

This is Exhibit "E" referred to in the affidavit of Charles E. Croft sworn before me this _____ day of December 2008.

A commissioner for taking affidavits in British Columbia.

TERM SHEET

Borrower: Hydroxyl Systems Inc.

Lender: Falcon Pacific Financial Corporation, or nominee.

Amount: Not to exceed \$500,000 (Cdn.).

Term: Coincidental with CCAA proceedings.

Interest Rate: 24% per annum.

Currency: Canadian dollars.

Evidence of Indebtedness: Promissory Notes, in form attached.

Security: Court ordered first priority, General Security Agreement in same form as already granted.

PROMISSORY NOTE

FOR VALUE RECEIVED, Hydroxyl Systems Inc. (the "Promissor"), does hereby promise to pay to Falcon Pacific Financial Corporation, or its nominee (the "Lender"), the principal sum of •DOLLARS (\$•), with interest thereon calculated at the rate and in the manner set out herein. The balance of the outstanding principal and accrued interest shall be paid to the Creditor by the Promissor in full on the date on which the Stay of Proceedings obtained by the Promissor from the Supreme Court of British Columbia pursuant to the Order of Mr. / Madam Justice _____ dated December ____, 2008, in BCSC proceeding No. _____, and any extensions thereof, shall expire, or on the occurrence of an Event of Default (as defined in Schedule "A" hereto).

Interest will commence to accrue from the date funds are advanced under this Promissory Note and will be payable at maturity. For purposes of this Promissory Note, "Prime Rate" means the posted prime lending rate of the Toronto Dominion Bank in effect from time to time for Canadian dollar commercial loans. Interest is payable on funds advanced pursuant to this Promissory Note at the Prime Rate per annum plus fifteen percent (15%), calculated daily in arrears and compounded monthly, both before and after maturity, default and judgment.

PROVIDED THAT the Promissor hereby waives presentation for payment, notice of protest, demand for payment and notice of non-payment and the Promissor agrees that it shall remain liable in respect of this Promissory Note as if presentment, demand, notice of dishonour and protest had been duly made and given.

PROVIDED FURTHER THAT all or any part of the principal sum, and accrued interest, if any, may be prepaid at any time, or from time to time, without penalty, and without notice to the Lender.

DATED at •, in the Province of British Columbia, on _____, 20_____.

HYDROXYL SYSTEMS INC.

By: _____
Authorized Signatory

SCHEDULE "A"
EVENTS OF DEFAULT

"Event of Default" means the occurrence of any of the following events or conditions, unless waived by the Creditor:

- (a) the Promissor makes default in payment of any payments to be made by the Promissor to the Creditor; or
- (b) the Promissor makes an assignment for the benefit of its creditors, or its declared bankrupt, under the *Bankruptcy and Insolvency Act*; or
- (c) a receiver, receiver and manager or receiver-manager of all or any part of the assets of the Promissor is appointed; or
- (d) an order is made or an effective resolution is passed for winding-up the Promissor; or
- (e) without the prior written consent of the Creditor, the Promissor creates or permits to exist any security interest in, charge, encumbrance, lien on or claim against any of the assets of the Promissor which ranks or could in any event rank in priority to or pari passu with any of the security interests of the Creditor; except the Creditor acknowledges that the Promissor has sought for protection from its creditors under the terms of the *Companies' Creditors Arrangement Act* (the "CCAA"), and further acknowledges that any security interest in the assets of the Promissor granted by the Court under the CCAA shall not constitute an Event of Default hereunder; or
- (f) the holder of any other security interest, charge, encumbrance, lien or claim against any of the assets of the Promissor does anything to enforce or realize on such security interest, charge, encumbrance, lien or claim; or
- (g) the Promissor enters into an amalgamation, a merger or other similar arrangement with any other person.

This is Exhibit "F" referred to in the affidavit of **Charles E. Croft** sworn before me this _____ day of **December 2008**.

A commissioner for taking affidavits in British Columbia.

66.

Scott Turner

From: Chuck [cecroft@telus.net]
Sent: Wednesday, December 03, 2008 1:50 PM
To: Scott Turner
Subject: FW: Hydroxyl

-----Original Message-----

From: Chuck [mailto:cecroft@telus.net]
Sent: Wednesday, December 03, 2008 1:48 PM
To: Kevin Irving
Subject: Hydroxyl

Kevin,

I have left messages for you both on your office voice mail and your cell but it must be a busy day for you. I have also left a message for Kyle. I wanted to come and see you and explain the situation Hydroxyl is in and to seek your support for allowing dip financing in a forthcoming CCAA and also request you convert your remaining loan to equity. With the deferral of cruise ship contracts and the general economic slowdown, Hydroxyl's only chance of survival is to seek protection under CCAA. This is scheduled to happen tomorrow. The lawyer handling the filing is Scott Turner and he would be happy to talk to you or your lawyers. (Tel 6046850121 sturner@bfrs.ca)

Hydroxyl, through funds provided by me, has been diligent in paying your loans and interest over a period of time. Without my support you would not have got anything. I need your help now in agreeing to allow dip financing (from me) and the conversion of your small remaining debt into equity.

Please call me anytime at 6042096147. I will get back to you if I don't answer immediately.

Chuck