

D. Gray #8  
Sworn: June 8, 2009

No. S-088488  
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, DAVID GRAY, CA-CIRP, of 1000 - 570 Granville Street, Vancouver, British Columbia,  
MAKE OATH AND SAY AS FOLLOWS:

1. I am the President of The Summit Group Business Consultants Ltd. ("Summit") and, as such, I have personal knowledge of the matters hereinafter deposed to, except where stated to be on information, 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. Capitalized terms used in this Affidavit have the same meaning as ascribed to them in my earlier Affidavits in this proceeding.

3. I make this Affidavit in what I hope will be the Petitioner's last application for an extension of the stay before it presents a Plan of Arrangement to its creditors.

***Activities of the CRO***

4. Since the date of my second to last Affidavit (submitted in support of the Petitioner's previous application for an extension), I and my partner, Harvey Lee, have:
  - (a) Attended at the Petitioner's premises in Victoria on several occasions and met with the management team to discuss operations;
  - (b) Assisted the Petitioner in preparing weekly pro-forma cash flow budgets to the end of December 2009;
  - (c) Reviewed the Petitioner's potential projects in the sales funnel on a weekly basis;
  - (d) Reviewed the results of the Petitioner's new sales "culture" of involving the Petitioner's engineering group in assisting with lead generations;
  - (e) Reviewed the Petitioner's supplier costs relating to its budget;
  - (f) Reviewed the results of new sales initiatives targeting industrial wastewater projects with management of the Petitioner, including its COO and marketing manager;
  - (g) Assisted with the negotiations with Krüger Kaldnes described in my seventh Affidavit, relating to an award of costs in favour of Krüger Kaldnes in certain patent proceedings in Finland;
  - (h) Assisted the Petitioner with the preparation of a bid for a wastewater treatment system to be installed in a fourth Genesis class ship to be built by STX;
  - (i) Assisted the Petitioner in its negotiations with Krüger Kaldnes relating to a possible royalty payment for any system installed in the fourth STX ship;
  - (j) Assisted the Petitioner in negotiating various lease buy-out agreements, and in dealing with furniture and computers;

- (k) Supplied potential buyers with updated information including budgets, cash flows and other requested documents;
  - (l) Met with potential buyers and held detailed discussions regarding the sale of the Petitioner's assets, with a newly interested party as well as previously identified potential buyers.
5. As a result of the discussions that I and Mr. Lee and other have had with potential buyers over the past approximately 6 months, we have generated one firm offer which, in our view, is inadequate, and would not likely result in the Petitioner being able to present a Plan that would provide any recovery for its unsecured creditors.
  6. At present, we are focussing our discussions and negotiations on two potential buyers, one based in Alberta and the other in the United States. The party from the United States has retained local counsel to provide it with advice with respect to the acquisition of the assets and/or shares of a Canadian company in CCAA protection.
  7. As I have been in previous Affidavits, I am reluctant to disclose the specific identity of the prospective purchasers/investors with whom we are negotiating. I have disclosed this information to the Monitor, who will comment separately.
  8. Based on the discussions that I and Mr. Lee have now had with the prospective purchaser from the United States, I expect that the Petitioner will shortly receive a formal proposal for evaluation.
  9. Given the availability of the Petitioner's counsel, and the time that I anticipate it will take to receive and offer and, hopefully, negotiate and conclude a transaction, I believe that it will take a further approximately 30-45 days to put together a Plan of Arrangement; accordingly, and so with this Affidavit I am requesting a further approximately 45-day extension of the stay of proceedings.

***Cash Flow***

10. In the meantime, now shown to me, marked and attached to this my Affidavit as Exhibit "A" is a copy of a projected cash flow for the period June 8 to July 31, 2009, which Mr. Lee and I have prepared for the Petitioner (the "Cash Flow"). Attached to the Cash Flow are schedules showing the Petitioner's projected sales revenue, operating expenses and

direct supplier costs for the same period.

- 11. As can be seen from the Cash Flow, the Petitioner is projecting being able to continue to operate during the stay extension period within its available line of credit from the Royal Bank, which is fully guaranteed by Mr. Croft.

***Plan of Arrangement***

- 12. In my Affidavit #6, in this proceeding, I described the type of Plan of Arrangement the Petitioner is likely to put forward. This has not changed. Any plan will, at best, provide for the establishment of a fund for unsecured creditors, to be funded over time from net proceeds realized from existing contracts and further amounts from tax loss benefits as and when realized.

***Ongoing Litigation Matters***

- 13. As reported in my Affidavit #7, a settlement has been reached with Krüger Kaldnes. Funds have now been released, or being released, to Hydroxyl from STX. These are reflected in the Cash Flow.
- 14. We still have not received a decision from the Arbitrator in the Kan-Pak arbitration.

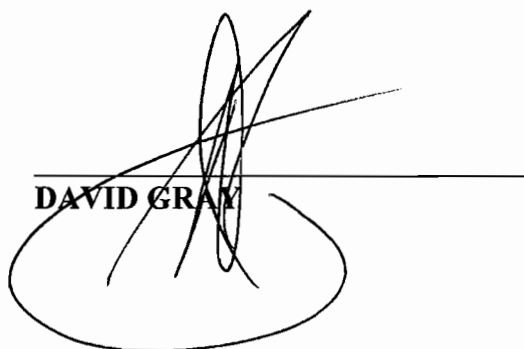
SWORN BEFORE ME at the City of )  
 Vancouver, British Columbia, )  
 on June 8, 2009 )  
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 A commissioner for taking  
 affidavits in British Columbia )

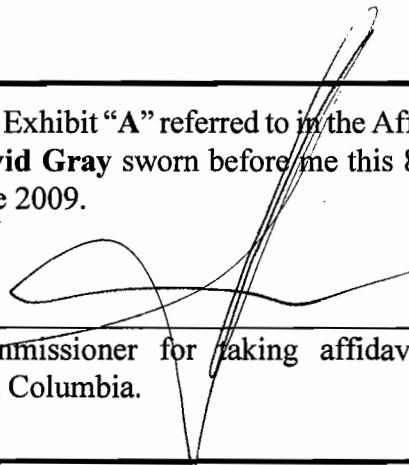
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**SCOTT A. TURNER**  
*Barrister & Solicitor*  
 1400-510 BURRARD STREET  
 VANCOUVER, B.C. V6C 3A8

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**DAVID GRAY**



This is Exhibit "A" referred to in the Affidavit of **David Gray** sworn before me this 8<sup>th</sup> day of June 2009.

A handwritten signature in black ink, consisting of several overlapping loops and a long vertical stroke that extends downwards, crossing the signature line.

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A commissioner for taking affidavits in British Columbia.









