	-	1	-	-	-	-	-	-	3	2	5	
Professional fees	-	-	-	-	-	15	-	-	2	-	-	-	-	17	17	
Other liabilities (pre July 12, 2011)	-	15	41	-	-	70	-	-	-	-	72	-	56	160	216	4
Contingency	-	-	1	0	-	-	-	-	-	-	-	-	1	-	1	
Total Disbursements	37	18	63	0	16	244	15	22	29	7	73	15	118	659	777	
Net Cash Flow	47	(18)	(63)	(0)	84	(158)	732	(32)	612	73	(73)	(15)	(34)	3,950	3,916	
Intercompany																
Intercompany inflow/(outflow) - Pakit Inc.	36	-	-	-	-	475	-	-	-	-	(45)	(71)	36	239	275	
Intercompany inflow/(outflow) - PIT	-	-	-	-	-	(409)	(152)	(450)	(164)	(92)	(113)	(91)	-	(1,725)	(1,725)	
Net Cash Flow Post Intercompany	84	(18)	(63)	(0)	84	(92)	581	(472)	447	(19)	(232)	(177)	2	2,464	2,466	
Cash Position																
Opening Cash Position	6	89	71	8	8	92	-	581	109	556	537	306	6	8	6	
Closing Cash Position	89	71	8	8	92	-	581	109	556	537	306	129	8	2,472	2,472	

Notes:

1. The purpose of this cash flow forecast is to set out the liquidity requirements of Pakit Inc. during the CCAA proceedings. Since projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.
2. Customer collections primarily relate to collection from one customer based in Spain. The customer has provided a letter to Pakit repudiating the contracts with Pakit and the related contract payments. Management assumes they can reach a negotiated settlement resulting in the collection of the receipts as shown above. A non-related customer deposit of \$100,000 is also forecast to be received in Week 5.
3. Raw materials and production costs have been forecast based on estimated costs to complete units and prototypes for delivery in the period.
4. Other liabilities relate to amounts owed by Pakit International prior to the Pakit Inc. filing date and are assumed to be paid in order to support the ongoing operations and related receipts. These payments include \$95,000 for legal fees for the patent attorneys (\$15,000 paid to date), \$120,000 (\$40,000 paid to date) for a supplier that is required to perform further work to complete the machines shipped in Week 13.

Packaging International Technology Sweden AB
Non-Consolidated Weekly Cash Flow Forecast (Note 1)
For the 13-week period ending October 21, 2011
(\$'000's)

Expressed in CAD Fx Rate (1) 0.16	July		August		September							October		Week 1 to Week 4		Week 5 to Week 13		Notes
	Week 1 Actual 29-Jul	Week 2 Actual 5-Aug	Week 3 Actual 12-Aug	Week 4 Actual 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 13 Forecast 21-Oct	Week 1 to Week 4 Actual Total	Week 5 to Week 13 Forecast Total	Week 13 Total		
Receipts																		
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Funding	-	152	306	-	-	-	-	-	-	-	-	-	-	457	-	457		
Other receipts	-	-	-	4	-	-	-	-	-	-	-	-	-	4	-	4		
Total Receipts	-	152	306	4	-	-	-	-	-	-	-	-	-	462	-	462		
Disbursements																		
Raw materials and production	-	-	2	-	-	16	-	-	-	16	-	-	16	2	48	50	2,3	
Payroll, benefits and payroll taxes	-	94	13	-	-	128	-	91	128	-	-	91	211	107	648	754		
Sales and marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Research and development costs	-	-	-	-	-	-	-	18	-	18	-	-	-	-	37	37	4	
Other general and administrative costs	-	-	0	0	-	-	-	16	16	-	-	-	16	0	48	48		
Rent	-	-	-	53	-	-	-	98	-	58	-	-	-	53	156	209		
Consulting fees	-	-	-	-	-	14	-	-	7	-	-	-	-	-	29	29	4	
Professional fees	-	-	-	-	-	-	-	-	5	-	-	-	-	-	10	10		
Taxes (Sweden VAT)	-	-	-	-	-	-	-	227	-	-	113	-	5	-	340	340		
Other liabilities (pre July 12, 2011)	-	-	197	103	-	251	152	-	8	-	-	-	-	300	710	710	3 5	
Contingency	-	-	0	0	-	-	-	-	-	-	-	-	-	0	410	410		
Total Disbursements	-	94	212	156	-	409	152	450	164	92	113	91	255	462	1,725	2,187		
Net Cash Flow	-	58	94	(152)	-	(409)	(152)	(450)	(164)	(92)	(113)	(91)	(255)	(0)	(1,725)	(1,725)		
Intercompany																		
Intercompany inflow/(outflow) - Pakit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
International	-	-	-	-	-	409	152	450	164	92	113	91	255	-	1,725	1,725		
Net Cash Flow Post Intercompany	-	58	94	(152)	-	-	-	-	-	-	-	-	-	(0)	-	-		
Cash Position																		
Opening Cash Position	-	-	58	152	-	-	-	-	-	-	-	-	-	-	-	-		
Closing Cash Position	-	-	58	152	-	-	-	-	-	-	-	-	-	-	-	-		

Notes:

- The purpose of this cash flow forecast is to set out the liquidity requirements of Pakit Inc. during the CCAA proceedings. Since projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material. Bank of Canada exchange rate for Swedish krona to Canadian dollars as at August 23, 2011 plus expected spread of \$0.005 per krona.
- Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses.
- VAT payments due post July 12, 2011 are assumed to be paid during the forecast period.
- Rent and utilities payments are assumed to be made on a monthly basis to be applied to oldest outstanding invoice. As at August 16, 2011 there is approximately \$415,000 arrears outstanding.
- Other liabilities relate to amounts owed by PIT prior to the Pakit Inc. filing date including payroll tax of \$200,000 (\$120,000 paid to date), VAT tax of \$215,000 (\$135,000 paid to date), income tax of \$18,000 (\$9,000 paid to date), payments to suppliers required to complete machines of \$221,000 as well as \$55,000 (\$27,000 paid to date) to suppliers required to support ongoing operations including telephones and CAD systems.



July 22nd, 2011

Dear Friends and Fellow Shareholders,

On July 12th, 2011 Pakit Inc. filed a Notice of Intention to Make a Proposal to its Creditors. Alvarez and Marsal have been appointed as the proposal Trustee. On July 15th, 2011 Fairfax Financial Holdings Limited and Craig Barton served Pakit with an application for the appointment of Grant Thornton as the receiver and the application is scheduled to be heard on July 28th, 2011. Pakit will oppose the application.

Because these matters are now before the Court we will not be commenting on these proceedings at this time. I want to assure you that your new Management and your Board of Directors are doing everything within our power to protect your investment and resolve this situation in a way that we believe is fair and equitable for all Stakeholders in this matter.

Thank you for your patience and understanding.

Most Sincerely,

A handwritten signature in black ink, appearing to read "Dwayne Yaretz", with a stylized flourish at the end.

Dwayne Yaretz
President



July 29, 2011

A Statement from Dwayne Yaretz, President, Pakit Inc.

Dear Friends and Fellow Shareholders,

As you may be aware, a hearing was held yesterday before the Supreme Court of British Columbia petitioning the court to approve an order authorizing and permitting the filing for CCAA (Companies' Creditors Arrangement Act) status, otherwise known as creditor protection. Pakit was successful in obtaining a court order approving of CCAA protection until August 25, 2011, at which time the court will reevaluate our request for an extension of the CCAA order based on Pakit having achieved certain financial benchmarks, as agreed upon in yesterday's hearing.

Plaintiff's, Fairfax Financial Holdings Limited and Craig Barton (on behalf of certain Senior Debenture Holders), agreed to put on hold their Application for Receivership until August 25, 2011, at which time, pending their review and evaluation, a determination will be made by their counsel as to whether they will agree to continue to not oppose extending the CCAA order or choose to pursue their Application to place Pakit into receivership.

I feel the ruling authorizing CCAA proceedings is the best possible outcome, at this time, for our Shareholders. This CCAA protection gives our new Management team a window of opportunity to focus our undivided energies into pursuing necessary financing and sales opportunities which will help to stabilize Pakit in the short-term and position the Company for enduring, long-term success.

Unfortunately, because of the sensitive nature of these ongoing legal proceedings, I am limited by what I can share at this time. This is as frustrating for me as it must be for you. I promise that as soon as I can I will release a Shareholder Update which will discuss, in greater detail, some of the exciting developments that are underway at Pakit.

Once again, I thank you very much for your continued support and patience regarding the status of your investment in Pakit. I continue to be confident in the future of our Company and hope to be reporting back soon with better news to come.

Most Sincerely,

A handwritten signature in dark ink, appearing to read "Dwayne Yaretz", is written over a light blue horizontal line.

Dwayne Yaretz
President

or

Michael Laco

+1.604.683.3200

investorrelations@pakitinc.com



FOR IMMEDIATE RELEASE

Pakit Announces Andrew Watson to the Pakit Board of Directors

VANCOUVER, CANADA, August 10, 2011 – Pakit Inc. announced today the addition of Andrew Watson to its Board of Directors. Mr. Watson joined the Board effective June 27, 2011, as an independent outside Director.

Mr. Watson has worked in the investment banking industry for the last 17 years. Currently employed with the Macquarie Group, a 16,000 employee global investment bank headquartered in Australia, Mr. Watson has been a part of Macquarie's asset finance and lease division for 13 years, serving in both sales and management capacities.

"The addition of Andrew Watson to the Board provides Pakit with a level of expertise that will prove invaluable in guiding us as we move forward in the implementation of our new sales strategies," said Mr. Dwayne Yaretz, President of Pakit Inc.

At the present time, Mr. Watson leads a technology vendor finance program provided by Macquarie for Dell Computer in Australia and New Zealand, Macquarie's largest captive lease program in the IT sector. Most recently, Mr. Watson established and led the Canadian arm of Macquarie Equipment Finance, growing it to become one of the largest independent technology lessors in Canada, providing customized and structured technology asset finance solutions to the government and large enterprise sectors.

"I am very excited by the opportunity to be working along side Dwayne and his team in helping to realize the tremendous commercial potential of Pakit's groundbreaking technology at this pivotal time in Pakit's growth," said Mr. Watson.

Mr. Watson's former experience includes treasury accounting functions with investment bank Rothschilds (Australia and UK), Chemical Bank/Chase (UK) and Salomon Brothers (UK). Mr. Watson is a Chartered Accountant.

About Pakit Inc.

Pakit Inc. has developed a disruptive technology that enables the production of renewable, compostable and recyclable packaging for consumer products on equipment that operates sustainably, using minimal water, locally available, renewable feedstocks, and non-fossil fuel based energy, while producing no emissions or effluents. Pakit is headquartered in Vancouver, Canada, with research and development conducted in Norrköping, Sweden. Additional information regarding Pakit is available at www.pakitinc.com.

Forward-Looking Statements

Statements in this press release regarding Pakit Inc. that are not historical facts are "forward-looking statements" under applicable U.S. securities laws and "forward looking information" under applicable Canadian securities laws and are based on current expectations that involve risks and uncertainties. Such forward-looking statements may include, without limitation, statements concerning our growth and business strategies. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

-30-

Media or Investor Enquiries:

Pakit Inc.
Dwayne Yaretz, President; or
Michael Lacoe
+1.604.683.3200
investorrelations@pakitinc.com



August 11, 2011

Dear Friends and Fellow Shareholders,

As you may be aware, on July 28, 2011 Pakit sought and was granted by the Supreme Court of British Columbia, CCAA (Companies' Creditors Arrangement Act) bankruptcy status for approximately 30 days, during which time the Company must demonstrate progress with its restructuring efforts.

As I noted in my last Shareholder Statement, dated July 29, 2011, CCAA status remains, under the circumstances, the best possible scenario for our Company at this time. It provides the Company with a formal structure and a defined set of benchmarks to begin the process of restructuring and recapitalizing our Company for the long-term. But CCAA status is not a panacea in and of itself. Rather, it provides a protected framework, under the authority of the Court and under supervision of the court-appointed monitor, Alvarez & Marsal Canada Inc., to demonstrate a commitment and the capacity on the part of Management to remedy this situation.

(For the latest information on the legal status of Pakit, I encourage you to go to the website of our monitor, Alvarez & Marsal Canada Inc., where you will find all the details relevant to this proceeding: www.alvarezandmarsal.com/pakit/).

When I took over as your new President a little over a month ago, I inherited a Company in deep distress with over \$10 million in debt and its sales pipeline in need of immediate resuscitation. I have moved very aggressively in this time to improve the situation by doing the following:

- Achieved a significant and symbolic milestone by closing our agreement with PepsiCo, the second largest food and Beverage Company in the world, for the development of sustainable packaging.
- Raised \$3.7 million from a new group of private and institutional investors who represent the interests of the founders of a large food group in the U.S.
- Personally guaranteed loans and made direct investments in Pakit of nearly \$850,000.
- Secured four Letters-of-Intent's for the purchase of 29 Pakit100's which would result, if fully executed, in revenues in excess of \$90 million.
- Initiated a stringent cost-analysis of all aspects of Pakit's operations to reduce overhead as well as implement organizational changes for improved efficiencies across all segments of our business.
- Initiated high level discussions to create strategic alliances with several very large packaging concerns for the use of our technology.

All of these efforts help to point the Company in the right direction and I believe they will be looked upon by the Court and our Monitor as very positive steps forward. However, I must look to you, our



Shareholders, for your support. In addition to the funds already raised we must raise additional equity investment of \$1.0 million by August 25, 2011.

I, therefore, am asking you to please consider making an additional investment in Pakit at this time. We are offering our shares to qualified investors at \$1.00 per share, the equivalent of our last equity raise with the new private US investment group. **Unfortunately, there is really no way to sugar coat this: your immediate investment is absolutely essential for the survival of our Company.** In parallel we are sourcing alternative funding from institutional investors to pay-off our creditors.

To be able to go to the Court on August 25, 2011 and demonstrate a groundswell of support from our Shareholders at this challenging time sends an unequivocal message to the Court that our Shareholders stand behind their Company and new Management, and that Pakit is determined to do whatever is necessary and fully intends to recover from this situation.

I vowed in my last letter to the Shareholders that I would resist engaging in empty promises so I will spare you the embellishments. Rather, I look forward to the very near future when I can "surprise-to-the-upside" with the announcement of actual Purchase Orders that speak for themselves to the enormous potential of our Company and the value of our technology.

Please consider making your additional investment now in Pakit by completing and returning the attached Subscription Agreement. As has been the case in the past, to participate you must be either an "accredited investor" or a "family or friend" of a Director or Officer of Pakit.

In an effort to provide you with additional information, I would like to invite you to a "Town Hall" style meeting, providing an open forum whereby we can discuss the Company's plans and strategies moving forward while building the Company we all envision. I realize there is no specific time or date that will suit all, so more than one meeting may be required.

I propose a meeting on Wednesday, August 17, 2011 at 7:30 pm to be held in the boardroom of the Pakit office located at Suite 2250, 1050 W. Pender St. Given limited space, and so as to not pay for space we may not require, we would ask that those wishing to attend please RSVP by 5:00 pm on Monday, August 15, 2011 to Amie Kukkola (amie.kukkola@pakitinc.com) so we may make alternate arrangements for another location should demand exceed room capacity.

Please know that your support is very much appreciated.

All My Best,

A handwritten signature in dark ink, appearing to read "Dwayne Yaretz".

Dwayne Yaretz, President

or

Michael Lacoe

+1.604.683.3200

investorrelations@pakitinc.com



August 20, 2011

Dear Friends and Fellow Shareholders,

Last Wednesday night, we held our first Pakit Shareholder Town Hall Meeting to update our Shareholders on our CCAA status, our financial situation, the state of our sales pipeline, specific sales strategies moving forward and to field questions and concerns from our Shareholders. It was a frank and honest discussion amongst all of us as Shareholders that was long overdue and very necessary. It confirmed for me that when it comes to communication between Management and Shareholders, when appropriate, more is better and my goal is to always be transparent.

For those Shareholders who were unable to attend Wednesday night's forum, here is a (paraphrased) review of some of the issues that were discussed:

When will you be scheduling the AGM?--Will be scheduled as soon as it is financially prudent and resources (time and labor of management) can be appropriately allocated. Complicated by the legal costs and time encroachments due to CCAA status; all energy by Management at this time must be focused on securing additional funding and generating real revenue through sales so that we can pay our creditors and get out of CCAA status.

What is the status of the Board?--The current board of Pakit consists of Dwayne Yaretz, Interim President of Pakit, Carl Brandes, Independent Director, and Andrew Watson, Independent Director, who joined the board on June 27. As for adding additional board members, we have identified highly qualified board members that are agreeable to joining our board once we are out of CCAA status.

Why Dwayne Yaretz as Interim President?--I stepped up to the plate at a very difficult time in the company's development: Pakit in debt and its sales pipeline dormant. Having been involved with Pakit for more than 10 years, as a six year Independent Director on the board and one of the primary fundraisers for Pakit, I have an intimate knowledge of all aspects of Pakit's business. It would take months or years for someone to step in, get up to speed, and to develop the relationships that I have nurtured over the last 10 years. In addition, with the company's finances in dire straights, the reality is that no qualified president is going to risk leaving a secure position to join a company whose future is uncertain or put their reputation at risk by affiliating with a company under CCAA protection. I agreed to act as Interim President and to defer any salary until which time the company's finances have been stabilized. At that time my status as Interim President will be re-evaluated by the board and ultimately the Shareholders.

What is the status of the two Pakit 100's sold to Grupo San Cayetano?--The first two machines are operating at full capacity. Pakit is due payment in tranches for these two machines. The first tranche is due at SAT (Site Acceptance Test), scheduled to be finalized the week of September 2, the second tranche two weeks thereafter. The remaining 10% of these machines will take place 90 days after SAT payments.



What exactly has been accomplished by Management in the last two months?

- 1) Raised \$5 million in equity finance.
- 2) Negotiated and executed a development agreement with PepsiCo.
- 3) Negotiated four Letters-of-Intent that if fully executed would be valued at over \$87 million.
- 4) Advanced a potential partnership with (Federal) Government Investment in Forest Industry Transformation Program (IFIT).
- 5) Evolved a new business model, Pulp Mill Diversification Strategy, which diversifies the pulp mills into packaging converters utilizing Pakit technology.
- 6) Moved forward on alliance with FP Innovations, a public/private Canadian not-for-profit forest products research institute.
- 7) Nurtured a relationship with a major chemical company which has recently developed, patented and about to launch a sustainable, affordable, FDA-approved and non-BPA containing protective barrier. (BPA; Bisphenol-A; a known carcinogen commonly found in plastic and cellulose based packaging). These protective barriers may prove to be very pivotal in the future of the food packaging industry.
- 8) Begun the process of restructuring operation for improved efficiencies and recapitalizing to insure that Pakit has the necessary financial resources in place for future growth.
- 9) Empowered employees to reinvest and reaccess their individual contributions by reaffirming a higher standard of work ethic where personal innovation is encouraged by Management.

What is our current cash burn-rate per month?--\$600,000, including legal and other professional fees relating to our current CCAA status.

What is Pakit's current debt?--Approximately \$15 million (before accounting for receivables), which breaks-down according to the following:

- 1) \$5 million to Fairfax Financial Holdings.
- 2) \$3.6 million to individual Senior Debenture Holders.
- 3) \$3.3 million to True Partners (under litigation).
- 4) \$3.7 million in "total trade payables."

What is Pakit's receivables?--Approximately \$5 million leaving our current debt at approximately \$10 million.

Can you talk more about the restructuring?

- 1) There had been restructuring efforts over the last few months which did realize savings. The current goal is to further reduce operational expenditures by 20%. All Pakit employees are participating on introducing cost cutting measures within their scope as well, results TBD, but everyone is working diligently as a team to do their part.
- 2) Creating new and more efficient reporting structure in Canada and Sweden.
- 3) Sweden R & D facility to become a profit center whereby all product design and development, prototyping and the manufacturing of samples will be invoiced to the customer which will include a margin for Pakit.
- 4) Initiating a plan to increase tooling capacity in preparation of future sales and initiating a back up plan for our customers in the event that our tooling facility ever be down.



Can you address specific refinancing goals?

- 1) Raise \$1 million in equity financing by next week's court date on August 25.
- 2) Raise \$20 million by end-of-year in tranches with incremental price increases as Pakit achieves certain sales milestones that are still in the process of being defined.
- 3) Explore the licensing of territories or product(s) for a fee which would bring in non-dilutive capital with a guarantee of a minimum number of machine sales determined by the size of the given market.

Can you provide any more specifics regarding sales?--Yes.

- 1) We have a major packaging provider who has done their due diligence and who has signaled to us their intention to form with Pakit a strategic partnership that has the potential to result in significant sales of the Pakit 100--more details to follow.
- 2) A major Pulp Mill producer in B.C. has engaged the services of an engineering firm at an estimated cost of over \$150,000.00 to act as an adviser in transitioning some of their resources and a site analysis for the purposes of becoming a converter (manufacturer) of packaging product.

When will Pakit go public?--At the first opportunity to launch a successful IPO--when Pakit has generated sufficient revenue (sales) and appropriate market conditions. An IPO is an absolute priority for our new U.S. investors and Management is very aware of the importance of creating liquidity for its Shareholders.

* * * * *

I would summarize the take-away from our meeting in this way: there is indeed light at the end of the tunnel with significant opportunities that did not exist even two months ago BUT the Company needs time to develop these opportunities (and this is a big but) we need to raise sufficient funds from our Shareholders for next week's court date on August 25. If we succeed in raising sufficient funds from our Shareholders to demonstrate to the court that we have the necessary operating capital we believe we stand a very good chance of the Court granting us an extension to our CCAA status. We have already received subscription agreements of approximately \$600,000.00 so we are well on our way but I want to encourage all of our Shareholders, no matter the size of your investment, to step forward and not assume that your investment can't make a difference.

Fully cognizant of exposing our Shareholders to the possible risk of "throwing good money after bad" I have asked our lawyers to create a Trust Fund for all incoming investments through this Thursday's court date at which time that the subscription price will either be returned back to the Shareholders or invested as equity in Pakit, pending the court's decision to either extend or deny our request for an extension of our CCAA status.

It is my duty to remind our Shareholders that the **alternative** to extending our CCAA status should we not demonstrate to the court that we have the **necessary funding** in place to warrant an extension is **receivership** which will almost certainly result in **severe liquidation** of our shares at pennies on the dollar. That requires all of us to **step up to the plate** and make an investment **now** in the future of our Company.



I never intended the need to go back to Shareholders for additional fundraising but I never intended to be in CCAA status. To reiterate: any investment you make today will be secured and held **In Trust** by our attorneys until such time we know the outcome of the Court's decision to our request for an extension of our CCAA status.

Attached you will find a revised Subscription Agreement acknowledging the CCAA status and the trust arrangement. Please review the terms of the Subscription Agreement and return by fax (604) 683-3204 or scan and return via e-mail, attn: amie.kukkola@pakitinc.com , as-soon-as-possible. Time is of the essence.

Know that your support at this time is critical but also deeply appreciated by Management and all Pakit employees both here in Vancouver and in Sweden.

Most Sincerely,

A handwritten signature in dark ink, appearing to read "Dwayne Yaretz", is written over a horizontal line.

Dwayne Yaretz, President

or

Michael Lacoë

+1.604.683.3200

investorrelations@pakitinc.com