

This is Exhibit "G" 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.~~

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PLAN OF COMPROMISE AND ARRANGEMENT

PURSUANT TO THE

COMPANIES' CREDITORS ARRANGEMENT ACT (CANADA)

AND

REORGANIZATION

PURSUANT TO THE

CANADA BUSINESS CORPORATIONS ACT

HYDROXYL SYSTEMS INC.

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**ARTICLE 1
INTERPRETATION**

1.1 Definitions

Whenever used in this Plan, the following words and terms will have the indicated meanings and grammatical variations of such words and terms will have corresponding meanings:

“Administrative Charge” has the meaning set out in the Initial Order.

“Affected Claims” means all Claims except Unaffected Claims.

“Affected Creditors” means the Creditors with Affected Claims, in respect of and to the extent of such Affected Claims.

“Affected Creditors Approval” means the approval of this Plan by the Affected Creditors voting on this Plan under the CCAA.

“Business Day” means a day, other than Saturday, Sunday or a statutory holiday, on which banks are generally open for business in the Province of British Columbia.

“Calendar Day” means any day, including a Saturday, Sunday and any statutory holiday in the Province of British Columbia.

“CBCA” means the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended.

“CCAA” means the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

“CCAA Proceedings” means the proceedings in respect of Hydroxyl commenced under the CCAA pursuant to the Initial Order.

“Claim” means any right or claim of any Person against Hydroxyl, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind of Hydroxyl, which indebtedness, liability or obligation is in existence or which is based on an event, act or omission which occurred in whole or in part prior to the Filing Date, and any interest that may accrue thereon up to the Filing Date for which there is an obligation to pay, and costs which such Person would be entitled to receive pursuant to the terms of any contract with such Person at law or in equity, by reason of the commission of a tort (intentional or unintentional), any breach of duty (including, without limitation, any legal, statutory, equitable or fiduciary duty), any right of ownership of or title to property or assets or to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise) against any property or assets, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known, or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, or any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, based in whole or in part on facts which existed prior to the Filing Date, together with any other rights or claims that would have been claims provable in bankruptcy had Hydroxyl become bankrupt at the Filing Date, together with any other rights or claims, whether or not asserted, arising after the Filing Date in any way, directly or indirectly related to any action taken or power exercised by Hydroxyl in the CCAA Proceedings, including, without limitation, any and all right or claims arising from the termination or repudiation (whether by way of express action on the part of Hydroxyl or pursuant to orders of the Court) of any executory agreements or obligations in existence as at the Filing Date and terminated or repudiated on or prior to the Claims Bar Date, including, without limitation, any claims of former employees, Governmental Authorities and other Persons.

“Claims Bar Date” means 5:00 p.m. local time in Vancouver, British Columbia on Friday, July 30, 2004.

“Court” means the Supreme Court of British Columbia.

“Creditor” means any Person having a Claim against Hydroxyl and may, where the context requires, include the assignee of a Claim or a trustee, interim receiver, receiver, receiver and manager, liquidator or other Person acting on behalf of such Person.

“Crown” means Her Majesty The Queen in right of Canada and in right of each and every Province and Territory of Canada.

“Directors’ Charge” has the meaning set out in the Initial Order.

“Distribution” means any distribution to Affected Creditors of cash and Shares, as the case may be, pursuant to this Plan.

“Distribution Claim” means the amount of the Claim of such Creditor as accepted by Hydroxyl or finally determined for distribution purposes in accordance with the provisions of the Meetings Order and the CCAA.

“Equipment Lessor” means any Creditor holding a security or title interest in relation to any equipment in the possession of Hydroxyl at the Filing Date which remains in the possession of Hydroxyl on the Plan Filing Date.

“Existing Hydroxyl Equity” means all of the outstanding common shares, preferred shares, and other equity issued by Hydroxyl to any Person and any and all warrants, options, rights and agreements to purchase any of the foregoing, whether vested or not, which for greater certainty, excludes the Shares to be issued pursuant to the Plan.

“Existing Hydroxyl Shareholders” means, collectively, the registered holders of Existing Hydroxyl Equity as of the day immediately prior to the Plan Implementation Date.

“Filing Date” means April 8, 2004, being the date on which the CCAA Proceedings were initiated.

“Governmental Authority” means the Crown, any government, municipality, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation or agent, court, board, tribunal, dispute settlement panel or body or other law, rule or regulation-making entity:

- (i) having or purporting to have jurisdiction on behalf of any nation, province, state or other geographic or political subdivision thereof; or
- (ii) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power.

“Hydroxyl” means Hydroxyl Systems Inc., a body corporate formed under the CBCA and registered extra-provincially in British Columbia.

“Initial Order” means the Order made by the Court under the CCAA on April 8, 2004 in respect of Hydroxyl, as amended, confirmed, extended or varied from time to time.

“Meetings” means the meetings of the Affected Creditors to be called pursuant to the CCAA for the purpose of considering and voting in respect of the Plan.

“Meetings Date” means the date on which the Meetings shall be held pursuant to the Meetings Order.

“Meetings Order” means the Order of the Court dated July 13, 2004 calling the Meetings to consider and vote on the Plan and setting out, *inter alia*, the voting process for Affected Creditors.

“Monitor” means Abakhan & Associates Inc., in its capacity as court-appointed Monitor pursuant to the Initial Order, and any successor thereof.

“Order” means any order of the Court in the CCAA Proceedings.

“Persons” includes each and every person, firm, partnership, association, organization, corporation, trust, fund or entity wherever situate or domiciled and any Governmental Authority in Canada.

“Plan” means this Plan of Compromise and Arrangement filed by Hydroxyl under the CCAA and Reorganization pursuant to Section 191 of the CBCA, as such Plan and Reorganization may be amended, varied or supplemented by Hydroxyl from time to time in accordance with the terms hereof.

“Plan Filing Date” means July 13, 2004 being the date on which the Plan is filed with the Court in the CCAA Proceedings.

“Plan Implementation Date” means a Business Day on which Hydroxyl has filed with the Court a certificate stating that all conditions precedent to implementation of this Plan set forth in Section 6.3 have been satisfied or waived.

“Post Filing Claim” means any Claim of any Person against Hydroxyl, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind of Hydroxyl with respect to any matter, action, cause or chose in action arising from or caused by any action taken by Hydroxyl from and after the Filing Date, but excluding any and all right or claims arising from the termination or repudiation (whether by way of express action on the part of Hydroxyl or pursuant to orders of the Court) of any executory agreements or obligations in existence as at the Filing Date and terminated or repudiated on or prior to the Claims Bar Date, including, without limitation, any claims of former employees, Governmental Authorities and other Persons.

“Post Filing Creditor” means any Creditor holding a Post Filing Claim with respect to, and to the extent of such Post Filing Claim.

“Proof of Claim” means a proof of claim filed by an Affected Creditor.

“Sanction Order” means the Order proposed to be made in the CCAA Proceedings, among other things, to sanction the Plan, as such Order may be amended, varied or modified by the Court from time to time.

“Secured Claim” means all Claims of Prospera Credit Union and Seaspan International Inc.

“Secured Creditor” means any Creditor holding a Secured Claim with respect to, and to the extent of such Secured Claim.

“Share Entitlement” means the number of new Shares necessary to leave (i) Falcon Pacific Financial Corp. and Pacific Financial Ltd. with 75.02% of the issued and outstanding Shares (ii) Juergen Puetter and Julie Puetter with 12% of the issued and outstanding Shares (iii) existing holders of Class A and Class B shares of Hydroxyl (excluding the parties referred to herein under (i) and (ii)) with 10% of the issued and outstanding Shares, and (iv) Unsecured Creditors (excluding the parties referred to herein under (i) and (ii)) with 2.98% of the issued and outstanding Shares.

“Shares” means Class A shares in the common stock of Hydroxyl.

“Stay Period” means the period from the Initial Order up to and including the Stay Termination Date.

“Stay Termination Date” means the day which is one Business Day following the Plan Implementation Date, or such later date as may be ordered by the Court.

“Trade Creditor” means a Creditor holding a Claim arising from the supply of goods or services on an arms-length basis to Hydroxyl with respect to, and to the extent of such Claim.

“Trade Creditors Class” means the class of the Trade Creditors established under the Plan.

“Unaffected Claims” means the: (1) Claims of the Secured Creditors (2) Claims of the Monitor (3) Claims of Fraser Milner Casgrain LLP (counsel to Hydroxyl), and (4) Post Filing Claims.

“Unaffected Creditors” means Creditors with Unaffected Claims, in respect of and to the extent of such Unaffected Claims.

“Unsecured Creditor” means a Creditor of Hydroxyl (excluding Unaffected Creditors and Trade Creditors) in respect of and to the extent of such Claim, and includes all Claims of Falcon Pacific Financial Corp., Pacific Financial Ltd. and Juergen Puetter and Julie Puetter.

“Unsecured Creditors Class” means the class of Unsecured Creditors established under the Plan.

“Voting Claim” of a Creditor means the amount of the Claim of such Creditor determined for voting purposes in accordance with the provisions of this Plan, the Meetings Order and the CCAA.

1.2 Governing Law

This Plan shall be governed by and construed in accordance with the laws of British Columbia and the federal laws of Canada applicable therein. All questions as to the interpretation of or application of this Plan and all proceedings taken in connection with this Plan and its provisions shall be subject to the exclusive jurisdiction of the Court.

**ARTICLE 2
PURPOSE AND EFFECT OF THE PLAN**

2.1 Purpose

The purpose of this Plan is:

- (a) to compromise existing Claims of Trade Creditors through payment of a percentage of such Claims in cash before or on the Plan Implementation Date; and
- (b) to compromise existing Claims of Unsecured Creditors through the distribution of shares of Hydroxyl in full settlement of such Claims including the Claims of Falcon Pacific Financial Corp., Pacific Financial Ltd., Juergen Puetter and Julie Puetter

in the expectation that all Persons with an economic interest in Hydroxyl will derive a greater benefit from the implementation of this Plan than would result from a bankruptcy of Hydroxyl.

2.2 Persons Affected

On and after the Plan Implementation Date, this Plan will become effective and be binding on Hydroxyl, the Existing Hydroxyl Shareholders and the Affected Creditors.

2.3 Corporate Authorization

The adoption, execution, delivery and implementation of all transactions contemplated by this Plan will occur and be effective as of the times contemplated by this Plan and will be authorized and approved under this Plan and by the Court, where appropriate, as part of the Sanction Order, in all respects and for all purposes without requirement for any further action by the shareholders, directors or officers of Hydroxyl.

2.4 Existing Hydroxyl Equity

Existing Hydroxyl Shareholders will not be entitled to any distributions under this Plan or other compensation in connection with or as a result of the transactions contemplated and will have no entitlement to vote on this Plan. All current and outstanding warrants, options, and Class B shares of Hydroxyl shall be cancelled. Class B shares will be exchanged for Class A shares.

**ARTICLE 3
CLASSIFICATION OF CREDITORS**

3.1 Classification of Creditors

For the purposes of considering and voting upon the Plan and receiving Distributions under the Plan, the Claims of the Affected Creditors shall be grouped into the following Classes and each Creditor in its designated Class shall, to the extent herein provided, be entitled to vote upon the Plan as part of that Class:

Class 1 Trade Creditors Class

Class 2 Unsecured Creditors Class.

3.2 Claim Procedure

The procedure for determining the validity and quantum of the Claims of Affected Creditors for voting and distribution purposes shall be governed by the Meetings Order.

3.3 Unaffected Claims

The Claims of Unaffected Creditors will not be compromised by this Plan.

3.4 Different Capacities

Persons who are affected by the Plan may be affected in more than one capacity. Unless expressly provided herein to the contrary, a Person will be entitled to participate hereunder in each such capacity. Any action taken by a Person in one capacity will not affect such Person in any other capacity, unless expressly agreed by the Person in writing or unless its Claims overlap or are otherwise duplicative.

**ARTICLE 4
TREATMENT OF CREDITORS**

For purposes of this Plan, the Creditors shall receive the treatment provided in this Article on account of their Claims and Post Filing Claims (except to the extent that they are Unaffected Creditors), and on the Plan Implementation Date, the Claims affected by this Plan will be compromised in accordance with the terms of this Plan.

4.1 Trade Creditors

(a) Voting Claims

Each Trade Creditor having a Claim shall be entitled to vote in the Trade Creditors Class to the extent of the amount which is equal to the Voting Claim as accepted by Hydroxyl or as determined pursuant to the Meetings Order.

(b) **Distribution Claims**

On or before the Plan Implementation Date, each Trade Creditor with a Distribution Claim will receive in full and final satisfaction of its Claim:

- (i) for each Trade Creditor owed less than \$500, a cash payment equal to one hundred percent (100%) of that Trade Creditor's Distribution Claim;
- (ii) for each Trade Creditor owed more than \$500, such Trade Creditor may elect to receive in full and final satisfaction of their Claim either:
 - (A) one hundred percent (100%) of the amount of the Trade Creditor's Distribution Claim up to a maximum of \$500; or
 - (B) five percent (5%) of the Trade Creditor's Distribution Claim on or immediately following the Plan Implementation Date, subject to maximum limit of \$40,000 for all payments to the Trade Creditors Class under this Article.

(c) **Election and Distribution Procedure**

Election between options (ii)(A) and (ii)(B) above must be made in writing and delivered to the Monitor no later than 5:00 p.m. on the second day before the date of the Meetings. Such election may be delivered as provided for in the Proof of Claim form attached to the Information Circular or separately. If a Trade Creditor fails to deliver its election to the Monitor by such date, such Trade Creditor shall be deemed to have elected option (ii)(B) unless Hydroxyl otherwise agrees. On or before the Plan Implementation Date, Hydroxyl shall distribute to each Trade Creditor the payment provided for in (i), (ii)(A) or (ii)(B) as elected by such Trade Creditor or as determined as set out herein.

4.2 Unsecured Creditors

(a) **Voting Claims**

Each Unsecured Creditor having a Claim shall be entitled to vote in the Unsecured Creditors Class to the extent of the amount which is equal to its Voting Claim as accepted by Hydroxyl or as determined pursuant to the Meetings Order.

(b) **Distribution Claims**

On or before the Plan Implementation Date, each Unsecured Creditor with a Distribution Claim will receive its Share Entitlement in full and final satisfaction of its Claim.

4.3 Crown Claims

Her Majesty the Queen in Right of Canada or a Province shall be paid in full within six months of the Sanction Order all amounts of a kind that were outstanding as at the Filing Date

that could be subject to a demand under subsection 224(1.2) of the *Income Tax Act* or under any substantially similar provision of provincial legislation.

4.4 Post Filing Creditors

All Post Filing Creditors will be paid in full the amount of their respective Post Filing Claim in the normal course of business by Hydroxyl in accordance with the arrangements entered into between Hydroxyl and such Post Filing Creditors.

4.5 Currency

For the purposes of voting or Distribution, a Claim shall be denominated in Canadian Dollars. Any Claim in currency other than Canadian Dollars must be converted to Canadian Dollars, and all such Claims shall be regarded as having been converted at the noon spot rate of exchange quoted by the Bank of Canada for exchanging such currency to Canadian Dollars as at the Filing Date, which rate for the conversion of US Dollars to Canadian Dollars is 1.3260.

4.6 Interest

Interest shall not accrue or be paid on any Affected Claim from and after the Filing Date.

4.7 Guarantees and Similar Covenants

No person who has a Claim under any guarantee, surety, indemnity or similar covenant in respect of any Claim which is compromised under this Plan or who has any right to claim over in respect of or to be subrogated to the rights of any Person in respect of a Claim which is compromised under this Plan shall be entitled to any greater rights than the Creditor whose Claim was compromised under this Plan.

4.8 Set-Off

The law of set-off applies to all Claims made against Hydroxyl and to all actions instituted by it for the recovery of debts due to Hydroxyl in accordance with the provisions of the CCAA.

4.9 Effect of Plan Generally

On the Plan Implementation Date, the treatment of Claims under this Plan shall be final and binding on Hydroxyl and all Creditors affected thereby (and their respective heirs, executors, administrators, legal personal representatives, successors and assigns) irrespective of the jurisdiction in which such Creditor resides or the Claims arise, and this Plan shall constitute:

- (a) a full, final and absolute settlement of all rights of Affected Creditors in consideration of the Distributions to such Affected Creditors contemplated by this Plan; and
- (b) an absolute release and discharge of all Affected Claims and any charges granted by Hydroxyl in respect thereof (whether created by contract, statute or otherwise) in consideration of the Distributions to Affected Creditors contemplated by this Plan.

4.10 Waiver of Defaults and Permanent Injunction

From and after the Plan Implementation Date:

- (a) all Creditors and other Persons (including Unaffected Creditors) shall be deemed to have waived any and all defaults of Hydroxyl then existing or previously committed by Hydroxyl or caused by Hydroxyl, or non-compliance with any covenant, warranty, representation, term, provision, condition, obligation, express or implied, in any contract, credit document, agreement for sale, lease or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Person and Hydroxyl, including a default under a covenant, and any and all notices of default and demands for payment under any instrument, including any guarantee, shall be deemed to have been rescinded;
- (b) a permanent injunction shall be pronounced on the terms of the Sanction Order against Creditors and all other Persons (excluding Unaffected Creditors) having contractual relationships with Hydroxyl with respect to the exercise of any right or remedy contained in the instruments evidencing such contractual relationships or at law generally, which might otherwise be available to such Creditors or other Persons as a result of the filing of the CCAA Proceedings, the content of this Plan, the implementation of this Plan, any action taken by Hydroxyl or any third party pursuant to the Plan or the Sanction Order either before or after the Plan Implementation Date, or any other matter whatsoever relating to the CCAA Proceedings, the Plan, or the transactions contemplated by the Plan; and
- (c) Hydroxyl may in all respects carry on as if the defaults, non-compliance, rights and remedies referred to in this Section 4.10 had not occurred.

4.11 Releases

On the Plan Implementation Date, the following Persons (being herein referred to individually as a "Released Party"): (i) Hydroxyl, and legal counsel of Hydroxyl in the CCAA Proceedings; (ii) the Monitor; (iii) Falcon Pacific Financial Corp., Pacific Financial Ltd., Charles (Chuck) Croft and their respective legal counsel in the CCAA Proceedings; (iv) present and former directors, officers and employees of Hydroxyl in such capacities and not in any other capacity; and (v) any Person claimed to be liable derivatively through any or all of the foregoing Persons; shall be released and discharged from any and all demands, claims, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, liens and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert, including without limitation, any Claims in respect of statutory liabilities of present and former directors, officers and employees of Hydroxyl, and any alleged fiduciary or other duty, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act or omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing or other occurrence existing or taking place on or prior to the Plan Implementation Date in any way relating to, arising out of or in connection with Claims, the business and affairs of Hydroxyl, this Plan and the CCAA Proceedings to the full extent permitted by law, and all claims arising out of such actions or omissions shall be forever waived

actually vote on the Plan (whether in person or by proxy) at the Meetings. Notwithstanding that a vote in any particular Class does not pass in accordance with the CCAA, Hydroxyl reserves the right to seek a Sanction Order as well as other relief in respect of the Plan.

5.3 Proofs of Claim

All Proofs of Claim and all disputes relating to Proofs of Claim shall be dealt with in accordance with the provisions of the Meetings Order.

5.4 Failure to File Proof of Claim

If an Affected Creditor fails to file a Proof of Claim prior to the Claims Bar Date, that Affected Creditor is disentitled from receiving a Distribution, but Hydroxyl shall nevertheless be released from the Claims of such Affected Creditor and all of the provisions of this Plan, other than those relating to entitlements to receive a Distribution, shall nevertheless apply to all such Claims.

5.5 Fractional Common Shares

Notwithstanding any other provision hereof, only whole numbers of Shares will be issued pursuant to this Plan. When any Distribution on account of a Distribution Claim pursuant to the Plan would otherwise result in the issuance of a number of Shares that is not a whole number, the actual distribution will only include the next lower whole number and no Person will be entitled to any compensation in respect of any fractional interest in a Share not received as a result of this Section 5.5.

**ARTICLE 6
CONDITIONS PRECEDENT**

6.1 Application for Sanction Order

If the Affected Creditors Approval is obtained, Hydroxyl shall forthwith apply for the Sanction Order. On the Plan Implementation Date, subject to the satisfaction of the conditions contained in Section 6.3 or as waived by Hydroxyl as provided therein, the Plan shall be implemented by Hydroxyl and shall be binding upon all Creditors and other Persons in accordance with its terms. If the conditions contained in Section 6.3 are not satisfied or waived, the Plan Implementation Date will not occur and the Plan and the Sanction Order shall cease to have any further force or effect.

6.2 Effect and Terms of Sanction Order

In addition to sanctioning the Plan, the Sanction Order shall, among other things:

- (a) direct and authorize Hydroxyl to complete all of the corporate and financial transactions contemplated under this Plan;
- (b) declare that the compromises effected hereby are approved, binding and effective upon all Creditors and other Persons affected by the Plan, and release and discharge Hydroxyl from any and all indebtedness, obligations and liabilities, as and to the extent provided in the Plan;

- (c) stay any and all steps or proceedings, including, without limitation, administrative orders, declarations or assessments commenced, taken or proceeded with or that may be commenced, taken or proceeded with against any and all past, present and future directors, officers and employees of Hydroxyl (in those capacities) in respect of all Claims and Post-Filing Claims, and discharge all past and present directors, officers and employees of Hydroxyl from any liability with respect to all Claims and Post-Filing Claims, all to the extent provided for in Section 4.11;
- (d) declare that the Shares to be issued by Hydroxyl to the Unsecured Creditors pursuant to the Plan will be validly issued and outstanding as fully-paid and non-assessable on the Plan Implementation Date and set the amount of the stated capital of Hydroxyl in accordance with the Plan;
- (e) declare that the stay of proceedings under the Initial Order continues until the Stay Termination Date;
- (f) declare that the provisions in the Initial Order relating to the debtor-in-possession financing and related security and the Administrative Charge (but not the Directors' Charge) will remain in effect on and after the Plan Implementation Date in accordance with existing terms or such terms as may be mutually agreed upon by the parties thereto;
- (g) declare that, subject to the performance by Hydroxyl of the obligations under the Plan, and except to the extent, if any, expressly contemplated by the Plan or the Sanction Order, all obligations or agreements to which Hydroxyl is a party shall be and remain in full force and effect, unamended, as at the Plan Implementation Date, unless terminated by Hydroxyl or terminated or deemed to have been terminated by an Order of the Court pursuant to the Initial Order, and no party to any such obligation or agreement shall on or following the Plan Implementation Date, accelerate, terminate, refuse to renew, rescind, refuse to perform or otherwise repudiate its obligations thereunder, or enforce or exercise (or purport to enforce or exercise) any right or remedy (including any right of set-off, dilution, buy-out, divestiture, forced sale, option or other remedy) under or in respect of any such obligation or agreement, by reason:
- (1) of any event which occurred prior to the Plan Implementation Date and is not continuing after the Plan Implementation Date or which is or continues to be suspended or waived under the Plan, which would have entitled any other party thereto to enforce those rights or remedies;
 - (2) that Hydroxyl has sought or obtained relief under the CCAA and the CBCA;
 - (3) of any default or event of default arising as a result of the financial condition or insolvency of Hydroxyl;

- (4) of the effect upon Hydroxyl of the completion of any of the transactions contemplated under the Plan; or
- (5) of any compromises, settlements, restructurings or reorganizations effected pursuant to the Plan;
- (h) confirm that all executory contracts, security agreements and other contractual relationships to which Hydroxyl is a party are in full force and effect notwithstanding the CCAA Proceeding or the Plan and its attendant compromises, and that no Person party to such an executory contract, security agreement or other contractual relationship shall be entitled to terminate or repudiate its obligation under such contract or agreement, or to the benefit of any right or remedy, by reason of the commencement of the CCAA Proceeding or the content of the Plan, the compromises extended under the Plan, or any other matter contemplated under the Plan or the Sanction Order;
- (i) confirm and give effect to the waivers, permanent injunctions and other provisions contemplated by Section 4.10 of this Plan; and
- (j) confirm and give effect to the releases and other provisions contemplated by Section 4.11 of this Plan; and

6.3 Conditions Precedent to Implementation of Plan

The implementation of this Plan shall be conditional upon the fulfillment of the following conditions:

- (a) ***Creditor Approval***
Approval of this Plan by the Affected Creditors in accordance with the CCAA.
- (b) ***Court Approval***
Pronouncement of the Sanction Order by the Court on the terms contemplated by Section 6.2.
- (c) ***Expiry of Appeal Periods***
The appeal period and any period for leave to appeal with respect to the Sanction Order shall have expired without an appeal of such Order having been commenced or, in the event of an appeal or application for leave to appeal, a final determination sanctioning the Plan shall have been made by the applicable appellate tribunal unless otherwise waived by Hydroxyl.
- (d) ***No Termination***
Hydroxyl shall not have determined not to proceed with the Plan prior to the Plan Implementation Date.

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Hydroxyl reserves the right to waive one or more of the foregoing conditions precedent other than condition (a).

**ARTICLE 7
AMENDMENT OF PLAN**

7.1 Plan Amendment

Hydroxyl reserves the right, at any time and from time to time, to amend, modify and/or supplement this Plan, provided that:

- (a) any such amendment, modification or supplement must be contained in a written document which is filed with the Court and, if made following the Meetings, approved by the Court on notice to the Affected Creditors affected thereby;
- (b) any amendment, modification or supplement may be made unilaterally by Hydroxyl following the Sanction Order, provided that it concerns a matter which, in the opinion of Hydroxyl, acting reasonably, is of an administrative nature required to better give effect to the implementation of this Plan and to the Sanction Order and is not adverse to the financial or economic interests of the Affected Creditors; and
- (c) any supplementary plan or plans of compromise or arrangement filed with the Court, and, if required by this Section, approved by the Court, shall, for all purposes, be and be deemed to be a part of and incorporated in this Plan.

7.2 Severability

In the event that any provision in the Plan is determined to be unenforceable, then unless otherwise determined by Hydroxyl in its sole discretion, such determination shall in no way limit or affect the enforceability and operative effect of any other provision of this Plan.

**ARTICLE 8
GENERAL PROVISIONS**

8.1 Termination

At any time prior to the Plan Implementation Date, Hydroxyl may determine not to proceed with this Plan, notwithstanding any prior approvals given at any of the Meetings or the obtaining of the Sanction Order.

8.2 Paramountcy

From and after the Plan Implementation Date, any conflict between this Plan and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of any contract, credit document, security agreement, agreement for sale, by-laws of

Hydroxyl, lease or other agreement, written or oral and any and all amendments or supplements thereto existing between one or more of the Creditors (excluding the Unaffected Creditors) and Hydroxyl as at the Plan Implementation Date will be deemed to be governed by the terms, conditions and provisions of this Plan and the Sanction Order, which shall take precedence and priority.

8.3 Successors and Assigns

This Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in, or subject to, this Plan.

8.4 Compromise Effective For all Purposes

The compromise or other satisfaction of any Claim under this Plan, if sanctioned and approved by the Court under the Sanction Order shall be binding on the Plan Implementation Date on every Affected Creditor and such Affected Creditor's heirs, executors, administrators, legal personal representatives, successors and assigns, for all purposes.

8.5 Consents, Waivers And Agreements

On the Plan Implementation Date, each Creditor shall be deemed to have consented and agreed to all of the provisions of this Plan in their entirety. In particular, each Creditor shall be deemed:

- (a) to have executed and delivered to Hydroxyl all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Plan in its entirety;
- (b) to have waived any non-compliance by Hydroxyl with any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor and Hydroxyl that has occurred on or prior to the Plan Implementation Date; and
- (c) to have agreed that, if there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor and Hydroxyl at the Plan Implementation Date (other than those entered into by Hydroxyl on or after the Filing Date) and the provisions of this Plan, the provisions of this Plan take precedence and priority and the provisions of such agreement or other arrangement shall be deemed to be amended accordingly.

8.6 Deeming Provisions

In this Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

8.7 Notices

Any notice or communication to be delivered hereunder shall be in writing and shall reference the Plan and may, subject as hereinafter provided, be made or given by personal delivery or by fax addressed to the respective parties as follows:

- (a) if to Hydroxyl:

c/o Fraser Milner Casgrain LLP
Barristers and Solicitors
1500 - 1040 West Georgia Street
Vancouver, B.C. V6E 4H8

Attention: Ben J. Ingram
Direct Fax: 604.683.5214

- (b) if to a Creditor:

to the known address (including fax number) for such Creditor or the address for such Affected Creditor specified in the Proof of Claim filed by such Affected Creditor in the CCAA Proceedings;

- (c) if to the Monitor:

Abakhan & Associates Inc.
#1120 - 625 Howe Street
Vancouver, B.C. V6C 2T6

Attention: George Abakhan
Fax: 604.689.4277

or to such other address as any party may from time to time notify the others in accordance with this Article. All such notices and communications which are delivered shall be deemed to have been received on the date of delivery. Any such notices and communications which are faxed shall be deemed to be received on the date faxed if sent before 5:00 p.m. (local time of the recipient's locale) on a Business Day and otherwise shall be deemed to be received on the Business Day next following the day upon which such fax was sent. Any notice or other communication sent by mail shall be deemed to have been received on the fifth Business Day after the date of mailing. The unintentional failure by Hydroxyl to give a notice contemplated hereunder shall not invalidate any action taken by any Person pursuant to the Plan.

8.8 Further Assurances

Notwithstanding that the transactions and events set out in the Plan shall be deemed to occur without any additional act or formality other than as set out herein, each of the Persons affected hereby shall make, do and execute or cause to be made, done or executed all such further acts, deeds, agreements, transfers, assurances, instruments, documents or discharges as may be reasonably required by Hydroxyl in order to better implement the Plan.

87.

DATED at the City of Sidney, Province of British Columbia, this 13th day of July, 2004.

HYDROXYL SYSTEMS INC

Per: "David Jackson"
Authorized Signatory

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 # OF CHARLES E. CROFT

Burns, Fitzpatrick, Rogers & Schwartz LLP

Barristers & Solicitors

#1400 - 510 Burrard Street

Vancouver, B.C.

V6C 3A8

Telephone: 604-685-0121; Fax: 604-685-2104

Attention: Scott Turner