

IN THE SUPREME COURT OF NOVA SCOTIA

IN THE MATTER OF: The *Companies' Creditors Arrangement Act*, R.S.C. 1985,
c. C-36 as amended.

-and-

IN THE MATTER OF: A Plan of Compromise or Arrangement of the Applicant,
Canadian Sailing Expeditions Inc.

AFFIDAVIT

I, Douglas Prothero, of Halifax, Nova Scotia, make oath and say as follows:

1. I am a Director and the President of Canadian Sailing Expeditions Inc. (the "Company"), a limited company incorporated under the laws of the Province of Nova Scotia, and have personal knowledge of the matters deposed to herein unless such knowledge is otherwise stated to be by way of information and belief.
2. On June 27, 2008, Justice Gerald R. P. Moir issued an order ("Initial Order") granting the Company relief pursuant to The *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA").
3. The terms of the Initial Order provided that Paul G. Goodman of BDO Dunwoody Goodman Rosen Inc. be appointed monitor of the Company (the "Monitor").
4. On July 4, 2008, Chief Justice Joseph P. Kennedy issued an order (the "DIP Order") authorizing the Company to enter into debtor-in-possession financing ("DIP Financing") consisting of a non-revolving credit facility (the "First DIP Facility") with GrowthWorks Atlantic Venture Fund Limited (the "DIP Lender") in the maximum total principal amount of \$500,000 Cdn., on the terms and conditions more particularly described in my affidavit sworn June 30, 2008 and filed in this proceeding.
5. Of the \$500,000 maximum amount authorized, the DIP Lender has, to the date of this affidavit, advanced \$350,000 Cdn. to the Company and pursuant to the terms of the DIP Facility, the maximum amount that may be advanced under the Facility is approximately \$460,000 but is dependent on verification of the total indebtedness of the Company to Royal Bank of Canada ("RBC") paid out by the DIP Lender pursuant to a guarantee by the DIP Lender in favour of RBC, figures for which have been requested from RBC but not received.

6. The Initial Order provided for a thirty day stay of proceedings, which stay of proceedings was extended by one day pursuant to a consent order issued by Justice John Murphy on July 24, 2008.
7. On July 25, 2008, Justice John Murphy issued an order extending the Stay Termination Date (as that term is defined in the Initial Order) to September 3, 2008, subject to the right of creditors to request reconsideration pursuant to the terms of the Initial Order.
8. This affidavit is provided in support of an application for an order authorizing the Company to enter into a second non-revolving credit facility (the "Second DIP Facility") with the DIP Lender and thereby create total DIP Financing of approximately \$810,000 but on the terms and conditions set forth in the Commitment Letter attached hereto as Exhibit "A", which references the commitment letter of the First DIP Facility attached as an exhibit to my affidavit of June 30, 2008.
9. I believe that if the restructuring that the Company is presently undergoing is unsuccessful, either as a result of denial of the Second DIP Facility or for any other reason, the assets of the Company would have to be liquidated, resulting in a serious diminution in value and prejudice to the majority of stakeholders in the Company.
10. Financial results overseen by the Monitor to date were summarized as of August 2 as follows:
 - (a) Revenue on a five week accumulated basis was under forecast amount by \$5,357.00 representing a 4% deviation from forecast;
 - (b) Expenses on a five week accumulated basis were below forecast by an amount of \$5,515.00; and
 - (c) Use of the DIP Facility amounts to \$350,000.00 and was higher than plan as a result of a timing issue since most of the funds drawn were still on hand as of August 2.

Copies of the weekly cash receipts and disbursement summary tables prepared by the Company and subject to a limited review by the Monitor were circulated by the Monitor on a weekly basis to counsel on behalf of Caterpillar Financial Services Limited ("Caterpillar"), the DIP Lender, Nova Scotia Business Inc. ("NSBI"), and one unsecured creditor who has requested the information by the Monitor.

11. The Company requires additional financing beyond the First DIP Facility during the continuing restructuring period to enable it to carry on business in the ordinary course.
12. Attached as Exhibit "B" to this affidavit is a new projected cash flow statement dated August 7, 2008 for the Company. Unlike the cash flow projection attached to my affidavit of June 30, Exhibit "B" only projects revenue from booked charters and not from projected bookings and therefore the actual revenues from these periods may be higher.

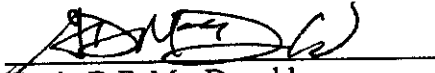
13. The Company continues its operations and, as noted above, those operations remain consistent with the projections filed previously with the court.
14. The Company has conducted an analysis of the cost of operation versus shutdown and is of the opinion that the potential cost of a shut down exceed those of continuing operation since the expenses of the Company are being offset in part by operational revenues.
15. The existing business plan for the Company contemplated a planned maintenance period and annual recertification for the sailing ship Caledonia (the "Vessel"), the Company's principal asset, during the month of October. The Company has decided to extend that maintenance period by two weeks by commencing in mid-September and to undertake the work with a smaller team of employees. This decision is subject to change if bookings for cruises in the later part of September increase.
16. Like the First DIP Facility, the proposed order authorizing the Second DIP Facility provides that the additional amounts sought to be authorized by the Court will have a charge on all existing and after acquired assets of the Company, and the order proposes that this charge have the same priority as the First DIP Facility.
17. The Company continues to be engaged in the process of restructuring its business and operations, and the formulation of a plan that seeks to balance the interest of all stakeholders.
18. The Company has held discussions with the DIP Lender involving both the DIP Financing and the restructuring of the Company's affairs. It has sought a meeting with representatives of NSBI, which has indicated that such discussions should wait until a plan of restructuring is prepared. The Company, through its solicitors, has had a limited exchange of correspondence with counsel to Caterpillar and the Company is working to complete certain information requests made by Caterpillar at the time of that exchange.
19. On behalf of the Company, I have been seeking additional sources of new equity for the Company and new sources of financing. A number of preliminary discussions have been held with potential new sources of equity. Our efforts to secure this new equity have been encouraging with numerous meetings since the date of the Initial Order but progress has been somewhat hampered by the summer season and discussions continue. The Company is also in the process of revising its business plan to submit it for consideration to one of the potential new sources of equity and financing.
20. As noted in my affidavit sworn July 18 in this proceeding, the Company has listed the Vessel with a number of brokers for sale. In addition to listing the Vessel, one employee of the Company has been tasked with responsibility for following up with the brokers and providing them with information in order to better market the Vessel. One broker has indicated that it has a potential purchaser, who is presently in the process of securing flights to conduct an inspection of the Vessel. In addition, two other brokers have indicated that they have interested parties and are in the process of determining whether a visit to the Vessel will occur. No offers have yet been received.
21. As noted in my affidavit of July 18, in addition to listing the Vessel for sale, it has been offered for charter. The Company has listed the Vessel with a number of brokers

specializing in long term charters and it continues to pursue opportunities but has not obtained any further leads since my affidavit of July 18.

22. The Company is also seeking potential joint venture opportunities and an employee of the Company has made preliminary contact and had preliminary discussions with potential joint venture parties in three international markets.
23. In addition to the Vessel, the Company is seeking to dispose of another significant asset, the vessel Hawk (the "Hawk"). The Hawk is presently not self-powered and this impacts its marketability since the cost of transportation must be factored by a potential purchaser. The Company is actively seeking means of disposing of the Hawk, including sale for ship breaking or sale for conversion to a barge, and to this end has listed the Hawk with two Canadian brokers and is presently exploring a potential third broker. To date, the listing of the Hawk has resulted in one visit from a potential purchaser for inspection and to conduct preliminary due diligence on the Hawk. No offers have yet been received.
24. A briefing on the Company's efforts in restructuring has been provided on a weekly basis to the DIP Lender and Monitor, and the Company is willing to make similar arrangements with other secured creditors.
25. It is my belief that the Second DIP Facility and further advances thereunder will benefit all stakeholders by contributing to the Company's ability to meet its operating demands, and thereby afford the Company a reasonable opportunity to continue its efforts to finalize its plan for restructuring whether through new equity and financing, a sale, joint venture or long term charter of the Vessel.
26. The Company's ability to present a plan for restructuring is dependent on its success in receiving DIP Financing of an amount exceeding that which has already been granted by the Court.
27. I believe the Company will, if the order requested is granted, be able to effect a successful restructuring but without the Second DIP Facility sought in this application the Company will most likely cease operations and will proceed with asset liquidation, a result which the Company submits will be highly detrimental to the interests of the Company and the majority of its stakeholders.
28. I have reviewed the proposed order submitted in connection with the Company's application for the approval of the claims bar process as part of these current proceedings.
29. The proposed claims bar process set out in the proposed order has been prepared by the Company in consultation with the Monitor.

30. The Company is in full agreement with the proposed claim bar process and will cooperate fully with the Monitor in carrying it out.

SWORN TO before me at Halifax.)
Province of Nova Scotia, this 8th)
day of August, 2008.)



Gavin D.F. MacDonald)
A Barrister of the Supreme Court)
of Nova Scotia)



DOUGLAS PROTHERO

2008

S.H. No. 297999

*This is Exhibit "A" referred to in the
Affidavit of Douglas Prothero sworn before
me this 8th day of August, 2008.*


.....
A Barrister of the Supreme Court of Nova Scotia

Gavin D.F. MacDonald

Commitment Letter

Canadian Sailing Expeditions Inc.

Attn: Douglas Prothero, President

Re: Provision of Demand Non-revolving Operating Loan Facility (the "Credit Facility") by Growthworks Atlantic Venture Fund Limited (the "Lender") to Canadian Sailing Expeditions Inc. (the "Company")

Dear Mr. Prothero:

The Lender is pleased to offer to the Company an additional debtor-in possession financing facility ("Second DIP Financing") up to \$350,000 on the same terms and conditions, *mutatis mutandis*, as set out in the Commitment Letter dated June 27, 2008 (the "First DIP Financing Commitment Letter"). Without limiting the generality of the foregoing, this Commitment Letter is conditional upon the following:

- (a) the Company shall have obtained a court order under the *Companies Creditors Arrangement Act* in form and content satisfactory to the Lender and its counsel including all of the matters set forth in section (b) of the "Conditions" section of the First DIP Financing Commitment Letter;
- (b) satisfaction of all other conditions set forth in the "Conditions" section of the First DIP Financing Commitment Letter applied *mutatis mutandis*; and
- (c) the delivery of legal documentation in form and substance satisfactory to the Lender, the Company and their respective legal counsel including the security described in the "Legal Documentation" section of the First DIP Financing Commitment Letter.

EXECUTED THIS 1st DAY OF August, 2008.

GROWTHWORKS ATLANTIC VENTURE
FUND LIMITED, by its manager
GROWTHWORKS ATLANTIC LTD.

Per: 
Thomas J. Hayes, President & CEO

ACCEPTED AND AGREED TO THIS 5th DAY OF August, 2008.

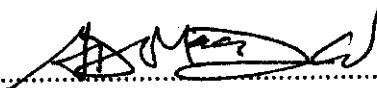
CANADIAN SAILING EXPEDITIONS INC.

Per: 
Douglas Prothero, President

2008

S.H. No. 297999

*This is Exhibit "B" referred to in the
Affidavit of Douglas Prothero sworn before
me this 8th day of August, 2008.*


.....
A Barrister of the Supreme Court of Nova Scotia

Gavin D.F. MacDonald

