

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

and

IN THE MATTER OF THE CANADA BUSINESS CORPORATION ACT

and

IN THE MATTER OF HYDROXYL SYSTEMS INC.

Monitor's Sixth Report

June 10, 2009

INTRODUCTION AND OVERVIEW

On December 5th, 2008 (the “Filing Date”), Hydroxyl Systems Inc. (the “Company” or “Hydroxyl”) filed an application pursuant to the provisions of the *Companies Creditors Arrangement Act* (“CCAA”) and was granted an order (the “Initial Order”) by the Supreme Court of British Columbia (the “Court”). A copy of the Initial Order was sent to every known creditor of Hydroxyl on or about December 15th, 2008. In addition, a copy of the Initial Order has been posted on the Monitor’s website. The Initial Order provided for a Stay of Proceedings until January 5th, 2009, the date of the “Comeback Hearing”.

The details of the circumstances surrounding the Company’s filing under the CCAA, the causes of its financial difficulties, and the events leading up to the CCAA application are contained in the Petition and the Affidavit of Charles Croft filed in these proceedings. A copy of the Petition and the Affidavit were included in the creditor information sent to the creditors and are also available on the Monitor’s website.

On April 29th, 2009, the Monitor filed its Fourth Report with the Court. Most recently, the Court granted an Order on April 30th, 2009, extending the Stay of Proceedings to June 11th, 2009, to allow the Company further time to file a formal Plan of Arrangement pursuant to the provisions of the CCAA.

The Company is now making application for a further 45-day extension to allow the Company further time to file a formal Plan of Arrangement pursuant to the provisions of the CCAA. Management, with the assistance of the Summit Group (“Summit”), continues to make progress with three prospective purchasers/investors (one of whom has serious interest subsequent to the April 30th Order) and is hopeful that the 45-day extension will be sufficient to allow the interested parties to complete their due diligence and present a purchase or investment offer to the Company.

ACTIVITIES OF THE MONITOR

Since the date of our Fourth Report, the Monitor has:

- Monitored the Company's daily cash inflows and outflows;
- Responded to creditor inquiries;
- Had discussions with Summit with respect to the Company's cash flow projections, the status of the prospective investors and the development of a Plan of Arrangement for the Company;
- Discussions with the Company's management with respect the ongoing operations and other matters relating to the restructuring process;
- Reviewed the Company's cash flow projections and underlying assumptions; and
- Preparation and distribution of the Monitor's Fifth Report to the Court in these CCAA proceedings.

POST FILING OPERATIONS

In the Monitor's Fifth Report, filed with the Court on May 28th, 2009, the Monitor stated that the Helsinki City Court had dismissed the Company's claims against Krüger Kaldnes AS ("Krüger") over the validity of certain patents and awarded costs against the Company for approximately €270,000.

Subsequent to the Monitor's Fourth Report, Krüger has applied to the Execution Authority of Turku (the "Execution Authority") for an Order for execution of the Costs Awards, including a garnishing order directing STX Finland Cruise Oy ("STX") to pay any amounts that would otherwise be payable to Hydroxyl to the Execution Authority. We understand that STX has already paid certain funds to the Execution Authority that was due to the Company.

The Court granted an Order on May 29th, 2009, approving a Settlement Agreement between the Company and Krüger that would see Krüger be assigned 22% of any amounts due to the Company by STX, until the costs award had been paid in full.

We enclose as **Appendix "A"** the Company's weekly cash-flow schedule that provides a comparison between actual versus projected cash flow for the period from April 20 to May 29, 2009. The cash flow includes any projected payments due to Krüger.

Since the date of our Fourth Report the Company has continued to carry on its normal business activities and has reduced its expenses. Further, suppliers are continuing to provide goods and/or services to the Company and are being paid in the normal course of business. The STX payments that were paid into the Helsinki court have caused delays in the Company in making payments to many of its post filing suppliers.

Hydroxyl has met its cash flow projections and has continued to operate within its \$500,000 operating line facility with the Royal Bank of Canada ("RBC"), which has been partially cash collateralized by Mr. Croft. Following are our comments with respect to the Company's cash flow:

Cash Inflows:

- As a result of the Company's Settlement Agreement with Krüger, it expects to receive approximately \$250,000 by June 12, 2009, funds that had been paid to the Helsinki court by STX pursuant to the garnishing order.

Cash Outflows:

- The above mentioned STX payments will be used to pay the Company's post filing obligations including suppliers, legal fees and other professional fees; and

- Hydroxyl has generally paid its operating expenses, including statutory remittances, in accordance with the Initial Order and its subsequent cash flow projections.

As set out in the Monitor's Fourth Report, the Company had expected that the balance outstanding on its operating line with RBC would be \$382,000 as at May 29, 2009. The actual balance outstanding was approximately \$274,000.

PROJECTED CASH FLOWS FROM JUNE 1 TO JULY 31, 2009

We enclose as **Appendix "B"** the Company's Projected Cash Flows for the period from June 1 to July 31, 2009. The projection was prepared by the Company with the assistance of Summit. In the Monitor's opinion, the assumptions are reasonable.

The Company projects its RBC operating line to be at approximately \$462,000 as at July 31, 2009.

RESTRUCTURING EFFORTS TO DATE

Since the date of the Monitor's Fourth Report, the Company and Summit have continued discussions and meetings with several ongoing and new interested parties. Summit has provided the Monitor with a memo summarizing three prospective purchasers that it and the Company's management have met with.

Each of these prospective purchasers have performed due diligence and Summit is expecting to receive at least two offers in the next two weeks. Due to confidentiality issues, we cannot yet disclose the identities of these prospective purchasers. However, the Monitor believes that these prospective purchasers are serious and appear to be acting in good faith.

Mr. Croft was instrumental in negotiating the Company's Settlement Agreement with Krüger and has participated in discussions with prospective purchasers.

If the Court grants the Company a further 45 day extension, Summit and the Company will continue to pursue offers from all interested parties and any acceptable offer received will form part of the Company's Plan of Arrangement.

RECOMMENDATIONS

The Monitor has had discussions with creditors and other stakeholders, has assisted the Company in updating its financial information, and participated in strategic discussions with management and Summit regarding ongoing operations and the Company's preliminary Plan of Arrangement.

It is the Monitor's opinion that the Company is acting in good faith and with due diligence and has been cooperative in providing the Monitor with information requested. Further, the Monitor believes that no creditor would be materially prejudiced if an extension of time is granted to allow Hydroxyl to prepare its Plan of Arrangement.

Given operations to date, and the Company's and Summit's ongoing discussions and meetings with the prospective purchasers, it is the Monitor's view that a 45 day extension is required to allow the Company time to finalize a deal with one of the prospective purchasers and to file its Plan of Arrangement.

Dated at Vancouver, British Columbia, this 10th day of June, 2009.

CAMPBELL, SAUNDERS LTD.

Monitor

A handwritten signature in black ink, appearing to be "Steve Lum", written over a horizontal line.

Per: Steve Lum, CGA, CIRP