



This is the 1st affidavit of
Paula Sawyers in this case and was
made on August 24, 2011

No. S-115028
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND

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

AND

IN THE MATTER OF PAKIT INC.

PETITIONER

AFFIDAVIT

I, **PAULA SAWYERS** of 95 Wellington Street West, Toronto, Ontario, lawyer, SWEAR
THAT:

1. I am in-house legal counsel at Fairfax Financial Holdings Limited ("**Fairfax**").
Accordingly, I have knowledge of the matters deposed to in this affidavit. Where this
affidavit is not based on my direct personal knowledge, it is based on information and
belief and I verily believe such information to be true.
2. This affidavit is sworn in opposition of the application of PAKIT Inc. (the "**Debtor**")
to extend the stay of proceedings granted to it pursuant to the *Companies' Creditors
Arrangement Act*, R.S.C. 1985, c. C-36, as amended, ("**CCAA**") and is sworn in
support of an application for the appointment of Grant Thornton Limited ("**Grant**")

Thornton”) as receiver and manager over the property, assets and undertaking of the Debtor, pursuant to subsection 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C., 1985, c. B-3 and section 39 of the *Law and Equity Act*, RSBC 1996, c. 253.

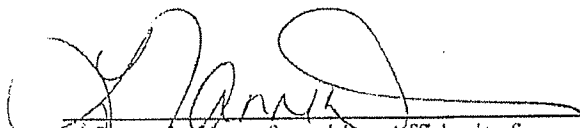
3. Fairfax is the largest secured creditor of the Debtor, and is owed in excess of \$5 million pursuant to a secured convertible debenture. This amount became due and owing as of May 31, 2011 as a result of the Debtor’s various defaults, as detailed in my affidavit sworn on July 14, 2011 and filed in Action No. S-114513.
4. Prior to the Debtor obtaining a stay of proceeding on July 28, 2011 pursuant to the CCAA (the “**Initial Stay**”), Fairfax had already lost significant confidence in the management of the Debtor (the “**Management**”).
5. This loss of confidence was based on Fairfax’s dealings with the Debtor including a review of the financial, operational, sales and management problems faced by the Debtor, including those set out in the affidavit of Craig Barton, sworn on July 13, 2011. Fairfax’s attempts to negotiate a solution respecting the Debtor’s defaults or to discuss the possibility of refinancing and/or restructuring of the Debtor failed.
6. Fairfax’s loss of confidence in the Management has only increased since the Initial Stay was granted.
7. The Management’s actions since the Initial Stay have validated Fairfax’s concerns that the Debtor will be unable to meet its commitments to Fairfax and the rest of its creditors. They also demonstrate that it is unlikely that the Management will be able

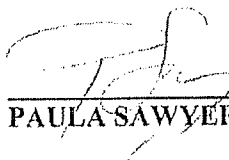
to successfully maintain the Debtor's business as a going concern and commercialize its intellectual property.

8. Fairfax was informed yesterday (August 23, 2011) that the Debtor's only customer Grupo San Cayetano ("**Cayetano**") wrote to the Debtor stating that its contract with the Debtor was at an end and that Cayetano is seeking damages from the Debtor as a result of problems with the installation of the Debtor's machines.
9. It is my understanding that as a pioneering sale, Pakit had to accept less than desired margins and payment terms in order to get one of its machines in commercial use. Once one machine was successfully installed and in commercial use for food packaging, it was expected that Pakit would have an easier time making additional sales as commercial use could be demonstrated to new buyers. I understand that it took over 2 years from the start of the relationship with Cayetano to get to the current stage with machines that are installed at the site, only to have Cayetano claim that they have failed its site acceptance test. The loss of Cayetano as a customer is a serious blow not just in terms of immediate cash flow but to future sales.
10. I have reviewed the letter sent by Cayetano to the Debtor, dated August 19, 2011. Management has lost the Debtor's only customer and approximately \$4.5 million in payments which were to be received by the Debtor over the next 2 months.
11. My review of the most recent cash flow projections provided by the Debtor indicates that Debtor has been unable to meet any of its projected milestones as outlined at the hearing for the Initial Stay.

12. The Debtor has not proposed any plan or arrangement to Fairfax. Fairfax believes the Debtor's previous financial forecasts are unattainable based upon the Debtor's current cash reserves, loss of its only customer (or severe deterioration in that relationship) and anticipated contract payments, and current and future cash flow needs.
13. On the basis of the foregoing, Fairfax will not support any proposed plan or arrangement put forward by the Debtor due to its loss of confidence in the Management, its history in dealing with the Debtor and the bleak future prospects of the Debtor succeeding as a going concern.

SWORN BEFORE ME at Toronto, Ontario
on August 24, 2011.


A Commissioner for taking Affidavits for
Ontario & Notary Public
Leigh Anne Dunn



PAULA SAWYERS