NO. ________________
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 CORPORATIONS ACT*, R.S.C. 1985, c. C-44

AND

IN THE MATTER OF PAKIT INC.

PETITIONER

AFFIDAVIT

I, Dwayne Yaretz, businessman, of 2250-1050 West Pender Street, Vancouver, SWEAR (OR AFFIRM) THAT:

1. I am the President of the Petitioner, and as such I have direct knowledge of the facts and matters hereinafter deposed to, except where stated to be on information and belief, and where so stated I verily believe them to be true.

2. I am authorized to make this affidavit on behalf of the Petitioner.

3. I have read a draft of the petition to be filed in these proceedings and the facts set out in Part 2 therein are true. Attached and marked as **Exhibit A** to this my affidavit is a true copy of

the draft of the petition that I reviewed. Capitalised terms used herein have the meeting ascribed to them in the draft Petition.

4. Attached and marked as **Exhibit B** to this my affidavit are the audited consolidated financial statements for Pakit as at year end June 30 for 2009 and 2010, and the unaudited consolidated financial statements for the nine months ended March 31, 2011, prepared by management.

5. Attached and marked as **Exhibit C** to this my affidavit are copies of correspondence I have received from new investors promising funding over the coming weeks.

6. Attached and marked as **Exhibit D** to this my affidavit is a Report on Cash-flow Statements letter explaining the preparation of the cash flow statements described below.

7. Attached and marked as **Exhibit E** to this my affidavit are current cash flow forecasts for Pakit Inc. prepared with the assistance of Alvarez and Marsal.

8. Attached and marked as **Exhibit F** to this my affidavit are current consolidated cash flow forecasts for the Pakit group prepared with the assistance of Alvarez and Marsal.

9. Attached and marked as **Exhibit G** to this my affidavit is a true copy of a valuation report for Pakit Inc., prepared by RwE Growth Partners Inc. in January 2011.

10. Attached and marked as **Exhibit H** to this my affidavit is a true copy of the service letter and Notice of Civil Claim filed by Craig Barton and Fairfax Financial Holdings Limited in their claim against Pakit Inc.

11. Attached and marked as **Exhibit I** to this my affidavit is a true copy of a British Columbia personal property registry search conducted on July 25, 2011 in respect of Pakit Inc.

12. Currently, Pakit's cash management system is monitored through its corporate head office in Vancouver for all of the Pakit entities. The Cash Management System is managed by the

Chief Financial Officer ("CFO") based in Vancouver, British Columbia, with the assistance of the President of Pakit International. Pakit maintains 18 bank accounts in 6 different currencies at five different financial institutions in Canada, the United States, Sweden, the United Kingdom and Barbados. A summary of the bank accounts by entity are as follows:

Pakit Inc. – 6 accounts
Pakit International – 8 accounts
PIT – 2 accounts
Other subsidiaries – 2 accounts

Cash requirements in each of the entities are assessed by the CFO and the President of Pakit International generally based on a review and monitoring of the accounts payable systems and weekly cash flow forecasts at the entity level. Funds are transferred from Pakit Inc. to the subsidiaries as required. For the purpose of its restructuring, Pakit will make no inter-corporate transfers exceeding $50,000 without the consent of the monitor, with the exception of the transfer to Pakit International (reflected on the cash flow at Exhibit E, note 6) to pay the salary of Anna Silva and office rent, on the basis that she provides essential financial and other services to Pakit Inc.

13. I make this affidavit in support of the Initial Order attached to the Petition in these proceedings.

SWORN BEFORE ME at the City of Vancouver, in the Province of British Columbia, this 26th day of July, 2011.	)	
A Commissioner for taking Affidavits for British Columbia	)	Dwayne Yaretz

ANDREW PILLIAR
Barrister & Solicitor
McCarthy Tétrault LLP
1300 - 777 DUNSMUIR STREET
VANCOUVER, B.C. V7Y 1K2
DIRECT 604-643-5875

This is Exhibit A referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 2011

A Commissioner for taking Affidavits
for British Columbia

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IN THE MATTER OF PAKIT INC.

PETITIONER

PETITION TO THE COURT

ON NOTICE TO:

FAIRFAX FINANCIAL HOLDINGS LIMITED and CRAIG BARTON

This proceeding has been started by the Petitioner for the relief set out in Part 1 below.

If you intend to respond to this Petition, you or your lawyer must

(a) file a Response to Petition in Form 67 in the above-named registry of this court within the time for Response to Petition described below, and

(b) serve on the Petitioner:

(i) 2 copies of the filed Response to Petition, and

(ii) 2 copies of each filed Affidavit on which you intend to rely at the hearing

Orders, including orders granting the relief claimed, may be made against you, without any further notice to you, if you fail to file the Response to Petition within the time for response.

TIME FOR RESPONSE TO PETITION

A Response to Petition must be filed and served on the Petitioner,

(a) if you were served with the Petition anywhere in Canada, within 21 days after that service,

(b) if you were served with the Petition anywhere in the United States of America, within 35 days after that service,

(c) if you were served with the Petition anywhere else, , within 49 days after that service, or

(d) if the time for response has been set by order of the court, within that time.

(1) **The address of the registry is:**

The Law Courts
800 Smithe Street
Vancouver, BC

(2) **The ADDRESS FOR SERVICE of the Petitioner is:**

McCarthy Tétrault LLP
Barristers & Solicitors
#1300 - 777 Dunsmuir Street
Vancouver, BC V7Y 1K2

Attention: Warren Milman

DIRECT FAX number for service (if any):	604-622-5704
EMAIL address for service (if any):	wmilman@mccarthy.ca

(3) **Name and office address of the Petitioner's lawyer:**

(same as above)

CLAIM OF THE PETITIONER

PART 1. ORDER SOUGHT

The Petitioner applies to this Court for:

1. a Declaration that the Petitioner is a corporation to which the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") applies;

2. an order authorizing and permitting the Petitioner to file with this Court a formal plan of compromise or arrangement between the Petitioner and its creditors (the "Plan"), pursuant to the provisions of the CCAA, at such time as may be directed by the Court;

3. an order that, upon filing of the Plan, the Petitioner call a meeting (the "Meeting") of the affected classes of their creditors to vote upon the Plan;

4. an order that, until further order of this Court, all proceedings against the Petitioner be stayed, and the Petitioner's operations be carried out in accordance with the express terms of the draft order attached to this Petition as **Schedule A** (the "Initial Order"), with liberty to seek to extend the terms of such Initial Order at the hearing of the Petition;

5. an order that the Petitioner be at liberty to serve all pleadings and notices and related materials (including the Plan) in this proceeding on any of its creditors by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, fax transmission or email to the Petitioner's creditors at their respective addresses as last shown on the records of the Petitioner, and any such service or notice by courier, personal delivery, fax transmission or email shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing, and that the time for filing a Response be abridged to 4 days;

6. such directions as may be required from time to time respecting the presentation of the Plan to the creditors of the Petitioner and, if subsequently required, a proof of claim process, conduct of the Meeting and related matters;

7. an order defining the classes of creditors of the Petitioner for the purposes of meetings with respect to, and voting upon, the Plan;

8. an order sanctioning and approving the Plan with such amendments as may be proposed by the creditors of the Petitioner and approved by the Petitioner or as may be proposed by the Petitioner;

9. an order that the orders of these proceedings shall have full force and effect in all provinces and territories of Canada and any other foreign country where creditors of the Petitioner are domiciled;

10. an order that the Monitor, with the prior consent of the Petitioner, shall be authorized to apply as it may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada, the United States of America or elsewhere, for orders which aid and complement this order and any subsequent orders of this Court and, without limitation to the foregoing, an order under Chapter 15 of the U.S. Bankruptcy Code, for which the Monitor shall be the foreign representative of the Petitioner and that all courts and administrative bodies of all such jurisdictions be requested to make such orders and to provide such assistance to the Monitor as may be deemed necessary or appropriate for that purpose;

11. an order requesting the aid and recognition of any Court or administrative body in any Province of Canada and any Canadian federal court or administrative body and any federal or state court or administrative body in the United States of America and any court or administrative body elsewhere, to act in aid of and to be complementary to this Court in carrying out the terms of the Order; and

12. such further and other orders as this Court may deem proper under the circumstances.

PART 2. FACTUAL BASIS

Petitioner

1. The Petitioner is a company incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44. The Petitioner was incorporated on August 3, 2000 under the name of 3794636 Canada Inc., changed its name to Pak-IT Technologies Inc. on March 15, 2001, and changed to its current name on August 5, 2005. The Petitioner's corporate office is located at

1050 West Pender Street, Suite 2250, Vancouver, British Columbia V6E 3S7 and its registered office is located at Suite 1300 – 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K2..

2. The Petitioner is a privately-held, non-reporting issuer. The Petitioner has operating subsidiaries in the United States, Barbados, and Sweden, as described below. The Petitioner's operations and reporting are consolidated and the Petitioner and its operating subsidiaries function as a single corporate unit.

3. The Petitioner is the sole owner of Pakit USA Company Inc. ("Pakit USA"), a company incorporated under the laws of the State of Delaware. The Petitioner is also the sole owner of Pakit International Trading Company Inc. ("Pakit International"), a company incorporated under the laws of Barbados. Pakit International in turn is the sole owner of Packaging International Technology Sweden AB ("PIT"), a company under the laws of Sweden.

4. Pakit International is also the sole owner of several dormant subsidiary companies:

(a) Pak-IT Manufacturing Co. Ltd. is a company incorporated under the laws of British Columbia;

(b) Packaging International Technology China AB is a company under the laws of Sweden; and

(c) PAKIT China Ltd. is a company incorporated under the laws of Hong Kong and is wholly owned by Packaging International Technology China AB.

5. The Petitioner, Pakit USA, Pakit International and PIT are collectively referred to in this petition as "Pakit".

6. The current directors of the Petitioner are Carl Brandes, Dwayne Yaretz, and Andrew Watson. Mr. Yaretz has been President of Pakit Inc. since June 22, 2011. Harm Geert Bos has been Senior Vice President of Operations since October 15, 2009. Daniel Byrne was appointed as the Chief Financial Officer of Pakit Inc. on January 1, 2005, and Corporate Secretary on January 13, 2011. All of these individuals are residents of British Columbia, except for Mr. Watson, who is a resident of Australia.

Pakit's Business

7. Pakit is in the business of developing clean technology solutions for the packaging industry. Pakit's strategy is aimed at replacing the technology currently producing petrochemical-based rigid plastics and styrofoam beginning with high-value-added sustainable packaging products used in food, food service and beverage segments, including the fast growing quick service restaurant market, which account for approximately 56% of global packaging consumption.

8. Pakit's proprietary cellulose fibre moulding process enables its customers to manufacture customized, scalable, environmentally sustainable packaging products with superior performance attributes and competitive per-unit costs compared to petrochemical-based non-renewable packaging or conventional rotary or thermoformed moulded fibre products.

9. Pakit uses an innovative forming process, which uses the company's proprietary "Pakit100" machines. Pakit is selling its Pakit100 machines and related tooling incorporating its proprietary technology to international packaging manufacturers who supply packaging to distributors and end-users.

Intellectual Property

10. Pakit has developed a comprehensive patent portfolio to protect its proprietary technologies. Pakit currently has 17 patent families containing filings all around the world, wherein 11 of the patent families contain granted patents (in total 31 granted patents) and six of them are in an early application stage (in total 46 pending applications), which cover the forming tools (the core of the technology), the production process and the end product. All of Pakit's patents are owned by the Barbadian subsidiary, Pakit International.

11. In 2004, Pakit acquired its first two patent families, associated technology rights relating to the fibre moulding process and also filed new patents regarding three new patent families related to the forming tools, the productions process and the end product respectively. In 2006, Pakit opened its research and development centre in Norrköping, Sweden and unveiled its Pakit100 machine prototype, supervised by Dr. Björn Nilsson, Chief Technical Officer, and filed

further patents regarding to two new patent families related the tooling process. All of Pakit's Research and Development work is managed by PIT. In 2008 Pakit completed the commercial-ready version of the Pakit100 machine, and filed a patent relating to the forming process. In 2009, Pakit announced its first sale of Pakit100 machines, and established a manufacturing relationship with ATS Automation Tooling Systems Inc. ("ATS"), described in more detail below, and filed patents for five additional patent families relating to the machine and the tooling process. In July 2010, Pakit entered into agreements for the sale of two Pakit100 machines. On April 15, 2010, Pakit announced that factory acceptance test milestones were completed for its first two machine orders, which were shipped in May 2010, and filed three additional patent families relating to improvements of the tooling process, including laminating and achieving barriers. Commissioning started in the spring of 2011 working toward a site acceptance test on these two machine orders, which is expected in August 2011.

Facilities

12. Pakit's corporate headquarters in Vancouver, British Columbia, occupy a 4,000 square foot administration facility under a lease expiring in February, 2014. Pakit also leases a 90,000 square foot facility in Norrkoping, Sweden used for its research and development under a lease expiring in December 2015. Pakit conducts its research and development at its facility in Norrkoping, making Pakit dependent on its foreign operations in areas such as packaging innovation, tooling design and prototyping.

Sales Process

13. Pakit's sales process requires considerable time and internal coordination. In addition to coordination between Pakit's sales, research and development and operations divisions and corresponding divisions of the customer, the later stages of the sales process may include several third parties along the product chain, including: the designated manufacturer of the Pakit100 machines, the converter, the retailer and the end consumer. The process evolves through several stages, and can require up to two years or more to complete.

Sales and Income Sources

14. Pakit is pursuing the commercialization of its proprietary technology through the sale of its Pakit100 machines as well as additional, recurring revenue streams from the licensing of its proprietary tooling and the supply of raw materials needed in connection with each stage of the moulded board manufacturing process. Pakit's anticipated revenue streams are:

(a) Machine Sales – Initial sale of Pakit100 machine lines. Each Pakit100 machine is sold for a price of approximately $2.5 million depending on customer specifications. In addition, Pakit is establishing relationships with major investors to develop fee-generating proprietary lease financing options and asset management solutions for its customers that could replace the outright sale of the equipment.

(b) Tooling Licenses – Pakit expects revenues of approximately $100,000 per machine per year for the tooling.

(c) Input Supply to Customers – Pakit has developed proprietary chemical recipes used in the production of moulded board products and is negotiating a commission structure with key chemical suppliers in respect of recurring orders from Pakit's customers. Pakit has entered into an agency agreement with Ekman & Co. AB, leading global pulp manufacturer to supply Pakit100 customers with pulp inputs on which Pakit will receive a sales commission.

(d) Equipment Supply to Customers – Pakit has developed partnerships with leading manufacturers of equipment required in connection with various stages of the moulded board manufacturing process. In particular, Pakit has entered into a strategic outsourcing manufacturing arrangements with ATS for the manufacture of Pakit100 forming units and entered into an arrangement with GISIP AB of Sweden for the supply to Pakit customers of microwave dryers.

15. Generally, new equipment sales are financed by cash deposits made by the client, in advance of Pakit's payments to ATS.

16. Pakit has to date sold four Pakit100 machines to Grupo San Cayetano ("Cayetano"). To date, Pakit has received approximately $2.9 million as partial payment for these four machines. Cayetano is a Spanish company that is a world leader in the manufacturing of packages for frozen food products. To be able to ramp up production to meet product demand and in lieu of waiting for the delivery of a fifth machine, Cayetano has also purchased an early version "beta" machine which Pakit did not intend to sell and had written off as part of its R&D costs.

17. Cayetano has constructed a "purpose built" facility in Spain to accommodate 20 Pakit100 machines. As well, Cayetano has purchased and upgraded a facility customized for the installation of 20 Pakit100 machines in Poland. Cayetano has indicated that it intends to install the remaining capacity of 35 machines in the Spanish and Polish facilities within the next twenty four months. Additionally, Cayetano has advised Pakit that it has acquired the land and has completed design plans for a second plant in Spain (plant #3) as well as a plant in France (plant #4) which are intended to house a minimum of 36 machines between the two facilities. All four of the Cayetano facilities are designed for expansion as demand requires.

18. Cayetano's customers include Heinz and Cadbury. More recently, Pakit introduced Marks and Spencer to Cayetano after that company approached Pakit with the request for up to 220 million ready meal trays (the annual production capacity of 4-5 Pakit100 machines).

19. With regards to payment, the first two machines have received factory acceptance by Cayetano and are expected to be commissioned and running by September, 2011. A further two machines have been ordered, and are waiting final specification and tooling requirements prior to being shipped to Cayetano in October. Prior to shipping, 90% of the purchase price will be paid to Pakit.

20. With respect to the first two machines, Pakit is expecting a payment from Cayetano, on commissioning of the first machine, of $640,000 by the end of August, 2011, a further payment of $640,000, on the commissioning of the second machine, approximately one week thereafter and two final payments of $214,000 to be made within 90 days after each $640,000 payment. A payment of $2.956 million is expected by the end of October, 2011 as a 90% deposit for the second two machines.

21. If Cayetano experiences further delays in their ability to accept the second set of two machines, Pakit is in discussions with other potential customers who may be willing to accept early delivery of the machines.

22. Pakit has also recently received four letters of intent to purchase Pakit100 machines which, if the sales proceed as contemplated, will result in at least 29 further sales of Pakit100

machines. These letters of intent come from large, well-established packaging concerns that operate on a world-wide scale. Additional letters of intent from other prospective purchasers are expected in the coming weeks.

23. Pakit has concluded a contract to collaborate with PepsiCo, Inc., the world's second largest food and beverage company, to develop new sustainable packaging products.

24. Further, recognizing that pulp and paper mills are currently suffering from an over-supply of product, Pakit has approached a major pulp mill in British Columbia about the possibility of converting a percentage of their daily pulp production into packaging products, essentially diversifying the pulp mill as a supplier of packaging utilizing Pakit technology. Pakit has received positive feedback from this corporation. The pulp mill has engaged an engineering firm to commence a site analysis.

Suppliers

25. Pakit engages outsourcing companies to manufacture equipment that incorporates its technology and then sells that equipment to its customers. In addition, Pakit has established relationships with the following partners in relation to the supply to its customers of raw materials and equipment required in connection with each stage of the moulded board manufacturing process:

(a) ATS for the manufacture of Pakit100 machines. Under the terms of its supply agreement with ATS, Pakit has granted ATS the exclusive right to manufacture and supply Pakit100 machines purchased by Pakit's customers on a worldwide basis, other than in China, where Pakit has retained the right to engage a third party to manufacture and supply Pakit100 machines;

(b) Ekman & Co. AB (Sweden), a major worldwide pulp reseller, for delivery of pulp inputs to Pakit's customers; and

(c) GISIP AB (Sweden), a manufacturer of microwave products for drying and heating in industrial processes, for the supply of microwave dryers.

26. Pakit manufactures its own tooling, which embodies Pakit's proprietary technology. Pakit intends to continue to build tools and sell them to customers. Pakit currently procures its

raw materials for tooling manufacturing, including copper beads feedstock, from a number of suppliers with whom Pakit has had long-term commercial relationships.

Employees

27. Pakit employs approximately 33 full-time salaried persons. Nine of these are located in Vancouver and are employed by the Petitioner. One employee is located in Toronto and is employed by the Petitioner. One employee is located in Chicago, Illinois, and is employed by Pakit USA. One employee is located in Barbados, and is employed by Pakit International. 21 employees are located in Norrköping, Sweden, and are employed by PIT. Virtually all of Pakit's 21 employees based in Sweden are unionized.

Capitalisation and Secured Debt

28. The Petitioner's records show that it has 105,529,647 issued shares as of July 20, 2011, held by approximately 1,196 shareholders.

29. Since 2001, Pakit has raised approximately $76.9 million in cash to fund research and development and ongoing operations through the issuance of Common Shares, Common Share purchase warrants and convertible debentures to existing and new investors. These funding efforts have included:

(a) private placements of Common Shares at prices ranging from $0.30 to $0.45 per Common Share prior to fiscal year 2005 for aggregate proceeds of $4.4 million;

(b) private placements of Common Shares at $0.75 per Common Share in fiscal 2005 for aggregate proceeds of $8.3 million;

(c) private placements of Common Shares at $1.50 per Common Share for aggregate proceeds of $20.0 million and $13.1 million, during fiscal 2006 and 2007, respectively;

(d) private placements of convertible debentures in fiscal 2008 for aggregate proceeds of $2.5 million, and private placements of convertible debentures and Common Shares in each of fiscal 2009 and 2010 at $0.50 and $1.00 per Common Share, respectively, for aggregate proceeds of $7.9 million and $14 million, respectively, including the Fairfax Debenture (as defined below);

(e) private placements of Common Shares at $1 and $0.60 in 2011 for aggregate proceeds of $5.4 million; and

(f) since June 30, 2011, a further $1,315,000 from a group of investors including Coronado Capital and Smucker's Pensions fund.

30. On September 29, 2009, Fairfax Financial Holdings Limited ("Fairfax") was issued a 12% secured convertible debenture having an aggregate principal amount of $5,000,000 (the "Fairfax Debenture"). The Fairfax Debenture was originally to have matured on March 29, 2011 but on March 22, 2011, Fairfax and Pakit agreed to extend the maturity date to September 29, 2014. The Fairfax Debenture is convertible at the option of Fairfax in whole or in part at any time into Common Shares at a conversion price of $1.00 per Common Share (the "Conversion Price"), and converts automatically into Common Shares at the Conversion Price upon the completion by the Corporation of an initial public offering at a price of $1.50 or more per Common Share. Upon any conversion of the Fairfax Debenture, Pakit has the option of paying all accrued and unpaid interest thereon through the issuance of Common Shares at the Conversion Price.

31. All debentures are secured by a security interest granted to each holder over the entire undertaking of the Petitioner. The obligations under the Fairfax Debenture are subordinated to the obligations under the other debentures referred to in paragraph 29 above (the "Senior Debentures" and each a "Senior Debenture").

32. Currently, Pakit has 93 Senior Debenture-holders holding 122 debentures. Pakit's total obligation to its current debenture holders is $8,670,430.38 in principal, plus $222,847.73 in interest, as at July 12, 2011. Of that total, $3,670,430.38 is owed to the Senior Debenture holders, with the remaining $5,000,000 owed in respect of the Fairfax Debenture.

33. HSBC Bank Canada has registered security of up to $100,000 over Pakit's corporate credit card accounts to cover those accounts. The amount owed on those cards was $86,824 as of July 12, 2011. HSBC holds a term deposit to cover that liability.

34. The assets of the Petitioner's subsidiaries are not encumbered.

Current Financial Situation

35. Pakit's current situation has been precipitated by several factors.

36. Due to a delay at Cayetano's facility in their readiness for the installation of the Pakit100 machines in Spain beginning in June 2010, the outstanding balance owed to Pakit was delayed, resulting in a cash shortfall, and remains outstanding today. The Cayetano facility has been able to install and commission the machines only since April 2011.

37. On May 26, 2011, Fairfax and certain of the Senior Debenture Holders were demanding that Pakit accept a proposed refinancing plan they had put forward. The Fairfax proposal included terms that were not acceptable to Pakit's board (e.g., the proposal involved potential for dilution of existing shareholders through the relinquishment of complete control to Fairfax, with no financing terms) and the Board therefore voted against it. Mr. Birmingham, Pakit's then CEO, abstained from the vote, on the basis that he stood to benefit personally had it been accepted (the proposal guaranteed his position).

38. At the same meeting, the Board also considered a different financing offer from a company associated with the son of one of the directors to lend Pakit $600,000 on certain terms, including a stipulation that would have granted the investor the power to appoint new management. Both Mr. Birmingham and the director related to the offeror abstained from the vote. The remaining directors approved a resolution accepting the offer, provided that certain terms were changed. The investor was not willing to change those terms and so the loan was not made.

39. In late June 2011, following the rejection of the refinancing proposal, Craig Barton, claiming to represent a majority of the Senior Debenture Holders, and Fairfax demanded that Pakit enter into a forbearance agreement with Fairfax. Pakit proposed alternate terms involving granting board representation to Fairfax and the other debenture holders, but Fairfax and Barton refused to negotiate and simply insisted that their proposal be adopted as presented.

40. The Board was unable to reach a decision on this proposed forbearance agreement. This was because, from mid December, 2010 to June 22, 2011, the Board was split into two factions

each with two voting members. That impasse rendered it difficult to strategize and execute any plans to deal with the various financial and other challenges confronting the company. The problem was only resolved in June, 2011 when the former President and CEO Brian Birmingham, who had favoured the Barton/Fairfax proposal, resigned after it became apparent that other investors were insisting on a change in management. Following his resignation, the other board member who shared his opinion also resigned. Since then, a new and independent third Board member has been appointed. Also, financing that had been contingent on the resignation of Mr. Birmingham was received from Coronado Capital Management, LLC ("Coronado") and JumpSport Inc. ("JumpSport") in the amount of $2.5 million following or in anticipation of his resignation.

41. As these events were taking place, a deadline for payment on the Senior Debentures came due. Pakit asked the Senior Debenture holders to agree to extend the terms of their debentures instead of receiving immediate repayment so that it could address its short term cash flow issues. Holders of Senior Debentures worth approximately $773,000 of the approximately $3.7 million total have agreed to the extension, holders of Senior Debentures worth approximately $476,000 have not elected, and the holders of the remaining Secured Debentures have not agreed to extend.

42. As a result, several Senior Debenture holders issued notices of default (subject to a 30 day cure period pursuant to the debentures) to Pakit, beginning on June 1, 2011. Other debenture holders treated these notices as cross-defaults, and these other debenture holders, including the largest debenture holder, Fairfax, issued their own notices of default on June 7, 2011. Fairfax also issued a notice of intention to enforce security pursuant to s. 244 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, on June 7, 2011. The ten-day notice period under those notices expired on June 17, 2011.

43. Pakit expected to have sufficient funds to pay the debenture holders within the 30 day cure period. The first notice of default was received from R. Craig Barton and a number of other debenture holders in a letter dated June 1, 2011. Mr. Barton was also the largest single debenture holder of those who had given notice. Pursuant to the terms of the debentures, Pakit's cure

period expired after July 1, 2011, which was a statutory holiday and a Friday. Pakit accordingly made arrangements for Barton and the other debenture holders who had issued notices of default on June 1 to be paid prior to expiration of the cure period.

44. Prior to July 1, 2011, Pakit had arranged for funds to be sent from the United States (from Coronado and Smucker's Pensions fund, referred to above) from the funders' American banks to Pakit's Canadian bank. However, because July 1 was a statutory holiday in Canada, although certain of the funds were sent from the United States on July 1, they were not accepted by Pakit's Canadian bank. The funders' American banks retained those funds over the weekend. Since Monday, July 4, 2011 was a statutory holiday in the United States, the funders' American banks were unable to forward the funds to Pakit's Canadian bank until July 5, 2011.

45. On July 5, Pakit attempted to stop the payments to Barton and the other debenture holders, given that the cure period had by then expired. However, it was unable to stop the payment to Barton, of approximately $300,000, which had already gone through.

46. That same day (July 5), Pakit was served with an action commenced on July 5 by Fairfax and Barton (BCSC Action No. S114513, Vancouver Registry). Among the items of relief sought in that claim, the plaintiffs seek to appoint a receiver over Pakit and its operations. Fairfax and Barton have set down an application to seek appointment of a receiver and manager for hearing on July 28, 2011.

Current Unsecured Debt

47. Pakit Inc. currently estimates its unsecured debts at approximately $4.9 million. Of this, approximately $3.3 million is an alleged liability claimed by True Partners Financial Services LLC against Pakit Inc. in a claim commenced on April 11, 2011 (BCSC Action No. S112348, Vancouver Registry). Pakit has contested this claim.

48. Of the remaining $1.6 million, Pakit Inc.'s debts include approximately $115,000 in respect of unsecured shareholder or employee loans, approximately $181,000 in respect of a previous tenancy-related matter, and approximately $121,000 to the Canada Revenue Agency for source deductions.

49. Pakit International currently has unsecured debts of approximately $2.1 million. Of this, approximately $1.6 million is owed to two contractors in connection with construction and installation costs of the Pakit100 machines.

50. PIT currently has unsecured debts of approximately $2.0 million. Of this, approximately $402,000 is owed in respect of various Swedish tax obligations since June 2011, approximately $658,000 is owed in respect of employee wages, and approximately $543,000 is owed to contractors in connection with construction and installation costs of the Pakit100 machines.

Restructuring Efforts

51. Pakit requires bridge funding to see it through this period of restructuring until its revenue sources from the sale of its products are sufficient to allow it to meet its obligations.

52. Since May 30, 2011, Pakit has raised approximately $3.8 million in new funding commitments to deal with its current financial difficulties. This funding has been raised either by the new board and management after June 22, or was contingent on a change in management before June 22. Pakit has also received several offers to commit further funds to the company in the near and long terms. These offers have been for funds both on an interim basis as bridge financing during the proposed restructuring, and over the coming 60 days to allow Pakit to submit a Plan of Arrangement that will be acceptable to its creditors.

53. An outline of the new funding offers are as follows:

(a) The Husseini Group, Inc. ("Husseini"), of Beverly Hills, California currently has approximately $4 million CAD invested in Pakit as equity. Husseini has offered further bridge financing of $500,000 CAD, to be invested in Pakit in exchange for equity by August 15, 2011;

(b) A group consisting of Coronado of Scottsdale, Arizona, Smucker's Pension fund, and Zach Easton (the "Coronado Group") is an existing investor in Pakit, with US $3.5 million presently invested in the company. Of this, Coronado and Smucker's Pension fund raised approximately $1 million, in equal contributions, which was invested in Pakit as equity on July 5, 2011 to help it deal with its immediate cash needs. When the $1 million was invested, Coronado and Smucker's Pension fund were fully aware of Pakit's present difficulties and the possibility of a court-supervised restructuring. The Coronado Group has offered to invest, with

JumpSport (described below) further monies in Pakit in the near future, and to raise a further US $20 million by October 1, 2011, subject to normal due diligence, to allow Pakit to develop a Plan of Arrangement suitable to Pakit's creditors;

(c) JumpSport, of San Jose, California, has already invested approximately CAD $250,000 in Pakit, being US $150,000 invested in May 2011, and CAD $96,000 invested on July 4, 2011. JumpSport was aware of Pakit's present difficulties when it advanced these funds on July 4. JumpSport and the Coronado Group have agreed that they will provide direct funding of US $500,000 by August 1, 2011 to Pakit's Swedish subsidiary, PIT, to allow PIT to meet its current and upcoming payroll and other necessary obligations. JumpSport and the Coronado Group have also agreed to provide US $500,000 to Pakit Inc. by August 10, 2011, and to raise a further US $20 million by October 1, 2011 to be invested in Pakit Inc.

54. Based on Pakit's current cash flow forecasts, the $1 million in bridge funding from Coronado and Husseini to Pakit Inc., together with the $500,000 funding to PIT from JumpSport should be sufficient to maintain Pakit's operations during the proposed restructuring. The further commitments of $20 million by October 1, 2011 will be sufficient to satisfy all of Pakit's obligations to its creditors.

Alternatives

55. Pakit believes that a restructuring will yield a better result for all stakeholders, including the debenture holders than the receivership currently threatened.

Monitor

56. On July 12, 2011, the Petitioner filed a Notice of Intention to Make a Proposal pursuant to s. 50.4 of the *Bankruptcy and Insolvency Act* (the "NOI"). Alvarez & Marsal Canada Inc. ("Alvarez & Marsal"), licensed trustee in bankruptcy, is the NOI trustee.

57. Alvarez & Marsal has consented to act as Monitor in these proceedings and to oversee the operations of the Petitioner, provide assistance to the management of the Petitioner during the CCAA restructuring period and generally assist the Petitioner with its restructuring efforts including the Plan of Arrangement to be put to its creditors.

58. The Petitioner expects that, with the assistance of the Monitor, it will be able to develop a marketing and business plan for the Petitioner that will show the benefits to all stakeholders of preserving Pakit as a whole such that the Petitioner will be able to present a Plan of Arrangement to its creditors for their consideration.

PART 3. LEGAL BASIS

1. *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;

2. *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended;

3. the inherent jurisdiction of this court.

PART 4. MATERIALS TO BE RELIED ON

1. Affidavit #1 of Dwayne Yaretz, sworn July 26, 2011.

The Petitioner estimates that the hearing of the Petition will take two hours.

DATED:	July 26, 2011		
			WARREN MILMAN Counsel for the Petitioner

To be completed by the court only:		
Order Made		
[ ]	in the terms requested in paragraphs .... of Part 1 of this Petition	
[ ]	with the following variations and additional terms:	
....		
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....		
....		
....		
....		

DATED:			
		Signature of	[ ] Judge
			[ ] Master

PAKIT Inc.

(a development stage company)

Consolidated Financial Statements

Years ended June 30, 2010 and 2009

This is Exhibit B referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 20 11

A Commissioner for taking Affidavits
for British Columbia

PRICEWATERHOUSECOOPERS

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Chartered Accountants
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Vancouver, British Columbia
Canada V6C 3S7
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AUDITORS' REPORT

To the Shareholders of PAKIT Inc.

We have audited the consolidated balance sheets of **PAKIT Inc.** (a development stage company) as at June 30, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
September 23, 2010

PAKIT Inc.

(a development stage company)
Consolidated Balance Sheets
As at June 30, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	1,220,034	520,419
Short-term investments (Restricted) (Note 2)	100,000	100,000
Accounts receivable (Note 3)	355,424	282,807
Vendor deposits and contracts in progress (Note 4)	3,218,703	400,000
Inventory, short-term (Note 5)	516,478	553,822
Prepaid expenses	210,773	74,380
Deferred share issue costs (Note 6)	462,639	-
	6,084,051	1,931,428
Property, plant and equipment (Note 8)	2,498,951	5,251,049
Inventory, long-term (Note 5)	2,241,504	-
	10,824,506	7,182,477
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	3,045,059	3,502,085
Customer deposits	2,919,000	426,787
Deferred revenue	100,000	-
Interest payable	452,688	347,039
Debentures payable, short-term (Note 10)	6,674,221	-
	13,190,968	4,275,911
Long-term accrued liabilities (Note 9)	797,804	632,830
Future income tax liabilities (Note 16)	131,611	-
Debentures payable, long-term (Note 10)	-	4,825,351
	14,120,383	9,734,092
Shareholders' Deficiency		
Capital stock (Note 11)	67,577,091	57,757,714
Shares issuable	61,250	46,500
Warrants (Note 12)	3,121,219	525,667
Equity portion of debentures (Note 10)	1,006,254	297,233
Contributed surplus (Note 13)	11,029,670	8,460,589
Deficit accumulated during development stage	(86,091,361)	(69,639,318)
	(3,295,877)	(2,551,615)
	10,824,506	7,182,477

Nature of operations and going concern (Note 1)
Commitments (Note 18)
Subsequent events (Note 23)

Approved by the Board of Directors

_____________________ Director _____________________ Director

PAKIT Inc.

(a development stage company)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the years ended June 30, 2010 and 2009

	2010 $	2009 $
Expenses		
Marketing and sales	2,747,574	2,084,783
Research and development	4,933,889	6,252,268
General and administration	4,566,556	4,120,661
Amortization	1,090,198	1,055,127
	13,338,217	13,512,839
Other expenses (income)		
Interest and other income	(71,119)	(7,756)
Accretion expense (Note 10)	1,829,321	327,884
Foreign exchange gain	(216,691)	(2,390)
Loss on sale of assets	-	25,858
Gain on debt extinguishment	-	(198,510)
Write-down of inventory	121,286	-
Interest expense and financing costs (Note 14)	1,257,477	947,383
	2,920,274	1,092,469
Loss before income taxes	16,258,491	14,605,308
Income tax expenses (Note 16)	193,552	59,732
Loss and comprehensive loss for the year	16,452,043	14,665,040
Deficit - Beginning of the year	69,639,318	54,974,278
Deficit - End of the year	86,091,361	69,639,318
Basic and diluted net loss per share	0.19	0.19
Weighted average number of shares outstanding – Basic and fully diluted	88,535,649	77,709,901

PAKIT Inc.

(a development stage company)
Consolidated Statements of Cash Flows
For the years ended June 30, 2010 and 2009

	2010 $	2009 $
Cash flows from operating activities		
Loss for the period	(16,452,043)	(14,665,040)
Items not affecting cash		
Amortization	1,090,198	1,055,127
Stock-based compensation expense (Note 15)	2,414,878	2,625,902
Accretion expense	1,829,321	327,884
Interest payable on debentures	328,141	322,258
Gain on debt extinguishment	-	(198,510)
Loss on disposal of property, plant and equipment	-	25,104
Write-down of inventory	121,286	-
Future income taxes	131,611	-
Shares issued for services received	65,677	-
	(10,470,931)	(10,507,275)
Cash deposits received from customers	2,492,213	426,787
Cash deposits paid to vendors	(2,818,703)	(400,000)
Changes in non-cash working capital items (Note 19)	(1,126,226)	2,381,828
	(11,923,647)	(8,098,660)
Cash flows from investing activities		
Additions to property, plant and equipment	(182,204)	(274,150)
Disposals of property, plant and equipment	4,486	-
Deferred development costs (Note 7)	-	(926,179)
	(177,718)	(1,200,329)
Cash flows from financing activities		
Net proceeds from issuance of common shares	8,538,784	4,884,704
Debentures issued	5,000,000	3,012,604
Debentures settled in cash	(441,000)	-
Deferred share issue costs	(296,804)	-
	12,800,980	7,897,308
Increase (decrease) in cash and cash equivalents	699,615	(1,401,681)
Cash and cash equivalents – beginning of the year	520,419	1,922,100
Cash and cash equivalents – end of the year	1,220,034	520,419

Supplemental cash flow information (Note 19)

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements

1. Nature of Operations and Going Concern

The Company's activities are centred on the development of cellulose fibre moulding equipment and of clean technology solutions for the packaging industry and have primarily consisted of purchasing and developing intellectual property, outsourcing the manufacturing of moulded board machines, recruiting and building research and development, marketing and sales, operations, and finance teams. The Company's proprietary cellulose fibre moulding equipment enables its customers to manufacture customized, scalable, environmentally sustainable packaging products with superior performance attributes.

The Company sells its patented technology machines to converters and distributors supplying the packaging industry. The Company's strategy is to drive demand for its equipment through both a "push" strategy focused on penetrating key converter segments and a "pull" strategy focused on large multi-national brands and retailers and other end-users seeking sustainable packaging solutions.

The Company contracts the manufacture of its moulded board machine line to experienced manufacturers who are also responsible for after sales service and warranty claims. The Company retains responsibility for the manufacture of tools supplied to customers and used with the moulded board machines. In the normal course of business, the Company first obtains deposits from customers who order its machines and then places deposits with its manufacturing partners to secure their manufacture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes the Company will be able to meet its commitments, realize its assets and discharge its liabilities in the normal course of business. The Company is in the development stage and has incurred recurring losses and negative cash flows from operations since its inception. These conditions cast significant doubt about the appropriateness of the use of the going concern assumption. At June 30, 2010, the Company had an accumulated deficit of $86,091,361 (2009 - $69,639,318), working capital deficiency of $7,106,917 (2009 - $2,344,483), and a shareholders' deficiency of $3,295,877 (2009 - $2,551,615). The Company's ability to continue its operations on a going concern basis is dependent upon its ability to obtain adequate financing (Note 22) and to reach sustainable profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain sustainable profitable levels of operation. These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Those adjustments could be material.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements

Development Stage Company

The accompanying financial statements have been prepared in accordance with the provisions of Accounting Guideline No. AcG-11, *Enterprises in the Development Stage*. The Company's significant project is described above.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and all its wholly owned subsidiaries, all of which have a year-end of June 30.

PAKIT International Trading Company Inc.
Packaging International Technology Sweden AB
PAKIT USA Inc.
Pak-IT Manufacturing Company Ltd. – Dormant
Packaging International Technology China AB – Dormant
PAKIT China Limited – Dormant
PAKIT Italy S.r.l. – wound up May 18, 2010

All significant intercompany accounts and transactions have been eliminated. All amounts are expressed in Canadian dollars, unless otherwise stated.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less. Interest earned is recognized immediately as income.

Short-Term Investments

Short-term investments consist of interest-bearing securities with maturities at the date of purchase of more than three months. These investments have been classified as "held-for-trading" financial instruments and recorded at fair value. Interest is recognized as earned in the statements of operations. The Company's bank holds these funds on a restricted basis to support the Company's credit cards.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements

Vendor Deposits and Contracts in Progress

Vendor deposits consist of contractual payments the Company has made to its outsourced suppliers for equipment being manufactured by the suppliers and for which title has not passed to the Company. When the equipment has successfully passed the Factory Acceptance Test ("FAT"), but prior to commissioning, all vendor deposits related to the equipment are then recorded as Contracts in Progress. Title passes to the Company upon commissioning of the equipment and successful passing of the Site Acceptance Test ("SAT"). Vendor deposits are then transferred to inventory and further to cost of goods sold upon recognition of the revenue associated with the sale of the equipment.

Vendor deposits are classified as current assets if the equipment that is subject to the deposits is scheduled to be delivered to and accepted by the customer within twelve months. Vendor deposits that pertain to equipment scheduled to be delivered and accepted by the Company's customers later than in twelve months' time, are classified as long-term assets.

Inventory

Raw materials, work-in-progress and finished goods are valued at the lower of cost or net realizable value. The cost of raw materials is determined on a first-in, first-out basis. Work-in-progress includes costs incurred in building moulded board machines and sub-assemblies for which the Company has title. Finished goods includes all costs related to finished tooling sets and to completed moulded board machines for which the Company has title.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis using the following estimated useful lives of the assets:

Computer hardware and software	3 years
Furniture, office equipment and vehicles	5 years
Production equipment	5 years
Demonstration equipment	5 years
Leasehold improvements	lease term

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying values of the assets may not be recoverable. If indicators of impairment exist, the recoverability of the assets is assessed by comparing their net book values to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements

Research and Development Costs/Deferred Development Costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under Canadian generally accepted accounting principles for capitalization and are included in deferred development costs. These costs are amortized to the statements of operations once revenue is recognized; deferred costs are assessed for impairment on an annual basis.

Patents and Trademarks

Patents and trademarks are expensed as incurred during the Company's development stage.

Customer Deposits

Customer deposits consist of contractual payments the Company has received from customers in advance of sales. These amounts are recognized as revenue when all criteria for recognition have been met.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statements of operations on a straight-line basis over the term of the lease.

Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted net loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted net loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. The effect of common shares issuable upon the exercise of options or warrants is anti-dilutive for all periods presented.

Foreign Currency Translation

The accounts of the Company's wholly owned foreign subsidiaries, which are considered to be integrated subsidiaries, have been translated into Canadian dollars using the temporal method of foreign currency translation. Foreign monetary assets and liabilities are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. Foreign non-monetary items are translated at the rates in effect on the dates the assets were acquired or liabilities assumed. Revenue and expenses are translated using the rate in effect on the date of the transaction, except amortization of property, plant and equipment which is translated at the same rates as the assets to which it applies. Gains and losses on translation are recorded in the statements of operations when incurred.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. Significant areas requiring the use of estimates and assumptions by Management include the determination of fair value for stock-based compensation, the valuation of convertible debentures and assessing the carrying values of property, plant and equipment and inventory.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

Share Issue Costs

Direct costs associated with an issue of capital stock are deducted from related proceeds at the time of issue. Costs associated with an issue of common stock are capitalized under "deferred share issue costs" until such time as the transactions are completed. Such costs are deducted from the related proceeds or expensed in the relevant period if no proceeds are ultimately realized.

Debt issuance Costs

Direct costs associated with an issue of debt are expensed as incurred at time of issue.

Stock-Based Compensation

Stock-based compensation expense for all employee and non-employee stock-based compensation transactions is measured at fair value. The resulting compensation expense is charged to the statements of operations over the vesting period, except for awards to non-employees whereby compensation expense is recognized when the goods or services from the non-employees are received. For stock options exercised, consideration paid plus the fair value of options previously recorded as contributed surplus is recorded as share capital on exercise of the options.

A description of the Company's employee stock option plan is disclosed in Note 15.

Convertible Debentures

Convertible debentures are compound financial instruments that represent a financial liability of the Company and an option to the holder to convert it into an equity instrument. The Company has adopted the residual approach to bifurcating the liability and equity components of the debentures by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated equity component. This method determines the carrying amount of the conversion feature as equity and the financial liability which is deducted from the face amount of the compound instrument as a whole. The liability portion of the convertible debenture is accreted over its term to the face value of the debenture. This approach has been applied to Series I and Series II convertible debentures.

For Series III convertible debentures, which include warrants, the Company has valued the warrants as an independent instrument using the Black-Scholes model and deducted its value from the face amount of the debt instrument as a whole. The Company has used the residual method (as described for Series I and II) to determine the carrying amount of the financial liability and the conversion feature as equity. The liability portion of the convertible debentures is accreted over its term to the face value of the debenture.

For Series IV convertible debentures, which include warrants, the Company has the option to pay interest in shares at $0.50 per share, and the option to extend the life of the debenture by one year. The extendible maturity is a loan extension agreement and does not need to be bifurcated and accounted for separately. The Company has used a similar valuation approach as used for Series III, with the exception of the valuation of the option to pay interest in shares component. The three series of put options to pay interest in shares (November 30, 2009, May 30, 2010, and November 30, 2010) were valued using the Black-Scholes model. As the sum of individual components was greater than the proceeds, the Company has used the relative fair value method to determine the carrying amount of the liability portion and the conversion feature as equity. The liability portion of the convertible debentures is accreted over its term to the face value of the debenture.

For Series V convertible debentures, which include warrants, the Company has the option to pay interest in Common Shares at $0.50 per share. The Company valued the warrants using the Black-Scholes model. The three series of put options to pay interest in shares (March 30, 2010, September 30, 2010 and March 30, 2011) were valued using the Black-Scholes model. As the sum of individual components was greater than the proceeds, the Company has used the relative fair value method to determine the carrying amount of the liability portion and the conversion feature as equity. The liability portion of the convertible debentures is accreted over its term to the face value of the debenture.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements

Deferred Lease Liability

Under the terms of a lease agreement, the Company received lease inducements from its landlord that include reimbursement of the cost of leasehold improvements and an initial rent-free period. These inducements are accounted for as reductions of rental expense over the term of the lease.

Financial Instruments

The Company has made the following classifications for its financial instruments:

Cash and cash equivalents and short-term investments are classified as "assets held-for-trading" and are measured at fair value at the end of each period with any resulting gains or losses recognized in operations.

Accounts receivable are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of accounts receivable is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Accounts payable, interest payable, and long-term accrued liabilities and debentures payable are classified as "other financial liabilities" and are measured at amortized cost.

Comprehensive Income

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 establishes requirement for reporting comprehensive income in a distinct financial statement set. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the statements of operations such as unrealized gains or losses on available-for-sale investments. For the years ended June 30, 2010 and 2009 the Company did not have other comprehensive income or loss; therefore, comprehensive loss for the year was equal to the loss for the year.

Future Accounting Pronouncements

In January 2008, the CICA issued Handbook Section 1582, *Business Combinations*; 1601, *Consolidated Financial Statements*; and 1602, *Non-Controlling Interests*. These sections replace the former CICA Handbook Section 1581, *Business Combinations*, and Section 1600, *Consolidated Financial Statements*, and establish a new Section for accounting for a non-controlling interest in a subsidiary. These sections also provide the Canadian equivalent to IFRS3, *Business Combinations*, and IAS-27, *Consolidated and Separate Financial Statements*.

Section 1582 is effective for business combinations for which the acquisition date is on or

PAKIT Inc.
(a development stage company)
Notes to Consolidated Financial Statements

after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 apply to annual consolidated financial statements relating to years beginning on or after January 1, 2011. These standards, at this time, are not expected to have any impact on the Company.

3. Accounts Receivable

	2010 $	2009 $
Goods and services taxes/ value-added taxes recoverable	**285,923**	274,040
Interest and other receivables	**69,501**	8,767
	355,424	282,807

4. Vendor Deposits and Contracts in Progress

To June 30, 2010, a total of $3,218,703 in contractual payments was made to the Company's outsourced suppliers for equipment being built for the Company's European customer. After the equipment was manufactured, it passed the Factory Acceptance Test, which means the costs were all recorded as Contracts in Progress. The equipment has been shipped to the European customer's facility.

	2010 $	2009 $
Vendor deposits	**-**	400,000
Contracts in progress	**3,218,703**	-
	3,218,703	400,000

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements

5. Inventory

	2010 $	2009 $
Current -		
Raw materials	**116,635**	54,821
Finished goods	**73,324**	-
Work-in-progress	**326,519**	499,001
	516,478	553,822
Long-term -		
Work-in-progress	**2,241,504**	-
	2,757,982	553,822

By the end of fiscal year 2009 a total of $1,882,048 was incurred and two sub-assemblies were completed. In fiscal 2009 the Company's intention was to complete and use these two sub-assemblies for demonstration purposes and, therefore, their costs were classified as property, plant and equipment. However, no further work was done on the two sub-assemblies in fiscal 2010.

Near the end of fiscal 2010 the Company's European customer expressed a desire to purchase the two sub-assemblies and in July 2010 (subsequent to the June 30, 2010 year-end) the Company signed a purchase and sale agreement with this customer to complete additional work in the first and second quarters of fiscal 2011 to finish the completed machines. The agreement between the Company and its customer states that the customer takes title to the completed machines on final payment, which is scheduled for July 1, 2011.

As a result of the change of intention the cost of the sub-assemblies was reclassified in fiscal 2010 to inventory in anticipation of the completed sale. See also, Note 8, "Property, Plant and Equipment".

6. Deferred Share Issue Costs

In 2010 a total of $462,639 was incurrred related to costs associated with proposed initial public offering efforts. The costs will be netted against future financing proceeds.

PAKIT Inc.
(a development stage company)
Notes to Consolidated Financial Statements

7. Deferred Development Costs

Deferred development costs represent costs associated with the design, construction and completion of moulded board machines.

	2010 $	2009 $
Deferred development costs – Beginning of year	-	3,602,748
Deferred development costs incurred	-	926,179
Transfer to demonstration equipment – PP&E	-	(2,147,878)
Transfer to demonstration equipment in progress – PP&E	-	(1,882,048)
Transfer to inventory	-	(499,001)
Provision and write-off of deferred development costs	-	-
Deferred development costs – End of year	-	-

8. Property, Plant and Equipment

			2010
	Cost $	Accumulated amortization $	Net $
Computer hardware and software	567,312	529,270	38,042
Furniture, office equipment and vehicles	331,552	269,409	62,143
Production equipment	2,082,246	1,153,247	928,999
Demonstration equipment	2,300,504	920,202	1,380,302
Leasehold improvements	672,609	583,144	89,465
	5,954,223	3,455,272	2,498,951

	2009		
	Cost $	Accumulated amortization $	Net $
Computer hardware and software	500,809	475,843	24,966
Furniture, office equipment and vehicles	319,858	211,534	108,324
Production equipment	2,121,196	799,985	1,321,211
Demonstration equipment	2,147,878	429,576	1,718,302
Demonstration equipment in progress	1,882,048	-	1,882,048
Leasehold improvements	646,263	450,065	196,198
	7,618,052	2,367,003	5,251,049

By the end of fiscal year 2009 a total of $1,882,048 related to two sub-assemblies that were intended to be completed and used for demonstration purposes were classified as "demonstration equipment". However, in fiscal 2010, no further work was done on the two sub-assemblies.

Near the end of fiscal 2010 the Company's European customer expressed a desire to purchase the two sub-assemblies and in July 2010 (subsequent to the June 30, 2010 year-end) the Company signed a purchase and sale agreement with this customer to complete the machines in fiscal 2011. As a result of the change of intention the cost of the sub-assemblies was reclassified in fiscal 2010 to inventory in anticipation of the completed sale. (See also Note 5, "Inventory")

9. Accounts Payable and Accrued Liabilities

	2010 $	2009 $
Current liabilities		
Trade accounts payable	**1,001,802**	1,078,813
Payroll liabilities	**826,459**	939,965
Accrued liabilities	**537,533**	1,148,565
Deferred lease liability	**11,489**	38,742
Other liabilities/provisions	**667,776**	296,000
	3,045,059	3,502,085

In March 2010 a settlement was reached in the termination of an employment contract between the Company and an executive in Italy. Of the original amount of $296,000 (€191,000) accrued in 2009, a new settlement was reached and a final payment of $47,000

(€33,000) was made. During the year ended June 30, 2010, the Company terminated employment contracts of two executives. In accordance with the termination settlements, a total of $667,776 has been accrued.

	2010 $	2009 $
Long-term liabilities		
Swedish social security costs	**797,804**	632,830

These liabilities arise as a result of stock options granted to the Company's Swedish employees. Under Swedish law, the Company must make provision for social security costs on the fair value of the stock options granted. The social security costs are payable when the options are exercised.

10. Debentures Payable

Debentures with a face amount of $2,479,500 (Series I) were issued in the year ended June 30, 2008, with an interest rate of 12% per annum, maturing on May 30, 2010. The principal sum of these debentures will be automatically converted into common shares on the date that the Company successfully closes a financing for gross proceeds of at least $20 million, and all accrued and unpaid interest will be due and payable on such date. The conversion price will be set by the per share price at which common shares are sold in connection with the financing. Since the financing did not occur by October 31, 2008, the principal and accrued interest are due and payable on the maturity date. The debenture holders, however, have the option to convert the principal to common shares at $1.50 per share on the maturity date. The Company provided collateral for the debentures consisting of all of the Company's property, assets and undertakings until the debentures are settled.

The proceeds of this offering were allocated as follows: debentures payable - $2,135,125 and the conversion option of debentures at $1.50 per share (equity) - $344,375.

In 2009, the Company proposed a change of the Series I debentures terms through a Series II debentures offering. The debentures carry the same terms and conditions as Series I with the exception of being automatically convertible on the date of completion of an initial public offering (IPO). As of June 30, 2009, debentures with a face amount of $1,124,175 were held by debenture holders of Series II. The proceeds of this offering were allocated as follows: debentures payable - $980,986 and the conversion option of debentures at $1.50 per share (equity) - $143,189.

In March 2009, the Company issued Series III of a convertible debenture for gross proceeds of $331,000 maturing on May 30, 2010 (maturity date) with an interest rate of 12% per annum. The debentures are automatically convertible into the Company's common shares upon IPO completion at $1.00 per share if it occurs prior to the maturity date, otherwise the obligation will be due and payable on the maturity date. Debenture holders have the option to convert the principal to common shares at $1.00 per share on the maturity date. In addition, the Series III debenture holders were given a warrant for each $1.00 of the debenture held, which can be exercised at a price of $1.00 for the next 24 months. The proceeds of this offering were allocated as follows: debentures payable - $289,582, the conversion option of debenture of $1.00 per share (equity) - $904, and warrants - $40,514.

In May 2009, the Company issued Series IV convertible debentures for gross proceeds of $3,970,430 maturing on May 30, 2010 with an interest rate of 12% per annum. The maturity can be extended for one year to May 30, 2011 at the option of the issuer. In addition, the Company has the option to pay the interest accrued in common shares at $0.50 per share. Similar to Series III, the debenture is automatically convertible into common shares if the Company completes an IPO at a conversion price of $1.00 per share. Additionally, the Series IV debenture holders are given a warrant to purchase common shares at $1.00 per share for every $1.00 invested for the next 24 months. The proceeds of this offering were allocated as follows: debentures payable: $3,340,380, conversion equity - $360,808, and warrants - $485,153. The amount allocated to the option to pay interest in shares was $215,911.

On September 29, 2009, a debenture with a face value of $5.0 million was issued to Fairfax Financial Holdings Ltd. ("Fairfax") with an interest rate of 12% per annum, maturing on March 29, 2011. The principal of this debenture will automatically be converted into common shares on the closing date of IPO if it occurs prior to the maturity date at the per share value of $1.50 or more (assuming no share splits or consolidations have occurred prior to or at the IPO). All accrued and unpaid interest will be due and payable on such date. If the IPO financing is structured in other securities, automatic conversion will be in the form of such securities, calculated using its subscription price subject to the minimum price clause mentioned above. Otherwise, the principal and accrued interest will become due and payable on the maturity date. The debenture holder, however, has the option to convert the principal to common shares at $1.00 per share on the maturity date. The Company provided collateral for the debentures consisting of all of the Company's property, assets, and undertakings after the previous debentures series had been settled. The debenture has warrants to purchase five million common shares at $1.00 per share and five million common shares at $0.50 per share, both prior to September 29, 2014. On December 16, 2009 the Company and Fairfax reached an agreement giving the Company the option to purchase the five million $0.50 warrants at $1.00 per warrant until September 29, 2012, which would net Fairfax $5.0 million, and as well, changing the maturity date of the debenture to September 29, 2014. The extension of the maturity date to September 2014 is conditional upon the Company obtaining additional financing exceeding $10 million prior to completion of an Initial Public Offering ("IPO"). The proceeds of this offering were allocated as follows: debentures payable - $1,543,091, conversion equity - $1,069,155 and warrants - $2,595,552. The Company has the option to pay the interest accrued in common shares at $0.50 per share. The amount allocated to this option to pay interest in shares was $207,798.

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On April 21, 2010, the Company extended the Series IV maturity date from May 30, 2010 to May 30, 2011.

In May 2010, the Company amended the maturity date of the convertible debentures for Series I, II, III and IV from May 30, 2010 to May 19, 2010, upon which the principal sum became due and payable by the Company including any unpaid interest on the principal sum in respect of the period ending on the amended maturity date which was payable by the Company on May 30, 2010. In return, the Company provided the option to debenture holders of Series I, II and III to convert the debentures into common shares of the Company at a conversion price of $1.00 per common share or have the debentures repaid in cash.

On May 19, 2010, of Series I, II and III debentures, 1,007,175 debentures were converted to common shares of the Company at $1.00 per common share (see also Note 11, "Capital Stock"). By June 30, 2010, $441,000 was paid to debenture holders who elected to have their debentures paid out in cash. A remaining balance of $73,500 was paid to debenture holders subsequent to June 30, 2010.

Interest expense for the year ended June 30, 2010 was $1,091,176 (2009 - $524,674).

Debentures series – Face Value	**Series I $**	**Series II $**	**Series III $**	**Series IV $**	**Series V $**	**Total $**
Balance – June 30, 2008	2,479,500	-	-	-	-	2,479,500
Issued	17,000	2,364,508	625,097	6,000	-	3,012,605
Converted from						
I to II	(2,405,000)	2,405,000	-	-	-	-
I to IV	(25,000)	-	-	25,000	-	-
II to IV	-	(3,645,333)	-	3,645,333	-	-
III to IV	-	-	(294,097)	294,097	-	-
Balance – June 30, 2009	66,500	1,124,175	331,000	3,970,430	-	5,492,105
Issued	-	-	-	-	5,000,000	5,000,000
Converted to Shares	(66,500)	(620,675)	(320,000)	-	-	(1,007,175)
Paid out	-	(503,500)	(11,000)	-	-	(514,500)
Balance – June 30, 2010	**-**	**-**	**-**	**3,970,430**	**5,000,000**	**8,970,430**

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	2010 $	2009 $
Total Face Value	**8,970,430**	5,492,105
Conversion option of debentures – equity	**(1,429,963)**	(513,540)
Option to pay interest in shares – equity	**423,709**	216,307
Equity portion of debentures	**(1,006,254)**	(297,233)
Warrants-equity	**(3,121,219)**	(525,667)
Proceeds on issuance allocated to debentures payable	**4,842,957**	4,669,205
Cumulative accretion	**2,183,977**	354,656
Gain on extinguishment	**(198,510)**	(198,510)
Debentures payable	**6,828,424**	4,825,351
Equity-component reclassification on debenture pay-out and conversion	**(154,203)**	-
Short-term	**6,674,221**	-
Long-term	**-**	4,825,351
Total debentures payable	**6,674,221**	4,825,351

11. Capital Stock

Authorized:
Unlimited common shares, no par value
Issued:

	Number of shares	Amount $
Balance – June 30, 2007	74,764,250	52,877,251
Exercise of options	25,000	42,257
Balance – June 30, 2008	74,789,250	52,919,508
Gross proceeds on shares issued for cash	9,790,904	4,895,952
Share issuance costs	-	(57,746)
Balance – June 30, 2009	84,580,154	57,757,714
Gross proceeds on shares issued for cash	9,054,420	9,018,172
Shares issued for debenture interest	444,937	222,469
Shares issued for debenture conversion	1,007,175	1,007,175
Shares issued for services received	65,677	65,677
Share issuance costs	-	(494,116)
Balance – June 30, 2010	**95,152,363**	**67,577,091**

The debentures issued in fiscal years 2010 and 2009 contain conversion into shares features which are addressed in Notes 11 and 13.

12. Warrants

	Number of Warrants	Amount $
Warrants outstanding – June 30, 2007 and 2008	-	-
Issued		
Series III	331,000	40,514
Series IV	3,960,430	485,153
Warrants outstanding – June 30, 2009	4,291,430	525,667
Issued		
Series V	10,000,000	2,595,552
Warrants outstanding – June 30, 2010	**14,291,430**	**3,121,219**

In 2009, the Company issued warrants to Series III and IV debenture holders. The warrants allow the debenture holders to purchase the Company's shares at $1.00 for every $1.00 of principal invested prior to May 30, 2011.

In 2010, the Company issued 10 million warrants to Series V debenture holders. Five million warrants allow the debenture holders to purchase the Company's shares at $1.00 per share and five million warrants at $0.50 per share, both prior to September 29, 2014. The Company has the option to purchase the 5 million $0.50 warrants at $1.00 per warrant until September 29, 2012.

13. Contributed Surplus

	$
Balance – June 30, 2007	3,384,911
Stock-based compensation expense for the year	2,454,533
Stock options exercised	(4,757)
Balance – June 30, 2008	5,834,687
Stock-based compensation expense for the year	2,625,902
Balance – June 30, 2009	8,460,589
Stock-based compensation expense for the year	2, 414,878
Equity component reclassification on debenture pay-out and conversion	154,203
Balance – June 30, 2010	**11,029,670**

14. Interest Expense and Financing Costs

	2010 $	**2009** $
Interest expense	**13,297**	22,637
Interest on debentures	**1,091,176**	524,674
Financing costs	**153,004**	204,291
Commissions paid	-	177,637
Other financing costs	-	18,144
	1,257,477	947,383

15. Stock-Based Compensation

In 2005, the Company adopted a stock option plan (the Plan) that allows directors, officers, employees and consultants to acquire shares of the Company at a fixed price. In fiscal 2006, the aggregate number of unissued shares available for eligible persons to acquire pursuant to options granted under the Plan was not to exceed 10% of all issued and outstanding shares. In fiscal 2007, the Board of Directors approved the increase to 15% of all issued and outstanding shares. Subsequent to year-end, on August 13, 2010, at a Special Shareholders' Meeting, shareholders approved the Stock Option Plan.

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For options issued under the Plan to existing employees, the exercise price of each option equals the fair value of the common stock on the date of grant. Subject to Board approval and ratification, options are granted under the Plan with a four year vesting period (25% vesting on each anniversary date), and expire 10 years after the grant date. At June 30, 2010, the Company had 1,051,150 (2009 – 1,329,673) stock options available for future grants pursuant to the Plan.

The following table summarizes activity under the Company's stock option plan as at June 30, 2010:

		Before re-pricing	After re-pricing
	Number of options	Weighted average exercise price $	Weighted average exercise price $
Outstanding – June 30, 2008	9,573,800	1.74	0.95
Granted	2,900,000	0.94	0.82
Forfeited	(1,116,450)	(1.97)	(1.97)
Outstanding – June 30, 2009	11,357,350	1.52	0.91
Granted	3,026,242	1.00	1.00
Forfeited	(122,700)	(3.28)	(3.28)
Cancelled	(1,030,000)	(1.00)	(1.00)
Outstanding – June 30, 2010	**13,230,892**	**1.42**	**0.97**

The following table summarizes information about stock options outstanding and exercisable at June 30, 2010:

Exercise price $	Number of outstanding options	Weighted average years to expiry	Weighted average exercise price $	Number of exercisable options	Weighted average exercise price $
0.45	800,000	4.51	0.45	800,000	0.45
1.00	12,430,892	7.52	1.00	10,658,535	1.00
	13,230,892	7.34	0.97	11,458,535	0.96

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During the year ended June 30, 2010, the Company recognized a stock-based compensation expense of $2,414,878 (2009 - $2,625,902) related to the stock options issued to employees and directors.

The fair value of each stock option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used during 2010, and 2009:

	June 30, 2010	**June 30, 2009**
Risk-free interest rate	3.19% to 3.66%	3.09% to 2.64%
Dividend yield	0.00%	0.00%
Expected life	10 years	10 years
Volatility	76.15% to 83.04%	66.53% to 81.66%

The standard terms under the Plan are a vesting period of four years and the exercise price should not be lower than the fair value of the Company's share price. The following transactions are exceptions to these terms:

On March 31, 2008, a total of 100,000 options were granted to a director. These options have a vesting period of two years. On September 4, 2008, a total of 1,115,800 options previously granted at an exercise price of $4.00 were re-priced to $1.50. On the same date, a total of 100,000 options were granted to a director. These options have a vesting period of two years.

On February 27, 2009, a total of 500,000 options with an exercise price of $1.50 were granted to directors. These options vested immediately. On April 1, 2009, a total of 8,497,350 options with an exercise price of $1.50 were re-priced to $1.00. On May 20, 2009, a total of 1,030,000 options were granted to directors and an officer and have a vesting period of twelve months and an exercise price of $1.00. On the same day, a total of 1,030,000 options were granted to directors and an officer at an exercise price of $0.50 and vested immediately.

On November 27, 2009, the 1,030,000 stock options granted to directors and an officer on May 20, 2009 with a vesting period of twelve months and an exercise price of $1.00 were cancelled. In the year ended June 30, 2010, a total of $385,800 was recorded as an expense related to the cancellation as an acceleration of vesting under CICA Handbook Section 3870. Also on November 27, 2009, the 1,030,000 stock options with an exercise price of $0.50 granted to directors and an officer on May 20, 2009 had the exercise price increased to $1.00.

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On March 16, 2010, 100,000 options, with an exercise price of $1.00 and vesting immediately, were granted to a director.

Between October 31, 2009 and April 5, 2010, 56,667 options, with an exercise price of $1.00 and vesting immediately, were granted to an advisor to the Company. The options were granted on a monthly basis as follows: October 31, 2009 – 5,000 options; November 30, 2009 to March 31, 2010 – 10,000 options per month; April 5, 2010 – 1,667 options.

On May 18, 2010, 1,125,864 options with an exercise price of $1.00 were granted to employees of the Company vesting as follows: 276,442 immediately; 281,462 on May 18, 2011; 281,462 on May 18, 2012; 191,664 on May 18, 2013; and 94,834 on May 18, 2014.

On June 25, 2010, 1,225,000 options with an exercise price of $1.00 were granted to directors of the Company and vested immediately.

Under the Plan, the Board of Directors has the right to vary the terms of the options. The Board has exercised that right in every exception noted above.

16. Income Taxes

The Company has the following non-capital losses available to reduce taxable income of future years:

Expiry date	Canada $	Barbados $	Total $
June 30			
2011	-	181,141	181,141
2012	-	397,186	397,186
2013	-	465,377	465,377
2014	772,970	395,406	1,168,376
2015	2,340,971	9,451,022	11,791,993
2016	-	9,335,185	9,335,185
2017	-	13,098,484	13,098,484
2018	-	10,055,001	10,055,001
2019		11,073,461	11,073,461
2026	1,353,207	-	1,353,207
2027	1,277,737	-	1,277,737
2028	26,550	-	26,550
2029	1,153,130	-	1,153,130
2030	1,591,690		1,591,690
	8,516,255	54,452,263	62,968,518

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Future tax assets and liabilities comprise the following:

	2010 $	2009 $
Future income tax assets		
Non-capital losses	**3,490,370**	3,259,600
Share issuance and financing costs	**220,262**	326,915
Property, plant and equipment	**154,403**	123,400
Patents	**823**	
Deferred lease benefit	**2,872**	9,685
	3,868,730	3,719,600
Valuation allowance	**(3,868,730)**	(3,719,600)
Net future income tax assets	**-**	-
Future income tax liabilities		
Property, plant and equipment	**86,538**	-
Untaxed income	**45,073**	-
Net future income tax liabilities	**131,611**	-

Management believes there is sufficient uncertainty regarding the realization of future tax assets such that a full valuation allowance has been provided.

The income tax provision for the respective years differs from the amount obtained by multiplying the applicable statutory income tax rate to the loss before income taxes as follows:

	2010	2009
Statutory income tax rate	**29.26%**	32.81%
	$	$
Income tax recovery based on statutory rate	**(4,768,073)**	(4,414,853)
Permanent differences and other	**1,457,208**	827,432
Change in valuation allowance	**149,130**	241,383
Change in statutory rate	**37,303**	42,219
Amounts deductible for tax purposes	**(123,529)**	(81,941)
Foreign tax rate differential	**3,151,511**	3,247,009
Loss expiry	**165,335**	198,483
Foreign exchange	**124,667**	-
Provision for income taxes	**193,552**	59,732

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17. Related Party Transactions

During fiscal 2009, several small temporary loans aggregating to $200,000 at 0% interest and with no fixed repayment terms, were obtained from a director and repaid in full. There was no outstanding balance at the end of the fiscal year.

During fiscal 2009, a director purchased debentures in the total amount of $200,000 and $100,000 of the Company's shares. In addition, two officers purchased Company shares for a total amount of $200,000.

During the year ended June 30, 2010, payments of $67,433 related to advisory fees and $54,069 related to debentures interest were made to directors of the Company. In addition, two directors purchased $620,000 of Common Shares of the Company and $200,000 in debenture principal repayment was made to a former Director who stepped down from the Board during fiscal 2010.

18. Commitments

The Company is committed to the following leases:

a. An operating lease for the Vancouver office – the lease has a term of five years which commenced on December 1, 2005, and is to be fully completed and terminated on November 30, 2010.

b. An offer to lease for the Vancouver office – the lease has a term of ten years which commences on December 1, 2010 with an option of renewal of five years upon twelve months' written notice prior to the lease expiration date. The operating lease is expected to be entered into in early fiscal 2011.

c. A rental agreement for the Sweden office – the rental period is five years, January 1, 2006 to December 31, 2010. The agreement has been extended for a five year period: from January 1, 2011 to December 31, 2015.

d. A rental agreement for a residence in Barbados has been provided to the President of Pakit International as per their employment contract – the rental period is three years, July 6, 2010 to June 30, 2013. After 18 months, the Company has the option to cancel the rental agreement without penalty. After the three-year period, both the Lessor and Lessee have the option to extend the rental agreement.

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A schedule of the committed minimum lease payments associated with these leases is as follows:

Year ending June 30	Canada $	Barbados $	Sweden $	Total $
2010	19,823	-	89,907	109,730
2011	132,730	76,003	401,153	609,886
2012	170,902	76,003	442,677	689,582
2013	180,369	76,003	442,677	699,049
2014	187,132	-	442,677	629,809
2015	187,132	-	442,677	629,809
2016	196,599	-	221,339	417,938
	1,074,687	228,009	2,483,107	3,785,803

PAKIT International Trading Company Inc. has a firm purchase order with ATS Automation Tooling Systems Inc. the remaining commitment of which totals $658,600.

19. Supplemental Cash Flow Information

	2010 $	2009 $
Cash paid for interest	**774,785**	233,901
Cash paid for taxes	**134,781**	47,658

Changes in non-cash working capital items

	2010 $	2009 $
Accounts receivable	**(72,617)**	162,074
Inventory	**(596,023)**	38,824
Prepaid expenses	**(26,198)**	404,987
Accounts payable and accrued liabilities	**(365,553)**	1,775,943
Deferred share issue costs	**(165,835)**	-
Deferred revenue	**100,000**	-
	(1,126,226)	2,381,828

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20. Segmented Financial Information

The Company operates in one operating segment: the development of moulded board machines for manufacture and sale. The following is a breakdown of capital assets by geographic location:

	Canada $	Sweden $	Barbados $	Total $
As of June 30, 2010				
Property, plant, and equipment	108,180	2,389,729	1,042	2,498,951
As of June 30, 2009				
Property, plant, and equipment	99,432	5,150,575	1,042	5,251,049

21. Capital Disclosure

The Company considers share capital, contributed surplus, and debt instruments, including warrants and equity conversion features, as capital. The Company's objectives when managing its capital structure are to provide sufficient capital to advance the sales of its products, meet the Company's obligations as they come due, allow the Company to pursue additional intellectual property rights related to products within the Company's strategic plans, and to provide the ability to absorb reasonably anticipated shocks to its business resulting from the various risks it is exposed to.

The Company's officers and senior management take full responsibility for managing the Company's capital and do so through regular meetings and review of financial information. The Company's Board of Directors is responsible for overseeing this process.

The Company monitors its capital structure and may make adjustments to it in light of changes in the Company's financial performance, changes in economic conditions, and the risk characteristics of the underlying assets. Such adjustments may include the issuance of new shares or new debt instruments.

There has been no change with respect to the overall capital risk management strategy for the year ended June 30, 2010. The method used by the Company to manage its capital has been the issuance of new share capital and debt instruments (Notes 10 and 11).

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22. Financial Instruments

Fair Value

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and interest payable approximate their fair values because of their short-term maturities.

The carrying value of long-term accrued liabilities approximates fair value as the carrying value is based on a black scholes formula linked to stock based compensation expense, which reflects fair value.

The carrying value of debentures payable approximates fair value because effective interest rates approximate current market rates for similar debt instruments.

Financial Risk Management

The Company is exposed to a variety of financial risks, including risks related to credit, foreign currency, liquidity, and interest.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, trade accounts receivable, VAT/GST receivable, and advances to vendors. The Company has established guidelines including diversification and customer credit evaluation to ensure safety and liquidity of its cash.

Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in foreign exchange will affect the Company's future cash flows or valuation of its financial instruments. The Company has exposure to foreign currency risk related to the Company's business transactions denominated in currencies other than the Canadian dollar.

The Company's business transactions are primarily related to research, development, and commercialization of its products denominated in Swedish Krona (SEK) and Euro (EUR). The Company believes that although the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, such change would not impair or enhance its ability to settle its foreign denominated obligations.

The Company is also exposed to fluctuation in US dollars (USD) on expenses related to marketing and sales services provided by its subsidiary. However, the Company does not

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currently view its exposure to USD as a significant risk due to the limited volume of transactions conducted by the Company in this currency.

Current liabilities include balances in foreign currencies. The amounts in Canadian Dollars (CAD) of $1,120,481 (2009 - $1,100,348) and $5,041 (2009 - $423,265) pertain to amounts in Swedish krona (SEK) and United States Dollars (USD), respectively. Several amounts included in current and long-term liabilities are denominated in foreign currencies - SEK and USD.

A +/- 5% fluctuation in SEK would have an impact of +/- $259,000, and in USD an impact of +/- $13,000 on the net loss for the year ended June 30, 2010.

Liquidity Risk

The Company is continually raising finance to ensure sufficient funds for operations. In addition, the Company's senior management regularly monitor and review both actual and forecasted cash flows.

Additional information relating to liquidity risk is disclosed in Note 1.

Interest Risk

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position, and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investments interest rates due to the short-term nature and size of its investments. Excess cash is invested in highly rated investment securities at fixed interest rates primarily with maturities of three months or less. Debentures carry a fixed interest rate and are not subject to interest rate risk.

23. Subsequent Events

Subsequent to June 30, 2010, and as of August 31, 2010, a total of 2,022,250 shares were issued for gross proceeds of $2,022,250, $30,000 of which pertained to services provided and $1,992,250 for cash.

Subsequent to year-end, on August 13, 2010, at a Special Shareholders' Meeting, shareholders approved the Company's Stock Option Plan.

Also, subsequent to June 30, 2010, and as of August 31, 2010, a total of 32,000 stock options were granted to an officer of Pakit International Trading Company Inc. and 40,000 to an employee of Pakit Inc.

In early July 2010, the Company's European customer executed another contract for the purchase of two machine lines and provided a deposit in accordance with the contract.

PAKIT Inc.

(a development stage company)

Consolidated Financial Statements

9 months ended March 31, 2011, and 2010 and
Years ended June 30, 2010, 2009, and 2008

PAKIT Inc.

(a development stage company)
Consolidated Balance Sheets

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Assets			
Current assets			
Cash and cash equivalents	(86,474)	1,220,034	520,419
Short-term investments (Restricted) (Note 2)	100,000	100,000	100,000
Accounts receivable (Note 3)	404,866	355,424	282,807
Vendor deposits and contracts in progress (Note 4)	3,680,270	3,218,703	400,000
Inventory – short term (Note 5)	4,457,092	516,478	553,822
Prepaid expenses and deposits	205,931	210,773	74,380
Deferred share issue costs	518,942	462,639	-
	9,280,627	6,084,051	1,931,428
Property, plant and equipment (Note 8)	1,822,996	2,498,951	5,251,049
Inventory – long term (Note 5)	346,377	2,241,504	-
	11,450,000	10,824,506	7,182,477
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (Note 9)	9,502,060	3,045,059	3,502,085
Customer deposits	3,015,257	2,919,000	426,787
Deferred revenue	200,000	100,000	-
Interest payable	156,947	452,688	347,039
Debentures payable – short term (Note 10)	3,955,028	6,674,221	-
	16,829,292	13,190,968	4,275,911
Long-term accrued liabilities (Note 9)	905,540	797,804	632,830
Future income tax liabilities (Note 16)	131,611	131,611	-
Debentures payable – long term (Note 10)	5,000,000	-	4,825,351
	22,866,443	14,120,383	9,734,092
Shareholders' (Deficiency)/Equity			
Capital stock (Note 11)	71,123,952	67,577,091	57,757,714
Shares issuable	18,000	61,250	46,500
Warrants (Note 13)	3,121,219	3,121,219	525,667
Equity portion of debentures (Note 10)	1,006,254	1,006,254	297,233
Contributed surplus (Note 12)	11,847,962	11,029,670	8,460,589
Deficit accumulated during development stage	(98,533,830)	(86,091,361)	(69,639,318)
	(11,416,443)	(3,295,877)	(2,551,615)
	11,450,000	10,824,506	7,182,477

Nature of operations and going concern (Note 1)
Commitments (Note 18)
Subsequent events (Note 23)

PAKIT Inc.

(a development stage company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

	9 month periods ended March 31,		Years ended June 30,		
	2011 $ (Unaudited)	2010 $ (Unaudited)	2010 $	2009 $	2008 $
Revenue					
Sale of machines	319,975	-	-	-	-
Cost of goods sold	1,447	-	-	-	-
Gross profit	318,528	-	-	-	-
Expenses					
Marketing and sales	1,347,709	1,482,032	2,747,574	2,084,783	1,296,613
Research and development	3,485,796	3,286,732	4,933,889	6,252,268	7,730,225
General and administration	3,745,948	2,569,338	4,566,556	4,120,661	3,932,690
Amortization	777,705	712,483	1,090,198	1,055,127	602,617
	9,357,159	8,050,585	13,338,217	13,512,839	13,562,145
Other expenses (income)					
Interest and other income	(31,585)	(65,491)	(71,119)	(7,756)	(251,765)
Accretion expense (Note 10)	2,280,807	1,291,363	1,829,321	327,884	26,772
Foreign exchange (gain) loss	310,129	(62,201)	(216,691)	(2,390)	103,235
Loss (gain) on sale of assets	(7,702)	(58)	-	25,858	(9,476)
Gain on debt extinguishment	-	-	-	(198,510)	-
Write-down of inventory	-	-	121,286	-	-
Interest expense and financing costs (Note 14)	847,617	899,464	1,257,477	947,383	31,340
	3,399,266	2,063,077	2,920,274	1,092,469	(99,894)
Loss before income taxes	12,437,897	10,113,662	16,258,491	14,605,308	13,462,251
Provision for current income taxes (Note 16)	4,575	9,307	193,552	59,732	58,396
Loss and comprehensive loss for the period	12,442,472	10,122,969	16,452,043	14,665,040	13,520,647
Deficit - Beginning of the period	86,091,361	69,639,318	69,639,318	54,974,278	41,453,631
Deficit - End of the period	98,533,833	79,762,287	86,091,361	69,639,318	54,974,278
Basic and diluted net loss per share	0.13	0.12	0.19	0.19	0.18
Weighted average number of shares outstanding – Basic and fully diluted	98,129,627	87,229,312	88,535,649	77,709,901	74,782,263

PAKIT Inc.

(a development stage company)
Consolidated Statements of Cash Flows

	9 month periods ended March 31, 2011 $ (Unaudited)	9 month periods ended March 31, 2010 $ (Unaudited)	Years ended June 30, 2010 $	Years ended June 30, 2009 $	Years ended June 30, 2008 $
Cash flows from operating activities					
Loss for the period	(12,442,472)	(10,122,969)	(16,452,043)	(14,665,040)	(13,520,647)
Items not affecting cash					
Amortization	777,706	712,483	1,090,198	1,055,127	602,617
Stock-based compensation expense	818,292	854,094	2,414,878	2,625,902	2,454,533
Accretion expense and interest payable on debentures	3,084,311	1,686,548	2,157,462	650,143	51,553
Gain on debt extinguishment	-	-	-	(198,510)	-
Provision and write-off of deferred development costs	-	-	-	-	405,711
Loss (gain) on disposal of property, plant and equipment	673	-	-	25,103	(9,476)
Write-down of inventory	-	-	121,286	-	-
Future Income taxes	-	-	131,611	-	-
Shares issued for services received	92,205	-	65,677	-	-
	(7,669,285)	(6,869,844)	(10,470,931)	(10,507,275)	(10,015,709)
Cash received from customer deposits	381,788	854,000	2,492,213	426,787	-
Cash paid to vendor deposits	(118,901)	(2,095,831)	(2,818,703)	(400,000)	-
Changes in non-cash working capital items (Note 19)	172,303	(1,294,696)	(1,126,226)	2,381,828	(163,307)
	(7,234,095)	(9,406,371)	(11,923,647)	(8,098,660)	(10,179,016)
Cash flows from investing activities					
Additions to property, plant and equipment	(75,573)	(13,168)	(182,204)	(274,150)	(897,971)
Disposals of property, plant and equipment	-	-	4,486	-	-
Deferred development costs (Note 7)	-	-	-	(926,179)	(158,473)
	(75,573)	(13,168)	(177,718)	(1,200,329)	(1,056,444)
Cash flows from financing activities					
Net proceeds from issuance of common shares	3,353,262	4,244,536	8,538,784	4,884,704	-
Debentures issued	-	5,000,000	5,000,000	3,012,604	2,479,500
Debentures settled in cash	-	-	(441,000)	-	-
Funds received from shareholder loans	298,000	-	-	-	-
Funds received from other loans	2,408,200	-	-	-	-
Exercise of options	-	-	-	-	37,500
Deferred share issue costs	(56,302)	-	(296,804)	-	-
	6,003,160	9,244,536	12,800,980	7,897,308	2,517,000
Decrease in cash and cash equivalents	(1,306,508)	(175,003)	699,615	(1,401,681)	(8,718,460)
Cash and cash equivalents – Beginning of the period	1,220,034	520,419	520,419	1,922,100	10,640,560
Cash and cash equivalents – End of the period	(86,474)	345,416	1,220,034	520,419	1,922,100

Supplemental cash flow information (Note 19)

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
As at March 31, 2011 and 2010 and years ended June 30, 2010, 2009, and 2008

1. Nature of Operations and Going Concern

The Company's activities are centred on the development of cellulose fibre moulding equipment and of clean technology solutions for the packaging industry and have primarily consisted of purchasing and developing intellectual property; outsourcing the manufacturing of moulded board machines; recruiting and building research and development, marketing and sales, operations, and finance teams. The Company's proprietary cellulose fibre moulding equipment enables its customers to manufacture customized, scalable, environmentally sustainable packaging products with superior performance attributes.

The Company sells its patented technology machines to converters and distributors supplying the packaging industry. The Company's strategy is to drive demand for its equipment through both a "push" strategy focused on penetrating key converter segments and a "pull strategy focused on large multi-national brands and retailers and other end-users seeking sustainable packaging solutions.

The Company contracts the manufacture of its moulded board machine line to experienced manufacturers who are also responsible for after sales service and warranty claims. PAKIT retains responsibility for the manufacture of tools supplied to customers and used with the moulded board machines. In the normal course of business the Company first obtains deposits from customers who order its machines and then places deposits with its manufacturing partners to secure their manufacture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes the Company will be able to meet its commitments, realize its assets and discharge its liabilities in the normal course of business. The Company is in the development stage and has incurred recurring losses and negative cash flows from operations since its inception. These conditions cast significant doubt about the appropriateness of the use of the going concern assumption. At March 31, 2011, the Company had an accumulated deficit of $98,533,833 (fiscal 2010 - $86,091,361), working capital deficiency of $16,659,380 (fiscal 2010 – $7,106,917), and a shareholders' deficiency of $11,416,443 (fiscal 2010 $3,295,877). The Company's ability to continue its operations on a going concern basis is dependent upon its ability to obtain adequate financing (Note 21) and to reach sustainable profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain sustainable profitable levels of operation. These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Those adjustments could be material.

Development Stage Company

The accompanying financial statements have been prepared in accordance with the provisions of Accounting Guideline No. AcG-11, Enterprises in the Development Stage. The Company's significant project is described above.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
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2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and all its wholly owned subsidiaries, all of which have a year-end of June 30.

PAKIT International Trading Company Inc.
Packaging International Technology Sweden AB
Pak-IT Manufacturing Company Ltd. – Dormant
Packaging International Technology China AB – Dormant
PAKIT China Limited – Dormant
PAKIT USA Inc.

All significant intercompany accounts and transactions have been eliminated. All amounts are expressed in Canadian dollars, unless otherwise stated.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less. Interest earned is recognized immediately as income.

Short-Term Investments

Short-term investments consist of interest-bearing securities with maturities at the date of purchase of more than three months. These investments have been classified as "assets held-for-trading" financial instruments and recorded at fair value. Interest is recognized as earned in the statements of operations. The Company's bank holds these funds on a restricted basis to support the Company's credit cards.

Vendor Deposits

Vendor deposits consist of contractual payments the Company has made to its outsourcing supplier in advance of the product being built and provided by the supplier. Vendor deposits are classified as current assets as the products which are the subject of the deposits to the vendors will be delivered to customers and accepted by them within 12 months.

Inventory

Raw materials and work-in-progress are valued at the lower of cost or net realizable value. The cost of raw materials is determined on a first-in, first-out basis. Work-in-progress includes the costs incurred in building moulded board machines and sub-assemblies.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
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Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line basis using the following estimated useful lives of the assets:

Computer hardware and software	3 years
Furniture and fixtures	5 years
Office equipment	5 years
Production equipment	5 years
Vehicles	5 years
Leasehold improvements	lease term

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying values of the assets may not be recoverable. If indicators of impairment exist, the recoverability of the assets is assessed by comparing their net book values to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

Research and Development Costs/Deferred Development Costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under Canadian generally accepted accounting principles for capitalization and are included in deferred development costs. These costs are amortized to the statements of operations once revenue is recognized; deferred costs are assessed for impairment on an annual basis. Deferred development costs relate to the design and construction of moulded board machines.

Patents and Trademarks

Patents and trademarks are expensed as incurred during the Company's development stage.

Customer Deposits

Customer deposits consist of contractual payments the Company has received from customers in advance of sales. These amounts are recognized as revenue when all criteria for recognition have been met.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statements of operations on a straight-line basis over the term of the lease.

Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted net loss per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted net loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. The effect of common shares issuable upon the exercise of options or warrants would be anti-dilutive for all periods presented.

Foreign Currency Translation

The accounts of the Company's wholly owned foreign subsidiaries, which are considered to be integrated subsidiaries, have been translated into Canadian dollars using the temporal method of foreign currency translation. Foreign monetary assets and liabilities are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. Foreign non-monetary items are translated at the rates in effect on the dates the assets were acquired or liabilities assumed. Revenue and expenses are translated using the rate in effect on the date of the transaction, except amortization of property, plant and equipment which is translated at the same rates as the assets to which it applies. Gains and losses on translation are recorded in the statement of operations when incurred.

Use of Estimates and Measurement Uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

The Company incurred approximately $4.5 million of development costs (Note 5) associated with the development of its moulded board machines, which was reclassified to property, plant, and equipment and inventory. The recoverability of such costs is dependent upon cash flows generated by future sales of moulded board machines. It is reasonably possible that the recorded amount for deferred development costs could change by a material amount in the near term.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

Share Issue Costs

Direct costs associated with an issue of capital stock are deducted from related proceeds at the time of issue.

Debt issuance Costs

Direct costs associated with an issue of debt are expensed as incurred at time of issue.

Stock-Based Compensation

Stock-based compensation expense for all employee and non-employee stock-based compensation transactions are measured at fair value. The resulting compensation expense is charged to the statements of operations over the vesting period, except for awards to non-employees whereby compensation expense is recognized when the goods or services from the non-employees are received. For stock options exercised, consideration paid plus the fair value of options previously recorded as contributed surplus is recorded as share capital on exercise of the options.

A description of the Company's employee stock option plan is disclosed in Note 15.

Convertible Debentures

Convertible debentures are compound financial instruments that represent a financial liability of the Company and an option to the holder to convert it into an equity instrument. The Company has adopted the residual approach to bifurcating the liability and equity components of the debentures by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated equity component. The carrying amount of the financial liability calculated using this method is deducted from the face amount of the compound instrument as a whole. The liability portion of the convertible debenture is accreted over its term to the face value of the debenture. This approach has been applied to Series I and Series II convertible debentures.

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(a development stage company)
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For Series III convertible debentures, which include warrants, the Company has valued the warrants as an independent instrument using the Black-Scholes model and deducted its value from the face amount of the debt instrument as a whole. Secondly, the Company has used the residual method (as described for Series I and II) to determine the carrying amount of the financial liability and the conversion feature as equity. The liability portion of the convertible debentures is accreted over its term to the face value of the debenture.

For Series IV convertible debentures, which include warrants, there is the option to pay interest in shares at 2 shares per $1.00 of interest ($0.50 per share), and the option to extend the life of the debenture by one year. The extendible maturity is a loan extension agreement and does not need to be bifurcated and accounted for separately. The Company has used a similar valuation approach as used for Series III, with the exception of the valuation of the option to pay interest in shares component. The three series of put options to pay interest in shares (November 30, 2009, May 30, 2010, and November 30, 2010) were valued using the Black-Scholes model. As the sum of individual components was greater than the proceeds, the Company has used the relative fair value method to determine the carrying amount of the liability portion and the conversion feature as equity. The liability portion of the convertible debentures is accreted over its term to the face value of the debenture.

Deferred Lease Liability

Under the terms of a lease agreement, the Company received lease inducements from its landlord that include reimbursement of the cost of leasehold improvements and an initial rent-free period. These inducements are accounted for as reductions of rental expense over the term of the lease.

Financial Instruments

Financial Instruments

The Company has made the following classifications for its financial instruments:

Cash and cash equivalents and short-term investments are classified as "assets held-for-trading" and are measured at fair value at the end of each period with any resulting gains or losses recognized in operations.

Accounts receivable are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurement of accounts receivable is at amortized cost, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Accounts payable, interest payable, and long-term accrued liabilities and debentures payable are classified as "other financial liabilities" and are measured at amortized cost.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
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Comprehensive Income

CICA Handbook Section 1530 establishes requirement for reporting comprehensive income in a distinct financial statement set. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the statements of operations such as unrealized gains or losses on available-for-sale investments. For the years ended June 30, 2009, 2008, and 2007 the Company did not have other comprehensive income or loss; therefore, comprehensive loss for the year was equal to the loss for the year.

Future Accounting Pronouncements

In January 2008, the CICA issued Handbook Section 1582, *Business Combinations*; 1601, *Consolidated Financial Statements*; and 1602, *Non-Controlling Interests*. These sections replace the former CICA Handbook Section 1581, *Business Combinations*, and Section 1600, *Consolidated Financial Statements*, and establish a new Section for accounting for a non-controlling interest in a subsidiary. These sections also provide the Canadian equivalent to IFRS-3, *Business Combinations*, and IAS-27, *Consolidated and Separate Financial Statements*.

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 apply to annual consolidated financial statements relating to years beginning on or after January 1, 2011. These standards, at this time, are not expected to have any impact on the Company.

3. Accounts Receivable

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Goods and services taxes/value-added taxes recoverable	248,648	285,923	274,040
Interest and other receivables	156,218	69,501	8,767
	404,866	355,424	282,807

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
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4. Vendor Deposits and Contracts in Progress

To March 31, 2011, a total of $3,680,270 in contractual payments was made to the Company's outsourced suppliers for equipment being built for the Company's European customer. After the equipment was manufactured, it passed the Factory Acceptance Test, which means the costs were all recorded as Contracts in Progress. The equipment has been shipped to the European customer's facility.

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Vendor deposits	-	-	400,000
Contracts in progress	3,680,270	3,218,703	-
	3,680,270	3,218,703	400,000

5. Inventory

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Current -			
Raw materials	128,820	116,635	54,821
Finished goods	66,685	73,324	-
Work-in-progress	4,261,587	326,519	499,001
	4,457,092	516,478	553,822
Long-term -			
Work-in-progress	346,377	2,241,504	-
	4,803,469	2,757,982	553,822

By the end of fiscal year 2009 a total of $1,882,048 was incurred and two sub-assemblies were completed. In fiscal 2009 the Company's intention was to complete and use these two sub-assemblies for demonstration purposes and, therefore, their costs were classified as property, plant and equipment. However, no further work was done on the two sub-assemblies in fiscal 2010.

Near the end of fiscal 2010 the Company's European customer expressed a desire to purchase the two sub-assemblies and in July 2010 (subsequent to the June 30, 2010 year-end) the Company signed a purchase and sale agreement with this customer to complete additional work during fiscal 2011 to finish the completed machines. The agreement between the Company and its customer states that the customer takes title to the completed machines on final payment, which is scheduled for August, 2011.

As a result of the change of intention the cost of the sub-assemblies was reclassified in fiscal 2010 to inventory in anticipation of the completed sale. See also, Note 7, "Property, Plant and Equipment".

PAKIT Inc.

(a development stage company)
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6. Deferred Share Issue Costs

In 2011 a total of $56,303 (fiscal 2010 - $462,639) was incurred related to costs associated with proposed initial public offering efforts. The costs will be netted against future financing proceeds.

7. Deferred Development Costs

Deferred development costs represent costs associated with the design, construction and completion of moulded board machines.

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Deferred development costs – Beginning of period	-	-	3,602,748
Deferred development costs incurred	-	-	926,179
Transfer to demonstration equipment – PP&E	-	-	(2,147,878)
Transfer to construction-in-progress – PP&E	-	-	(1,882,048)
Transfer to inventory	-	-	(499,001)
Provision and write-off of deferred development costs	-	-	-
Deferred development costs – End of period	-	-	-

As of June 30, 2008, deferred development costs mainly represented the costs to build a prototype machine and the costs of partially completing three sub-assemblies.

In 2009, the Company incurred a further $926,179 of costs to undertake additional work on the three sub-assemblies. Management determined that the prototype machine would be used for demonstration purposes and thus its costs were reclassified to property, plant, and equipment. Management further determined that costs associated with two of the sub-assemblies should be reclassified to property, plant, and equipment as construction-in-progress since the intention is to complete two additional demonstration machines for use in Sweden and Canada. Costs of the third sub-assembly have been reclassified to inventory (as work-in-progress) since management's intention is to complete and sell the unit in 2011.

PAKIT Inc.

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8. Property, Plant and Equipment

	March 31, 2011 (Unaudited)		
	Cost $	Accumulated amortization $	Net $
Computer hardware and software	614,875	568,051	46,824
Furniture, office equipment and vehicles	321,752	298,157	23,595
Production equipment	1,617,234	1,108,402	508,832
Demonstration equipment	2,790,870	1,591,373	1,199,497
Leasehold improvements	672,609	649,405	23,204
Installation/Commissioning Equip.	26,848	5,804	21,044
	6,044,188	4,221,192	1,822,996

	June 30, 2010		
	Cost $	Accumulated amortization $	Net $
Computer hardware and software	567,312	529,270	38,042
Furniture, office equipment and vehicles	331,552	269,409	62,143
Production equipment	2,082,246	1,153,247	928,999
Demonstration equipment	2,300,504	920,202	1,380,302
Leasehold improvements	672,609	583,144	89,465
	5,954,223	3,455,272	2,498,951

	June 30, 2009		
	Cost $	Accumulated amortization $	Net $
Computer hardware and software	500,809	475,843	24,966
Furniture and fixtures	261,410	154,751	106,659
Office equipment	44,921	44,921	-
Production equipment	2,121,196	799,985	1,321,211
Demonstration equipment	2,147,878	429,576	1,718,302
Demonstration equipment in progress	1,882,048	-	1,882,048
Vehicles	13,527	11,862	1,665
Leasehold improvements	646,263	450,065	196,198
	7,618,052	2,367,003	5,251,049

9. Accounts Payable and Accrued Liabilities

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Current liabilities			
Trade accounts payable	3,643,110	1,001,802	1,078,813
Other payables	3,310,200	-	-
Payroll liabilities	1,178,330	826,459	939,965
Accrued liabilities	434,988	537,533	1,148,565
Due to shareholders	306,362	-	-
Deferred lease liability	-	11,489	38,742
Other liabilities/provisions	629,070	667,776	296,000
	9,502,060	3,045,059	3,502,085

As of August 13, 2008, the employment contract between the Company and the Managing Director of the subsidiary in Italy was terminated. As a result, and in accordance with the termination and non-compete clauses, the amount of $296,000 (€191,000), which is under negotiation, was accrued. On March 15, 2010 the final settlement agreement was reached for a total payment of $47,000 (€33,000).

During the year ended June 30, 2010, the Company terminated employment contracts of two executives. In accordance with termination settlements, a total of $667,776 has been accrued. On July 22, 2010, a payment of $205,000 was made towards these settlements.

During fiscal year 2011, the Company negotiated a lease settlement agreement for $648,920 with a balance outstanding of $213,418 as at March 31, 2011.

During fiscal 2011, the Company negotiated with a potential investor from December 2010 until February 2011 when commercial terms could not be finalized. During the negotiations, this potential investor advanced $3,190,200 in funds to the Company, which were to be repaid by March 31, 2011.

At the end of March 2011, a total of $306,362 is due to shareholders who have advanced funds to the Company. The loans are payable on demand, of which one loan of $150,000 carries an annual interest rate of 18% with the remaining loans carrying an annual interest rate of 20% that will be charged on the loans with any outstanding principal commencing 48 hours after demand for payment has been made.

	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Long-term liabilities			
Swedish social security costs	905,540	797,804	632,830

These liabilities arise as a result of stock options granted to the Company's Swedish employees. Under Swedish law, the Company must make provision for social security costs on the fair value of the stock options granted. The social security costs are payable when the options are exercised.

10. Debentures Payable

Debentures with a face amount of $2,479,500 (Series I) were issued in the year ended June 30, 2008, with an interest rate of 12% per annum, maturing on May 30, 2010. The principal sum of these debentures will be automatically converted into common shares on the date that the Company successfully closes a financing for gross proceeds of at least $20 million, and all accrued and unpaid interest will be due and payable on such date. The conversion price will be set by the per share price at which common shares are sold in connection with the financing. Since the financing did not occur by October 31, 2008, the principal and accrued interest are due and payable on the maturity date. The debenture holders, however, have the option to convert the principal to common shares at $1.50 per share on the maturity date. The Company provided collateral for the debentures consisting of all of the Company's property, assets and undertakings until the debentures are settled.

The proceeds of this offering were allocated as follows: debentures payable - $2,135,125 and the conversion option of debentures at $1.50 per share (equity) - $344,375.

In 2009, the Company proposed a change of the Series I debentures terms through a Series II debentures offering. The debentures carry the same terms and conditions as Series I with the exception of being automatically convertible on the date of completion of an initial public offering (IPO). As of June 30, 2009, debentures with a face amount of $1,124,175 were held by debenture holders of Series II. The proceeds of this offering were allocated as follows: debentures payable - $980,986 and the conversion option of debentures at $1.50 per share (equity) - $143,189.

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In March 2009, the Company issued Series III of a convertible debenture for gross proceeds of $331,000 maturing on May 30, 2010 (maturity date) with an interest rate of 12% per annum. The debentures are automatically convertible into the Company's common shares upon IPO completion at $1.00 per share if it occurs prior to the maturity date, otherwise the obligation will be due and payable on the maturity date. Debenture holders have the option to convert the principal to common shares at $1.00 per share on the maturity date. In addition, the Series III debenture holders were given a warrant for each $1.00 of the debenture held, which can be exercised at a price of $1.00 for the next 24 months. The proceeds of this offering were allocated as follows: debentures payable - $289,582, the conversion option of debenture of $1.00 per share (equity) - $904, and warrants - $40,514.

In May 2009, the Company issued Series IV convertible debentures for gross proceeds of $3,970,430 maturing on May 30, 2010 with an interest of 12% per annum. The maturity can be extended for one year to May 30, 2011 at the option of the issuer. In addition, the Company has the option to pay the interest accrued in common shares at $0.50 per share. Similar to Series III, the debenture is automatically convertible into common shares if the Company completes an IPO at a conversion price of $1.00 per share. Additionally, the Series IV debenture holders are given a warrant to purchase common shares at $1.00 per share for every $1.00 invested for the next 24 months. The proceeds of this offering were allocated as follows: debentures payable- $3,340,380, conversion equity - $360,808, and warrants - $485,153. The amount allocated to the option to pay interest in shares was $215,911.

On September 29, 2009, a debenture with a face amount of $5M was issued to Fairfax Financial Holdings Ltd. ("Fairfax") with an interest rate of 12% per annum, maturing on March 29, 2011. The principal of this debenture will be automatically converted into common shares on the closing date of IPO if it occurs prior to the maturity date at the per share value of $1.50 or more (assuming no share splits or consolidations have occurred prior to or at the IPO). All accrued and unpaid interest will be due and payable on such date. If the IPO financing is structured in other securities, automatic conversion will be in the form of such securities, calculated using its subscription price subject to the minimum price clause mentioned above. Otherwise, the principal and accrued interest will become due and payable on the maturity date. The debenture holder, however, has the option to convert the principal to common shares at $1.00 per share on the maturity date. The Company provided collateral for the debentures consisting of all of the Company's property, assets, and undertakings after the previous debentures series had been settled. The debenture has warrants to purchase five million common shares at $1.00 per share and five million common shares at $0.50 per share, both prior to September 29, 2014. On December 16, 2009, the Company and Fairfax reached an agreement giving the Company the option to purchase the five million $0.50 warrants at $1.00 per warrant until September 29, 2012, which would net Fairfax $5.0 million, and, as well, changing the maturity date of the debenture to September 29, 2014. The extension of the maturity date to September 2014 is conditional upon the Company obtaining additional financing exceeding $10 million prior to completion of an Initial Public Offering ("IPO"). The proceeds of this offering were allocated as follows: debentures payable- $1,543,091, conversion equity $1,069,155 and warrants $2,595,552. The amount allocated to the option to pay interest in shares was $207,798.

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On April 21, 2010, the Company has extended Series IV maturity date from May 30, 2010 to May 30, 2011.

In May 2010, the Company amended the maturity date of the convertible debentures for Series I, II, III, and IV from May 30, 2010 to May 19, 2011, upon which the principal sum became due and payable by the Company including any unpaid interest on the principal sum in respect of the period ending on the amended maturity date which was payable by the Company on May 30, 2010. In return, the Company provided the option to debenture holders of Series I, II, and III to convert the debenture into common shares of the Company at a conversion price of $1.00 per common share or have the debentures repaid in cash.

On May 19, 2010 of Series I, II, and III debentures, 1,007,175 debentures were converted to common shares of the Company at $1.00 per common share (see also Note 11, "Capital Stock"). By June 30, 2010, $441,000 was paid to debenture holders who elected to have their debentures paid out in cash. A remaining balance of $73,500 was paid to debenture holders subsequent to June 30, 2010.

Interest accrued for the nine month period ended March 31, 2011 was $806,616 (Fiscal 2010 - $1,091,176, Fiscal 2009 - $524,674).

Debentures series – Face Value	**Series I** $	**Series II** $	**Series III** $	**Series IV** $	**Series V** $	**Total** $
Balance – June 30, 2008	2,479,500	-	-	-	-	2,479,500
Issued	17,000	2,364,508	625,097	6,000	-	3,012,605
Converted from						
I to II	(2,405,00)	2,405,000	-	-	-	-
I to IV	(25,000)	-	-	25,000	-	-
II to IV	-	(3,645,333)	-	3,645,333	-	-
III to IV	-	-	(294,097)	294,097	-	-
Balance – June 30, 2009	66,500	1,124,175	331,000	3,970,430	-	5,492,105
Issued	-	-	-	-	5,000,000	5,000,000
Converted to shares	(66,500)	(620,675)	(320,000)	-	-	(1,007,175)
Paid out	-	(503,500)	(11,000)	-	-	(514,500)
Balance – June 30, 2010	-	-	-	3,970,430	5,000,000	8,970,430
Balance – March 31, 2011 (Unaudited)	-	-	-	3,970,430	5,000,000	8,970,430

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	March 31, 2011 $ (Unaudited)	June 30, 2010 $	June 30, 2009 $
Total Face Value	8,970,430	8,970,430	5,492,105
Conversion option of debentures – equity	(1,429,963)	(1,429,963)	(513,540)
Option to pay interest in shares – equity	423,709	423,709	216,307
Equity portion of debentures	(1,006,254)	(1,006,254)	(297,233)
Warrants – equity	(3,121,219)	(3,121,219)	(525,667)
Proceeds on issuance allocated to debentures payable	4,842,957	4,842,957	4,669,205
Cumulative accretion	4,464,784	2,183,977	354,656
Gain on extinguishment	(198,510)	(198,510)	(198,510)
	9,109,231	6,828,424	4,825,351
Equity – component reclassification on debenture pay-out and conversion	(154,203)	(154,203)	-
Short-term	3,955,028	6,674,221	-
Long-term	5,000,000	-	4,825,351
Total debentures payable	8,955,028	6,674,221	4,825,351

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11. Capital Stock

Authorized:
Unlimited common shares, no par value

Issued:

	Number of Shares	Amount $
Balance – June 30, 2007	74,764,250	52,877,251
Exercise of options	25,000	42,257
Balance – June 30, 2008	74,789,250	52,919,508
Gross proceeds on shares issued for cash	9,790,904	4,895,952
Share issuance costs	-	(57,746)
Balance – June 30, 2009	84,580,154	57,757,714
Gross proceeds on shares issued for cash	9,115,671	9,018,172
Shares issued for debentures interest	444,937	222,469
Shares issued for debenture conversion	1,007,175	1,007,175
Shares issued for services received	65,677	65,677
Share issuance costs	-	(494,116)
Balance – June 30, 2010	95,213,614	67,577,091
Gross proceeds on shares issued for cash	3,342,686	2,819,408
Shares issued for debentures interest	1,680,287	791,264
Shares issued for services received	133,675	92,205
Share issuance costs	-	(156,016)
Balance – March 31, 2011 (Unaudited)	100,370,262	71,123,952

The debentures issued in fiscal years 2008, 2009 and period ended March 31, 2010 contain conversion into shares features and are addressed in Notes 10 and 13.

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12. Contributed Surplus

	$
Balance – June 30, 2007	3,384,911
Stock-based compensation expense for the year	2,454,533
Stock options exercised	(4,757)
Balance – June 30, 2008	5,834,687
Stock-based compensation expense for the year	2,625,902
Stock options exercised	-
Balance – June 30, 2009	8,460,589
Stock-based compensation expense for the year	2,414,878
Stock options exercised	-
Equity-component reclassification on debenture pay-out and conversion	154,203
Balance – June 30, 2010	11,029,670
Stock-based compensation expense for the period	818,292
Stock options exercised	-
Balance – March 31, 2011 (Unaudited)	11,847,962

13. Warrants

	Number of Warrants	Amount $
Warrants outstanding – June 30, 2007 and 2008	-	-
Issued		
Series III	331,000	40,514
Series IV	3,960,430	485,153
Warrants outstanding – June 30, 2009	4,291,430	525,667
Issued		
Series V	10,000,000	2,595,656
Warrants outstanding – June 30, 2010	14,291,430	3,121,323
Warrants outstanding – March 31, 2011 (Unaudited)	14,291,430	3,121,323

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In 2009, the Company issued warrants to Series III and IV debenture holders. The warrants allow the debenture holders to purchase Company's shares at $1.00 for every $1.00 of principal invested prior to May 30, 2011.

In 2010, the Company issued 10 million warrants to Series V debenture holders. Five million of warrants allow the debenture holders to purchase Company's shares at $1.00 per share and five million at $0.50 per share, both prior to September 29, 2014. The Company has the option to purchase the five million $0.50 warrants at $1.00 per warrant until September 29, 2012.

14. Interest Expense and Financing Costs

	9 month periods ended March 31,		Years ended June 30,		
	2011 $ (Unaudited)	2010 $ (Unaudited)	2010 $	2009 $	2008 $
Interest expense	41,001	12,745	13,297	22,637	2,164
Interest on debentures	806,616	795,554	1,091,176	524,674	29,176
Financing costs	-	54,000	153,004	204,291	-
Commissions paid	-	-	-	177,637	-
Other financing costs	-	37,165	-	18,144	-
	847,617	899,464	1,257,477	947,383	31,340

15. Stock-Based Compensation

In 2005, the Company adopted a stock option plan (the Plan) that allows directors, officers, employees and consultants to acquire shares of the Company at a fixed price. In fiscal 2006, the aggregate number of unissued shares available for eligible persons to acquire pursuant to options granted under the Plan was not to exceed 10% of all issued and outstanding shares. In fiscal 2007, the Board of Directors approved the increase to 15% of all issued and outstanding shares. On August 13, 2010 the Shareholders approved the Stock Option Plan at a special Shareholders' Meeting.

For options issued under the Plan to existing employees, the exercise price of each option equals the fair value of the common stock on the date of grant. Options are granted under the Plan with a four-year vesting period (25% vesting on each anniversary date), and expire 10 years after the grant date. At March 31, 2011, the Company had 1,913,025 (Fiscal 2010 – 1,051,150; Fiscal 2009 – 1,329,673) stock options available for future grants pursuant to the Plan.

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The following table summarizes activity under the Company's stock option plan as at March 31, 2011:

	Number of options	Before re-pricing: Weighted average exercise price of outstanding options $	After re-pricing: Weighted average exercise price of exercisable options $
Outstanding – June 30, 2008	9,573,800	1.74	0.95
Granted	2,900,000	0.94	0.82
Forfeited	(553,000)	(1.54)	(1.54)
Cancelled	(563,450)	(2.40)	(2.40)
Outstanding – June 30, 2009	11,357,350	1.52	0.91
Granted	3,026,242	1.00	1.00
Forfeited	(122,700)	(3.28)	(3.28)
Cancelled	(1,030,000)	(1.00)	(1.00)
Outstanding – June 30, 2010	13,230,892	1.42	0.97
Granted	435,200	1.00	1.00
Forfeited	(280,086)	(1.29)	(1.29)
Cancelled	(243,492)	(1.06)	(1.06)
Outstanding – March 31, 2011 (Unaudited)	13,142,514	1.42	0.97

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011 (Unaudited):

Exercise price $	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price $	Number of Number of options exercisable	Weighted average exercise price $
0.45	800,000	3.76	0.45	800,000	0.45
1.00	12,342,514	6.79	1.00	10,802,662	1.00
	13,142,514	6.61	$0.97	11,602,662	$0.96

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During the nine months ended March 31, 2011, the Company recognized a stock-based compensation expense of $818,291 (9 months ended March 31, 2010 - $854,094, Fiscal 2010 - $2,414,878, Fiscal 2009 - $2,625,902, Fiscal 2008 - $2,454,533) related to the stock options issued to employees and directors.

The fair value of each stock option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used during 2011, 2010, 2009 and 2008:

	March 31, 2011 $ (Unaudited)	March 31, 2010 $ (Unaudited)	2010 $	June 30, 2009 $	2008 $
Risk-free interest rate	2.89% to 3.20%	3.25% to 3.60%	3.19% to 3.66%	3.09% to 2.64%	3.37% to 4.45%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected life	10 years	10 years	10 years	10 years	10 years
Volatility	66.83% to 70.74%	83.04%	76.15% to 83.04%	66.53% to 81.66%	67%

The standard terms under the Plan section 3.9 are a vesting period of four years and under Section 3.5 the exercise price should not be lower than the fair value of the Company's share price. The following transactions are exceptions to these terms:

- On March 31, 2008, a total of 100,000 options were granted to a director. These options have a vesting period of two years. On September 4, 2008, a total of 1,115,800 options previously granted at an exercise price of $4.00 were re-priced to $1.50. On the same date, a total of 100,000 options were granted to a director. These options have a vesting period of two years.

- On February 27, 2009, a total of 500,000 options with an exercise price of $1.50 were granted to directors. These options vested immediately. On April 1, 2009, a total of 8,497,350 options with an exercise price of $1.50 were re-priced to $1.00. On May 20, 2009, a total of 1,030,000 options were granted to directors and an officer and have a vesting period of twelve months and an exercise price of $1.00. On the same day, a total of 1,030,000 options were granted to directors and an officer at an exercise price of $0.50 and vested immediately.

- On November 27, 2009, the 1,030,000 stock options granted to directors and an officer on May 20, 2009 with a vesting period of twelve months and an exercise price of $1.00 were cancelled. On the same day the 1,030,000 stock options granted to directors and an officer on May 20, 2009 that vested immediately with an exercise price of $0.50 had the exercise price increased to $1.00.

- On March 16, 2010, 100,000 options, with an exercise price of $1.00 and vesting immediately, were granted to a director.

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- Between October 31, 2009 and April 5, 2010, 56,667 options, with an exercise of $1.00 and vesting immediately, were granted to an advisor to the Company. The options were granted on a monthly basis as follows: October 31, 2009 – 5,000 options; November 30, 2009 to Mar 31, 2010 – 10,000 options per month; April 5, 2010 – 1,667 options.

- On May 18, 2010, 1,125,864 options with an exercise price of $1.00 were granted to employees of the Company vesting as follows: 276,442 immediately, 281,462 on May 18, 2011; 281,462 on May 18, 2012; 191,664 on May 18, 2013; and 94,834 on May 18, 2014.

- On June 25, 2010, 1,225,000 options with an exercise price of $1.00 were granted to directors of the Company and vested immediately.

- On April 30, 2010, 25,000 options with an exercise price of $1.00 were granted to a legal consultant and vested immediately.

- On September 21, 2010, 200,000 options with an exercise price of $1.00 were granted to directors of the Company and vested immediately.

Under the Plan, the Board of Directors has the right to vary the terms of the options. The Board has exercised that right in every exception noted above.

16. Income Taxes

The Company has the following non-capital losses available to reduce taxable income of future years:

Expiry date	Canada $	Barbados $	Total $
June 30			
2011	-	181,141	181,141
2012	-	397,186	397,186
2013	-	465,377	465,377
2014	772,970	395,406	1,168,376
2015	2,340,971	9,451,022	11,791,993
2016	-	9,335,185	9,335,185
2017	-	13,098,484	13,098,484
2018	-	10,055,001	10,055,001
2019	-	11,073,461	11,073,461
2026	1,353,207	-	1,353,207
2027	1,277,737	-	1,277,737
2028	26,550	-	26,550
2029	1,153,130	-	1,153,130
2030	1,591,690	-	1,591,690
	8,516,255	54,452,263	62,968,518

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	June 30, 2010	June 30, 2009
Future tax assets	$	$
Non-capital losses	3,490,370	3,259,600
Share issuance and financing costs	220,262	326,915
Property, plant and equipment	154,403	123,400
Patents	823	-
Deferred lease benefit	2,872	9,685
	3,868,730	3,719,600
Valuation allowance	(3,868,730)	(3,719,600)
Net future tax assets	-	-
Future tax liabilities		
Property, plant and equipment	86,538	-
Untaxed income	45,073	-
Net future tax liabilities	3,868,730	3,719,600

Management believes there is sufficient uncertainty regarding the realization of future tax assets such that a full valuation allowance has been provided.

The income tax provision for the respective years differs from the amount obtained by multiplying the applicable statutory income tax rate to the loss before income taxes as follows:

	June 30, 2010	June 30, 2009	June 30, 2008
Statutory income tax rate	29.26%	32.81%	34.12%
	$	$	$
Income tax recovery based on statutory rate	(4,768,073)	(4,414,853)	(4,415,506)
Permanent differences and other	1,457,208	827,432	879,919
Change in valuation allowance	149,130	241,383	(1,284,088)
Change in statutory rate	37,303	42,219	473,915
Amounts deductible for tax purposes	(123,529)	(81,941)	709,380
Foreign tax rate differential	3,151,511	3,247,009	3,694,776
Loss expiry	165,335	198,483	-
Foreign exchange	124,667	-	-
Provision for current income taxes	193,552	59,732	58,396

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17. Related Party Transactions

During fiscal 2008, there were no related party transactions, other than as included in Note 3.

During fiscal 2009, several small temporary loans aggregating to $200,000, at 0% interest and no fixed repayment terms, were obtained from a director and repaid in full. There was no outstanding balance at the end of the fiscal year.

During fiscal 2009, a director purchased debentures in the total amount of $200,000 and $100,000 of the Company's shares. In addition, two officers purchased Company's shares for a total amount of $200,000.

During the year ended June 30, 2010, payments of $67,433 related to advisory fees and $54,069 related to debentures interest were made to directors of the Company. In addition, two directors purchased $620,000 of Common Shares of the Company and $200,000 in debenture principal repayment was made to a former Director who stepped down from the Board during fiscal 2010.

During the nine months of fiscal year 2011, payments of $41,950 related to debentures interest were made to directors of the Company. In addition, several small loans aggregating to $103,000, carrying an annual interest rate of 20% that will be charged on any outstanding principal commencing 48 hours after demand for payment has been made, were obtained from directors of the Company.

18. Commitments

The Company is committed to the following leases:

a. An operating lease for the Vancouver office – the lease had a term of five years which commenced on December 1, 2005, completed and terminated on November 30, 2010, but was extended to February 28, 2014.

b. A rental agreement for the Sweden office – the rental period was five years, January 1, 2006 to December 31, 2010. The agreement has been extended for a five year period from January 1, 2011 to December 31, 2015.

c. A rental agreement for a residence in Barbados has been provided to the President of PAKIT International as per the employment contract – the rental period is three years, July 6, 2010 to June 30, 2013. After 18 months, the Company has the option to cancel the rental agreement without penalty. After the three year period, both the Lessor and Lessee have the option to extend the rental agreement.

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A schedule of the committed minimum lease payments associated with these leases is as follows:

	Canada $	Barbados $	Sweden $	Total $
Year ending June 30				
2011	114,732	17,469	120,895	253,096
2012	327,425	70,847	488,952	887,224
2013	189,273	70,652	487,608	747,533
2014	128,208	-	487,608	615,816
2015	-	-	487,608	487,608
2016	-	-	245,819	245,819
	759,638	158,968	2,318,490	3,237,096

19. Supplemental Cash Flow Information

	9 month periods ended March 31, 2011 (Unaudited)	Years ended June 30, 2010 $	2009 $	2008 $
Cash paid for interest	9,129	774,785	233,901	4,395
Cash paid for taxes	68,722	134,781	47,658	44,638

Changes in non-cash working capital items:

	9 month periods ended March 31, 2011 $ (Unaudited)	2010 $ (Unaudited)	Years ended June 30, 2010 $	2009 $	2008 $
Accounts receivable	(334,973)	(85,500)	(72,617)	162,074	17,331
Inventory	(128,263)	(142,181)	(596,023)	38,824	(167,511)
Prepaid expenses	4,842	(167,672)	(26,198)	404,987	(220,701)
Accounts payable and accrued liabilities	530,697	(999,343)	(365,553)	1,775,943	207,574
Deferred share issue costs	-	-	(165,835)	-	-
Deferred revenue	100,000	100,000	100,000	-	-
	172,303	(1,294,696)	(1,126,226)	2,381,828	(163,307)

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
As at March 31, 2011 and 2010 and years ended June 30, 2010, 2009, and 2008

20. Segmented Financial Information

The Company operates in one operating segment: the development of moulded board machines for manufacture and sale.

	Canada $	Sweden $	Other $	Total $
As of March 31, 2011 (Unaudited)				
Property, plant, and equipment	102,527	1,720,211	258	1,822,996
As of June 30, 2010				
Property, plant, and equipment	108,180	2,389,729	1,042	2,498,951
As of June 30, 2009				
Property, plant, and equipment	99,432	5,150,575	1,042	5,251,049
As of June 30, 2008				
Property, plant, and equipment	186,523	1,761,307	79,372	2,027,202

21. Capital Disclosure

The Company considers share capital, contributed surplus, and debt instruments, including warrants and equity conversion features, as capital. The Company's objectives when managing its capital structure are to provide sufficient capital to advance the sales of its products, meet the Company's obligations as they come due, allow the Company to pursue additional intellectual property rights related to products within the Company's strategic plans, and to provide the ability to absorb reasonably anticipated shocks to its business resulting from the various risks it is exposed to.

The Company's officers and senior management take full responsibility for managing the Company's capital and do so through regular meetings and review of financial information. The Company's Board of Directors is responsible for overseeing this process.

The Company monitors its capital structure and may make adjustments to it in light of changes in the Company's financial performance, changes in economic conditions, and the risk characteristics of the underlying assets. Such adjustments may include the issuance of new shares or new debt instruments.

There has been no change with respect to the overall capital risk management strategy for the period ended March 31, 2011. The method used by the Company to manage its capital has been the issuance of new share capital and debt instruments (Notes 10 and 11).

Additional information relating to capital disclosure is disclosed in Note 1.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
As at March 31, 2011 and 2010 and years ended June 30, 2010, 2009, and 2008

22. Financial Instruments

Fair Value

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and interest payable approximate their fair values because of their short-term maturities.

The carrying value of long-term accrued liabilities approximates fair value as the carrying value is based on a black scholes formula linked to stock based compensation expense, which reflects fair value.

The carrying value of debentures payable approximate fair value because effective interest rate approximate current market rates for similar debt instruments.

Financial Risk Management

The Company is exposed to a variety of financial risks, including risks related to credit, foreign currency, liquidity, and interest.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents; trade accounts receivable, VAT/GST receivable, and advances to vendors. The Company has established guidelines including diversification and customer credit evaluation to ensure safety and liquidity of its cash.

Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in foreign exchange will affect the Company's future cash flows or valuation of its financial instruments. The Company has exposure to foreign currency risk related to the Company's business transactions denominated in currencies other than the Canadian dollar.

The Company's business transactions are primarily related to research, development, and commercialization of its products denominated in Swedish Krona (SEK) and Euro (EUR). The Company believes that although the results of operations and cash flows would be affected by a sudden change in foreign exchange rates, such change would not impair or enhance its ability to settle its foreign denominated obligations.

The Company is also exposed to fluctuation in US dollars (USD) on expenses related to marketing and sales services provided by its subsidiary. However, the Company does not currently view its exposure to USD as a significant risk due to the limited volume of transactions conducted by the Company in this currency.

PAKIT Inc.

(a development stage company)
Notes to Consolidated Financial Statements
As at March 31, 2011 and 2010 and years ended June 30, 2010, 2009, and 2008

Current liabilities include balances in foreign currencies. The amounts in Canadian Dollars (CAD) of $3,085,049 (Fiscal 2010 – 1,120,481; Fiscal 2009 – 1,100,348) and 1,408,281 (Fiscal 2010 - $5,041; Fiscal 2009 - $423,265) pertain to amounts in Swedish Krona (SEK) and United States Dollars (USD), respectively. Several amounts included in current and long-term liabilities are denominated in foreign currencies – SEK and USD.

A +/- 5% fluctuation in SEK would have an impact of +/- $ 171,878, and in USD an impact of +/- $7,803 on the net loss for the period ended March 31, 2011.

Liquidity Risk

The Company is continually raising finance to ensure sufficient funds. Several amounts included in current and long-term debt are denominated in foreign currencies - SEK, EUR, and USD. In addition, the Company's senior management regularly monitor and review both actual and forecasted cash flows.

Additional information relating to liquidity risk is disclosed in Note 1.

Interest Risk

The Company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position, and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investments interest rates due to the short-term nature and size of its investments. Excess cash is invested in highly rated investment securities at fixed interest rates primarily with maturities of three months or less. Debentures carry a fixed interest rate and, thus, are not subject to interest rate risk.

23. Subsequent Events

a. Subsequent to March 31, 2011 and as of May 16, 2011, a total of 539,200 shares were issued for total proceeds of $323,520.

CORONADO
CAPITAL MANAGEMENT, LLC

This is Exhibit C referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 20 11
A Commissioner for taking Affidavits
for British Columbia

July 26, 2011

Dwayne Yaretz, CEO
Pakit Inc.
2250-1050 W. Pender St.
Vancouver, BC, Canada
V6E 3S7

Dear Dwayne,

As investors of $3.7m recently, we would like to confirm our group's intention to invest $500k by way of a wire transfer directly to Sweden on or before, August 1st. It is anticipated that this investment will be by way of a private placement for common shares at $1.00 per share. With the participation of Jumpsport, we would expect to invest a further $500K on or before August 10th by way of a private placement at $1.00 share. These funds could be made available to either Pakit's Canadian or Swedish operations.

It is our group's intention to work with various venture capital firms, known to us, in the assembly of a $20 million equity raise anticipated to be completed by October 1, 2011.

Although Coronado Capital has completed our due diligence and associated groups will rely on said due diligence to some degree, it is expected that these other groups will have their own due diligence procedures and requirements.

The price of the planned $20 million raise will be dependent on achieving certain anticipated milestones during the raise period, but given the company's progress over the last 5 weeks, we expect the raise could be completed in price escalating tranches, with the first tranche benchmarked for a minimum price of $2 per share.

As we have already tested the interest levels of some of the venture capital firms we are familiar with, we feel very strongly that, post a successful stay afforded by your CCAA application, the Pakit story will garner great excitement. We are confident in Pakit's "best in class" technology and in your ability to lead the organization to deliver the results all shareholders expect.

Sincerely,

Zachary Easton
Mark Publicover

THE HUSSEINI GROUP

Dear Mr. Yaretz,

This letter serves as our intent to invest CAD $500,000.00 at your current share price of CAD $1.00. This is in addition to our personal holdings in your company representing over CAD $4 million over several previous funding rounds.

We intend to close on this transaction on before 15 August, 2011 and are concurrently seeking additional capital sources and investors for PakIT. We expect to succeed at raising US $5M at favorable terms.

We look forward to aiding PakIT in bridging this financial gap and most importantly to a successful and prosperous future together.

Regards,

Ibrahim AlHusseini
President
The Husseini Group, Inc.

530.355.5533 M / 310.496.0714 F

This is Exhibit D referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 2011
A Commissioner for taking Affidavits
for British Columbia

No. ____________
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 A PLAN OF COMPROMISE OR ARRANGEMENT OF PAKIT INC.

PETITIONER

Report on Cash-flow Statements
(Paragraph 10.2(b) of the CCAA)

The management of Pakit Inc. ("Pakit" or the "Company") has developed the assumptions and prepared the statement of projected cash-flow of the Company, as of the 26th day of July 2011, consisting of a 13-week cash-flow from July 23, 2011 through to October 21, 2011. In addition, the Company has prepared statements of projected cash-flow for Pakit International Trading Company Inc. ("Pakit International") and Package International Technology Sweden AB ("PIT") and a consolidated cash flow projection for Pakit, Pakit International and PIT (all projections for Pakit, Pakit International, PIT, and the consolidated projections collectively, the "Projections").

The hypothetical assumptions are reasonable and consistent with the purpose of the Projections described in Note 1 to each of the statements, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the Projections. All such assumptions are disclosed in Notes 2 and higher of each of the statements.

Since the Projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The Projections have been prepared solely for the purpose described in Note 1 to each of the statements, using the probable and hypothetical assumptions set out in Notes 2 and higher of those statements. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at Vancouver this 26th day of July 2011.

Daniel Byrne
Pakit Inc.

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				
	Actual 15-Jul	Actual 22-Jul	Week 1 Forecast 29-Jul	Week 2 Forecast 5-Aug	Week 3 Forecast 12-Aug	Week 4 Forecast 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 23 Forecast 21-Oct	13 Week Total	Notes
Receipts																	
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Funding	-	-	-	-	470	500	-	-	-	-	-	-	-	-	-	970	2
Other receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Receipts	-	-	-	-	470	500	-	-	-	-	-	-	-	-	-	970	
Disbursements																	
Payroll, benefits and payroll taxes	31	4	89	-	71	-	71	-	-	77	-	71	-	71	-	452	3
Sales and marketing costs	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	3	
Other general and administrative costs	2	-	-	33	-	-	-	32	-	-	-	32	-	32	-	130	3
Rent	-	-	-	18	-	-	-	18	-	-	-	18	-	-	-	54	3
Consulting fees	25	5	-	30	-	-	-	30	-	-	-	-	30	-	-	90	
Professional fees	65	26	29	-	75	-	25	-	25	50	25	-	25	50	-	304	4
Trade accounts payable	9	-	14	11	-	-	-	-	-	-	-	-	-	-	-	25	5
Contingency	-	-	10	-	-	-	10	-	-	-	-	10	-	-	10	40	
Total Disbursements	132	35	145	92	146	-	106	80	25	127	25	132	55	154	10	1,098	
Net Cash Flow	(132)	(35)	(145)	(92)	324	500	(106)	(80)	(25)	(127)	(25)	(132)	(55)	(154)	(10)	(128)	
Intercompany																	
Intercompany inflow/(outflow) - Pakit International	-	-	-	(28)	(30)	-	-	-	-	(10)	(27)	-	-	(15)	-	(110)	6
Net Cash Flow Post Intercompany	(132)	(35)	(145)	(119)	294	500	(106)	(80)	(25)	(137)	(52)	(132)	(55)	(169)	(10)	(237)	
Cash Position																	
Opening Cash Position	887	755	720	575	455	749	1,249	1,143	1,062	1,037	900	848	716	661	493	720	
Closing Cash Position	755	720	575	455	749	1,249	1,143	1,062	1,037	900	848	716	661	493	483	483	

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. Two investors have provided Letters of Intent to provide advances to Pakit Inc. for US$500,000 on or before August 10, 2011 and C$500,000 on or before August 15, 2011.
3. Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses.
4. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.
5. Prefiling amounts relate to key service providers, suppliers and employees.
6. Pakit Inc. intercompany disbursements are assumed to fund operating costs for Pakit International Trading Company ("Pakit International") only. These costs primarily relate to rent and salary for the President of Pakit International who provides corporate finance and accounting support to Pakit Inc.
   Management has assumed that sufficient funding will be available for the operations of Packaging International Technology Sweden AB ("PIT") as a direct deposit to PIT from investors and/or financiers as well as advances/fees from Pakit International.

This is Exhibit ..E.. referred to
in the affidavit of ..Dwayne Yaretz #1..
Sworn before me ..July 26.. 20 11..

A Commissioner for taking Affidavits
for British Columbia

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

	July			August				September					October				
	Actual 15-Jul	Actual 22-Jul	Week 1 Forecast 29-Jul	Week 2 Forecast 5-Aug	Week 3 Forecast 12-Aug	Week 4 Forecast 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 13 Forecast 21-Oct	13 Week Total	Notes
Receipts																	
Customer collections	-	-	-	-	-	-	641	816	-	-	-	-	-	-	2,956	4,412	2
Funding	-	-	-	470	470	500	-	-	-	-	-	-	-	-	-	1,440	3
Other receipts	-	-	85	-	-	-	100	-	107	-	-	100	-	-	-	392	
Total Receipts	-	-	85	470	470	500	741	816	107	-	-	100	-	-	2,956	6,245	
Disbursements																	
Raw materials and production	-	-	-	21	-	-	-	128	-	10	-	16	-	-	218	392	4
Payroll, benefits and payroll taxes	31	4	126	109	86	-	293	-	15	289	10	71	-	86	204	1,289	5
Sales and marketing costs	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	3	
Research and development costs	-	-	10	-	-	-	12	18	-	-	12	18	-	-	12	81	
Other general and administrative costs	2	-	5	44	-	-	16	33	-	-	16	33	-	32	16	194	5
Rent	-	-	-	116	-	-	-	80	-	39	-	80	-	-	39	354	5
Consulting fees	25	5	-	37	-	-	4	33	-	-	4	-	33	-	4	114	
Professional fees	65	26	29	5	90	-	30	-	25	50	30	-	25	50	5	339	6
Taxes (Sweden VAT)	-	-	-	-	-	-	110	-	110	-	-	-	-	-	110	330	
Pre-filing liabilities - Pakit Inc.	9	-	14	11	-	-	-	-	-	-	-	-	-	-	-	25	7
Other accounts payable (Pakit International and PIT)	-	-	18	267	-	-	374	109	53	-	19	-	72	-	75	989	8
CCAA Contingency	-	-	10	-	-	-	10	-	-	-	-	10	-	-	10	40	
Total Disbursements	132	35	215	609	176	-	849	401	203	388	90	228	130	169	693	4,151	
Net Cash Flow	(132)	(35)	(130)	(139)	294	500	(108)	415	(97)	(388)	(90)	(128)	(130)	(169)	2,263	2,094	
Intercompany inflow/(outflow)																	
Pakit Inc.	-	-	-	(28)	(30)	-	-	-	-	(10)	(27)	-	-	(15)	-	(110)	
Pakit International	-	-	-	28	30	-	(684)	(655)	(92)	10	27	(18)	-	15	(500)	(1,839)	
PIT	-	-	-	-	-	-	684	655	92	-	-	18	-	-	500	1,948	
Total Intercompany	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9
Net Cash Flow Post Intercompany	(132)	(35)	(130)	(139)	294	500	(108)	415	(97)	(388)	(90)	(128)	(130)	(169)	2,263	2,094	
Cash Position																	
Opening Cash Position	893	761	726	596	457	751	1,251	1,143	1,558	1,462	1,074	984	856	726	557	726	
Closing Cash Position	761	726	596	457	751	1,251	1,143	1,558	1,462	1,074	984	856	726	557	2,820	2,820	

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 collection primarily relate to collection from one customer based in Spain. Management has assumed two machines meet the site acceptence test and two additional machines are shipped.
   Management has assumed that payments due upon site acceptence of two units will be made immediately after site acceptance and payments due on the next two units are made immediately prior to shipment.
3. Two investors have provided Letters of Intent to provide advances to Pakit Inc. of US$500,000 on or before August 10, 2011 and C$500,000 on or before August 15, 2011 as well as an advance of US$500,000 to Packaging International Technology Sweden AB ("PIT") on or before August 1, 2011.
4. Raw materials and production costs have been forecast based on estimated costs to complete units and protypes for delivery in the period.
5. Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses.
6. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.
7. Prefiling amounts relate to key service providers, suppliers and employees.
8. Other accounts payable amounts owing to key suppliers of Pakit Interational Trading Company Inc. ("Pakit International") and PIT are assumed to be paid in order to support the ongoing operations of these entities and related receipts. Total accounts payable as at July 12, 2011 for Pakit International and PIT are $2.1 million and $2 million, respectively.
9. Pakit Inc. intercompany disbursements are assumed to fund operating costs for Pakit International only. These costs primarily relate to rent and salary for the President of Pakit International who provides corporate finance and accounting support to Pakit Inc.
   Management has assumed that sufficient funding will be available for the operations of PIT as a direct deposit to PIT from investors and/or financiers as well as advances/fees from Pakit International.

This is Exhibit F referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 2011

A Commissioner for taking Affidavits
for British Columbia

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				
	Actual 15-Jul	Actual 22-Jul	Week 1 Forecast 29-Jul	Week 2 Forecast 5-Aug	Week 3 Forecast 12-Aug	Week 4 Forecast 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 13 Forecast 21-Oct	13 Week Total	Notes
Receipts																	
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Funding	-	-	-	-	470	500	-	-	-	-	-	-	-	-	-	970	2
Other receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Receipts	-	-	-	-	470	500	-	-	-	-	-	-	-	-	-	970	
Disbursements																	
Payroll, benefits and payroll taxes	31	4	89	-	71	-	71	-	-	77	-	71	-	71	-	452	3
Sales and marketing costs	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-	3	
Other general and administrative costs	2	-	-	33	-	-	-	32	-	-	-	32	-	32	-	130	3
Rent	-	-	-	18	-	-	-	18	-	-	-	18	-	-	-	54	3
Consulting fees	25	5	-	30	-	-	-	30	-	-	-	-	30	-	-	90	
Professional fees	65	26	29	-	75	-	25	-	25	50	25	-	25	50	-	304	4
Trade accounts payable	9	-	14	11	-	-	-	-	-	-	-	-	-	-	-	25	5
Contingency	-	-	10	-	-	-	10	-	-	-	-	10	-	-	10	40	
Total Disbursements	132	35	145	92	146	-	106	80	25	127	25	132	55	154	10	1,098	
Net Cash Flow	(132)	(35)	(145)	(92)	324	500	(106)	(80)	(25)	(127)	(25)	(132)	(55)	(154)	(10)	(128)	
Intercompany																	
Intercompany inflow/(outflow) - Pakit International	-	-	-	(28)	(30)	-	-	-	-	(10)	(27)	-	-	(15)	-	(110)	6
Net Cash Flow Post Intercompany	(132)	(35)	(145)	(119)	294	500	(106)	(80)	(25)	(137)	(52)	(132)	(55)	(169)	(10)	(237)	
Cash Position																	
Opening Cash Position	887	755	720	575	455	749	1,249	1,143	1,062	1,037	900	848	716	661	493	720	
Closing Cash Position	755	720	575	455	749	1,249	1,143	1,062	1,037	900	848	716	661	493	483	483	

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. Two investors have provided Letters of Intent to provide advances to Pakit Inc. for US$500,000 on or before August 10, 2011 and C$500,000 on or before August 15, 2011.
3. Operating disbursements including rent, payroll and other operating costs have been forecast generally based on the current run-rates of the associated expenses.
4. Professional fee disbursements have been forecast based on projected costs by professional services firms relating to the restructuring.
5. Prefiling amounts relate to key service providers, suppliers and employees.
6. Pakit Inc. intercompany disbursements are assumed to fund operating costs for Pakit International Trading Company ("Pakit International") only. These costs primarily relate to rent and salary for the President of Pakit International who provides corporate finance and accounting support to Pakit Inc.
   Management has assumed that sufficient funding will be available for the operations of Packaging International Technology Sweden AB ("PIT") as a direct deposit to PIT from investors and/or financiers as well as advances/fees from Pakit International.

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

	July			August				September					October				
	Actual 15-Jul	Actual 22-Jul	Week 1 *Forecast* 29-Jul	Week 2 *Forecast* 5-Aug	Week 3 *Forecast* 12-Aug	Week 4 *Forecast* 19-Aug	Week 5 *Forecast* 26-Aug	Week 6 *Forecast* 2-Sep	Week 7 *Forecast* 9-Sep	Week 8 *Forecast* 16-Sep	Week 9 *Forecast* 23-Sep	Week 10 *Forecast* 30-Sep	Week 11 *Forecast* 7-Oct	Week 12 *Forecast* 14-Oct	Week 13 *Forecast* 21-Oct	13 Week Total	Notes
Receipts																	
Customer collections	-	-	-	-	-	-	641	816	-	-	-	-	-	-	2,956	4,412	2
Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other receipts & Prototyping Projects	-	-	85	-	-	-	100	-	107	-	-	100	-	-	-	392	
Total Receipts	-	-	85	-	-	-	741	816	107	-	-	100	-	-	2,956	4,805	
Disbursements																	
Raw materials and production	-	-	-	-	-	-	-	112	-	10	-	-	-	-	203	325	3
Payroll, benefits and payroll taxes	-	-	37	-	15	-	10	-	15	-	10	-	-	15	-	102	
Sales and marketing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Research and development/patent costs	-	-	10	-	-	-	12	-	-	-	12	-	-	-	12	46	
Other general and administrative costs	-	-	5	1	-	-	5	1	-	-	5	1	-	-	5	23	
Rent	-	-	-	6	-	-	-	6	-	-	-	6	-	-	-	18	
Consulting fees	-	-	-	3	-	-	-	3	-	-	-	-	3	-	-	8	
Professional fees	-	-	-	-	15	-	-	-	-	-	-	-	-	-	-	15	
Trade accounts payable	-	-	18	40	-	-	30	40	-	-	-	-	72	-	75	276	4
Total Disbursements	-	-	69	49	30	-	57	162	15	10	27	7	75	15	295	811	
Net Cash Flow	-	-	15	(49)	(30)	-	684	655	92	(10)	(27)	93	(75)	(15)	2,661	3,993	
Intercompany																	
Intercompany inflow/(outflow) - Pakit Inc.	-	-	-	28	30	-	-	-	-	10	27	-	-	15	-	110	
Intercompany inflow/(outflow) - PIT	-	-	-	-	-	-	(684)	(655)	(92)	-	-	(18)	-	-	(500)	(1,948)	
Net Cash Flow Post Intercompany	-	-	15	(21)	-	-	-	-	-	-	-	75	(75)	-	2,161	2,155	
Cash Position																	
Opening Cash Position	6	6	6	21	-	-	-	-	-	-	-	-	75	-	-	6	
Closing Cash Position	6	6	21	-	-	-	-	-	-	-	-	75	-	-	2,161	2,161	

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 collection primarily relate to collection from one customer based in Spain. Management has assumed two machines meet the site acceptence test and two additional machines are shipped.
   Management has assumed that payments due upon site acceptence of two units will be made immediately after site acceptance and payments due on the next two units are made immediately prior to shipment.
3. Raw materials and production costs have been forecast based on estimated costs to complete units and protypes for delivery in the period.
4. Certain trade accounts payable amounts owing to key suppliers are assumed to be paid in order to support the ongoing operations of these entities and related receipts. Total accounts payable as at July 12, 2011 is approximately $2.1 million.

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

	July			August				September					October				
Expressed in CAD **Fx Rate (1) 0.155**	Actual 15-Jul	Actual 22-Jul	Week 1 Forecast 29-Jul	Week 2 Forecast 5-Aug	Week 3 Forecast 12-Aug	Week 4 Forecast 19-Aug	Week 5 Forecast 26-Aug	Week 6 Forecast 2-Sep	Week 7 Forecast 9-Sep	Week 8 Forecast 16-Sep	Week 9 Forecast 23-Sep	Week 10 Forecast 30-Sep	Week 11 Forecast 7-Oct	Week 12 Forecast 14-Oct	Week 13 Forecast 21-Oct	13 Week Total	Notes
Receipts																	
Customer collections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Funding	-	-	-	470	-	-	-	-	-	-	-	-	-	-	-	470	2
Other receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Receipts	-	-	-	470	-	-	-	-	-	-	-	-	-	-	-	470	
Disbursements																	
Raw materials and production	-	-	-	21	-	-	-	16	-	-	-	16	-	-	16	68	
Payroll, benefits and payroll taxes	-	-	-	109	-	-	212	-	-	212	-	-	-	-	204	736	3
Research and development costs	-	-	-	-	-	-	-	18	-	-	-	18	-	-	-	36	
Other general and administrative costs	-	-	-	11	-	-	11	-	-	-	11	-	-	-	11	42	
Rent	-	-	-	92	-	-	-	56	-	39	-	56	-	-	39	282	4
Consulting fees	-	-	-	4	-	-	4	-	-	-	4	-	-	-	4	16	
Professional fees	-	-	-	5	-	-	5	-	-	-	5	-	-	-	5	20	
Taxes	-	-	-	-	-	-	110	-	110	-	-	-	-	-	110	330	5
Trade accounts payable	-	-	-	227	-	-	344	69	53	-	19	-	-	-	-	713	6
Total Disbursements	-	-	-	468	-	-	685	159	163	250	38	89	-	-	388	2,242	
Net Cash Flow	-	-	-	2	-	-	(685)	(159)	(163)	(250)	(38)	(89)	-	-	(388)	(1,772)	
Intercompany																	
Intercompany inflow/(outflow) - Pakit International	-	-	-	-	-	-	684	655	92	-	-	18	-	-	500	1,948	
Net Cash Flow Post Intercompany	-	-	-	2	-	-	(2)	496	(72)	(250)	(38)	(71)	-	-	112	176	
Cash Position																	
Opening Cash Position	-	-	-	-	2	2	2	0	496	425	174	136	64	64	64	-	
Closing Cash Position	-	-	-	2	2	2	0	496	425	174	136	64	64	64	176	176	

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.
   Bank of Canada exchange rate for Swedish krona to Canadian dollars as at July 25, 2011 plus expected spread of $0.005 per krona.
2. Management has received a Letter of Intent to provide an advance of US$500,000 on or before August 1, 2011.
3. Arrears outstanding as at July 26, 2011 for payroll is assumed to be paid in the week ending August 5, 2011 and related arrears for taxes are assumed to be paid over the 13 week period ending October 21, 2011.
4. Rent and utilities are assumed to be paid on a monthly basis. As at July 12, 2011 there is approximately $390,000 arrears outstanding.
5. Arrears outstanding as at July 26, 2011 and on-going accruals for VAT are assumed to be paid over the 13 week period ending October 21, 2011.
6. Certain trade accounts payable amounts owing to key suppliers are assumed to be paid in order to support the ongoing operations of these entities and related receipts. Total accounts payable as at July 12, 2011 is approximately $2 million.

CALCULATION VALUATION REPORT

PAKIT, INC.

This is Exhibit G referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 20 11

A Commissioner for taking Affidavits
for British Columbia

January 10, 2011

RwE GROWTH PARTNERS, INC.

10588864

EXHIBIT G - REDACTED

Blakes

Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
595 Burrard Street, P.O. Box 49314
Suite 2600, Three Bentall Centre
Vancouver BC V7X 1L3 Canada
Tel: 604-631-3300 Fax: 604-631-3309

PETER L. RUBIN
Dir: 604-631-3315
peter.rubin@blakes.com

Reference: 70538/17

July 5, 2011

VIA PERSONAL SERVICE

Pakit Inc.
1300 – 777 Dunsmuir Street
P.O. Box 10424
Vancouver, BC V6R 1B4

Re: *Craig Barton and Fairfax Financial Holdings Limited v. Pakit Inc.*, Vancouver Registry

Dear Sirs/Mesdames:

Please find enclosed for service upon Pakit Inc. the Notice of Civil Claim filed in the above-noted matter.

Kindly acknowledge service of same by signing the enclosed copy of this letter and returning it to our office at your earliest convenience.

Yours truly,

Peter L. Rubin

/jjj
Encl.

This is Exhibit H **referred to in the affidavit of** Dwayne Yaretz #1 **Sworn before me** July 26 **20** 11

A Commissioner for taking Affidavits for British Columbia

50767479.1

Blakes

Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
595 Burrard Street, P.O. Box 49314
Suite 2600, Three Bentall Centre
Vancouver BC V7X 1L3 Canada
Tel: 604-631-3300 Fax: 604-631-3309

PETER L. RUBIN
Dir: 604-631-3315
peter.rubin@blakes.com

July 5, 2011

Reference: 70538/17

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Re: ***Craig Barton and Fairfax Financial Holdings Limited v. Pakit Inc.*, Vancouver Registry**

Dear Sirs/Mesdames:

Please find enclosed for service upon Pakit Inc. the Notice of Civil Claim filed in the above-noted matter.

Kindly acknowledge service of same by signing the enclosed copy of this letter and returning it to our office at your earliest convenience.

Yours truly,

COPY

Peter L. Rubin

/jl

Encl.

Service of a true copy hereof admitted this ______ day of ______, 20___.

____

Solicitor for:

50767479.1

S=114513

No.
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN

CRAIG BARTON and
FAIRFAX FINANCIAL HOLDINGS LIMITED

PLAINTIFFS

AND

PAKIT INC.

DEFENDANT

NOTICE OF CIVIL CLAIM

This action has been started by the plaintiffs for the relief set out in Part 2 below.

If you intend to respond to this action, you or your lawyer must

(a) file a response to civil claim in Form 2 in the above-named registry of this court within the time for response to civil claim described below, and

(b) serve a copy of the filed response to civil claim on the plaintiff.

If you intend to make a counterclaim, you or your lawyer must

(a) file a response to civil claim in Form 2 and a counterclaim in Form 3 in the above-named registry of this court within the time for response to civil claim described below, and

(b) serve a copy of the filed response to civil claim and counterclaim on the plaintiff and on any new parties named in the counterclaim.

JUDGMENT MAY BE PRONOUNCED AGAINST YOU IF YOU FAIL to file the response to civil claim within the time for response to civil claim described below.

Time for response to civil claim

A response to civil claim must be filed and served on the plaintiffs,

(a) if you reside anywhere in Canada, within 21 days after the date on which a copy of the filed notice of civil claim was served on you,

(b) if you reside in the United States of America, within 35 days after the date on which a copy of the filed notice of civil claim was served on you,

(c) if you reside elsewhere, within 49 days after the date on which a copy of the filed notice of civil claim was served on you, or

(d) if the time for response to civil claim has been set by order of the court, within that time.

CLAIM OF THE PLAINTIFFS

Part 1: STATEMENT OF FACTS

<u>The Parties</u>

1. The Plaintiff, Craig Barton (**"Barton"**) is an individual with an address for service at 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, V7X 1L3.

2. The Plaintiff, Fairfax Financial Holdings Limited (**"Fairfax"**) is a corporation duly incorporated under the laws of Canada with an address for service at 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, V7X 1L3.

3. The Defendant, Pakit Inc. (**"Pakit"**) is a corporation duly incorporated under the laws of Canada with an address for delivery of P.O. Box 10424 Pacific Centre, 1300-777 Dunsmuir Street, Vancouver British Columbia V6R 1B4.

<u>The Barton Debentures</u>

4. On May 30, 2010 Pakit issued a series of Secured Convertible Debenture (the **"Senior Debentures"**, individually referred to as a **"Senior Debenture"**) to various holders (**"Senior Holders"**, each individually referred to as a **"Senior Holder"**).

5. The maturity date for the Senior Debentures was May 30, 2011.

6. Pakit issued two Senior Debentures to Barton (the **"Barton Debentures"**, each individually a **"Barton Debenture"**) in the amounts of $100,000 and $200,000 (collectively the **"Barton Principal"**).

7. All or some of the Senior Debentures provide that an Event of Default occurs where there has been a default of payment when due of any principal sum or other amounts payable which continues without cure for a period of 30 days after notice in writing of such default, and that, in the case of an Event of Default, all obligations and all moneys secured by the Senior Debentures shall, at the option of the Senior Holder, become forthwith due and payable.

8. Pursuant to the terms of each Barton Debenture, Pakit and Barton agreed, *inter alia*, that:

(a) interest would accrue on the principal sum of the Barton Debentures from May 30, 2009 at the rate of 12% per annum (the "**Barton Contractual Interest**");

(b) to secure the principal and all other moneys owing under the Barton Debentures, Pakit granted Barton a security interest (the "**Barton Security Interest**") in and to the whole of the undertaking of Pakit and all of its property and assets, real and personal, movable and immovable, tangible and intangible, of every nature and kind whatsoever, wheresoever situate, both present and future (the "**Secured Property**");

(c) Pakit shall punctually pay and discharge every obligation, where failure to pay or discharge such obligation would result in any lien or charge or right of distress, forfeiture, termination or sale or any other remedy being enforced against the Secured Property;

(d) Pakit shall pay all taxes, rates, government fees and dues levied, assessed or imposed upon it or its property as and when the same become due and payable except where it contests the validity thereof in good faith by proper legal proceedings and for which provision for payment of such amounts have been adequately made in the reasonable opinion of Barton;

(e) Pakit shall forthwith notify Barton of any default or any event, which with the giving of notice of such event would constitute a default, in connection with any indebtedness or guarantee of Pakit; and

(f) Pakit shall pay all costs, charges and expenses of or incurred by Barton, including:

(i) the costs of inspecting the Secured Property or in taking, recovering or keeping possession of any of the Secured Property or in any proceedings taken in relation to the Barton Debentures or the Secured Property;

(ii) the costs of any reasonable sale proceedings commenced under the Barton Debentures; and

(iii) the costs of any Receiver with respect to, and all expenditures made by Barton or such Receiver in doing anything permitted in the Barton Debentures to enforce the remedies provided therein.

9. Pursuant to the terms of each of the Barton Debentures, Pakit and Barton agreed that the following, *inter alia*, would constitute "Events of Default" under each Barton Debenture:

(a) any default by Pakit in the performance of any material term, condition or covenant under the Barton Debenture, which is not cured to the satisfaction of

Barton within 30 days after written notice of such default is provided to Pakit by Barton;

(b) the failure of Pakit to pay any third party or other indebtedness when due, which results in acceleration of the maturity of such indebteness; and

(c) a default in payment when due of any principal sum or other amounts payable under the Barton Debenture, provided such default continues without cure for a period of 30 days after notice in writing of such default is provided to Pakit by Barton.

10. Pursuant to the terms of each Barton Debenture, Pakit and Barton agreed that in the case of an Event of Default, *inter alia*:

(a) all obligations and all monies secured by the Barton Debenture, shall at the option of Barton become forthwith due and payable;

(b) all rights and remedies conferred upon Barton in respect of the Secured Property shall immediately become enforceable; and

(c) Barton may declare, by any instrument in writing, that the Barton Security Interest has become enforceable and that Barton shall have, *inter alia*, the following rights and powers:

(i) to institute proceedings in any court of competent jurisdiction for the appointment of a Receiver of the Secured Property;

(ii) to enter into possession of all or any part of the Secured Property;

(iii) to preserve and maintain the Secured Property;

(iv) to collect any proceeds arising in respect of the Secured Property; and

(v) to collect, realize upon or sell or otherwise deal with accounts.

The Senior Debenture Defaults and Senior Notice

11. Pakit is in default of its obligations under the Senior Debentures, including the Barton Debentures, and the following Events of Default have occurred:

(a) Pakit neglected, failed or refused to pay the amounts owing to the Senior Holders, including Barton, under the Senior Debentures (the "**Senior Payout Default**");

(b) Pakit neglected, failed, or refused to pay its indebtedness to Wright Brande Medical Ltd. when it became due and payable, with such indebtedness being registered against the Secured Property in the British Columbia Personal Property Registry (the "**Wright Brandes Default**");

(c) Pakit neglected, failed or refused to pay its taxes when due and payable (the "**Tax Default**");

(d) Pakit neglected, failed or refused to pay the refundable deposit due to True Partners Financial Services LLC or its affiliates ("**True Partners**") pursuant to the letter agreement dated December 21, 2010 between Pakit and True Partners (the "**True Partners Default**"); and

(e) Pakit neglected, failed, or refused to forthwith notify the Senior Holders of the Wright Brandes Default, the Tax Default, the True Partners Default

(collectively referred to as "**the Senior Debenture Defaults**").

12. On June 2, 2011 certain Senior Holders, including Barton, sent Pakit a letter (dated June 1, 2011), notifying Pakit of its failure to pay the amounts owing under the Senior Debentures upon the maturity date thereof, and of the commencement of the cure period provided for therein in respect of such default.

13. On June 7, 2011 certain Senior Holders, including Barton, sent Pakit a letter, notifying Pakit of the Wright Brandes Default, the Tax Default and the True Partners Default and of the commencement of the cure period provided for in the Senior Debentures in respect of such defaults (in addition to the June 1, 2011 letter, the "**Senior Notices**").

14. On June 7, 2011 certain Senior Holders, including Barton, delivered to Pakit a Notice of Intention to Enforce Security pursuant to section 244 of the *Bankruptcy and Insolvency Act* (the "**Senior Intention to Enforce Security**").

15. Pakit has neglected, failed or refused to cure the Senior Debenture Defaults.

The Fairfax Debenture

16. On September 29, 2009 Pakit issued a Secured Convertible Debenture to Fairfax (the "**Fairfax Debenture**") for the aggregate principal amount of $5,000,000.

17. Pursuant to the terms of the Fairfax Debenture, Pakit agreed, *inter alia*, that:

(a) interest would accrue on the principal sum of the Fairfax Debenture from September 29, 2009 at the rate of 12% per annum (the "**Fairfax Contractual Interest**");

(b) to secure the principal and all other moneys owing under the Fairfax Debenture, Pakit granted Fairfax a security interest (the "**Fairfax Interest**") in the Secured Property;

(c) the Fairfax Interest would attach, *inter alia*, upon the date Fairfax determines, in its sole opinion, acting reasonably, that an Event of Default is imminent;

(d) Pakit shall punctually pay and discharge every obligation, where failure to pay or discharge such obligation would result in any lien or charge or right of distress, forfeiture, termination or sale or any other remedy being enforced against the Secured Property;

(e) Pakit shall pay all taxes, rates, government fees and dues levied, assessed or imposed upon it or its property as and when the same become due and payable except where it contests the validity thereof in good faith by proper legal proceedings and for which provision for payment of such amounts have been adequately made in the reasonable opinion of Fairfax;

(f) Pakit shall forthwith notify Fairfax of any default or any event, which with the giving of notice of such event would constitute a default, in connection with any indebtedness or guarantee of Pakit; and

(g) Pakit shall pay all costs, charges and expenses of or incurred by Fairfax:

(i) the costs of inspecting the Secured Property or in taking, recovering or keeping possession of any of the Secured Property or in any proceedings taken in relation to the Fairfax Debenture or the Secured Property;

(ii) the costs of any reasonable sale proceedings commenced under the Fairfax Debenture; and

(iii) the costs of any Receiver with respect to, and all expenditures made by Fairfax or such Receiver in doing anything permitted in the Fairfax Debenture to enforce the remedies provided therein.

18. Pursuant to the terms of the Fairfax Debenture, Fairfax and Pakit (collectively the "**Parties**") agreed that the following, *inter alia*, would constitute "Events of Default" under the Fairfax Debenture:

(a) any default by Pakit in the performance of any material term, condition or covenant under the Fairfax Debenture, which is not cured to the satisfaction of Fairfax within 30 days after written notice of such default is provided to Pakit by Fairfax;

(b) Pakit's receipt of a notice of intention to enforce security;

(c) the failure of Pakit to pay any third party or other indebtedness when due, which results in acceleration of the maturity of such indebteness; and

(d) a default in payment when due of any Principal Sum or other amounts payable under the Fairfax Debenture, provided such default continues without cure for a period of 30 days after notice in writing of such default is provided to Pakit by Fairfax.

19. Pursuant to the terms of the Fairfax Debenture, the Parties agreed that in the case of an Event of Default, *inter alia*:

(a) all obligations and all monies secured by the Fairfax Debenture, shall at the option of Fairfax become forthwith due and payable;

(b) all rights and remedies conferred upon Fairfax in respect of the Secured Property shall immediately become enforceable; and

(c) Fairfax may declare, by any instrument in writing, that the Security Interest has become enforceable and that Farifax shall have, *inter alia*, the following rights and powers:

(i) to institute proceedings in any court of competent jurisdiction for the appointment of a Receiver of the Secured Property;

(ii) to enter into possession of all or any part of the Secured Property;

(iii) to preserve and maintain the Secured Property;

(iv) to collect any proceeds arising in respect of the Secured Property; and

(v) to collect, realize upon or sell or otherwise deal with accounts.

<u>The Fairfax Defaults</u>

20. Pakit is in default of its obligations under the Farifax Debenture and the following Events of Default have occurred:

(a) the Senior Debentures Defaults have occurred;

(b) Pakit has neglected, failed or refused to forthwith notify Fairfax of the Senior Notices (the "**Senior Notice Default**");

(c) Pakit received the Senior Intention to Enforce Security; and

(d) Pakit neglected, failed, or refused to forthwith notify Fairfax of the Senior Debenture Defaults

(collectively referred to as "**the Fairfax Defaults**").

<u>The Fairfax Notices</u>

21. On June 3, 2011 Fairfax determined that an Event of Default under the Fairfax Debenture was imminent. Pursuant to the terms of the Fairfax Debenture, the Fairfax Interest attached and as a result of such determination was registered in the British Columbia Personal Property Security Registry under Registration number 180314G.

22. On June 7, 2011 Fairfax sent a letter to Pakit advising that Pakit was in default of the Fairfax Debenture by reason of the Fairfax Defaults.

23. On June 7, 2011 Fairfax delivered to Pakit a Notice of Intention to Enforce Security pursuant to section 244 of the *Bankruptcy and Insolvency Act.*

24. Pakit has failed, neglected or refused to cure the Fairfax Defaults.

<u>The Outstanding Amounts</u>

25. The total amounts due and owing by Pakit to Barton as at July 5, 2011 is the principal sum of $300,000, plus Barton Contractual Interest, costs, charges and expenses, including legal fees and expenses on a solicitor and own client basis and other professional fees and expenses, incurred by Barton (including the costs and expenses of any Receiver) in connection with the taking, recovery or keeping possession of the Secured Property in any other proceedings taken in enforcing the remedies granted to Barton.

26. The total amount due and owing by Pakit to Fairfax as at July 5, 2011 is the principal sum of $5,000,000 plus the Fairfax Contractual Interest, costs, charges and expenses, including legal fees and expenses on a solicitor and own client basis and other professional fees and expenses, incurred by Fairfax (including the costs and expenses of any Receiver) in connection with the taking, recovery or keeping possession of the Secured Property in any other proceedings taken in enforcing the remedies granted to Fairfax.

Part 2: RELIEF SOUGHT

27. Barton seeks:

(a) A Declaration that the Barton Security Interests granted under each of the Barton Debentures are security interests charged against the Secured Property;

(b) A Declaration that the Barton Security Interests are charged against the Secured Property, is in default, and that all monies secured thereby are due and owing; and

(c) Judgment against Pakit in the amount of $300,000, together with the Barton Contractual Interest, or in the alternative interest pursuant to the *Court Order Interest Act*, R.S.B.C. 1996, c. 79, as amended.

28. Fairfax seeks:

(a) A Declaration that the Fairfax Interest is a security interest charged against the Secured Property;

(b) A Declaration that the Fairfax Interest charged against the Secured Property is in default and that all monies secured thereby are due and owing; and

(c) Judgment against Pakit in the amount of $5,000,000; together with the Fairfax Contractual Interest, or in the alternative interest pursuant to the *Court Order Interest Act*, R.S.B.C. 1996, c. 79, as amended.

29. Each of the Plaintiffs, Fairfax and Barton seek:

(a) Judgment against Pakit in respect of costs, charges and expenses, including legal fees and expenses on a solicitor and own client basis and other professional fees and expenses, incurred by each of the Plaintiffs (including the costs and expenses of any Receiver) in connection with the taking, recovery or keeping possession of the Secured Property in enforcing the remedies granted to each of the Plaintiffs;

(b) An Order for the appointment of a Receiver or Receiver-Manager over the Secured Property;

(c) Costs; and

(d) An Order for all necessary accounts, directions and enquiries together with such further or corollary relief as this Honourable Court deems just.

Part 3: LEGAL BASIS

30. Pursuant to the terms of the Barton Debentures, the Senior Debenture Defaults constitute Events of Defaults therein.

31. Each Barton Debenture specifies that in the case of an Event of Default, Barton is entitled to the following:

(a) to require all obligations and monies owing under the Barton Debentures to become immediately due and payable;

(b) to immediately enforce all rights and remedies following the Barton Security Interests upon the Secured Property;

(c) to institute proceedings in any court of competent jurisdiction for the appointment of a Receiver of the Secured Property;

(d) preserve and maintain the Secured Property;

(e) to collect any proceeds arising in respect of the Secured Property;

(f) to collect, realize upon or sell or otherwise deal with accounts; and

(g) to appoint a Receiver over the Secured Property.

32. Pursuant to the terms of Fairfax Debenture, the Fairfax Defaults constitute Events of Default therein.

33. The Fairfax Debenture specifies that in the case of an Event of Default, Fairfax is entitled to the following:

(a) to require all obligations and monies owing under the Fairfax Debenture to become immediately due and payable;

(b) to attach the Security Interest to the Secured Property;

(c) to declare by an instrument in writing that the Security Interest has become enforceable;

(d) to immediately enforce all rights and remedies following the Security Interest upon the Secured Property;

(e) to institute proceedings in any court of competent jurisdiction for the appointment of a Receiver of the Secured Property;

(f) preserve and maintain the Secured Property;

(g) to collect any proceeds arising in respect of the Secured Property;

(h) to collect, realize upon or sell or otherwise deal with accounts; and

(i) to appoint a Receiver over the Secured Property.

34. The Plaintiffs plead and rely upon section 243 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 and section 39 of the *Law and Equity Act*, R.S.B.C. 1996, c. 253.

Plaintiffs' address for service:	Blake, Cassels & Graydon LLP Barristers and Solicitors Suite 2600, Three Bentall Centre 595 Burrard Street, PO Box 49314 Vancouver, BC V7X 1L3 **Attention: Peter L Rubin**
Fax number address for service (if any):	604-631-3309
E-mail address for service (if any):	N/A
Place of trial:	Vancouver, British Columbia
The address of the registry is:	800 Smithe Street, Vancouver, British Columbia

Date: July 5, 2011.

Signature of lawyer for plaintiffs
Peter L. Rubin

Rule 7-1 (1) of the Supreme Court Civil Rules states:

(1) Unless all parties of record consent or the court otherwise orders, each party of record to an action must, within 35 days after the end of the pleading period,

(a) prepare a list of documents in Form 22 that lists

(i) all documents that are or have been in the party's possession or control and that could, if available, be used by any party at trial to prove or disprove a material fact, and

(ii) all other documents to which the party intends to refer at trial, and

(b) serve the list on all parties of record.

APPENDIX

Part 1: CONCISE SUMMARY OF NATURE OF CLAIM:

The Plaintiffs claim for all amount owing under debentures issued to them from the Defendant by reason of various Events of Default therein.

Part 2: THIS CLAIM ARISES FROM THE FOLLOWING:

[*Check one box below for the case type that best describes this case.*]

A personal injury arising out of:
[ ] a motor vehicle accident
[ ] medical malpractice
[ ] another cause

A dispute concerning:
[ ] contaminated sites
[ ] construction defects
[ ] real property (real estate)
[ ] personal property
[ ] the provision of goods or services or other general commercial matters
[ ] investment losses
[x] the lending of money
[ ] an employment relationship
[ ] a will or other issues concerning the probate of an estate
[ ] a matter not listed here

Part 3: THIS CLAIM INVOLVES:

[*Check all boxes below that apply to this case.*]

[ ] a class action
[ ] maritime law
[ ] aboriginal law
[ ] constitutional law
[ ] conflict of laws
[x] none of the above
[ ] do not know

Part 4:

Court Order Interest Act, R.S.B.C. 1996, c. 79
Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3
Law and Equity Act, R.S.B.C. 1996, c. 253

Personal Property Registry

For: [PZ34484] [MCCARTHY TETRAULT]

Selection List

Jul 25, 2011
10:29:14 AM

Check for Prints

Return | Print | Help ?

Folio: 203826-396542

Local Print Limit: 200

Business Name: PAKIT INC.

Exact Matches: 7

BSR101 - NO MORE INFORMATION TO DISPLAY

Debtor Name

- PAKIT INC
- PAKIT INC
- PAKIT INC
- PAKIT INC
- PAKIT INC
- PAKIT INC.
- PAKIT INC.
- ☐ PAK-IT TECHNOLOGIES INC.
- ☐ PAK-IT TECHNOLOGIES INC.

Display Selection

This is Exhibit I referred to
in the affidavit of Dwayne Yaretz #1
Sworn before me July 26 20 11

A Commissioner for taking Affidavits
for British Columbia

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                       BC OnLine: PPRS SEARCH RESULT              2011/07/25
Lterm: XPSP0050     For: PZ34484  MCCARTHY TETRAULT                 10:29:13

                                            Index: BUSINESS DEBTOR
Search Criteria: PAKIT INC.

**************** P P S A   S E C U R I T Y   A G R E E M E N T ****************

           Reg. Date: FEB 02, 2010          Reg. Length: 6 YEARS
           Reg. Time: 06:10:30              Expiry Date: FEB 02, 2016
         Base Reg. #: 389903F                 Control #: B9788707
Block#

 S0001  Secured Party: NATIONAL LEASING GROUP INC.
                       1525 BUFFALO PLACE
                       WINNIPEG MB  R3T 1L9

=D0001    Base Debtor: PAKIT INC.
           (Business) 2250-1000 WEST PENDER STREET
                       VANCOUVER BC  V6E3S7

        General Collateral:
         ALL PHOTOCOPIERS OF EVERY NATURE OR KIND DESCRIBED IN LEASE NUMBER
         2491222 BETWEEN IMAGEPATH PRINTING SOLUTIONS INC., AS ORIGINAL LESSOR
         AND THE DEBTOR AS LESSEE, WHICH LEASE WAS ASSIGNED BY THE ORIGINAL
         LESSOR TO THE SECURED PARTY, AS AMENDED FROM TIME TO TIME, TOGETHER
         WITH ALL ATTACHMENTS, ACCESSORIES AND SUBSTITUTIONS.

**************** P P S A   S E C U R I T Y   A G R E E M E N T ****************
        *** DISCHARGED ***
           Reg. Date: MAY 02, 2011          Reg. Length: 1 YEAR
           Reg. Time: 09:51:15              Expiry Date: MAY 02, 2012
         Base Reg. #: 122111G                 Control #: D0539794
Block#

 S0001  Secured Party: LANDMARK PROPERTY MANAGEMENT
                       CORPORATION
                       618-1755 ROBSON STREET
                       VANCOUVER BC  V6G3B7

=D0001    Base Debtor: PAKIT INC.
           (Business) 1050 WEST PENDER STREET, #2250
                       VANCOUVER BC  V6E3S7

        General Collateral:
         ALL ASSETS PRESENTLY HELD AND ACQUIRED IN FUTURE INCLUDING PATENTS
         HELD BY PAKIT GROUP OF COMPANIES AND ASSIGNMENT OF RECEIVABLES FROM
         GRUPO SAN CAYETANO, SPAIN.
         LOAN - PRINCIPAL AMOUNT $425,000. MANAGEMENT CONSULTING FEES - $60,000

          Registering
                Party: LANDMARK PROPERTY MANAGEMENT
                       CORPORATION
                       618-1755 ROBSON STREET
                       VANCOUVER BC  V6G3B7
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Continued on Page 2

Search Criteria: PAKIT INC. Page: 2

------------------------ T O T A L D I S C H A R G E ------------------------

Reg. #: 263513G Reg. Date: JUL 22, 2011
Reg. Time: 13:49:35
Control #: D0684516
Base Reg. Type: PPSA SECURITY AGREEMENT
Base Reg. #: 122111G Base Reg. Date: MAY 02, 2011

Registering
Party: LANDMARK PROPERTY MANAGEMENT
CORPORATION
618-1755 ROBSON STREET
VANCOUVER BC V6G3B7

**************** P P S A S E C U R I T Y A G R E E M E N T ****************
*** DISCHARGED ***
Reg. Date: MAY 02, 2011 Reg. Length: 1 YEAR
Reg. Time: 09:53:23 Expiry Date: MAY 02, 2012
Base Reg. #: 122117G Control #: D0539805
Block#

S0001 Secured Party: WRIGHT BRANDES MEDICAL LTD.
4569 3RD AVE WEST
VANCOUVER BC V6R1N2

=D0001 Base Debtor: PAKIT INC
(Business) STE 2250, 1050 WEST PENDER ST.
VANCOUVER BC V6E3S7

General Collateral:
REGISTERED AGAINST THE IP OF PAKIT INC OR ANY RELATED COMPANY IN
CANADA, BARBADOS AND SWEDEN
THE AMOUNT OF $70,000.00 IN CANADIAN CURRENCY AT 20% ANNUAL INTEREST
AND IS NOW PAST DUE

Registering
Party: WRIGHT BRANDES MEDICAL LTD.
4569 3RD AVE WEST
VANCOUVER BC V6R1N2

------------------------ T O T A L D I S C H A R G E ------------------------

Reg. #: 263501G Reg. Date: JUL 22, 2011
Reg. Time: 13:47:48
Control #: D0684507
Base Reg. Type: PPSA SECURITY AGREEMENT
Base Reg. #: 122117G Base Reg. Date: MAY 02, 2011

Registering
Party: WRIGHT BRANDES MEDICAL LTD.
4569 3RD AVE WEST

VANCOUVER BC V6R1N2

Continued on Page 3

Search Criteria: PAKIT INC. Page: 3

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*************** P P S A   S E C U R I T Y   A G R E E M E N T ***************
       *** DISCHARGED ***
           Reg. Date: MAY 02, 2011          Reg. Length: 1 YEAR
           Reg. Time: 10:01:19              Expiry Date: MAY 02, 2012
         Base Reg. #: 122141G                 Control #: D0539831
Block#

 S0001  Secured Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

=D0001    Base Debtor: PAKIT INC
           (Business) STE 2250, 1050 WEST PENDER ST.
                       VANCOUVER BC  V6E3S7

        General Collateral:
         THIS LOAN IS REGISTERED AGAINST THE IP OF PAKIT INC OR ANY RELATED
         COMPANIES IN CANADA, BARBADOS AND SWEDEN
         THE AMOUNT IS $3,490.00 INTEREST ON LOAN OF $70,000.00 AND IS PAST DUE

          Registering
                Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

----------------------- T O T A L   D I S C H A R G E -----------------------

                        Reg. #: 263528G           Reg. Date: JUL 22, 2011
                                                  Reg. Time: 13:51:27
                                                  Control #: D0684532
               Base Reg. Type: PPSA SECURITY AGREEMENT
                  Base Reg. #: 122141G       Base Reg. Date: MAY 02, 2011

          Registering
                Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

*************** P P S A   S E C U R I T Y   A G R E E M E N T ***************
       *** DISCHARGED ***
           Reg. Date: MAY 02, 2011          Reg. Length: 1 YEAR
           Reg. Time: 10:06:53              Expiry Date: MAY 02, 2012
         Base Reg. #: 122156G                 Control #: D0539847
Block#
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 S0001  Secured Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

=D0001    Base Debtor: PAKIT INC
           (Business)  STE 2250, 1050 WEST PENDER ST.
                       VANCOUVER BC  V6E3S7

        General Collateral:
         REGISTERED AGAINST THE IP OF PAKIT INC OR ANY RELATED COMPANIES IN
         CANADA, BARBADOS AND SWEDEN
         TOTAL OF LOAN $150,000.00 AT 20% ANNUAL INTEREST AND IS NOW PAST DUE
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Continued on Page 4


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          Registering
                Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

------------------------ T O T A L   D I S C H A R G E ------------------------

                     Reg. #: 263538G              Reg. Date: JUL 22, 2011
                                                  Reg. Time: 13:53:18
                                                  Control #: D0684544
             Base Reg. Type: PPSA SECURITY AGREEMENT
                Base Reg. #: 122156G         Base Reg. Date: MAY 02, 2011

          Registering
                Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

**************** P P S A   S E C U R I T Y   A G R E E M E N T ***************
        *** DISCHARGED ***
            Reg. Date: MAY 02, 2011           Reg. Length: 1 YEAR
            Reg. Time: 10:09:21               Expiry Date: MAY 02, 2012
          Base Reg. #: 122162G                  Control #: D0539854
Block#

 S0001  Secured Party: WRIGHT BRANDES MEDICAL LTD.
                       4569 3RD AVE WEST
                       VANCOUVER BC  V6R1N2

=D0001    Base Debtor: PAKIT INC
           (Business)  STE 2250, 1050 WEST PENDER ST.
                       VANCOUVER BC  V6E3S7

        General Collateral:
         THIS LOAN IS SECURED AGAINST THE IP TECH OF PAKIT INC OR ANY RELATED
         COMPANIES.
         THE LOAN IS IN THE AMOUNT OF $153,440 AND IS NOW COLLECTING INTEREST
         AT 20% ANNUALLY AND IS PAST DUE
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         Registering
               Party: WRIGHT BRANDES MEDICAL LTD.
                      4569 3RD AVE WEST
                      VANCOUVER BC  V6R1N2

----------------------- T O T A L   D I S C H A R G E -----------------------

                        Reg. #: 263550G            Reg. Date: JUL 22, 2011
                                                   Reg. Time: 13:55:05
                                                   Control #: D0684555
               Base Reg. Type: PPSA SECURITY AGREEMENT
                  Base Reg. #: 122162G        Base Reg. Date: MAY 02, 2011

         Registering
               Party: WRIGHT BRANDES MEDICAL LTD.
                      4569 3RD AVE WEST
                      VANCOUVER BC  V6R1N2
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Continued on Page 5


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*************** P P S A   S E C U R I T Y   A G R E E M E N T ***************

            Reg. Date: JUN 03, 2011          Reg. Length: 5 YEARS
            Reg. Time: 11:37:50              Expiry Date: JUN 03, 2016
          Base Reg. #: 180314G                 Control #: D0596912
Block#

 S0001  Secured Party: FAIRFAX FINANCIAL HOLDINGS LIMITED
                       95 WELLINGTON ST W, STE 800
                       TORONTO ON  M5J 2N7

=D0001    Base Debtor: PAKIT INC
           (Business) 1050 W PENDER ST, SUITE 2250
                       VANCOUVER BC  V6E 3S7

        General Collateral:
         ALL PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY.

          Registering
                Party: BLAKE CASSELS & GRAYDON LLP
                       ATTN: PPSA CLERK
                       PO BOX 49314 2600 595 BURRARD
                       VANCOUVER BC  V7X 1L3

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Some, but not all, tax liens and other Crown claims are registered at the Personal Property Registry (PPR) and if registered, will be displayed on this search result. HOWEVER, it is possible that a particular chattel is subject to a Crown claim that is not registered at the PPR. Please consult the Miscellaneous Registrations Act, 1992 for more details. If you are concerned that a particular chattel may be subject to a Crown claim not registered at the PPR, please consult the agency administering the type of Crown claim.

>>>>>>>>>>>>>>>>>>>>>>>>>>>>>>>> END OF SEARCH <<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<<