

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.**

**SECOND REPORT OF ALVAREZ & MARSAL CANADA INC.
IN ITS CAPACITY AS MONITOR OF PAKIT INC.
AUGUST 30, 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.**

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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 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 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 initial 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**"). On August 25, 2011, an Order was granted that extended the Initial Order until 2:00 pm August 31, 2011.
- 1.5 The Initial Order together with select motion materials and other documentation filed in the CCAA, the Yaretz Affidavit, the Monitor's previous reports 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**").
- 1.6 Affidavits were sworn by Mr. Yaretz, Interim President of Pakit, dated August 23, 24 and 25, 2011 (referred to as "**#2 Yaretz Affidavit**", "**#3 Yaretz Affidavit**" and "**#4 Yaretz Affidavit**", respectively) which were filed in support of the Company's application to for a "Stay Extension

Order”. As noted above, the Company received a temporary extension to 2:00 pm, August 31, 2011. This report does not repeat all of the background information contained in the Yaretz Affidavit, #2 Yaretz Affidavit, #3 Yaretz Affidavit or #4 Yaretz Affidavit 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.

2.0 PURPOSE OF REPORT

2.1 This is the Monitor’s second report (the “**Second Report**”) and is intended to provide this Honourable Court and the stakeholders of the Petitioners with an update on the events which have occurred since the Monitor’s first report, dated August 24, 2011 (the “**First Report**”). Specifically, the Second Report includes:

- a) An update of the results of the Court hearing scheduled on August 25, 2011;
- b) An update on the Company's restructuring and funding activities (equity financing efforts);
- c) An update on other operational matters;
- 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 26, 2011;
- e) A summary of the Pakit Group’s updated cash flow forecast for the 13-week period ending October 21, 2011, including five weeks of actual results and eight weeks of forecast results which has replaced the previous cash flow attached to the #2 Yaretz Affidavit and commented on in the First Report (the “**Updated Cash Flow Forecast**”);
- f) The Monitor’s comments and views on the Company’s request for an extension of the Stay Period to October 21, 2011; and
- g) 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 forecast results 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 **UPDATE ON THE RESULTS OF THE AUGUST 25, 2011 COURT HEARING**

4.1 As previously mentioned, a Court Order was granted extending the Stay Period until 2:00 pm August 31, 2011.

4.2 Pakit informed the Monitor on the morning of August 25, 2011, that they had received share subscription agreements, dated August 25, 2011, from two parties for equity funding of approximately \$1.0 million in aggregate (CAD\$825,000 from Landmark Property Management Corporation ("**Landmark**") and US\$175,000 from Zach Easton) as well as a signed purchase order from a customer. The Company proposed that with this new last minute development, along with the Company's previous share subscriptions of \$595,000 received prior to August 25, 2011, Pakit would have sufficient funding to allow for an extension of the stay of proceedings beyond August 25, 2011.

4.3 The Monitor indicated it had concerns about the Company's cash flow position as at August 25, 2011 and its ability to meet on-going obligations without additional funding beyond August 25, 2011. The Monitor supported a temporary stay to August 31, 2011, in order to allow Pakit a short window to demonstrate its ability to receive cash supporting the recent subscription agreements received on August 25, 2011.

5.0 RESTRUCTURING/FUNDING ACTIVITIES

- 5.1 As noted in the First Report, \$457,000 was received by PIT by way of a loan from Mr. Yaretz. A promissory note executed by PIT to Mr. Yaretz, dated August 15, 2011, was provided to the Monitor on August 30, 2011.
- 5.2 While the Yaretz Affidavit, which was filed in support of the initial application, had referenced approximately \$1.5 million to be funded from two groups, the funds actually raised have come in from one of these parties previously indentified as well as other parties and in different amounts. The Company, in fact, ultimately received funding of approximately \$2 million, primarily from the Coronado Group for US\$1.45 million (equity funding for Pakit), Mr. Yaretz for CAD\$457,000 (by way of a loan to PIT) and the balance from various other parties.
- 5.3 The Coronado Group, of Arizona, represents SEI Private Trust Co. FAO JM Smucker Co. Master Trust and Coronado Capital Partners. The First Report indicated that a representative of the Coronado Group, Mr. Easton, contacted the Monitor on August 24, 2011. The Monitor confirmed that the Coronado Group is aware of the CCAA Proceedings of Pakit, that any equity contributions are at risk and also advised that the Monitor's reports and other material may be accessed on the Monitor's Website.
- 5.4 As previously mentioned, Landmark and Mr. Easton had provided a share subscription agreements for \$825,000 and US\$175,000, respectively. Landmark has not yet provided the funding to Pakit. However, Senior Management advises Landmark remains interested but the timing and amount of the funding is currently uncertain. Mr. Easton's share subscription agreement was superseded by the Coronado Group agreements referred to above.
- 5.5 The Company has sent various communications to the shareholders since the commencement of the CCAA Proceedings and the NOI, which was referred to in the First Report. Subsequent to the First Report, the Company provided a further update to the shareholders on August 26, 2011 (a copy of which is attached as Appendix "A").

Senior Management October-December 2011 Restructuring/Funding Initiatives

- 5.6 The Monitor has encouraged and recommended that Senior Management provide an update during October 2011 of the Company's longer term restructuring plan, including prospects related to the sale of further Pakit machines and to the balance sheet restructuring with respect to further fund raising efforts to have sufficient capital for the Company to ultimately emerge from the CCAA Proceedings.

- 5.7 The First Report provided a brief commentary noting that Senior Management has told the Monitor that they have identified at least eight parties with whom they have had direct or indirect contact for purposes of preliminary discussions for equity injection funding of in excess of \$10 million. Discussions with these parties, either direct or indirect, are at very preliminary stages and to date, the parties have not commenced any meaningful due diligence procedures.

6.0 **OTHER MATTERS RELATED TO THE OPERATIONS**

Customers and Potential Customers with LOIs

- 6.1 The Pakit Group is developing new potential customer relationships and has been making progress in that respect since the date of the NOI (July 12, 2011). However, Pakit's primary customer until recently was Industrias San Cayetano ("**Cayetano**"). Cayetano is the only customer who has received installed Pakit100 machines which are substantially site acceptance testing ready according to Senior Management.
- 6.2 The First Report noted that a letter had been received from Cayetano by the Company on August 22, 2011 (the "**Cayetano Letter**") , indicating that Cayetano 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". However, Senior Management believes from their discussions and negotiations with Cayetano subsequent to receipt of the letter that there may be an opportunity for a near term resolution. Pakit is in the process of providing a formally written reply to Cayetano.
- 6.3 The Company has made progress with respect to one North American customer supported by a signed purchase order. The Monitor notes that the contract related to the purchase order agreement is currently unexecuted. However, the Company has received a deposit of approximately \$100,000 on August 30, 2011 for the purchase order.

Employees

- 6.4 Senior Management advised the Monitor on August 30, 2011, that one employee of PIT has resigned effective August 31, 2011. The employee is a tooling technician whom the Company will consider replacing sometime in the future as activity for prototyping work continues to increase as expected by Senior Management. In the interim, Pakit has advised that other management members are capable of providing necessary tooling and technical assistance in order not to disrupt the current prototyping work scheduled in the near term.

- 6.5 PIT employees are paid once a month typically during the third week of the month current wages are due. To date, August wages remain outstanding and the Company expects its employees to be paid subsequent to the granting of any extension of the stay of proceedings after August 31, 2011. The PIT August employee wages are expected to be paid by way of equity funding received by Pakit which will be, in part, loaned to PIT through Pakit International for on-going wages and certain other operating costs.
- 6.6 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.

Compliance with the Initial Order

- 6.7 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.

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 Five Weeks Ended August 26, 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 five weeks ended August 26, 2011 (the "**Five Week Period**"), is summarized below:

Pakit Group
Unaudited Summary of Actual versus Forecast Cash Flows (Note 1)
For the 5-week Period Ended August 26, 2011
(\$000's)

	Consolidated		
	Actual	Forecast ²	Variance
Receipts			
Customer collections	-	641	(641)
Funding	1,019	1,440	(421)
Funding transferred to legal counsel in Trust	(561)	-	(561)
Other receipts	168	185	(18)
Total Receipts	625	2,266	(1,641)
Disbursements			
Raw materials and production	2	21	(19)
Payroll, benefits and payroll taxes	294	614	(320)
Sales and marketing costs	-	3	(3)
Research and development costs	3	22	(19)
Other general and administrative costs	33	64	(32)
Rent	76	116	(40)
Consulting fees	23	41	(18)
Professional fees	208	154	54
Pre-filing liabilities - Pakit Inc.	95	25	70
Other liabilities pre July 12, 2011 (Pakit International and PIT)	356	660	(303)
CCAA Contingency	3	20	(17)
Total Disbursements	1,092	1,849	(757)
Net Cash Flow	(467)	417	(884)
Opening Cash Position	726	726	-
Closing Cash Position	259	1,143	(884)

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

Note 2 Forecast represents the cash flow filed as an Exhibit E to the Yaretz Affidavit.

7.3 Overall, for the Five Week Period, the Pakit Group has experienced an unfavourable net cash flow variance of \$884,000 relative to the Cash Flow Forecast. The primary components of the unfavourable variance are described below:

- a) *Customer Collections – unfavourable variance of \$641,000.* As noted previously, Cayetano has informed the Company that they wish to “annul” their contracts to purchase four (4) machines including the machine corresponding to the forecast receipt of \$641,000. While the Company has expressed that they are urgently working with Cayetano to resolve the issues identified in the Cayetano Letter, the receipt of \$641,000 is uncertain at this time.

- b) *Funding receipts – variance of \$982,000 (\$421,000 and \$561,000).* The company received funding proceeds of \$1.02 million in the period, of which approximately \$457,000 was advanced as loans to PIT and \$560,000 of share subscription proceeds were advanced to Pakit and then transferred to the Company's legal counsel to be held in trust. As at August 30, 2011, the Company has transferred approximately \$1.56 million to its legal counsel trust account and expects these funds will be released to the Company, subject to Court Order granting an extension of at least 20 days, immediately following the Court hearing on August 31, 2011.
- c) *Payroll, benefits and payroll taxes – favourable variance of \$320,000.* The variance is primarily due to a timing difference with respect to employee costs in PIT. Payroll and source deductions of \$290,000 were forecast to be paid in Week 5 upon receipt of the forecast customer collections from Cayetano in that week but have been deferred pending receipt of further funding by PIT through advances from Pakit International.
- d) *Other liabilities pre July 12, 2011 – favourable variance of \$303,000.* The variance is primarily due to arrears of source deductions, VAT and supplier payments which were pre-existing as at July 12, 2011 and have been deferred as a result of lack of available funds in PIT.

Updated Cash Flow Forecast

- 7.4 Senior Management has updated the Cash Flow Forecast for the period ending October 21, 2011, including actual results for the five weeks ended August 26, 2011 and forecast for the eight weeks ending October 21, 2011 (the Updated Cash Flow Forecast) which has replaced the cash flow filed with #2 Yaretz Affidavit and summarized in the First Report.
- 7.5 The Updated Cash Flow Forecast is attached as Appendix "B" and a summary, including a comparison to the cash flow included in #2 Yaretz Affidavit 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)						
	Updated Cash Flow Forecast				Previous Forecast ²	Variance
	Pakit Inc. (in CCAA)	Pakit International	PIT	Pakit Group (Consolidated)	Pakit Group (Consolidated)	Pakit Group (Consolidated)
Receipts						
Customer collections	88	758	-	846	4,424	(3,578)
Funding	1,610	-	457	2,067	1,052	1,015
Other receipts	79	357	4	440	440	(0)
Total Receipts	1,777	1,115	462	3,354	5,917	(2,563)
Disbursements						
Raw materials and production	-	124	2	126	415	(289)
Payroll, benefits and payroll taxes	381	98	641	1,120	1,237	(117)
Research and development costs	-	3	37	39	75	(36)
Other general and administrative costs	100	22	57	179	142	37
Rent	53	18	158	229	280	(51)
Consulting fees	60	5	22	87	94	(7)
Professional fees	488	17	10	515	534	(19)
Taxes (Sweden VAT)			273	273	340	(67)
Pre-filing liabilities - Pakit Inc.	95			95	95	(0)
Other liabilities pre July 12, 2011 (Pakit International and PIT)		216	652	868	926	(58)
Contingency	32			32	33	(1)
Total Disbursements	1,209	503	1,851	3,563	4,171	(608)
Net Cash Flow	568	612	(1,389)	(209)	1,746	(1,955)
Intercompany inflow/(outflow)						
Pakit Inc.	-	771	-	771	275	496
Pakit International	(771)	-	1,389	618	1,450	(832)
PIT	-	(1,389)	-	(1,389)	(1,725)	336
Total Intercompany	(771)	(618)	1,389	-	-	-
Net Cash Flow Post Intercompany	(203)	(6)	-	(209)	1,746	(1,955)
Cash Position						
Opening Cash Position	720	6	-	726	726	-
Closing Cash Position	517	-	-	517	2,472	(1,955)
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 Aug 30 CF includes actuals for the 5 week period ending August 26, 2011 and forecast for the 8 weeks ending October 21, 2011.					
Note 2	The Previous Forecast represents the previous "Updated Cash Flow Forecast" filed as an attachment to #2 Yaretz Affidavit.					

7.6 With respect to the Updated Cash Flow Forecast the variance to the ending cash position as compared to cash flow forecast previously filed in #2 Yaretz Affidavit is approximately negative \$2.0 million which relates to:

- a) Lower receipts of \$2.6 million primarily due to net change in customer collections of \$3.6 million off-set in part by \$1 million of additional equity funding which the Company has been successful in raising. The decrease in customer collections are the net result of removing the uncertain Cayetano receipts and in part off-setting that with partial payment

of the new purchase order received by the Company. The timing of the first milestone payment related to the new purchase order is considered a significant receipt for week-12 ending October 14, 2011, as the Company is not able to pay certain post filing obligations during week-12 and 13 if the \$658,000 milestone payment is not received;

- b) Lower disbursements of \$608,000 primarily due to:
- i. Reduced raw material production costs of \$289,000 in large part related to production costs that were previously forecast to be incurred for the Cayetano machines as well as for research development costs for another customer which the Company believes is not required during the period prior to October 21, 2011;
 - ii. Payroll costs of \$117,000 for PIT has now been scheduled to be paid during the week ending October 29, 2011 as Senior Management indicated that the pay date falls on October 25, 2011 as opposed to on October 21, 2011 previously forecast;
 - iii. Rent costs of \$51,000 have been reclassified for forecast purposes to “Other liabilities – pre July 12, 2011” for PIT;
 - iv. Other liabilities – Pre July 12, 2011 have decreased by \$58,000 which represents reduced pre July 12, 2011 liabilities of \$100,000 for supplier payments off-set by the \$51,000 of rent arrears reclassified to this category as noted above. Senior Management advises that the reduction of supplier payments for pre July 12, 2011 liabilities is based on a recent agreement with suppliers for a payment plan that defers \$100,000 of disbursements beyond October 21, 2011.

8.0 EXTENSION OF THE STAY PERIOD

- 8.1 The Initial Order, as extended by the Court Order granted on August 25, 2011, provides for a stay of proceedings against Pakit until 2:00 pm August 31, 2011. The Monitor understands that Pakit will be making an application to this Honourable Court for an extension of the Stay Period until October 21, 2011. The materials filed on August 23, 2011 for the Court hearing scheduled for August 25, 2011 previously requested an extension to September 27, 2011.
- 8.2 The Monitor has considered the following with respect to Pakit’s request for an extension of the Stay Period to October 21, 2011:
- 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 equity financing raised in a relatively short period of time since August 25, 2011. It is noted that at the date of the Initial Order funding of \$1 million was expected but not received (net of receipts of a loan of \$457,000 made to PIT) and has since been replaced by approximately \$1.56 million of equity funding received to date;
- c) the progress made in respect of the one North America customer. It is noted however, that this contract in itself does not fully replace the uncertainty surrounding the status of the Cayetano contracts;
- d) the potential for Pakit to make some progress towards a resolution with Cayetano in the near term if an extension is granted. However, the prospects of such progress are unknown at this time and there is no certainty with respect to the results of the discussions and negotiations Senior Management wishes to continue to pursue with Cayetano; and
- e) 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 continuing to act in good faith and with due diligence in its efforts to raise funding in the short to mid-term with the overall goal of extending the funding efforts to a level to allow the Company to emerge from the CCAA Proceedings. The Company has made progress in a relatively short period of time since the Initial Order to raise funding of approximately \$2.0 million, including \$457,000 by way of a loan to PIT and \$1.56 million in equity financing. However, receipt of the letter from Cayetano remains a negative development that the Company is presently attempting to address.
- b) Pakit appears to have sufficient cash to pay certain pre-existing debts in PIT and Pakit International that Senior Management considers critical as well as to pay on-going post filing obligations in the near term until October 7, 2011.
- c) The Company's ability to maintain sufficient liquidity to meet post filing obligations is at risk without receipt of the milestone payment from its new North American customer. As it is difficult to predict with certainty the timing of collections of this payment, there is risk beyond October 7, 2011 for Pakit to pay its on-going obligations absent timely

receipt of the forecast customer collection or other equity funding that may be raised in the interim and not included in the Updated Cash Flow Forecast.

- 9.2 Based on the foregoing information currently available, the Monitor respectfully submits to this Honourable Court that it would be appropriate for the relief under the Initial Order to be extended to October 7, 2011. The Monitor does have concerns beyond that date as it appears that post filing obligations of Pakit and its direct and indirect subsidiaries will not be met on a timely basis unless forecast receipts of \$658,000 are received in the week ending October 14, 2011.

All of which is respectfully submitted to this Honourable Court this 30th day of August, 2011.

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



Per: Pam K. Boparai
Vice President

APPENDIX A



August 26, 2011

Dear Friends and Fellow Shareholders,

Pakit appeared before the Supreme Court of British Columbia yesterday, August 25, 2011, in regards to our request for an extension of our CCAA status stay of proceedings. The Court agreed to allow Pakit an extension through next Wednesday morning, at which time Pakit must show a minimum of \$1.5 million of fresh working capital in its bank account. This is the amount the court appointed Monitor has advised that, based on our cash projections, is necessary for Pakit to have sufficient operating capital. As of this writing, \$560K has been received and an additional \$1.07 million has been promised. If the funds are received (as opposed to "promised" or in transit) by Wednesday morning, we believe that Pakit will be granted an additional 30-day extension under CCAA protection.

Pakit Announces Sale of Pakit100

We are very pleased to announce that Pakit has a long-overdue, "second sale." We have received an executed Purchase Order (PO) for the sale of one Pakit100. This comes from a very large U.S.-based packaging company whose name, unfortunately, we are not at liberty to disclose because Pakit has signed a Non-Disclosure Agreement (NDA) with this company and are therefore obliged to respect their request for anonymity.

We can tell you, however, that this company is one of the largest privately-held companies in the U.S. They have revenues in excess of \$4 billion annually and they employ over 5,000 people internationally. They are purchasing this Pakit100 for installation at a Technology Center Showroom which they are building specifically to demonstrate the capabilities of Pakit technology to their customers as well as the high quality of specific finished packaging product utilizing the Pakit100. This company believes they will need the production of many more Pakit100s.

Prior to our initial meeting, this company had already committed to using a competing equipment manufacturer which lacked leading-edge technology. The initial meeting I had with this group was just 5 months ago. Since then, they have sent their chief technologists to our facility in Sweden, and two weeks ago the top executives spent two days with Pakit and our new executive team to work out the details of a much broader strategic alliance with Pakit for rolling-out our technology for potential installation across operations in North America, Europe, and Asia. With their deep financial pockets and their proven belief in our people and our technology, we truly believe that this company is the partner we have been waiting for.

This sale confirms your new Management's strategy of emphasizing the value of Pakit as a technology Company, first and foremost. The executives of this U.S. packaging company come from a technology background, having all worked at one of the largest high-tech companies in the world. Quality, cutting-edge technology is what they respond to. We couldn't have asked for a higher level of validation.



This is just one of many different, very high-profile, significant deals we have in development. The Company hopes to be reporting more positive news of sales as Management's new strategies work their way through the sales pipeline.

Once again, thank you for your patience and support.

I look forward to bringing you more positive news shortly.

Most Sincerely,

A handwritten signature in dark ink, appearing to read "Dwayne Yaretz", is written over a faint, circular embossed or stamped seal.

Dwayne Yaretz, President

or

Michael Laco

+1.604.683.3200

investorrelations@pakitinc.com

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	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	
Receipts									
Customer collections	-	-	-	-	-	100	88	-	-
Funding	-	152	306	-	-	1,560	-	-	-
Other receipts	84	79	-	4	-	-	39	50	-
Total Receipts	84	231	306	4	-	1,660	126	86	658
Disbursements									
Raw materials and production	-	-	2	-	-	-	60	28	-
Payroll, benefits and payroll taxes	112	94	30	54	4	216	15	150	-
Research and development costs	-	3	-	-	-	-	18	-	-
Other general and administrative costs	7	2	2	2	21	50	12	19	-
Rent	-	17	6	53	-	76	-	-	21
Consulting fees	-	-	8	-	15	21	-	-	-
Professional fees	61	22	44	5	77	20	40	30	15
Taxes (Sweden VAT)	-	-	-	-	-	91	-	91	10
Pre-filing liabilities - Pakit Inc.	-	79	16	-	-	-	-	-	91
Other liabilities pre July 12, 2011 (Pakit International and PIT)	-	15	238	103	0	251	18	87	-
Contingency	8	(5)	(0)	0	(0)	10	-	-	98
Total Disbursements	188	227	345	217	116	735	164	420	149
Net Cash Flow	(103)	4	(39)	(212)	(116)	925	(38)	(370)	(149)
Intercompany inflow/(outflow)									
Pakit Inc.	(36)	-	-	-	-	(467)	(82)	(320)	(27)
Pakit International	36	-	-	-	(0)	(0)	39	28	(26)
PIT	-	-	-	-	0	467	42	292	84
Total Intercompany	-	-	-	-	-	-	-	-	-
Net Cash Flow Post Intercompany	(103)	4	(39)	(212)	(116)	925	(38)	(370)	(149)
Cash Position									
Opening Cash Position	726	622	626	587	375	259	1,183	1,146	776
Closing Cash Position	622	626	587	375	259	1,183	1,146	776	623

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 North America. The customer has provided to Pakit a signed purchase order for one machine line. Management assumes that they will meet prototype performance requirements in Week 12 triggering a milestone payment of approximately CDN\$658,000. A deposit of \$100,000 is also forecast to be received in Week 6.
3. The Company received approximately \$1.56 million of share subscription receipts in Weeks 5 and 6 which were transferred to its legal counsel to be held in trust. The above noted assumes that these funds will be released to Pakit subsequent to the Court hearing on August 31, 2011. Additional subscription receipts of \$50,000 are expected in Week 8.
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. Other general and administrative expenses include travel, insurance and office costs.
6. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.
7. Pre-filing amounts mainly relate to credit card cancellation, which were cash collateralized.
8. 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 \$202,000 (\$120,000 paid to date), VAT of \$202,000 (\$135,000 paid to date), income taxes of \$18,000 (\$18,000 paid to date), payments to suppliers in the forecast period of \$351,000 (\$68,000 paid to date) and patent related legal fees of \$95,000 (\$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			Notes
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
Receipts													
Customer collections	-	-	-	-	-	-	88	-	-	-	-	-	88
Funding	-	-	-	-	-	1,560	-	50	-	-	-	-	1,610
Other receipts	-	79	-	-	-	-	-	-	-	-	-	-	79
Total Receipts	-	79	-	-	-	1,560	88	50	-	-	-	-	1,777
Disbursements													
Raw materials and production	-	-	-	-	-	-	-	-	-	-	-	-	-
Payroll, benefits and payroll taxes	75	-	6	54	4	78	-	54	-	54	-	54	242
Research and development costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Other general and administrative costs	6	2	1	2	21	44	4	-	-	21	-	-	69
Rent	-	17	-	-	-	18	-	-	-	18	-	-	36
Consulting fees	-	-	5	-	15	5	-	15	-	5	5	15	53
Professional fees	61	22	44	5	77	5	40	30	65	-	40	10	280
Pre-filing liabilities	-	79	16	-	-	-	-	-	-	-	-	-	95
Contingency	8	(5)	(2)	0	(0)	10	-	-	-	-	-	-	2
Total Disbursements	151	115	70	61	116	160	44	99	65	99	45	79	696
Net Cash Flow	(151)	(36)	(70)	(61)	(116)	1,400	44	(49)	(65)	(99)	(45)	(79)	(512)
Intercompany													
Intercompany inflow/(outflow) - Pakit	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany International	(36)	-	-	-	-	(467)	(82)	(320)	(88)	(27)	-	270	(771)
Net Cash Flow Post Intercompany	(187)	(36)	(70)	(61)	(116)	933	(38)	(370)	(153)	(126)	(45)	191	(203)
Cash Position													
Opening Cash Position	720	533	497	427	366	250	1,183	1,146	776	623	497	452	250
Closing Cash Position	533	497	427	366	250	1,183	1,146	776	623	497	452	642	517

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 a customer under a research agreement.
3. The Company received approximately \$1.56 million of share subscription receipts in Weeks 5 and 6 which were transferred to its legal counsel to be held in trust. The above noted assumes that these funds will be released to Pakit subsequent to the Court hearing on August 31, 2011. Additional subscription receipts of \$50,000 are expected in Week 8.
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.

	July		August		September								October		Week 1 to Week 5 Actual Total	Week 6 to Week 13 Forecast Total	Notes
	Week 1 Actual 29-Jul	Week 2 Actual 5-Aug	Week 3 Actual 12-Aug	Week 4 Actual 19-Aug	Week 5 Actual 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	-	-	-	-	-	658	-	758	758	2	
Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Other receipts	84	-	-	-	-	-	39	-	86	80	68	-	84	273	357		
Total Receipts	84	-	-	-	-	100	39	-	86	80	68	658	84	1,031	1,115		
Disbursements																	
Raw materials and production	-	-	-	-	-	-	60	28	-	15	20	-	-	124	124	3	
Payroll, benefits and payroll taxes	36	-	12	-	-	10	15	-	10	-	-	15	48	50	98		
Sales and marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Research and development costs	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Other general and administrative costs	1	0	0	-	-	6	3	-	5	1	-	-	3	20	3		
Rent	-	-	6	-	-	-	-	-	-	6	-	-	6	12	21		
Consulting fees	-	-	3	-	-	1	-	-	-	-	-	-	3	2	5		
Professional fees	-	-	6	-	-	15	-	-	2	-	1	-	-	17	17		
Other liabilities (pre July 12, 2011)	-	15	41	-	-	70	-	-	-	-	-	72	56	160	216		
Contingency	-	-	1	0	(0)	-	-	-	-	-	-	-	1	385	503		
Total Disbursements	37	18	63	0	(0)	108	78	28	17	23	21	87	118	-	-		
Net Cash Flow																	
	47	(18)	(63)	(0)	0	(8)	(39)	(28)	69	57	47	571	(34)	646	612		
Intercompany																	
Intercompany inflow/(outflow) - Pakit Inc.	36	-	-	-	-	467	82	320	88	27	-	(270)	36	735	771	4	
Intercompany inflow/(outflow) - PTT	-	-	-	-	(0)	(467)	(42)	(292)	(157)	(84)	(26)	(300)	(21)	(1,389)	(1,389)		
Net Cash Flow Post Intercompany	36	(18)	(63)	(0)	0	(8)	-	-	-	-	21	2	3	(8)	(6)		
Cash Position																	
Opening Cash Position	6	89	71	8	8	8	0	0	0	0	0	21	6	8	6		
Closing Cash Position	89	71	8	8	8	0	0	0	0	0	21	23	8	0	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. Customer collections primarily relate to collection from one customer based in North America. The customer has provided to Pakit a signed purchase order for one machine line. Management assumes that they will meet prototype performance requirements in Week 12 triggering a milestone payment of approximately CDN\$658,000. A deposit of \$100,000 is also forecast to be received in Week 6.
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) and \$121,000 (\$41,000 paid to date) for suppliers.

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

	August				September				October				Week 1 to Week 5 Actual Total	Week 6 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 Actual 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			
Expressed in CAD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fx Rate (1) 0.16	-	152	306	-	-	-	-	-	-	-	-	-	-	-	457	
Receipts	-	152	306	4	-	-	-	-	-	-	-	-	-	-	4	
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	462	
Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other receipts	-	-	-	4	-	-	-	-	-	-	-	-	-	-	4	
Total Receipts	-	152	306	4	-	-	-	-	-	-	-	-	-	-	462	
Disbursements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Raw materials and production	-	-	2	-	-	-	-	-	-	-	-	-	-	-	2	
Payroll, benefits and payroll taxes	-	94	13	-	-	128	-	96	128	-	-	-	-	534	641	2,3
Sales and marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Research and development costs	-	-	-	-	-	-	18	-	-	-	18	-	-	37	37	
Other general and administrative costs	-	-	0	0	-	-	6	19	16	-	-	-	16	56	57	
Rent	-	-	-	53	-	52	-	-	-	52	-	-	-	105	158	
Consulting fees	-	-	-	-	-	14	-	-	-	-	7	-	-	22	22	4
Professional fees	-	-	-	-	-	-	-	-	-	-	-	-	-	10	10	
Taxes (Sweden VAT)	-	-	-	-	-	91	-	91	5	-	-	-	5	273	273	3
Other liabilities (pre July 12, 2011)	-	-	197	103	0	181	18	87	8	32	-	-	-	352	652	5
Contingency	-	-	0	-	(0)	-	-	-	-	-	-	-	-	-	0	
Total Disbursements	-	94	212	156	0	467	42	292	157	84	26	300	21	1,389	1,851	
Net Cash Flow	-	58	94	(152)	(0)	(467)	(42)	(292)	(157)	(84)	(26)	(300)	(21)	(1,389)	(1,389)	
Intercompany	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Intercompany inflow/(outflow) - Pakit	-	-	-	-	0	467	42	292	157	84	26	300	21	1,389	1,389	
International	-	58	94	(152)	-	-	-	-	-	-	-	-	-	-	-	
Net Cash Flow Post Intercompany	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
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 30, 2011 there is approximately \$400,000 arrears outstanding.
- Other liabilities relate to amounts owed by PIT prior to the Pakit Inc. filing date including payroll tax of \$202,000 (\$120,000 paid to date), VAT tax of \$202,000 (\$135,000 paid to date), income tax of \$18,000 (\$18,000 paid to date), payments to suppliers of \$230,000 (\$27,000 paid to date).