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C. Croft #1
Sworn: December 4th, 2008

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 HYDROXYL SYSTEMS INC.

PETITIONER

AFFIDAVIT

I, CHARLES E. CROFT, of 1575 West 28th Avenue, Vancouver, British Columbia, MAKE OATH
AND SAY AS FOLLOWS:

1. I am the sole Director of the Petitioner, Hydroxyl Systems Inc. (the "Company"), and, as such, I have personal knowledge of the matters hereinafter deposed to except where stated to be on information from an informant, in which case, because of my belief in the veracity of the informant I identify, I believe both the information and the resulting statement I make to be true.

2. I submit this Affidavit in support of an application by the Petitioner for a stay of proceedings pursuant to s. 11 of the *Companies' Creditors Arrangement Act*.
3. I have read the Petition filed concurrently herewith. The facts set out in the Petition are, to the best of my knowledge, true.

THE COMPANY

4. The Company was incorporated in April 1993 under the federal *Canada Business Corporations Act*. It has been appropriately registered in British Columbia since September 1993.
5. The Company's head office is in Victoria, British Columbia. The Company also has a small sales office in Westport, Massachusetts.
6. The Company designs, supplies, installs and services wastewater treatment systems. These systems are used by a diverse array of customers in the shipbuilding, municipal and industrial sectors.

SHAREHOLDERS

7. The Company is a public company, but it is not a reporting issuer. Its shares are not publicly traded. It currently has 337 registered shareholders, who collectively hold 14,747,493 issued common shares. All of these shares are of the same class (voting common).
8. Falcon Pacific Financial Corp. ("FPFC") is by far the largest shareholder, with 12,935,496 shares, or about 88% of the outstanding common shares.
9. I am also a Director of FPFC. I and my wife control that company.
10. The next largest shareholder of the Company (after FPFC) holds 310,600 shares, or approximately 2.11%.

11. Two other shareholders hold more than 100,000 shares each. Together they represent about 2.20% of the shares.
12. Twenty-three shareholders have more than 10,000 shares representing, collectively, 3.08% of the outstanding shares, while 310 other shareholders with less than 10,000 shares each collectively hold approximately 4.9% of the outstanding shares.
13. These shareholdings derive from a previous restructuring of the Company pursuant to the CCAA in July 2004. As part of a Plan of Arrangement that was accepted by the Company's creditors and shareholders at that time, certain unsecured creditors of the Company, including FPFC, were allocated Class A voting shares in the Company.
14. At the time the July 2004 Plan was approved, FPFC was allocated approximately 75% of the shares of the Company. FPFC subsequently acquired the shares of Juergen and Julie Puetter, with the result that it now holds approximately 88% of the shares.
15. I will refer to the circumstances that gave rise to the 2004 Plan below.

ASSETS AND OPERATIONS OF THE COMPANY

16. The Company currently employs approximately 20 employees, of whom 19 are based in Victoria, and 1 in Massachusetts.
17. The Company, in an effort to reduce costs, has had to lay off 10 employees in the last month, and had earlier this year laid off additional staff.
18. In consultation with management and restructuring professionals (who I describe below), I expect that it may be necessary to effect further temporary and/or permanent layoffs in order to reduce costs.
19. The Company operates out of leased premises. The rent is approximately \$15,000 per month and is current.

20. The Company's main assets consist of its intellectual property and goodwill.
21. The Company also has certain substantial receivables, as well as amounts that will become due under existing contracts once those contracts are completed.
22. The Company also has ongoing relationships with existing customers, including BC Ferries; it has a proven, patented wastewater treatment system for use on marine vessels; and it has an enviable reputation in an industry that has relatively few participants and substantial barriers to entry.
23. From inception to date, the Company has invested more than \$24 million in the development and commercialization of a number of related technologies, applications and systems for use in the wastewater treatment business.
24. I personally, through FPFC, have provided more than \$17 million of this amount (in combined debt and equity financing).

Products

25. The Company has developed what is called moving-bed biofilm reactor (MBBR) technology, which the Company markets under the trademarks ActiveCell and CleanSea.
26. The other dominant technology in the equipment segment of the wastewater treatment industry (which is the segment in which the Company operates) is known as membrane bioreactor technology (MBR).
27. Membranes have been used to treat water for many years. As a result, the MBR industry segment is mature with many competitors.
28. MBBR technology, on the other hand, is relatively new, and therefore has fewer participants. To date, only a small number of companies globally have invested the time and money to thoroughly research and develop this technology. Hydroxyl is one of those companies, and

is widely recognized as one of only four or five companies in the world with a developed MBBR product.

29. The Company has successfully applied its MBBR technology to the municipal, industrial and marine sectors.

Municipal Applications

30. The Company has successfully commercialized a municipal application of MBBR technology, which it markets under the brand-name ActiveCell IFAS. IFAS is a trademark and brand-name owned by the Company, but also widely used in the wastewater industry. IFAS stands for "Integrated Fixed-Film Activated Sludge".
31. The Company's MBBR technology is typically installed as a retrofit solution for conventional municipal wastewater treatment systems that are at, or beyond, capacity. By applying the Company's ActiveCell IFAS systems, existing municipal wastewater treatment systems can achieve significant gains in volumetric throughput, while taking advantage of existing systems, equipment, process knowledge, training and operator skills.
32. The Company has so far installed ActiveCell IFAS systems in Moorehead, Minnesota, Raisio, Finland, and Lakeview, Ontario.
33. Despite its strong technological advantages, the municipal market is a longer term prospect for the Company when compared to the industrial and marine markets. Municipal projects tend to be large (typically \$10 million and greater), and the sales cycle usually involves years rather than months. In addition, successful bidders are generally required to post bid bonds for the duration of the selection process and full surety bonds for the contract value after award. Because of the Company's financial limitations, these conditions have made it challenging for the Company to effectively to compete in the municipal wastewater market.

34. In an effort to penetrate the municipal wastewater treatment industry, by increasing the number of installation applying the Company's ActiveCell IFAS systems, the Company has licensed its ActiveCell IFAS technology to two strategic partners, Infilco Degrémont and Acquapoint Inc. Infilco Degrémont is one of the largest suppliers of municipal wastewater systems in the United States. These license agreements require Infilco Degrémont and Acquapoint to make certain minimum purchases of ActiveCell carriers annually, and require each company to use their best commercial efforts to market and sell the Company's technology in their respective markets.
35. These license agreements represent potentially valuable assets of the Company. However, I acknowledge that the license agreements contain typical provisions that they may be terminated in the event of the Company's insolvency.

Industrial Market

36. The Company markets its MBBR technology to the industrial market under the trademark ActiveCell Biological.
37. The Company is a relatively new player in the industrial market. To be successful in this market, reference installations are important. For the past two years, the Company has worked towards establishing strategic reference installations in the mining, pulp and paper and food processing industries. These industries were targeted because the Company recognized that their typical treatment requirements would be compatible with the Company's ActiveCell technology.
38. This focussed sales approach has resulted in more than a dozen strategic contracts in Canada and the United States over the last two years.
39. A recent example of the Company's success in the industrial market was the design and installation of a fully integrated wastewater plant for Mizkan Americas, a manufacturer of

mustard and vinegar products. The Company's ActiveCell technology processes 20,000 gallons per day of high-strength industrial wastewater produced from food processing operations at Mizkan's Crossville, Tennessee facility. By integrating ActiveCell technology, Mizkan has successfully lowered the level of biochemical oxygen demand (BOD) and total suspended solids (TSS) discharged to the City of Crossville's wastewater treatment plant. As a result, Mizkan has substantially reduced the regulatory surcharges it is obliged to pay for wastewater effluent discharges, and has been able to meet increasingly stringent discharge parameters adopted by the City of Crossville.

Marine Sector

40. The marine sector represents, at present, the Company's largest customer base.
41. The Company is one of only two companies in the world that design, sell and install MBBR technology-based wastewater treatment systems in the marine market (chiefly to large-scale cruise ships).
42. The Company has developed CleanSea biological, a patented and fully integrated system designed for the marine industry to perform primary, secondary and tertiary functions within a shipboard wastewater process.
43. The Company has also developed CleanSea oxidation which, as its name suggests, is an oxidation system for use in the marine market, which has a number of unique features including an ability to flush systems using salt water and low power requirements. These features have made CleanSea oxidation systems useful for commercial ferry and recreational marine vessels.
44. The Company has been awarded major contracts to supply CleanSea advanced wastewater treatment systems to STX Finland Cruise Oy, formerly Aker Yards Oy ("Aker"), a Finnish

shipbuilding company which is building two new "Genesis Class" cruise ships for use by Royal Caribbean Cruises Ltd. ("RCCL"), the world's second largest cruise ship operator.

45. The Company also has entered into contracts with RCCL directly, for the supply of wastewater treatment systems to other ships being built by RCCL.
46. In addition to these existing contracts, the Company is currently serving existing contracts and bidding on 10 additional cruise ship installations and retrofits, with potential revenues in the range of \$30 to \$40 million over the next 3 years.
47. The Company also supplies CleanSea oxidation technology to smaller vessels, including vessels operated by BC Ferry Services. The Company currently has tenders out on 11 BC Ferry vessels with potential revenues in the range of \$7 to \$10 million over the next 2 years.
48. The Company is currently in discussions with the Alaska Marine Highway system to retrofit its ferry vessels using the Company patented and trademarked systems.
49. The Company is pursuing other commercial opportunities, including a pilot project for the U.S. Navy to identify performance improvements attainable with the use of the Company's CleanSea biological and CleanSea oxidation technologies.
50. Management anticipates that with increased effluent regulations, and what it perceives to be the superiority of its MBBR and oxidation technologies for use on cruise ships and smaller marine vessels, the Company has an enviable position in this growing segment of the wastewater treatment industry.

SECURED CREDITORS

51. The Company has four major secured creditors, the Royal Bank of Canada ("RBC"), Alterninvest II Fund L.P., a limited partnership represented by its general partner, the Business Development Bank of Canada ("BDC"), FPFC and Seaspan International Ltd. ("Seaspan").

52. Each of these secured creditors has advanced funds, or made credit facilities available, to the Company on different terms and conditions, described below.

RBC

53. RBC has extended certain credit facilities to the Company. One is an operating line of credit (described as a revolving demand facility) in the maximum amount of \$500,000 (the "RBC Operating Line"). The Company is currently indebted to RBC in respect of this facility in the amount of approximately \$230,000.
54. I have personally guaranteed repayment of the RBC operating line, up to a maximum of \$500,000.
55. A second facility is a \$1,800,000 revolving term facility (the "RBC Export Facility") for use by the Company to finance certain eligible pre-shipment costs in relation to export contracts that meet criteria established by Export Development Canada ("EDC") under its pre-shipment financing program.
56. I am advised by management that the Company is currently indebted to RBC in respect of the RBC Export Facility in the amount of approximately \$982,000. Because, as described below, the Company has now issued a large invoice to Aker, it is entitled to draw down a further approximately \$160,000 on this facility. This amount is partially guaranteed by EDC.
57. The Company has used the RBC Export Facility to finance the shipment of goods to Finland in respect of the Aker contracts described above.
58. The Company has executed general security agreements (GSAs) in favour of RBC to secure repayment of RBC's credit facilities.
59. I understand, as well, that the Company may be indirectly liable to RBC on certain guarantees and Letters of Credit.

60. As a result of inter-creditor agreements, RBC has a first charge on the assets of the Company, except the Company's intellectual property.

Seaspan

61. The Company is indebted to Seaspan pursuant to the terms of a Term Loan Agreement dated as of May 15, 2006. The amount outstanding in respect of this agreement, as at the date of this Affidavit, is approximately \$164,000.
62. As security for repayment of the Seaspan loan, the Company has given Seaspan a general security agreement, which has been duly registered in the Personal Property Registry.
63. Seaspan has agreed to subordinate its security to that of RBC, and that the obligations of the Company to Seaspan are postponed to those of the Company to RBC.

BDC

64. The Company and BDC entered into an agreement called an "Investment Agreement" dated as of February 21, 2008. Pursuant to the material terms of the Investment Agreement, BDC has loaned the Company \$2,000,000.
65. As security for repayment of the BDC loan, the Company has granted BDC security over all of its assets, including a first priority charge on the Company's intellectual property.
66. Interest is payable on the outstanding balance of the BDC loan at the rate of 13% per annum. The Company is current on its interest payments to BDC.
67. In addition to interest, BDC is entitled to be paid a bonus (called the "Bonus Interest Amount" in the Investment Agreement), to be calculated in accordance with a formula set out in the Investment Agreement, upon the happening of certain triggering events, including a sale or change of control of the Company, prepayment or maturity of the BDC loan, or the

occurrence of an event of default. The Bonus Interest Amount, as I understand it, is about \$800,000.

FPFC

68. The largest single creditor of the Company is my company, FPFC.
69. The Company presently is indebted to FPFC in the amount of \$4.76 million, pursuant to the terms of Loan Agreements dated as of August 1, 2007, December 28, 2007, and July 29, 2008.
70. As security for the repayment of these loans, the Company has executed Promissory Notes in favour of FPFC, and has delivered General Security Agreements (GSAs) to FPFC, all of which have been duly registered in the Personal Property Registry.
71. FPFC has, pursuant to the terms of agreements with RBC, Seaspan and BDC, agreed to subordinate its security interests to those of RBC, Seaspan and BDC.

Other Secured Creditors

72. The Company has other, less significant secured creditors, including Brown Bros. Ford, which hold security in a Ford Econoline van, Dell Financial Services, which holds security over certain computer equipment, MCAP Leasing Inc., which holds security over certain office furniture and accessories, Ford Credit Canada Ltd., which holds securities in a Ford pickup truck, and Irwin Commercial Finance Canada, which holds security over certain office equipment (panels).
73. Now shown to me and marked as Exhibit "A" to this my Affidavit is a copy of a printout of the current security registrations recorded in the Personal Property Registry in respect of the Company, as debtor.

UNSECURED CREDITORS

74. The Company currently is indebted to a variety of unsecured creditors, in the collective amount of approximately \$1.4 million, although some of these claims are contingent and could be higher.
75. Now shown to me and marked as Exhibit "B" to this my Affidavit is a copy of a list of the Company's unsecured creditors, as prepared by management, together with an assessment, again prepared by management, of what each creditor is owed.
76. As can be seen from the foregoing, the Company has approximately 100 unsecured creditors (although this list does not include recently terminated employees).
77. Of these, the largest single creditor is Arrow Speed Controls Limited, which is owed approximately \$260,000.
78. A significant number of creditors are owed \$3,000 or less.

ARBITRATION

79. The Company is presently engaged in an arbitration with one of its customers, Kan-Pak L.L.C. ("Kan-Pak").
80. The Company supplied a wastewater treatment system to Kan-Pak, pursuant to the terms of a written agreement. The system was installed at a facility in Arkansas City, Kansas.
81. Under the terms of the agreement, the parties agreed to resolve any disputes by way of arbitration in British Columbia.
82. Disputes did arise under the agreement, and in the result Kan-Pak refused to make certain payments to the Company, which the Company says are owing pursuant to the terms of the agreement.

83. In the arbitration, the Company claims approximately \$400,000 (U.S.) from Kan-Pak, representing amounts that the Company says remain owing to it pursuant to the terms of the contract.
84. Kan-Pak has counterclaimed for more than \$2.5 million (U.S.) in damages for alleged breaches of the agreement, as well as alleged (but vigorously denied) negligent and fraudulent misrepresentations relating to the installation of the system.
85. The arbitration proceedings have commenced, but have not been concluded. The Company was required by the Arbitrator to post security for costs in the amount of \$40,000 by no later than the close of business on Tuesday, December 2, 2008. It failed to post this security.
86. The Company has received favourable opinions from counsel as to its prospects in the arbitration, but lacks the funds necessary to pursue its claims at this time. Of course, the Company also is faced with the prospect that Kan-Pak could be awarded substantial damages.
87. The Arbitrator has been informed that the Company intends to seek a stay of proceedings and he has scheduled a hearing for tomorrow morning.

INTELLECTUAL PROPERTY

88. The Company has registered patents in Canada and the United States (Nos. 2,337,975 and 6,811,705, respectively) in respect of its wastewater treatment system for use on marine vessels or land-based applications. This is the system that the Company markets under the trademark CleanSea, for marine-based applications, and ActiveCell, for land-based applications.
89. The Company also has applied for registration of a new patent for a wastewater treatment system for use on marine vessels comprising of an aerobic fixed film biological reactor, a tubular flocculator and dissolved air-floatation (DAF) unit. This application was filed in

Canada in 2005 under No. 2527525, and in the United States under No. 2007/0114182 and is pending.

90. The Company has registered the trademark CLEANSEA in Canada and the United States, and uses the trademark ActiveCell, although that mark is not registered in Canada. The Company also has registered the trademarks ACTIVECELL, IFAS, ACTIVEFLOAT and HYDROXYL in the United States.
91. The names "Hydroxyl" and "Hydroxyl Water Results" also are valuable, although unregistered, trademarks of the Company.

FINANCIAL STATEMENTS

92. Now shown to me and marked as Exhibit "C" to this my Affidavit are copies of the Company's financial statements to October 31, 2008, as prepared by management.
93. Now shown to me and marked as Exhibit "D" to this my Affidavit is a copy of the Company's most recent audited annual financial statements, as prepared by Trenholme & Co., for the year ended December 31, 2007.
94. As can be seen from these financial statements, the Company is insolvent. Its liabilities exceed its assets, and it is unable to pay its current obligations as they become due.
95. The Company has lost just over \$2 million during the first 10 months of this year, and is projecting a net loss of approximately \$2.369 million to the end of the year. The Company lost approximately \$2.9 million from operations in 2007.
96. One of the critical problems that the Company faces is that its margins are insufficient to cover its overhead costs, including product development, marketing and selling and operations, as well as finance costs, more than eat up these margins and result in the Company losing money.

97. With the assistance of Kimmo Sjoroos, a restructuring professional, I have therefore concluded that the Company will require further funds over the next 60 days. This will enable the Company to recover on certain large receivables, which I will shortly describe, and also to determine whether it may be able to achieve a reorganization of its existing debt and capital structure, so as to be able to attract new debt and/or equity financing, to enable the Company to continue to operate and exploit the technology that it has spent 15 years, and \$24 million, developing.

DIP FINANCING

98. The Company has essentially run out of cash. It is unable to draw down further on its operating line with the Royal Bank, and will be unable to meet payroll this Friday, unless it receives a further injection of cash before then.
99. If the Company is unable to continue operations, it may lose the benefit of certain large contracts which I now describe, as well as the goodwill it has developed over the years.

Aker

100. The Company has reached a significant milestone on one of its contracts with Aker. As a result of the delivery of certain equipment this week, 85% of the value of the contract, or about 1,955,000 Euros (about \$3 million at current exchange rates), is now due within 60 days.
101. On December 1, 2008, the Company issued an invoice to Aker, which Aker now has 60 days to pay. I am advised by Kimmo Sjoroos, a restructuring consultant with whom I and the Company have been working in recent weeks, that he has contacted the Chief Financial Officer of Aker and received assurances from the latter that the invoice will be paid, possibly on an accelerated basis.
102. The prospect of the Company recovering this receivable is very good, in my view.

RCCL

103. As mentioned above, the Company also has contracts directly with RCCL. By completing these RCCL contracts, the Company stands to recover as much as \$750,000 (U.S.).
104. One contract with RCCL, in particular, is essentially complete. The Company's wastewater treatment system has been installed in RCCL's cruise ship, and all that remains to be done is to have the system commissioned. This will involve, from the Company's perspective, sending two or three engineers to the site of the ship to carry out the commissioning work, which should take about a week. I estimate that the cost to the Company to complete this commissioning work will be less than \$15,000.
105. Once this commissioning work is completed, it will trigger an obligation on RCCL's part to pay the Company \$203,000 (U.S.), or about \$250,000 at current exchange rates.
106. The Company has three other contracts with RCCL which are near completion. Each of these projects requires the purchase and installation of a limited amount of additional equipment and commissioning. Based on the reports that I received from management of the Company, I expect these contracts to be completed over the next two to four months. Again, because of the advanced stage of the projects, the cost to the Company to complete and commission these projects should be quite minor in relation to the amounts that will become payable by RCCL upon commissioning.
107. Furthermore, the alternative is to simply abandon the contracts and recover nothing.

My Willingness to Provide Further Financing

108. I obviously have a great deal at stake in this Company, personally. As set out above, I through FPFC have invested over \$17 million in the Company over the past 15 years. At the moment, that entire investment is at risk.

109. Although the present financial difficulties of a Company have put a significant strain on my personal finances, I am prepared to lend further money to the Company in order to see it survive at least long enough to complete the Aker/Genesis project, and hopefully the RCCL projects as well. However, I am only prepared to do so if the financing that I provide is granted a first charge over the assets of the Company, including the Aker receivable.
110. I do not know how much financing may be needed for this purpose. I am certainly prepared to limit the amount that I advance to what is critically necessary to maintain the Company's basic operations, in consultation with the Monitor.
111. As set out in the cash flow summaries appended to Mr. Sjoroos' affidavit, given its existing essential requirements, the Company will need an injection of as much as \$380,000 to get it through the next 30 days.
112. As set out in Mr. Sjoroos' affidavit, the Company's cash needs will depend largely on its ability to collect certain outstanding receivables, including the Aker receivable. Obviously, the Company's future depends largely on its ability to recover the Aker receivable, and for the reasons set forth above I am confident that that will occur.
113. I am also confident, based on my discussions with management, that the other receivables identified in Mr. Sjoroos' cash flow summaries will be recovered.
114. Although I am confident that the Aker receivable will be paid to the Company, I am obviously taking a substantial risk in advancing any further funds to the Company. Accordingly, as a condition to my lending any further money to the Company, I will require that the Company agree to repay any amounts in accordance with the terms set out in the Term Sheet now shown to me and marked as Exhibit "E" to this my Affidavit, and that any advances be given the priority set out in the draft Initial Order, which I have read.

115. I am also concerned about my personal liability as a director of the Company, particularly with respect to wage and source deduction obligations, and accordingly I also request the Director's Charge as defined in the draft Order, which I have read.
116. I submit, for what its worth, that the risk to the other secured creditors in my providing priority financing is not all that great. If I do not provide the financing, and if as a result the Company is unable to recover the Aker receivable, or complete the RCCL contracts, then there is unlikely to be any substantial recovery for any of the creditors, secured or unsecured.
117. From the Royal Bank's perspective, I and my company, FPFC, have in any event guaranteed the Operating Line, and the Export Loan is guaranteed in part by EDC. The Aker receivable is also insured by EDC.
118. (Of course, my own risk is enormous. If the Company does not recover the Aker and RCCL receivables that I have described, I likely will lose not only the investments that I have already made in the Company, but also any DIP financing that I advance. As well, I will be liable on my personal guarantees).
119. As for BDC, while it is true that they hold a first charge over the Company's intellectual property, that intellectual property may be of little value without an operating company to exploit it.
120. I also have advised RBC and Seaspan of the Company's intention to seek protection from its creditors, and ask for DIP financing.
121. Now shown to me and marked as Exhibit "F" to this my Affidavit is a copy of an email that I sent to Kevin Irwin of Seaspan on December 3, 2008. Mr. Irwin is the Chief Financial Officer of Seaspan.
122. As at the time of swearing this Affidavit I have had no formal response from Seaspan or RBC.

MANAGEMENT ASSISTANCE

123. I am 70 years old. I had hoped not to have to take such an active role in the management of the Company. I have been in business in British Columbia for more than 40 years. I was originally trained and qualified as a Chartered Accountant. I then started a drilling business, which enjoyed considerable success. I sold that business a number of years ago.
124. Although I would have preferred not to become so involved, my assistance is obviously needed, and I am prepared to work with the Monitor, management and the Company's restructuring professionals in order to try to achieve a successful restructuring, and save as much of the Company's goodwill and intellectual capital, as well as jobs, as possible.
125. I acknowledge, of course, that I am also motivated to attempt to salvage what I can of the very significant investment that I have made in the Company over the past several years.
126. I also feel a significant sense of loyalty to the employees of the Company. All of them have worked extraordinarily hard to try to make this Company work, and it would be extremely distressing to me if the Company were unable to continue, and they were to lose their jobs, particularly at this time of year, and in this uncertain economic climate.
127. To assist with the restructuring of the Company, FPFC has retained Mr. Sjoroos, through a company in which he is a partner, to act as a financial advisor as to the restructuring possibilities available to the Company.
128. At present, senior management of the Company consists of Carolyn Rogers, President and CEO, Thomas Major, Chief Operating Officer, and Lindsay Hill, the former Chief Financial Officer.
129. Mr. Hill has agreed to stay on with the Company on an independent contract basis. Mr. Major is essentially the Chief Engineer of the Company, and it will be critical that he, too, remain with the Company. Ms. Rogers and I have had discussions about what her future role

with the Company may be. She is presently out of the country, but will be returning early next week. I expect to resume discussions with her at that time about her future role.

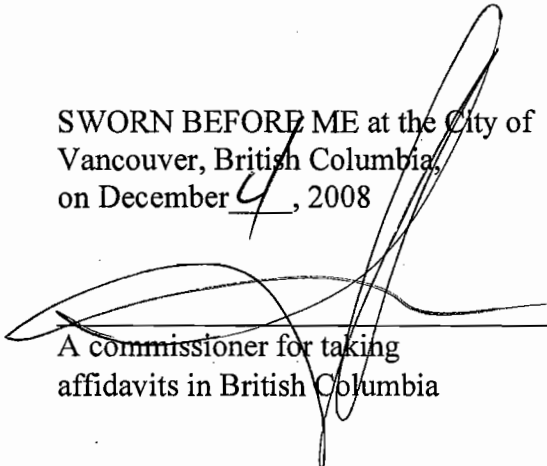
THE PLAN

130. At this point, the Company does not have a formal Plan of Arrangement and Compromise to present to its creditors.
131. In consultation with Mr. Sjoroos, Mr. Hill and other financial advisors, I hope to be in a position to assist the Company in putting forward a Plan in the next 30 to 60 days. I expect that any Plan will have to involve, at a minimum, a significant compromise of all unsecured creditors' claims, possibly with some ability to participate in the equity of the Company on a subordinated basis.
132. Any Plan will also have to involve a significant restructuring of the secured debt and capital structure of the Company, including a conversion of the BDC and FPFC debt positions into equity.
133. I have already engaged in preliminary discussions with representatives of BDC about such a Plan and, while we have not yet reduced those discussions to any written proposals, representatives of the BDC have indicated to me that they are, in principle, amenable to the kind of restructuring that I have proposed.
134. I should add that this is the second time that the Company has had to seek protection from its creditors in the last four and a half years. As I noted above, in July 2004 the Company entered into a Plan of Arrangement and Compromise with its then creditors, a copy of which is now shown to me and marked as Exhibit "G" to this my Affidavit.
135. I acknowledge that, since July 2004, the Company has continued to lose money.
136. In part, I believe that this is because the Company has devoted too much of its sales and marketing efforts to a single industry, namely the cruise ship industry. While I believe that

the cruise ship sector holds enormous potential for the Company, it has become obvious to me that the Company has had to make too many concessions to its customers, particularly RCCL, and it will need to make further changes to its pricing and contract management in order to succeed.

- 137. Despite the challenges that it faces, the Company has developed an excellent product, which now has a proven track record and which, I believe, can be successfully deployed if the Company's current debt and equity structure can be appropriately reorganized.
- 138. In addition to Mr. Sjoroos, I have been working with other financial advisors, who have been making efforts on my behalf and on behalf of the Company to determine whether there may be investors who would be prepared to inject fresh debt or equity financing to the Company, on the condition that its existing debt and equity structure be reorganized.
- 139. I am cautiously optimistic that investors can be found for the Company, if it can be appropriately reorganized, and if suitable arrangements can be made with its creditors.

SWORN BEFORE ME at the City of)
 Vancouver, British Columbia)
 on December 4, 2008)



 A commissioner for taking
 affidavits in British Columbia



CHARLES E. CROFT

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