



S-088488

K. Sjoroos #1
Sworn: December 4, 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, KIMMO T. SJOROOS, MBA, of Suite 450, 15615 Alton Parkway, Irvine, California, MAKE OATH AND SAY AS FOLLOWS:

1. I am the Chief Financial Officer of Conor Pacific Canada Inc. ("Conor Pacific") and, as such, I have personal knowledge of the matters hereinafter deposed to.
2. Conor Pacific has been retained by Falcon Pacific Financial Corp. ("FPFC") to assist the Petitioner, Hydroxyl Systems Inc. (the "Company"), to achieve a reorganization of its debt and capital structure, and to seek out new debt or equity partners for the Company.

3. I have previous experience in the area of insolvency and restructuring and corporate turnarounds.
4. I am partner with Tatum, LLC, a firm of restructuring specialists based in Atlanta, Georgia. I have an MBA from Northwestern University's Kellogg School of Management (2000).
5. I have only been working with the Company and its remaining director, Charles E. Croft, for a brief time. I understand that Mr. Croft controls FPFC, and that it is the largest shareholder, by far, of the Company, and the Company's largest single creditor.
6. I have already identified certain areas where I believe the Company can focus its attention. The most immediate need is to ensure the collection of a substantial receivable from STX Finland Cruise Oy, formerly Aker Yards Oy ("Aker"), a Finnish company which is building the world's largest cruise ship, in which one of the Company's wastewater treatment systems is to be installed.
7. I am originally from Finland, and I have already spoken with representatives of Aker (with whom I am familiar), and received assurances that Aker will pay the Company, assuming that the equipment that has been delivered meets Aker's specifications, and will attempt to accelerate payment.
8. I understand that the Company also has some potentially significant receivables from Royal Caribbean Cruise Lines ("RCCL"). In order to collect these receivables, the Company will need to complete certain milestones. I will be working with the management on devising ways to achieve completion of the RCCL projects, and collection of revenues from those projects, assuming this can be done in an economically viable way. The Company may also be in a position to claim certain extras from RCCL.

9. I am committed to reviewing with Mr. Croft and existing management the status of the Company's business, including its existing bid portfolio, with a view to determining whether the Company can achieve profitability.
10. Finally, I have agreed to work with the Company with a view to attempting to find a way to restructure its existing debt and find new equity financing on a going forward basis.
11. I have prepared 3 cash flow summaries, showing the Company's essential cash needs for the next 60 to 90 days. Copies of these cash flow summaries are now shown to me and marked as Exhibits "A", "B" and "C" to this my Affidavit.
12. The first summary (Exhibit "A") is based on information provided to me by Lindsay Hill, the former Chief Financial Officer of the Company. It shows a number of receivables being recovered by the Company in the next 60 days, including the Aker receivable.
13. One of the receivables in Exhibit "A" is an "EDC Draw" in the amount of \$161,000, which is shown in week 1. This would, in fact, be a draw down under what is described as the "RBC Export Loan" in Mr. Croft's Affidavit. I do not know whether RBC will advance this amount if the Company files for protection.
14. The second summary (Exhibit "B") takes the assumptions in Exhibit "A", and makes them somewhat more conservative, by pushing the receivables out by two weeks in each case. The summary shown on Exhibit "B" also does not include the "EDC Draw" receivable.
15. The third summary pushes each of the receivables out by four weeks, except the Aker receivable, which is shown as being received in week 10.
16. I have not done any significant due diligence as to the collectability of the receivables shown on these cash flows. I have relied entirely on management and management's assessment of whether or when they are payable. I have then created my own assumptions, in Exhibits

This is Exhibit "A" referred to in the affidavit of Kimmo Sjoroos sworn before me this 4th day of December 2008.

A Commissioner for taking affidavits in British Columbia.

CASH FLOW SUMMARY
HYDROXYL
 In thousands of CDN

Item	Dec				Jan				Feb			
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12
Beginning Cash Balance	-	31	57	(77)	(34)	(158)	108	(1)	3,044	2,920	2,869	2,760
Customer Receipts:												
RCCL						170						
BC Ferries	40											
EDC draw	161	37										
Aker Yards		55										
Island Farms				60								
RCCL - service & spares				113		147		3,115				
CRA amended SRED claim												
LetterKenny												
Aker Yards - Genesis II												
Payroll:												
Employees	(46)	(46)	(46)		(46)		(46)		(46)		(46)	
Contract employees:												
Tech Writer, IT	(9)	(9)	(9)		(9)		(9)		(9)		(9)	
Ship Service employees	(10)	(10)	(10)		(10)		(10)		(10)		(10)	
Sourced Deductions	(22)	(17)	(17)		(17)		(17)		(17)		(17)	
Rent & Utilities:	(15)	(15)			(15)				(15)			
Recurring exp. such as gas, insurance etc.	(8)	(16)	(8)	(10)	(8)	(16)	(8)	(10)	(8)	(16)	(8)	(10)
Supplier Payments	-	-	-	-	-	-	-	-	-	-	-	-
Other misc	(30)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Professional Services	(30)	(40)		(50)				(50)				
Legal fees for CCAA				(60)								
Legal fees for Kan-Pak and Anoxk												
Conor			(25)		(25)					(25)		
Wkly Oper. Cash Flow before Capex	31	26	(134)	43	(124)	265	(109)	3,045	(124)	(51)	(109)	(20)
Ending Cash Balance	31	57	(77)	(34)	(158)	108	(1)	3,044	2,920	2,869	2,760	2,740
Deferred amounts:												
Outstanding AP	(1,050)	-	-	-	-	-	-	-	-	-	-	-
Raisio	(120)	-	-	-	-	-	-	-	-	-	-	-
NSERC	(30)	-	-	-	-	-	-	-	-	-	-	-
Termination unpaid Vacation	(34)	-	-	-	-	-	-	-	-	-	-	-
Termination Severance	(70)	-	-	-	-	-	-	-	-	-	-	-
Interest on LOC RBC	(2)	-	-	-	-	-	-	-	-	-	-	-
Seaspan	(84)	-	-	(84)	-	-	-	-	-	-	-	-
University Research Payment	(30)	-	-	-	-	-	-	-	-	-	-	-
Weekly Deferred Amounts	(1,420)	-	-	(84)	-	-	-	-	-	-	-	-
Cumulative Deferred Amounts	(1,420)	(1,420)	(1,420)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)

Note 1
 Note 2
 Timing questionable
 Victoria @ \$14 K / mo; Sydney @ \$1 K / mo and phone @ \$5 K / mo

This is Exhibit "B" referred to in the affidavit of **Kimmo Soroos** sworn before me this 4th day of **December 2008**.

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CASH FLOW SUMMARY
HYDROXYL
 In thousands of CDN

Item	Dec			Jan			Feb					
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12
Beginning Cash Balance	-	(170)	(176)	(270)	(248)	(372)	(483)	(592)	2,883	2,759	2,708	2,599
Customer Receipts:												
RCCL								170				
BC Ferries			40									
EDC draw				37								
Aker Yards				55								
Island Farms												
RCCL - service & spares		60						113				
CRA amended SRED claim								147				
LetterKenny								3,115				
Aker Yards - Genesis II												
Payroll:												
Employees	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Contract employees:												
Tech Writer, IT	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Ship Service employees	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Sourced Deductions	(22)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Rent & Utilities:												
Recurring exp. such as gas, insurance etc.	(8)	(16)	(8)	(10)	(8)	(16)	(8)	(10)	(8)	(16)	(8)	(10)
Supplier Payments	-	-	-	-	-	-	-	-	-	-	-	-
Other misc	(30)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Professional Services												
Legal fees for CCAA	(30)	(40)		(50)		(60)		(50)				
Legal fees for Kan-Pak and Anoxk			(25)		(25)				(25)			
Conor												
Wkly Oper. Cash Flow before Capex	(170)	(6)	(94)	22	(124)	(111)	(109)	3,475	(124)	(51)	(109)	(20)
Ending Cash Balance	(170)	(176)	(270)	(248)	(372)	(483)	(592)	2,883	2,759	2,708	2,599	2,579
Deferred amounts:												
Outstanding AP	(1,050)	-	-	-	-	-	-	-	-	-	-	-
Raisio	(120)	-	-	-	-	-	-	-	-	-	-	-
NSERC	(30)	-	-	-	-	-	-	-	-	-	-	-
Termination unpaid Vacation	(34)	-	-	-	-	-	-	-	-	-	-	-
Termination Severance	(70)	-	-	-	-	-	-	-	-	-	-	-
Interest on LOC RBC	(2)	-	-	-	-	-	-	-	-	-	-	-
Seaspan	(84)	-	-	(84)	-	-	-	-	-	-	-	-
University Research Payment	(30)	-	-	-	-	-	-	-	-	-	-	-
Weekly Deferred Amounts	(1,420)	-	-	(84)	-	-	-	-	-	-	-	-
Cumulative Deferred Amounts	(1,420)	(1,420)	(1,420)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)

Note 1
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 Victoria @ \$14 K / mo; Sydney @ \$1 K / mo and phone @ \$5 K / mo

This is Exhibit "C" referred to in the affidavit of **Kimmo Sjoroos** sworn before me this 4th day of **December 2008**.


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CASH FLOW SUMMARY
HYDROXYL
 in thousands of CDN

Item	Dec			Jan			Feb			Week 12		
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9		Week 10	Week 11
Beginning Cash Balance		(170)	(236)	(370)	(380)	(464)	(483)	(592)	(662)	(786)	2,708	2,599
Customer Receipts:												
RCCL										170		
BC Ferries					40							
EDC draw						37						
Aker Yards						55						
Island Farms				60								
RCCL - service & spares										113		
CRA amended SRED claim										147		
LetterKenny										3,115		
Aker Yards - Genesis II												
Payroll:												
Employees	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Contract employees:												
Tech Writer, IT	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Ship Service employees	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Sourced Deductions	(22)	(22)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Rent & Utilities:												
Employees	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Recurring exp. such as gas, insurance etc.	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Supplier Payments	-	-	-	-	-	-	-	-	-	-	-	-
Other misc	(30)	(30)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Professional Services	(30)	(40)		(50)				(50)				
Legal fees for CCAA												
Legal fees for Kan-Pak and Anoxk												
Conor			(25)			(25)				(25)		
Wkly Oper. Cash Flow before Capex	(170)	(66)	(134)	(10)	(84)	(19)	(109)	(70)	(124)	3,494	(109)	(20)
Ending Cash Balance	(170)	(236)	(370)	(380)	(464)	(483)	(592)	(662)	(786)	2,708	2,599	2,579
Deferred amounts:												
Outstanding AP	(1,050)	-	-	-	-	-	-	-	-	-	-	-
Raisio	(120)	-	-	-	-	-	-	-	-	-	-	-
NSERC	(30)	-	-	-	-	-	-	-	-	-	-	-
Termination unpaid Vacation	(34)	-	-	-	-	-	-	-	-	-	-	-
Termination Severance	(70)	-	-	-	-	-	-	-	-	-	-	-
Interest on LOC RBC	(2)	-	-	-	-	-	-	-	-	-	-	-
Seaspan	(84)	-	-	(84)	-	-	-	-	-	-	-	-
University Research Payment	(30)	-	-	-	-	-	-	-	-	-	-	-
Weekly Deferred Amounts	(1,420)	-	-	(84)	-	-	-	-	-	-	-	-
Cumulative Deferred Amounts	(1,420)	(1,420)	(1,420)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)	(1,504)

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PETITIONER

AFFIDAVIT # OF K. SJOROOS

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