

**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.**

**THIRD REPORT OF ALVAREZ & MARSAL CANADA INC.  
IN ITS CAPACITY AS MONITOR OF PAKIT INC.  
OCTOBER 6, 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**

<b>1.0</b>	<b>INTRODUCTION.....</b>	<b>3</b>
<b>2.0</b>	<b>PURPOSE OF REPORT .....</b>	<b>4</b>
<b>3.0</b>	<b>TERMS OF REFERENCE .....</b>	<b>4</b>
<b>4.0</b>	<b>RESTRUCTURING/FUNDING ACTIVITIES.....</b>	<b>5</b>
<b>5.0</b>	<b>OTHER MATTERS RELATED TO THE OPERATIONS .....</b>	<b>6</b>
<b>6.0</b>	<b>CCAA CASH FLOW FORECAST AND VARIANCE ANALYSIS .....</b>	<b>7</b>
<b>7.0</b>	<b>EXTENSION OF THE STAY PERIOD .....</b>	<b>11</b>
<b>8.0</b>	<b>MONITOR'S CONCLUSION AND RECOMMENDATIONS.....</b>	<b>12</b>

**APPENDICES**

Appendix A – Dec 30 Cash Flow Forecast (filed October 5, 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 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.
- 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**"). Subsequent Orders were granted that extended the Initial Order until 10:00 am October 7, 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](http://www.alvarezandmarsal.com/pakit) (the "**Monitor's Website**").
- 1.6 An affidavit sworn by Mr. Yaretz, Interim President of Pakit, dated October 5, 2011 (referred to as "**#6 Yaretz Affidavit**") was filed in support of the Company's application for a "Stay Extension Order". This report does not repeat all of the background information contained in the Yaretz Affidavit nor the #6 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 third report (the "**Third 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 second report, dated August 30, 2011 (the "**Second Report**"). Specifically, the Third Report includes:
- a) An update on the Company's restructuring and funding activities (equity financing efforts);
  - b) An update on operational matters;
  - c) Comments on the Pakit Group's cash flow forecast and comments on variances of actual cash receipts and disbursements from forecast for the 10 weeks ended September 30, 2011;
  - d) A summary of the Pakit Group's updated cash flow forecast for the 23-week period ending December 30, 2011, including actual results for the 10 weeks ended September 30, 2011 and forecast cash flows for the 13 weeks ending December 30, 2011 (the "**Dec 30 Cash Flow Forecast**"), which has replaced the previous cash flow attached to the affidavit of Mr. Yaretz, dated August 30, 2011 (the "**#5 Yaretz Affidavit**");
  - e) The Monitor's comments and views on the Company's request for an extension of the Stay Period to December 28, 2011; and
  - f) 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 **RESTRUCTURING/FUNDING ACTIVITIES**

- 4.1 Since the commencement of the CCAA Proceedings, the Company has raised approximately \$2.6 million, of which \$2.1 million has been provided in the form of equity funding to Pakit and \$457,000 was provided as a loan to PIT supported by a promissory note. The \$2.1 million of equity proceeds includes US\$599,950 which was received by Pakit on October 5, 2011 and is held by Pakit's legal counsel in trust subject to an extension of the Stay Period for at least 20 days beyond October 7, 2011. In addition, Pakit expects to receive a written commitment prior to October 7, 2011 for a further \$350,000 of equity funding to be received by November 4, 2011.
- 4.2 The funding received by the Company to date has been provided for the most part (\$2.1 million) by the Coronado Group, of Arizona, who represents SEI Private Trust Co. FAO JM Smucker Co. Master Trust and Coronado Capital Partners. As noted in the prior reports, the Monitor has confirmed that the Coronado Group is aware of the CCAA Proceedings of Pakit and that any equity contributions are at risk.

##### October-December 2011 Restructuring/Funding Initiatives

- 4.3 Senior Management has outlined its plan to raise interim funding in the form of further equity and possibly debtor in possession financing ("**DIP Financing**") to be obtained in two tranches by November 4, 2011 and December 2, 2011 which will in Senior Management's view afford the Company additional time to raise approximately \$10 million to \$20 million in order to complete a recapitalization of its balance sheet. The Company has indicated that it intends to have received firm commitments by no later

than December 31, 2011 for sufficient funding to pay out, or reach agreements to extend, the secured convertible debentures by January 31, 2011.

- 4.4 As summarized in the #6 Yaretz Affidavit there are a number of parties that Senior Management is having direct or indirect discussions with for equity injection funding of in excess of \$10 million. Senior Management has advised that all of these parties, except for two, have signed non-disclosure or some form of confidentiality agreements. We understand the two parties who have not yet signed non-disclosure agreements have received limited Company information.

## 5.0 OTHER MATTERS RELATED TO THE OPERATIONS

### Customers and Potential Customers with LOIs

- 5.1 The Pakit Group's primary customer until prior to August 25, 2011 was Industrias San Cayetano ("**Cayetano**"). Cayetano remains the only customer to date who has received installed Pakit100 machines which are substantially site acceptance testing ready according to Senior Management.
- 5.2 A letter from Cayetano was received by Pakit on August 22, 2011 (the "**Cayetano Letter**") advising the Pakit Group that Cayetano is not satisfied with the operating function of the installed machines and that the 2009 and 2010 contracts relating to four Pakit 100 machines are both "annulled". The Company provided a written reply on September 7, 2011 to the Cayetano Letter which stated the Company's position that the Pakit Group has honoured its contracts with Cayetano and requested payment of all outstanding funds related to the 2009 contract and offered to cancel the 2010 contract. To date, Cayetano has not responded to Pakit's reply. Senior Management continues to believe from their earlier discussions and negotiations with Cayetano that there may be an opportunity for a resolution.
- 5.3 The Company continues to make progress with respect to one North American customer who signed a purchase order on August 24, 2011. The Company received a deposit of approximately \$100,000 on August 30, 2011 for the purchase order and expects a further \$658,000 by November 11, 2011.
- 5.4 Senior Management has reported to the Monitor that Pakit is making positive progress in respect of the collaborative agreement signed with Pepsi Co Inc. ("Pepsi") on July 26,

2011 and that the Company is on target or slightly ahead of its target milestones related to the Pepsi collaborative agreement.

- 5.5 Pakit has informed the Monitor that a major pulp producer in Canada has commissioned and received the first phase of a feasibility study to establish an intake footprint for a facility to accommodate 10 Pakit100 machines. In addition, on September 28, 2011 this potential customer submitted its application to a Federal Agency for government assistance funding as a part of the proposed project facility.

#### Employees

- 5.6 Since the date of the Second Report, Senior Management has advised the Monitor that one technician who is an employee of PIT has resigned with a two month notice period expiring in November 2011. Pakit has advised that this reduction in head count will not disrupt the current operation.
- 5.7 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 except as otherwise indicated in previous reports.

#### Compliance with the Initial Order

- 5.8 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.

### 6.0 **CCAA CASH FLOW FORECAST AND VARIANCE ANALYSIS**

- 6.1 Pakit prepared an updated 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 "**Oct 21 Cash Flow Forecast**") which was filed with #5 Yaretz Affidavit and summarized in the Second Report in support of its request for an extension of the relief under the CCAA proceedings at the August 31, 2011 Court hearing.

#### Cash Flow for the Ten Weeks Ended September 30, 2011

- 6.2 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 Oct 21 Cash Flow Forecast for the ten weeks ended September 30, 2011 (the “**Ten Week Period**”), are summarized below:

<b>Pakit Group</b> <b>Unaudited Summary of Actual versus Oct 21 Cash Flow Forecast (Note 1)</b> <b>For the 10-week Period Ended September 30, 2011</b> <b>(\$000's)</b>			
	Consolidated		
	Actual	Forecast <sup>2</sup>	Variance
<b>Receipts</b>			
Customer collections	191	188	3
Funding	2,029	2,067	(39)
Other receipts	345	372	(27)
<b>Total Receipts</b>	<b>2,564</b>	<b>2,627</b>	<b>(63)</b>
<b>Disbursements</b>			
Raw materials and production	25	106	(80)
Payroll, benefits and payroll taxes	814	867	(53)
Research and development costs	20	21	(1)
Other general and administrative costs	207	157	50
Rent	200	229	(29)
Consulting fees	65	58	7
Professional fees	326	375	(49)
Taxes (Sweden VAT)	171	182	(12)
Pre-filing liabilities - Pakit Inc.	95	95	-
Other liabilities pre July 12, 2011 (Pakit International and PIT)	785	752	32
CCAA contingency	(16)	13	(29)
<b>Total Disbursements</b>	<b>2,692</b>	<b>2,856</b>	<b>(165)</b>
<b>Net Cash Flow</b>	<b>(128)</b>	<b>(229)</b>	<b>101</b>
Opening Cash Position	726	726	-
<b>Closing Cash Position</b>	<b>598</b>	<b>497</b>	<b>101</b>
<b>Note 1</b>	Readers are referred to the Terms of Reference as set out previously in this report.		
<b>Note 2</b>	Forecast represents the Oct 21 Cash Flow Forecast filed as Exhibit A to the #5 Yaretz Affidavit.		

6.3 Overall, for the Ten Week Period, the Pakit Group has experienced a favourable net cash flow variance of \$101,000 relative to the Oct 21 Cash Flow Forecast. The primary components of the variance are described below:

- a) *Funding receipts – unfavourable variance of \$39,000.* The variance is primarily due to share subscription proceeds of \$50,000 forecast to be received in the week ended September 16, 2011 which are now expected to be received in the week ending October 14, 2011.



- b) *Other receipts – unfavourable variance of \$27,000.* The variance is primarily due to a timing difference of \$38,000 offset by an HST refund of \$17,000 that was not included in the forecast.
- c) *Raw materials and production – favourable variance of \$80,000.* The variance primarily relates to a \$63,000 permanent difference for raw materials that were not required to be purchased due to existing inventory materials and internal labour resources that were used for production.
- d) *Payroll, benefits and taxes – favourable variance of \$53,000.* The variance is related to a permanent difference of \$40,000 due to foreign exchange fluctuations, headcount variances and pension variances in PIT as well as variances in Pakit of \$13,000 primarily due to a delayed hire.
- e) *Other G&A – unfavourable variance of \$50,000.* The variance is a permanent difference due to post-filing fund raising commissions of \$66,000 that were not included in the forecast offset by an \$18,000 insurance prepayment that was forecast for the week ended September 2, 2011 but had been paid in the week ended August 26, 2011.

*Professional fees – favourable variance of \$49,000.* The variance is primarily the result of differences with respect to timing of professional fee invoices.

#### Updated Dec 30 Cash Flow Forecast (23 Weeks ending December 30, 2011)

- 6.4 Senior Management has prepared an updated the cash flow forecast for the 23-week period ending December 30, 2011, including actual results for the 10 weeks ended September 30, 2011 and forecast for the 13 weeks ending December 30, 2011 (the Dec 30 Cash Flow Forecast) which has replaced the Oct 21 Cash Flow Forecast filed with #5 Yaretz Affidavit and summarized in the Second Report.
- 6.5 The Dec 30 Cash Flow Forecast is attached as Appendix “A” and a summary is set out in the table below:

<b>Pakit Group</b> <b>Unaudited Summary of Dec 30 Cash Flow Forecast (Note 1)</b> <b>For the 23-week Period Ending December 30, 2011</b> <b>(\$000's)</b>			
	Consolidated		
	10 Weeks	13 Weeks	23 Weeks
	July 23 to Sept 30	Oct 1 to Dec 30	July 23 to Dec 30
	Actual	Forecast	Total
<b>Receipts</b>			
Customer collections	191	658	849
Equity financing	2,029	1,000	3,029
DIP Financing	-	1,000	1,000
Other receipts	345	331	676
<b>Total Receipts</b>	<b>2,564</b>	<b>2,989</b>	<b>5,554</b>
<b>Disbursements</b>			
Raw materials and production	25	529	555
Payroll, benefits and payroll taxes	814	1,069	1,883
Research and development costs	20	26	47
Other general and administrative costs	207	146	354
Rent	200	194	394
Consulting fees	65	51	116
Other professional fees	16	53	69
CCA A professional fees	310	445	755
Taxes (Sweden VAT)	171	265	435
Pre-filing liabilities - Pakit Inc.	95	-	95
Other liabilities pre July 12, 2011 (Pakit International and PIT)	785	389	1,173
Contingency	(16)	60	44
<b>Total Disbursements</b>	<b>2,692</b>	<b>3,227</b>	<b>5,920</b>
<b>Net Cash Flow</b>	<b>(128)</b>	<b>(238)</b>	<b>(366)</b>
<b>Cash Position</b>			
Opening Cash Position	726	598	726
<b>Closing Cash Position</b>	<b>598</b>	<b>360</b>	<b>360</b>
<b>Note 1</b>	Readers are referred to the Terms of Reference as set out previously in this report for information regarding the preparation of the Dec 30 Cash Flow Forecast.		

6.6 The Company's significant assumptions with respect to the cash flow include the following:

- a) Senior Management has received two executed subscription agreements dated October 4, 2011 totalling US\$600,000 for an equity investment from the Coronado Group and an individual associated with the Coronado Group. The Company received US\$599,950 on October 5, 2011 which has been deposited in a trust account maintained by the Company's legal counsel and will be released to the Company the following week subject to an extension being granted in the CCAA proceedings at the Court hearing on October 7, 2011. In addition, \$50,000 of investor proceeds are also due under a previously executed share subscription agreement and are expected to be received on or before October 14, 2011.

- b) During the week ending November 4, 2011 Pakit expects to receive additional equity funding of \$350,000. To date, there are no supporting documents related to this equity funding; however, Senior Management is in discussions with several parties and expects a commitment letter supporting the receipt of these funds prior to the Court hearing scheduled for October 7, 2011.
- c) A customer collection of \$658,000 is expected to be received in the week ending November 11, 2011 relating to a milestone payment upon prototype acceptance under a sale agreement with a North American customer.
- d) While the Company continues to expect to be able to raise equity financing to fund the interim and long term restructuring of the Company, in the absence of \$1 million equity received on or before December 2, 2011, Pakit intends to apply to Court for a Court Order granting DIP Financing.
- e) Other receipts for the period October 1, 2011 to December 30, 2011 largely include \$225,000 of VAT refunds and \$123,000 of receipts from prototyping projects to be received by Pakit International.
- f) Raw materials and production costs have been forecast based on estimated costs related to work required on one existing Pakit machines (\$324,000) and the balance of the forecast expense relates to on-going prototyping projects.
- g) Other general and administrative expenses, including rent, payroll, consulting fees and other general and administrative expenses, have been forecast generally based on the current run-rates of the associated expenses and adjusted to reduce certain disbursements to a minimum level during the restructuring period.
- h) Certain other pre-July 12, 2011 liabilities of \$389,000 owed by Pakit International and PIT are assumed by Senior Management to be critical payments required during the period in order to support ongoing operations and related receipts. These payments include arrears due to suppliers, patent attorneys and the landlord of the production facility in Sweden. The Monitor understands that there is a risk that a creditor of PIT and/or Pakit International, which are not currently subject to the CCAA Proceedings, may possibly take enforcement action which could cause significant disruption to the Pakit Group's ability to continue to operate.

## 7.0 **EXTENSION OF THE STAY PERIOD**

- 7.1 The Initial Order, as extended by the Court Order granted on August 31, 2011, provides for a stay of proceedings against Pakit until 10:00 am October 7, 2011. The Monitor

understands that Pakit will be making an application to this Honourable Court for an extension of the Stay Period until December 28, 2011.

7.2 The Monitor has considered the following with respect to Pakit's request for an extension of the Stay Period to December 28, 2011:

- a) the cash flow forecast of the Pakit Group up to and including December 30, 2011 and the liquidity of the Pakit Group during that period of time;
- b) the Company's ability to raise \$2.6 million in a relatively short period of time since July 12, 2011;
- c) the progress made in respect of the prototyping work for one North America customer. However, there continues to remain uncertainty surrounding the status of the Cayetano contracts and no progress related to this matter has been reported;
- d) the discussions and communications with Pakit's most significant secured creditor related to the on-going status of the CCAA Proceedings; 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.

## 8.0 **MONITOR'S CONCLUSION AND RECOMMENDATIONS**

8.1 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 raise funding since the commencement of the CCAA Proceedings with the goal of raising sufficient proceeds to allow the Company to settle its debts in Pakit within the next three to four months. The Company has demonstrated its ability to raise equity funding during the CCAA Proceedings and make progress with respect to certain new customers. However, it is noted that Pakit has also experienced a significant setback with its Cayetano customer and the current status of the contracts with this customer remains unresolved.
- b) The Pakit Group appears to have sufficient cash (including the US\$600,000 held in trust) to pay on-going post filing obligations and pay certain pre-existing debts of PIT and Pakit International that Senior Management considers critical until October 28, 2011.
- c) The Company's ability to maintain sufficient liquidity to meet post filing obligations and pay certain deemed critical pre-filing liabilities beyond October 28, 2011 is at risk

without receipt of the \$350,000 equity funding expected during the week ending November 4, 2011 and the milestone payment from its new North American customer expected during the week ending November 11, 2011. Comments related to these two forecast collections are as follows:

- i. At present, the Monitor and the Company's stakeholders do not have the benefit of considering the documentation that Pakit indicates it will receive evidencing the equity commitment of \$350,000 prior to the October 7, 2011 Court hearing and as such the Monitor's comments are limited with respect to collection of these receipts. However, it is noted that the Company has previously demonstrated an ability to raise equity funding during the CCAA Proceedings, the timing of which has been unpredictable and with limited advance knowledge of such receipts.
  - ii. Senior Management has advised that Pakit is on target to deliver the prototyping sample to its North American customer pursuant to the terms of the purchase order. The prototyping work is approximately five weeks, or 70%, complete and the Pakit Group has scheduled a meeting with its customer to approve the prototype sample in order to collect the \$658,000 milestone payment by November 11, 2011. It is noted that there is no previous history of collection and product delivery related to this customer, except for the initial deposit of \$100,000 received on August 30, 2011.
- d) If the two forecast collections noted above are received, the Company will have sufficient funding to meet its cash flow requirements to December 2, 2011. The Pakit Group requires an additional \$1 million to fund on-going expenditures beyond December 2, 2011. Senior Management expects to raise the funding required during the week ending December 2, 2011 in the form of equity or potentially, DIP Financing. We understand the Company is in discussions with Fairfax Financial Holdings Limited to provide a commitment for such DIP Financing as may be required.

8.2 The Monitor's recommendations are as follows:

- a) Based on the foregoing information, the Monitor respectfully submits to this Honourable Court that provided that reasonable documentation is received by Pakit prior to 10:00 am on October 7, 2011 supporting the \$350,000 of equity expected to be received by November 4, 2011, it would be appropriate for the relief under the Initial Order to be

extended to December 2, 2011 with a proviso that such relief expire earlier if on November 4 or 11, 2011 the Company does not receive collections of at least \$350,000 and \$650,000 as contemplated by the Dec 30 Cash Flow Forecast, respectively.

- b) In the absence of adequate supporting documentation related to the \$350,000 of equity funding noted above, 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 28, 2011.

\*\*\*\*\*

All of which is respectfully submitted to this Honourable Court this 6th day of October, 2011.

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



---

Per: Pam K. Boparai  
Vice President

## APPENDIX A

**Pakit Inc.**

[illegible]

**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. Management assumes that they will meet prototype performance requirements in Week 16 triggering a milestone payment of approximately \$658,000. A deposit of \$99,000 was received in Week 6.
3. Certain existing investors have provided subscription agreements to invest \$600,000 on an equity basis that will be held in trust subject to Pakit Inc. being granted a CCAA extension and is expected to be available to the Company in Week 12. Additional share subscription proceeds of \$50,000 are expected to be received in Week 12 from another individual investor. Management also anticipates equity funding of \$350,000 in Week 15 and is in discussions with several parties regarding a larger equity funding. However, to date there are no commitments to receive such funding.
4. Management has assumed for the purposes of the above that absent any additional equity financing on or prior to December 2, 2011, and subject to an application for a Court Order granting DIP financing, \$1,000,000 may be available in Week 19 to fund operations while further equity financing is raised. It is noted that the Company intends to seek a Court Order permitting DIP financing and a related DIP Charge in an application to be made subsequent to October 7, 2011.
5. Other receipts during Weeks 11 to 23 include \$225,000 of VAT refunds and \$123,000 of receipts from prototyping projects to be received by Pakit International Trading Company Inc. ("Pakit International") offset by prior period other receipts that were in error and may require a repayment of \$17,000.
6. Raw materials and production costs have been forecast based on estimated costs to complete units and prototyping project in progress.
7. Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses and adjusted for certain measures to reduce disbursements to a minimum during the restructuring period. Other general and administrative costs include travel, insurance and office costs. Commission on equity fund raising has been estimated at 5% of funds raised.
8. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.
9. Other liabilities relate to amounts owed by Pakit International and Packaging International Technology Sweden AB ("PIT") prior to the Pakit Inc. filing date and are assumed to be paid if equity financing is received in order to support the ongoing operations of these entities and related receipts. These payments are forecast to include \$262,000 of payments to suppliers, \$102,000 of payments to the PIT landlord and \$25,000 of payments to patent attorneys for the period from Week 11 to Week 23.



**Pakit Inc.**  
**Non-Consolidated Weekly Cash Flow Forecast (Note 1)**  
**For the 23-week period ending December 30, 2011**  
**(\$000's)**

	October				November				December				Week 11 to		Notes
	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	Week 19	Week 20	Week 21	Week 22	Week 11 to	Week 11 to	
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
<b>Receipts</b>	<b>7-Oct</b>	<b>14-Oct</b>	<b>21-Oct</b>	<b>28-Oct</b>	<b>4-Nov</b>	<b>11-Nov</b>	<b>18-Nov</b>	<b>25-Nov</b>	<b>2-Dec</b>	<b>9-Dec</b>	<b>16-Dec</b>	<b>23-Dec</b>	<b>Week 23</b>	<b>Week 23</b>	
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	91	
Funding - Equity	-	650	-	-	350	-	-	-	-	-	-	-	1,000	2,571	2
Proposed DIP financing	-	-	-	-	-	-	-	-	1,000	-	-	-	1,000	1,000	3
Other receipts	-	-	-	-	-	(17)	-	-	-	-	-	-	(17)	78	4
<b>Total Receipts</b>	<b>1,758</b>	<b>-</b>	<b>650</b>	<b>-</b>	<b>350</b>	<b>(17)</b>	<b>-</b>	<b>-</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,983</b>	<b>3,741</b>	
<b>Disbursements</b>															
Raw materials and production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Payroll, benefits and payroll taxes	313	-	51	-	-	-	51	-	-	-	51	-	336	649	5
Research and development costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other general and administrative costs	141	-	-	-	38	-	-	18	-	-	-	-	107	249	5
Rent	36	18	-	-	-	-	-	-	18	-	-	-	54	90	5
Consulting fees	50	-	17	-	-	-	-	-	-	-	-	-	27	77	5
Other Professional fees	3	2	5	-	-	-	5	-	-	-	5	-	17	20	6
CCAA Professional fees	310	85	5	40	5	60	40	10	60	5	40	30	445	755	
Pre-filing liabilities	95	-	-	-	-	-	-	-	-	-	-	-	-	95	
Contingency	(25)	-	-	20	-	-	20	-	-	-	20	-	60	35	
<b>Total Disbursements</b>	<b>923</b>	<b>105</b>	<b>108</b>	<b>60</b>	<b>64</b>	<b>121</b>	<b>5</b>	<b>116</b>	<b>28</b>	<b>163</b>	<b>5</b>	<b>116</b>	<b>1,046</b>	<b>1,969</b>	
<b>Net Cash Flow</b>	<b>835</b>	<b>(105)</b>	<b>542</b>	<b>(60)</b>	<b>(64)</b>	<b>229</b>	<b>(22)</b>	<b>(116)</b>	<b>(28)</b>	<b>837</b>	<b>(5)</b>	<b>(116)</b>	<b>937</b>	<b>1,772</b>	
<b>Intercompany</b>															
Inflow/(outflow) - PIT	(613)	-	-	-	-	-	-	-	-	-	-	-	-	(613)	
Inflow/(outflow) - International	(546)	-	(185)	(135)	(13)	(220)	-	-	-	(31)	(120)	(114)	(997)	(1,543)	
<b>Net Cash Flow Post Intercompany</b>	<b>(323)</b>	<b>(105)</b>	<b>357</b>	<b>(195)</b>	<b>(77)</b>	<b>10</b>	<b>(22)</b>	<b>(116)</b>	<b>(28)</b>	<b>806</b>	<b>(125)</b>	<b>(230)</b>	<b>(60)</b>	<b>(384)</b>	
<b>Cash Position</b>															
Opening Cash Position	720	397	292	649	454	377	386	364	248	220	1,026	902	671	720	
<b>Closing Cash Position</b>	<b>397</b>	<b>292</b>	<b>649</b>	<b>454</b>	<b>377</b>	<b>386</b>	<b>364</b>	<b>248</b>	<b>220</b>	<b>1,026</b>	<b>902</b>	<b>671</b>	<b>461</b>	<b>336</b>	

**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.
- Certain existing investors have provided subscription agreements to invest \$600,000 on an equity basis that will be held in trust subject to Pakit Inc. being granted a CCAA extension and is expected to be available to the Company in Week 12. Additional share subscription proceeds of \$50,000 are expected to be received in Week 12 from another individual investor. Management also anticipates equity funding of \$350,000 in Week 15 and is in discussions with several parties regarding a larger equity funding. However, to date there are no commitments to receive such funding.
- Management has assumed for the purposes of the above that absent any additional equity financing on or prior to December 2, 2011, and subject to an application for a Court Order granting DIP financing, \$1,000,000 may be available in Week 19 to fund operations while further equity financing is raised. It is noted that the Company intends to seek a Court Order permitting DIP financing and a related DIP Charge in an application to be made subsequent to October 7, 2011.
- An "Other Receipt" received in Week 7 was received in error and may require repayment.
- Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses and adjusted for certain measures to reduce disbursements to a minimum during the restructuring period. Other general and administrative costs include travel, insurance and office costs.
- 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 23-week period ending December 30, 2011**  
**(\$'000's)**

	October				November				December				Week 11 to Week 23		Notes
	Week 10	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	Week 19	Week 20	Week 21	Week 22	Week 23	
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
<b>Receipts</b>															
Customer collections	99	-	-	-	-	-	658	-	-	-	-	-	-	658	2
Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other receipts	245	-	-	-	75	39	-	69	-	90	-	-	-	348	3
<b>Total Receipts</b>	344	-	-	-	75	39	658	69	-	90	-	-	-	1,006	
<b>Disbursements</b>															
Raw materials and production	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Payroll, benefits and payroll taxes	82	-	15	-	10	-	15	-	10	-	15	-	10	75	
Sales and marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Research and development costs	3	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other general and administrative costs	17	-	-	5	-	-	-	-	1	-	-	-	1	7	
Rent	11	-	-	-	-	-	-	-	-	-	-	-	-	-	
Consulting fees	3	1	-	-	-	1	-	-	-	-	-	-	-	11	
Other Professional fees	14	-	-	12	-	-	-	12	-	1	-	-	-	36	
CCAA Professional fees	-	-	-	-	-	-	-	-	-	-	-	-	-	50	
Other liabilities (pre July 12, 2011)	136	-	-	-	-	4	45	18	3	27	-	4	40	140	
Contingency	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Disbursements</b>	264	1	15	17	10	5	60	30	14	28	15	16	51	262	
<b>Net Cash Flow</b>	80	(1)	(15)	(17)	65	34	598	39	(14)	62	(15)	(16)	(51)	75	
<b>Intercompany</b>															
Inflow/(outflow) - Pakit Inc.	546	-	185	135	13	220	-	-	-	31	120	114	180	997	
Inflow/(outflow) - PTT	(484)	-	(337)	(118)	(78)	(254)	(264)	(148)	(131)	(172)	(105)	(99)	(129)	(1,886)	
<b>Net Cash Flow Post Intercompany</b>	165	(1)	(167)	-	-	-	334	(109)	(145)	(80)	-	-	-	24	
<b>Cash Position</b>															
Opening Cash Position	6	168	167	-	-	-	-	334	224	80	-	-	-	168	6
<b>Closing Cash Position</b>	168	167	-	-	-	-	334	224	80	-	-	-	-	24	

**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. Management assumes that they will meet prototype performance requirements in Week 16 triggering a milestone payment of approximately \$658,000. A deposit of \$99,000 was received in Week 6.
3. Other receipts for Weeks 11 to 23 include \$225,000 of VAT refunds and \$123,000 of receipts from prototyping projects.
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 \$25,000 for legal fees for the patent attorneys and \$115,000 for suppliers for the period from Week 11 to Week 23.

**Packaging International Technology Sweden AB**  
**Non-Consolidated Weekly Cash Flow Forecast (Note 1)**  
**For the 23-week period ending December 30, 2011**  
**(\$'000's)**

Expressed in CAD Fx Rate (1)		October				November				December				Week 11 to Week 23 Forecast Total		Notes
		Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 13 Forecast 21-Oct	Week 14 Forecast 28-Oct	Week 15 Forecast 4-Nov	Week 16 Forecast 11-Nov	Week 17 Forecast 18-Nov	Week 18 Forecast 25-Nov	Week 19 Forecast 2-Dec	Week 20 Forecast 9-Dec	Week 21 Forecast 16-Dec	Week 22 Forecast 23-Dec			
<b>Receipts</b>		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Customer collections		457	-	-	-	-	-	-	-	-	-	-	-	-	457	
Funding - Debt		4	-	-	-	-	-	-	-	-	-	-	-	-	4	
Other receipts		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Receipts</b>		462	-	-	-	-	-	-	-	-	-	-	-	-	462	
<b>Disbursements</b>		25	-	55	78	139	58	110	19	39	10	10	10	-	529	2
Raw materials and production		418	-	177	101	-	89	-	101	-	-	89	101	-	658	3
Payroll, benefits and payroll taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Sales and marketing costs		18	7	-	-	10	-	-	-	10	-	-	-	-	44	
Research and development costs		49	-	-	-	-	-	-	-	-	-	-	11	-	32	
Other general and administrative costs		153	-	11	-	-	-	-	11	-	-	-	-	-	80	
Rent		12	-	-	-	51	-	39	-	51	-	-	-	-	293	3
Consulting fees		7	-	-	-	-	7	-	-	-	-	7	-	-	33	
Other Professional fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
CCAA Professional fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Taxes (Sweden VAT)		171	-	88	-	-	88	-	-	-	88	-	-	-	265	
Other liabilities (pre July 12, 2011)		648	-	36	4	54	22	-	-	73	-	8	51	-	897	
Contingency		11	-	-	-	-	-	-	-	-	-	-	-	-	11	
<b>Total Disbursements</b>		1,505	14	356	118	78	254	148	131	172	105	99	129	51	3,424	4
<b>Net Cash Flow</b>		(1,044)	(14)	(356)	(118)	(78)	(254)	(148)	(131)	(172)	(105)	(99)	(129)	(51)	(2,962)	
<b>Intercompany</b>		613	-	-	-	-	-	-	-	-	-	-	-	-	-	
Inflow/(outflow) - Pakit Inc.		464	-	337	118	78	254	264	148	131	172	105	129	51	613	
<b>Net Cash Flow Post Intercompany</b>		33	(14)	(19)	-	-	-	-	-	-	-	-	-	-	2,350	
<b>Cash Position</b>		-	33	19	-	-	-	-	-	-	-	-	-	-	-	
Opening Cash Position		33	19	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Closing Cash Position</b>		-	-	-	-	-	-	-	-	-	-	-	-	-	-	

**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 October 3, 2011 plus the expected spread.
- Raw materials and production costs have been forecast based on estimated costs to complete units and prototyping project in progress including \$200,000 to rewire a machine for use in North America, \$124,000 for the metal frames for a machine currently located in Sweden and \$205,000 for materials required for prototyping projects.
- Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses.
- Other liabilities relate to amounts owed by PIT 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 \$146,000 for suppliers and \$102,000 of payment to the landlord during the period from Week 11 to Week 23.