

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.**

**SIXTH REPORT OF ALVAREZ & MARSAL CANADA INC.
IN ITS CAPACITY AS MONITOR OF PAKIT INC.
JANUARY 13, 2012**

1.0 INTRODUCTION AND PURPOSE OF THE MONITOR'S REPORT

- 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 are 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 Proceedings upon granting of the Initial Order.
- 1.2 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. References herein to the "**Pakit Group**" are references to the global enterprise as a whole.
- 1.3 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**"). Subsequent Orders were granted that extended the Stay Period until January 13, 2012.
- 1.4 The Initial Order together with select motion materials and other documentation filed in the CCAA, the Monitor's previous reports and the notice to creditors as prescribed under the CCAA are posted on the Monitor's website at www.alvarezandmarsal.com/pakit (the "**Monitor's Website**").
- 1.5 This report does not repeat all of the background information regarding the CCAA Proceedings and readers of this report are encouraged to obtain copies of these documents as well as other materials relating to the CCAA Proceedings by accessing the Monitor's Website.
- 1.6 This is the Monitor's sixth report (the "**Sixth Report**") and is intended for supplemental purposes to provide this Honourable Court and the stakeholders of the Petitioners, the Monitor's comments, conclusions and recommendation on the Company's request for an extension of the Stay Period to January 31, 2012.

2.0 TERMS OF REFERENCE

- 2.1 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.
- 2.2 Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars, which is the Company’s common reporting currency.

3.0 MONITOR’S COMMENTS REGARDING THE EXTENSION OF THE STAY PERIOD

- 3.1 The Monitor has considered the following with respect to Pakit’s request for an extension of the Stay Period to January 31, 2012:
- a) the cash flow forecast of the Pakit Group up to and including February 3, 2012 and the liquidity of the Pakit Group during that period of time (as reported in the Monitor’s Fifth Report dated December 30, 2012 and referred to as the “**Updated Feb 3 Cash Flow**”);
 - b) the Updated Feb 3 Cash Flow indicates that the Pakit Group expected to receive \$1 million in collections from its North American customer during the week ended January 13, 2012. These funds, which represent partial customer advances for the sale of a Pakit100 machine, have not yet been received. The Company has advised that it needs to incur approximately \$500,000 prior to January 31, 2012 in external costs in order to stay on schedule to meet factory acceptance testing and shipment delivery by March 8, 2012 which is a revised date recently proposed as a result of discussion between the parties;
 - c) As at January 11, 2012, cash on hand of the Pakit Group was \$744,000. Management has provided the Monitor with an updated estimate of the expected cash disbursements for the balance of the month of January, excluding costs related to the on-going work required for the Pakit100 machine, including an estimate of outstanding accounts payable and accounts receivable as at January 31, 2012.
 - d) A summary of cash as at January 11, 2012 with an estimate of net exposure as at January 31, 2012, excluding the expected US\$10 million of share subscription proceeds from Coronado Capital Partners, LP (“**Coronado**”) (referred to in further detail in the

Monitor's Fifth Report) and accruals for claims outstanding as at July 12, 2011, is as follows:

| | Cash Jan 11, 2012 | Disbursements Jan 12 - Jan 31 | Cash Jan 31, 2012 | Accounts Receivable Jan 31, 2012 | Accounts Payable Jan 31, 2012 | Net Exposure Jan 31, 2012 |
|---------------------|----------------------|----------------------------------|----------------------|----------------------------------------|-------------------------------------|------------------------------|
| \$'000s | <i>Actual</i> | <i>Estimate</i> | <i>Estimate</i> | <i>Estimate</i> | <i>Estimate</i> | <i>Estimate</i> |
| Pakit Inc. | 402 | (318) | 84 | | (35) | 49 |
| Pakit International | 15 | (64) | (49) | 162 | (130) | (17) |
| PIT | 327 | (318) | 9 | | (190) | (181) |
| Pakit Group | 744 | (700) | 44 | 162 | (355) | (149) |

- e) As noted in the Monitor's Fifth Report, Pakit has received a subscription agreement from Coronado for US\$10 million on or before January 30, 2012. In the event that these proceeds or alternative funding are not received so that the CCAA Proceedings can continue to be funded beyond January 31, 2012, it appears that a limited number of post-filing creditors in the Pakit subsidiaries will be at risk for accrued amounts due to them. However, Senior Management has indicated to the Monitor that they believe the US\$10 million funds from Coronado will be forthcoming and that Senior Management expects payables accrued in January 2012 will be paid in the ordinary course (excluding interest on pre-filing debt).
- 3.2 Pakit has also advised that as of January 12, 2012, it continues to work with its North American customer to enter into a revised purchase agreement for the Pakit100 machine, with payment terms that would include some form of consideration for the immediate transfer of title and on-going payments for the completion by the Pakit Group of the machine. The Company has indicated that it has ceased work on the machine until such time as the agreement with its customer is in place. The Company has provided a draft copy of a revised purchase order, which includes payment terms that would provide sufficient funding to pay Pakit's estimated costs of completing the machine,. The customer has paid \$1.1 million to date in deposits on the machine.
- 3.3 On December 9, 2011, Mr. Zack Easton, President of Coronado Capital Management, was appointed as a director of the board of Pakit Inc. There are currently four (4) directors of Pakit Inc.
- 3.4 A draft debtor in possession financing term sheet ("**DIP Facility**") was provided by a major stakeholder to Pakit on January 12, 2012. The Company has informed the Monitor that the terms of the proposed DIP facility are being reviewed and considered by the Pakit Board of Directors.

4.0 **MONITOR'S CONCLUSIONS AND RECOMMENDATION**


4.1 The Monitor's conclusions are as follows:

- a) The Company is continuing to act in good faith and with due diligence in its efforts to continue its operations and implement a restructuring, and has obtained a funding commitment (as indicated in the Monitor's Fifth Report) sufficient to pay in full its primary subordinated secured convertible debenture holder (due approximately \$5.8 million) by January 31, 2012, as agreed with that creditor. The Monitor notes that the subscription agreement with Coronado has not yet been funded and completed;
- b) While a limited number of creditors of the Pakit Group may have potential exposure for possible non-payment of accrued post-filing claims (approximately \$150,000) in the event the share subscription proceeds are not received by January 30, 2012, on balance the Monitor is of the view that the potential benefit to the Pakit stakeholders from the US\$10 million and the continuation of the on-going operations, including the opportunity to negotiate and conclude the sale of the Pakit100 machine to the North American customer, warrants an extension of the CCCA Proceedings.

4.2 The Monitor respectfully submits to this Honourable Court it would be appropriate for the relief under the Initial Order to be extended to no later than January 31, 2012. Without receipt of the anticipated US\$10 million or some other source of funds for operations and to make payment to the Company's primary subordinated secured convertible debenture holder as agreed with it, there will be insufficient funds for Pakit to continue to operate beyond that date. In addition, the Monitor notes that the circumstances of Pakit's funding status and operations have been subject to change on a regular basis as it continues to advance its restructuring efforts and strategy to maintain sufficient liquidity. Accordingly, the Monitor's recommendation is based on information currently available to the Monitor at the time of writing the report. The Monitor will update this Honourable Court if it becomes aware of any subsequent events which may alter the Monitor's recommendation.

All of which is respectfully submitted to this Honourable Court this 13th day of January, 2012.

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



Per: Pam K. Boparai
Vice President