

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. This affidavit is given in support of an application made by the Company under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA").

Background

3. The Company was incorporated under the *Companies Act* (Nova Scotia) on July 27, 2001 and carries on the business of constructing and operating marine passenger and training vessels and acting as a ship agent for vessels worldwide.
4. The shares of the Company are owned by me, Michelle Clark, and 3062094 Nova Scotia Limited. All of the shareholders have consented to and support this application by the Company. Growthworks Atlantic Venture Fund Limited, one of the Company's major creditors, also supports this Application.
5. The Company presently employs 32 full time employees.
6. The Company's principal line of business is the operation of the Company-owned passenger ship "Caledonia" on coastal adventure cruises in Canada and the Caribbean. The "Caledonia" is a 76 passenger cruise vessel flagged in Canada and is the Company's primary asset. It was recently surveyed and appraised at a fair market value of \$15,000,000. The only other tangible asset of significance owned by the Company is the

standby supply vessel "Hawk 1" which is currently in hard lay up in Sheet Harbour and is not in active use.

Financial Statements

7. The unaudited internally-prepared financial statements of the Company for the second quarter ended April 30, 2008 are attached as Exhibit A.
8. Attached as Exhibit B are the unaudited internally-prepared financial statements of the Company for the first quarter ended January 31, 2008.
9. Attached as Exhibit C are unaudited financial statements for the Company for the year ending October 31, 2007 which are currently being audited.
10. Attached as Exhibit D are the monthly unaudited internally-prepared financial statements for the Company for the period ending September 30, 2007.
11. Attached as Exhibit E are the monthly unaudited internally-prepared financial statements for the Company for the period ending August 31, 2007.
12. Exhibit F are the monthly unaudited internally-prepared financial statements for the Company for the period ending July 31, 2007.
13. Exhibit G are the monthly unaudited internally-prepared financial statements for the Company for the period ending June 30, 2007.
14. Attached as Exhibit H is a summary of the Company's outstanding loans and lease obligations.
15. Exhibits A through G represent all of the Company's financial statements audited or unaudited, prepared during the year prior to the date of this affidavit.
16. As appears from Exhibit H, the balance of the Company's outstanding loans as of the date of this Affidavit are in excess of \$5,000,000.00.

Current Financial Condition

17. The Company has made a substantial investment in retrofitting its ship "Caledonia" to meet current International Maritime Organization "SOLAS" (Safety of Life at Sea Convention) standards for passenger vessels. The work was undertaken between 2003 and early 2008 in Halifax, Hamilton, Ontario and Norfolk, Virginia and was completed February 21, 2008 at a total cost of \$9,620,193.77.
18. The Caledonia is unique in that it is the first passenger ship of its kind to be built under Canadian flag and is one of only a few Canadian flagged passenger ships that is permitted to operate internationally.

19. The Caledonia was retrofitted to very high standards for quality, safety and passenger comfort but the Company did experience significant financial and scheduling challenges in completing the work. Rising labour and material costs combined with regulatory challenges with respect to compliance with the IMO's SOLAS standards led to construction cost overruns and scheduling delays during the course of the project.
20. When Phase 2 of the project began in 2006, the Company estimated project costs of \$7,900,000. The actual costs were \$9,620,193.77.
21. Delays in completing the project meant that the vessel was not ready for commercial operation at the Company's projected market entry date of December 15, 2007. In the months of December 2007 and January and February 2008, the Company was forced to charter another vessel to meet the Company's booking obligations with its customers. This led to the Company sustaining substantial operating losses in those months.
22. The long term debt to cover the construction costs was never increased to match the actual completion costs. Construction cost overruns caused the Company to be under-capitalized at the time of the start-up of operation of the Caledonia in March, 2008. This problem was compounded by the operating losses sustained by the Company in December, 2007 and January and February of this year due to the vessel not being available for the planned market entry in December, 2007. The Company's current financial difficulty has been further exacerbated by sagging entry market penetration (caused by the delayed launch) causing the Company to fall short of its bookings and revenue projections.
23. As a result of those construction cost overruns and operating losses, the Company has used up most of its cash reserves. The Company is insolvent. It will not have sufficient working capital to pay its debts as they become due in the upcoming weeks. Also, the Company is facing a substantial balloon payment to Caterpillar Financial Services on a secured loan which payment will become due on July 1st, 2008 for \$45,000 in principal plus accrued interest for the months of April, May and June of a further \$102,743 together with a regular payment to the Atlantic Canada Opportunities Agency due July 1, 2008 in the amount of \$4,166. The Company will not have sufficient cash reserves or credit facilities available to make that payment.
24. The Company is in receipt of \$40,000 US and \$175,000 Cnd. as customer deposits for future cruises. These funds are segregated from the Company's general revenue in a bank account with the Bank of Nova Scotia. The Company's website states that: "All client payments are held in trust until the date of departure." The proposed order seeks to segregate and protect these deposits during the Restructuring. Failure to do so, in my opinion, will damage the Company's reputation and its future prospects.

Statement of Projected Cash Flows and Work-out Plan

25. The Company has prepared a statement of projected monthly cash flows, without additional financing, for the months of June, July, August and September 2008, a copy of which is attached hereto as Exhibit I.

26. As appears from Exhibit I, the Company will have insufficient cash flow to meet its cash demands for the upcoming month without Debtor in Possession (DIP) financing.
27. If the Company is granted a stay of proceedings under the CCAA and is able to avoid a receivership or bankruptcy, the Company intends to work diligently in the next thirty (30) days on a plan to restructure its affairs by either:
 - (a) securing an injection of new capital through a combination of subordinated debt and equity; or
 - (b) negotiating an outright sale or long term charter of the Caledonia (recently valued at a fair market value of \$15,000,000) through traditional ship brokerage channels or by approaching existing adventure tour operators.
28. The Company owns a unique and valuable asset in the "Caledonia". Its product has been well received and has been highly acclaimed by the customers it has been able to attract. I am therefore optimistic that the Company can be successfully restructured if it is given enough time to do so.

Monitor


29. I have been advised by Paul G. Goodman, and do verily believe, that BDO Dunwoody Goodman Rosen Inc. has consented to act as monitor for the Company should this Honourable Court grant the stay requested under the CCAA. A copy of the consent provided by BDO Dunwoody Goodman Rosen Inc. is attached hereto as Exhibit J.

Relief Sought

30. The Company seeks an order under the CCAA granting a stay of proceedings for at least 30 days against its creditors and certain other relief set out in the draft order submitted with this application.
31. I believe that the Company, if the order sought by the Company is granted, will be able to effect a successful restructuring.
32. If the order sought by the Company is granted by this Honourable Court, the Company will finalize arrangements to obtain Debtor in Possession financing ("DIP Financing") to allow the Company to fund its operations through the stay period. The Company expects to return before this Honourable Court within a short time to obtain approval for the DIP Financing.

33. I believe that the Company has proceeded diligently and in good faith in making this application and further that circumstances exist that make the relief sought appropriate. If the stay of proceedings and the other relief sought under the CCAA are not immediately granted to the Company, I believe that the Company will be forced to immediately shut down its operations which would result in serious prejudice and damage to the Company, its creditors, employees and shareholders.

SWORN TO before me at Halifax.)
Province of Nova Scotia, this 26th)
day of June, 2008.)

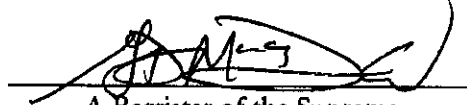


Gavin D.F. MacDonald)
A Barrister of the Supreme Court)
of Nova Scotia)



DOUGLAS PROTHERO

This is Exhibit "A" referred to in
the Affidavit of Douglas Prothero,
sworn before me this 26th day of
June, 2008.

A handwritten signature in black ink, appearing to read "G.D.M.", is written over a horizontal line.

A Barrister of the Supreme
Court of Nova Scotia

Gavin D.F. MacDonald

CANADIAN SALINE

Water

Unconsolidated Financial Statements

Q2 Ended April 30, 2008

Draft Unaudited



Find yourself at Sea

NOTICE TO READER

I have compiled the interim balance sheet of Canadian Sailing Expeditions as at April 30, 2008 and the statements of income and retained earnings and cash flow for the 6 months period then ended from information available as of May 31, 2008. These statements have not been audited and await any necessary audit adjustments on October 31, 2007 year end statements currently being performed by David Smith, CA.

Halifax, NS
June 4, 2008

Jonathan Stevens
Certified Management Accountant

Canadian Sailing Expeditions Inc.
Unconsolidated Statement of Income
and Retained Earnings

For The Quarter Ending April 30, 2008

Draft Unaudited

(with comparable figures for Oct.31, 2007)



	<u>Q2 2008</u>	<u>2007</u>
REVENUE		
Charter	224,291	
Bar	9,087	-
Merchandise	3,482	196
Extras	80,757	
	<u>317,617</u>	<u>196</u>
EXPENSES		
Charter Cost	555,656	-
Advertising and Promotion	216,684	69,779
Management Salaries	106,307	141,873
Sales & Marketing Salaries	66,228	54,440
Administration Salaries	76,454	89,000
Insurance	83,655	7,548
General and Office	14,709	22,995
Telephone	23,554	21,351
Travel	28,951	39,774
Rent	8,996	21,673
Fuel	124,731	
Cash management charges	24,562	4,183
Professional fees	97,827	30,825
Repairs & Maintenance	293,964	3,549
Amortization of Capital Assets	-	5,859
	<u>1,722,276</u>	<u>512,849</u>
Net Income/Loss before income taxes and gain on sale of shares	(1,404,660)	(512,654)
Gain on sale of shares in subsidiary	-	-
Income taxes recovered - future	-	-
Interest Income	22,837	23,756
Interest Expense	(43,624)	(101,194)
Gain/Loss on Foreign Exchange	(1,015)	8,056
Net Income/Loss	(1,426,461)	(582,036)

Canadian Sailing Expeditions Inc.
Unconsolidated Balance Sheet

Quarter End April 30, 2008

Draft Unaudited

(with comparable figures for Oct.31, 2007)



Assets		
Current	Q2 2008	2007
Cash & Cash Equivalents	157,657	401,551
Trust funds for interest guarantee (Note 8)	-	400,000
Accounts receivable	1,457	2,369
Sales tax recoverable	29,881	128,528
Current portion of note receivable	7,000	7,000
Inventory	8,538	8,538
Prepaid expenses and deposits	85,108	11,758
	<u>289,641</u>	<u>959,744</u>
Note receivable 3096000 NS Limited (Note 4)	343,000	343,000
Capital Assets -net of accumulated amortization (Notes 2a, 3)		
Caledonia	9,818,787	8,108,568
Hawk	380,573	353,680
Other	33,261	23,438
	<u>10,232,621</u>	<u>8,485,686</u>
TOTAL ASSETS	<u>10,865,262</u>	<u>9,788,430</u>
Liabilities		
Current		
Bank Indebtedness	1,097,314	
Payroll Taxes Liability	39,994	60,800
Accounts payable	497,705	689,994
Due to Tall ship Silva Inc.	117,142	126,827
Due to 3096000 NS Limited	3,763	4,064
Customer Deposits	128,394	46,910
Leases/financing	52,709	4,511
Bridge financing loan (Note 8)	-	5,648,630
Convertible Debenture (Note 9)	3,100,000	1,600,000
Shareholder advance	285,663	285,664
Current portion of long term debt (Note 5)	315,130	55,064
	<u>5,637,804</u>	<u>8,522,466</u>
Long term debt (Note 5)	5,809,836	421,879
Total Liabilities	<u>11,447,639</u>	<u>8,944,345</u>
Shareholders' Equity		
Common shares (Note 6)	1,300,000	1,300,000
Retained earnings (Deficit)	<u>(1,882,377)</u>	<u>(455,916)</u>
	<u>(582,377)</u>	<u>844,084</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>10,865,262</u>	<u>9,788,429</u>

Canadian Sailing Expeditions Inc.
Forecasted Statement of Cash Flow

For The Quarter Ending April 30, 2008

Draft Unaudited

(with comparable figures for Oct.31, 2007)



	<u>Q2 2008</u>
Operating Activities	
Net Income	<u>(1,426,462)</u>
Increase (decrease) in accounts payable	(192,289)
Decrease (increase) in accounts receivable	912
Decrease (increase) inventory	-
Decrease (increase) in prepaid expenses	(73,350)
Decrease (increase) in sales tax recoverable	98,647
Decrease (increase) in bank indebtedness	1,097,314
Increase (decrease) in customer deposits	81,484
Increase (decrease) in payroll tax liability	(20,806)
Increase (decrease) in due from TSSI	(9,685)
Increase (decrease) in due shareholder advance	(11)
Increase (decrease) in due from 3096000 N.S. Ltd.	<u>(301)</u>
	<u>981,914</u>
Cash flow from operations	<u>(444,548)</u>
Financing Activities	
Leases/Short Term Financing	48,198
Proceeds of Long Term Debt	5,653,827
Bridge Loan repayment	(5,648,630)
Repayment of long term debt	(42,577)
Proceeds of Convertible Debenture	1,500,000
Accrued interest on Financing Activities	<u>36,771</u>
Cash flow from financing	<u>1,547,589</u>
Investing Activities	
Purchase of capital assets	(9,824)
Conversion costs of Caledonia/Hawk	(1,737,111)
Release of RIC GIC	<u>400,000</u>
Cash invested	<u>(1,346,935)</u>
Increase (decrease) in cash during the period	(243,893)
Opening cash balance	401,551
Ending cash (and cash equivalents) balance	<u><u>157,657</u></u>

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements
April 30, 2008
Draft Unaudited



1. General

The company was incorporated July 27, 2001 under the Companies Act of the Province of Nova Scotia and is not restricted by its articles from carrying on any business or exercising any power.

2. Significant Accounting Policies

- a) Capital assets and amortization
 - Vessels - 2.5%, declining balance method
 - Equipment - 20%, declining balance method

3. Capital Assets - Recorded At Cost

	Cost	Accumulated Depreciation	Net Book Value 1/31/2008	Net Book Value 10/31/2007
Vessel Caledonia	9,839,787	21,000	9,818,787	8,108,568
Vessel Hawk	380,573	-	380,573	353,680
Office Equipment	45,849	12,587	33,261	23,438

4. Note receivable 3096000 Nova Scotia Limited

- bears no interest, repayable \$3,500 per year

5. Long Term Debt

Caterpillar	8%, interest only to June, 2008, repayable over 10 years at \$45,000 per month principal plus interest commencing July, 2008	5,400,000
ACOA	- no interest, unsecured - principle is \$500,000 when fully drawn down - repayable over 10 years, \$4,166 monthly, commencing January 1, 2008 less 2 payments made in 2005	475,005
ACOA	- no interest - Principle is \$250,000 when fully drawn down - Repayable over 8 years beginning in July, 2009	125,000
CIT	- Computer lease - repayable over 3 years	5,214
Bodkin Capital	- Lifeboat Lease - Repayable over 4 years	70,172
Bodkin Capital	- Onboard POS System Lease - Repayable over 3 years	10,278
EC Telephone	- Telephone Equipment Lease - Repayable over 3 years	2,525
		<u>6,088,194</u>
	Less amounts due within one year	<u>(278,359)</u>
		<u>5,809,835</u>

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements
April 30, 2008
Draft Unaudited



6. Share Capital

Authorized	Issued		\$
10,000	725	Class A common shares no par value	625,000
10,000	325	Class B common shares no par value	325,000
10,000	350	Class C common shares no par value	350,000
10,000	-	Non-voting common shares no par value	-
10,000	-	Voting common shares no par value	-
10,000	-	Class A preference shares no par value	-
10,000	-	Class B preference shares no par value	-
<u>70,000</u>	<u>1,400</u>		<u>\$ 1,300,000</u>

7. Government Contribution

- \$506,000 In Interest costs relief from a government agency on completion of vesse
- \$259,802 received to date
- \$246,198 received on May 21, 2008

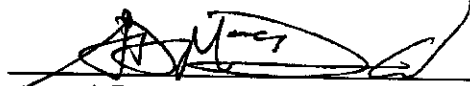
8. Bank Indebtedness

- \$1,500,000 revolving line of credit through RBC secured by Growthworks Atlantic
- Interest rate of RBC Prime plus 1%

9. Convertible Debenture

- GrowthWorks Atlantic
- Maturity date October 20, 2007
- Convertible any time before maturity date for Class D Common Shares
- 8% interest, \$100,000 Interest prepaid on closing

This is Exhibit "B" referred to in
the Affidavit of Douglas Prothero,
sworn before me this 26th day of
June, 2008.

A handwritten signature in black ink, appearing to read "G. MacDonald", written over a horizontal line.

A Barrister of the Supreme
Court of Nova Scotia

Gavin D.F. MacDonald

Canadian Sailing Expeditions Inc.
Unconsolidated Statement of Income
and Retained Earnings

For The Quarter Ending January 31, 2008
 Draft Unaudited



	<u>Q1 2008</u>	<u>2007</u>
REVENUE		
Charter	96,202	
Bar	1,560	-
Merchandise	490	196
Shore Excursion (Gross)	8,510	
	<u>106,762</u>	<u>196</u>
EXPENSES		
Charter Cost	185,414.58	-
Advertising and Promotion	83,051.70	58,043
Management Salaries	41,335.24	140,773
Sales & Marketing Salaries	56,179.46	57,433
Administration Salaries	29,685.91	89,951
Insurance	2,389.39	8,266
General and Office	8,407.46	22,498
Telephone	5,565.95	20,883
Travel	19,231.66	22,742
Rent	3,598.24	21,673
Fuel	28,672.59	-
Cash management charges	2,766.09	5,701
Professional fees	34,908.98	85,961
Repairs & Maintenance	87,648.26	3,474
Amortization of Capital Assets	-	4,933
	<u>588,856</u>	<u>542,330</u>
Net Income/Loss before income taxes and gain on sale of shares	(482,093)	(542,135)
Gain on sale of shares in subsidiary	-	-
Income taxes recovered - future	-	-
Interest Income	2,468	23,756
Interest Expense (Note 9)	(1,490)	(100,000)
Gain/Loss on Foreign Exchange	491	8,056
Net Income/Loss	(480,624)	(610,323)
Retained Earnings (Deficit) - Beginning	(483,553)	126,770
Retained Earnings (Deficit) - End	(964,177)	(483,553)

Canadian Sailing Expeditions Inc.
Unconsolidated Balance Sheet

Quarter End January 31, 2008
 Draft Unaudited



Assets

Current	Q1 2008	2007
Cash & Cash Equivalents	595,576	401,851
Trust funds for interest guarantee	400,000	400,000
Accounts receivable	1,457	1,457
Sales tax recoverable	125,902	127,062
Current portion of note receivable	7,000	7,000
Inventory	8,537	8,537
Prepaid expenses and deposits	170,857	13,322
	<u>1,309,328</u>	<u>959,229</u>
Note receivable 3096000 NS Limited (Note 4)	343,000	343,000
Capital Assets -net of accumulated amortization (Notes 2a, 3)		
Caledonia	9,529,162	8,058,542
Hawk	353,680	353,680
Other	117,306	24,364
	<u>10,000,148</u>	<u>8,436,586</u>
TOTAL ASSETS	<u>11,652,476</u>	<u>9,738,816</u>

Liabilities

Current		
Bank Indebtedness	-	0
Payroll Taxes Liability	52,704	60,800
Accounts payable	748,783	681,132
Due to Tall ship Silva Inc.	118,457	114,328
Due to 3096000 NS Limited	3,763	4,064
Customer Deposits	107,888	46,910
Leases/financing	85,880	4,511
Bridge financing loan (Note 8)	6,109,528	5,648,015
Convertible Debenture (Note 9)	3,100,000	1,600,000
Shareholder advance	285,653	285,664
Current portion of long term debt (Note 5)	278,359	55,064
	<u>10,891,015</u>	<u>8,500,490</u>
Long term debt (Note 5)	425,638	421,879
Total Liabilities	<u>11,316,654</u>	<u>8,922,369</u>
	Shareholders' Equity	
Common shares (Note 6)	1,300,000	1,300,000
Retained earnings (Deficit)	(964,177)	(483,553)
	<u>335,823</u>	<u>816,447</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>11,652,476</u>	<u>9,738,816</u>

Canadian Sailing Expeditions Inc.
Forecasted Statement of Cash Flow
For The Quarter Ending January 31, 2008
Draft Unaudited



	<u>Q1 2008</u>
Operating Activities	
Net Income	<u>(480,624)</u>
Increase (decrease) in accounts payable	67,650
Decrease (Increase) in accounts receivable	-
Decrease (Increase) inventory	-
Decrease (Increase) in prepaid expenses	(157,535)
Decrease (Increase) in sales tax recoverable	1,160
Decrease (Increase) in bank indebtedness	-
Increase (decrease) in customer deposits	60,978
Increase (decrease) in payroll tax liability	(8,096)
Increase (decrease) in due from TSSI	4,129
Increase (decrease) in due shareholder advance	(11)
Increase (decrease) in due from 3096000 N.S. Ltd.	(301)
	<u>(32,026)</u>
Cash flow from operations	<u>(512,650)</u>
Financing Activities	
Leases/Short Term Financing	81,369
Proceeds of Financing	227,054
Bridge Loan proceeds	252,002
Repayment of long term debt	
Proceeds of Convertible Debenture	1,500,000
Accrued interest on Financing Activities	209,511
	<u>2,269,936</u>
Cash flow from financing	<u>2,269,936</u>
Investing Activities	
Purchase of capital assets	(92,942)
Conversion costs of Caledonia/Hawk In Trust for Interest Guarantee	(1,470,620)
	<u>(1,563,562)</u>
Cash invested	<u>(1,563,562)</u>
Increase (decrease) in cash during the period	193,724
Opening cash balance	401,851
Ending cash (and cash equivalents) balance	<u>595,576</u>

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements

January 31, 2008
 Draft Unaudited



1. General

The company was incorporated July 27, 2001 under the Companies Act of the Province of Nova Scotia and is not restricted by its articles from carrying on any business or exercising any power.

2. Significant Accounting Policies

- a) Capital assets and amortization
 - Vessels - 2.5%, declining balance method
 - Equipment - 20%, declining balance method

3. Capital Assets - Recorded At Cost,

	Cost	Accumulated Depreciation	Net Book Value 10/31/2007	Net Book Value 10/31/2006
Vessel Caledonia	9,550,162	21,000	9,529,162	
Vessel Hawk	353,680	-	353,680	
Office Equipment	128,967	11,661	117,306	

4. Note receivable 3096000 Nova Scotia Limited

- bears no interest, repayable \$3,500 per year

5. Long Term Debt

ACOA	- no interest, unsecured	466,669
	- principle is \$500,000 when fully drawn down	
	- repayable over 10 years, \$4,166 monthly, commencing January 1, 2008	

6. Share Capital

Authorized	Issued		\$
10,000	725 Class A common shares no par value		625,000
10,000	325 Class B common shares no par value		325,000
10,000	350 Class C common shares no par value		350,000
10,000	- Non-voting common shares no par value		-
10,000	- Voting common shares no par value		-
10,000	- Class A preference shares no par value		-
10,000	- Class B preference shares no par value		-
<u>70,000</u>	<u>1,400</u>		<u>\$ 1,300,000</u>

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements
January 31, 2008
Draft Unaudited



8. Short Term Debt

Romspen Investment Corporation

- \$6,000,000 bridge financing to complete the cost of construction of Tall Ship Caledonia
- Agreement in place for \$5,400,000 in permanent financing on completion of vessel
- \$506,000 in interest costs relief from a government agency on completion of vessel

9. Convertible Debenture

GrowthWorks Atlantic

- Maturity date October 20, 2007
- Convertible any time before maturity date for Class D Common Shares
- 8% interest, \$100,000 interest prepaid on closing

This is **Exhibit "C"** referred to in
the Affidavit of Douglas Prothero,
sworn before me this 26th day of
June, 2008.

A handwritten signature in black ink, appearing to read 'G.D.F. MacDonald', written over a horizontal line.

A Barrister of the Supreme
Court of Nova Scotia

Gavin D.F. MacDonald

CANADIAN SAILING

by the way

Unconsolidated Financial Statements

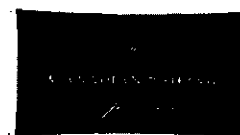
October 31, 2007

Draft Unaudited

Canadian Sailing Expeditions Inc.
Unconsolidated Statement of Income
and Retained Earnings

For The Year Ending October 31, 2007

Draft Unaudited



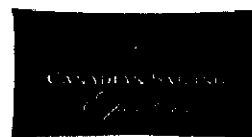
	<u>Oct '07</u>	<u>Oct '06</u>
REVENUE		
Charter, food and beverage	-	-
Daytours, merchandise, shore excursion	196	-
	<u>196</u>	<u>-</u>
EXPENSES		
Charter Cost	-	-
Advertising and Promotion	58,043	1,619
Management Salaries	140,773	-
Sales & Marketing Salaries	57,433	-
Administration Salaries	89,951	-
Insurance	8,266	-
General and Office	22,498	7,585
Telephone	20,883	13,890
Travel	22,742	-
Rent	21,673	11,726
Fuel	-	-
Cash management charges	5,701	8,972
Professional fees	85,961	11,104
Repairs & Maintenance	3,474	-
Amortization of Capital Assets	4,933	1,643
	<u>542,330</u>	<u>56,539</u>
Net Income/Loss before income taxes and gain on sale of shares	(542,135)	(56,539)
Gain on sale of shares in subsidiary	-	349,940
Income taxes recovered - future	-	-
		<u>349,940</u>
Interest Income	<u>23,756</u>	<u>-</u>
Interest Expense (Note 9)	<u>(100,000)</u>	<u>-</u>
Gain/Loss on Foreign Exchange	<u>8,056</u>	<u>-</u>
Net Income/Loss	(610,323)	293,401
Retained Earnings (Deficit) - Beginning	<u>126,770</u>	<u>(166,631)</u>
Retained Earnings (Deficit) - End	(483,553)	126,770

Canadian Sailing Expeditions Inc.
Unconsolidated Balance Sheet
Year End October 31, 2007
Draft Unaudited



Assets		<u>Oct '07</u>	<u>Oct '06</u>
Current			
Cash & Cash Equivalents		401,861	-
Trust funds for interest guarantee		400,000	-
Accounts receivable		1,457	912
Sales tax recoverable		127,062	16,102
Current portion of note receivable		7,000	3,500
Inventory		8,537	11,382
Prepaid expenses and deposits		13,322	67,715
		<u>959,229</u>	<u>99,611</u>
Note receivable 3096000 NS Limited (Note 4)		343,000	346,500
Capital Assets -net of accumulated amortization (Notes 2a, 3)			
Caledonia		8,058,542	3,597,192
Hawk		353,680	341,391
Other		24,364	6,577
		<u>8,436,586</u>	<u>3,945,160</u>
TOTAL ASSETS		<u><u>9,738,816</u></u>	<u><u>4,391,271</u></u>
Liabilities			
Current			
Bank Indebtedness		-	10,705
Payroll Taxes Liability		60,800	-
Accounts payable		681,132	867,308
Due to Tall ship Silva Inc.		114,328	199,978
Due to 3096000 NS Limited		4,064	4,364
Customer Deposits		46,910	-
Leases/financing		4,511	-
Bridge financing loan (Note 8)		5,648,015	-
Convertible Debenture (Note 9)		1,600,000	-
Shareholder advance		285,664	286,168
Current portion of long term debt (Note 5)		55,064	356,867
		<u>8,500,490</u>	<u>1,725,390</u>
Long term debt (Note 5)		421,879	1,239,111
Total Liabilities		<u><u>8,922,369</u></u>	<u><u>2,964,501</u></u>
Shareholders' Equity			
Common shares (Note 6)		1,300,000	1,300,000
Retained earnings (Deficit)		(483,553)	126,770
		<u>816,447</u>	<u>1,426,770</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>9,738,816</u></u>	<u><u>4,391,271</u></u>

Canadian Sailing Expeditions Inc.
Forecasted Statement of Cash Flow
For The Year Ending October 31, 2007
Draft Unaudited



	<u>2007</u>
Operating Activities	
Net Income	<u>(610,323)</u>
Amortization	4,933
Increase (decrease) in accounts payable	(186,176)
Decrease (increase) in accounts receivable	(545)
Decrease (increase) Inventory	2,846
Decrease (increase) in prepaid expenses	54,393
Decrease (increase) in sales tax recoverable	(110,960)
Increase (decrease) in customer deposits	46,910
Increase (decrease) in payroll tax liability	60,800
Increase (decrease) in due from TSSI	(85,650)
Increase (decrease) in due shareholder advance	(504)
Increase (decrease) in due from 3096000 N.S. Ltd.	(300)
	<u>(219,186)</u>
Cash flow from operations	<u>(824,576)</u>
Financing Activities	
Leases/Short Term Financing	4,511
Proceeds of Financing	10,275
Bridge Loan proceeds	5,638,746
Repayment of long term debt	(1,129,309)
Proceeds of Convertible Debenture	1,600,000
Accrued Interest on Financing Activities	9,269
	<u>6,133,492</u>
Cash flow from financing	<u>6,133,492</u>
Investing Activities	
Purchase of capital assets	(22,720)
Conversion costs of Caledonia/Hawk In Trust for Interest Guarantee	(4,473,639)
	<u>(400,000)</u>
Cash invested	<u>(4,896,359)</u>
Increase (decrease) in cash during the period	412,556
Opening cash balance	(10,705)
Ending cash (and cash equivalents) balance	<u><u>401,851</u></u>

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements

October 31, 2007
 Draft Unaudited



1. General

The company was incorporated July 27, 2001 under the Companies Act of the Province of Nova Scotia and is not restricted by its articles from carrying on any business or exercising any power.

2. Significant Accounting Policies

Capital assets and amortization

Vessels - 2.5%, declining balance method
 Equipment - 20%, declining balance method

3. Capital Assets - Recorded At Cost,

	Cost	Accumulated Depreciation	Net Book Value 10/31/2007	Net Book Value 10/31/2006
Vessel Caledonia	8,079,542	21,000	8,058,542	3,597,192
Vessel Hawk	346,241	-	346,241	341,391
Office Equipment	36,025	11,661	24,364	6,577

4. Note receivable 3096000 Nova Scotia Limited

- bears no interest, repayable \$3,500 per year

5. Long Term Debt

ACOA	- no interest, unsecured - principle is \$500,000 when fully drawn down - repayable over 10 years, \$4,166 monthly, commencing January 1, 2008	466,669
CIT	- Computer lease - repayable over 3 years	6,373
EC Telephone	- Telephone Equipment Lease - Repayable over 3 years	3,903
		<u>476,945</u>
	Less amounts due within one year	<u>(55,064)</u>
		<u>421,881</u>

6. Subsequent Events

In December of 2007 the company raised an additional \$1,500,000 in equity capital by means a convertible debenture.

The company has secured a \$250,000 Sales & Marketing no Interest loan repayable over 8 years, \$2,604, commencing July 1, 2009

The company has secured a \$50,000 Non-repayable contribution from ACOA for the hiring of a marketing manager

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements

October 31, 2007
Draft Unaudited



7. Share Capital

Authorized	Issued		\$
10,000	725	Class A common shares no par value	625,000
10,000	325	Class B common shares no par value	325,000
10,000	350	Class C common shares no par value	350,000
10,000	-	Class D common shares no par value	-
10,000	-	Non-voting common shares no par value	-
10,000	-	Voting common shares no par value	-
10,000	-	Class A preference shares no par value	-
10,000	-	Class B preference shares no par value	-
<u>80,000</u>	<u>1,400</u>		<u>\$ 1,300,000</u>

8. Short Term Debt

Romspen Investment Corporation

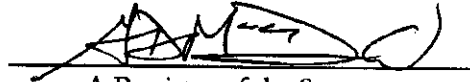
- \$6,000,000 bridge financing to complete the cost of construction of Tall Ship Caledonia
- Agreement in place for \$5,400,000 in permanent financing on completion of vessel with NSBI entering into an agreement to guarantee a portion of the permanent financing.
- \$506,000 in interest costs relief from a government agency on completion of vessel

9. Convertible Debenture

GrowthWorks Atlantic

- Maturity date October 20, 2007
- Convertible any time before maturity date for Class D Common Shares
- 8% interest, \$100,000 interest prepaid on closing

This is **Exhibit "D"** referred to in
the Affidavit of Douglas Prothero,
sworn before me this 26th day of
June, 2008.

A handwritten signature in black ink, appearing to read 'Gavin D.F. MacDonald', is written over a horizontal line.

A Barrister of the Supreme
Court of Nova Scotia

Gavin D.F. MacDonald

Unconsolidated Financial Statements

September 30, 2007

Unaudited

QA-ACC-SEPT-001
Version 1.0
October 31, 2007

Canadian Sailing
Expeditions Inc.
PO Box 2613 Halifax,
Nova Scotia B3J 3N5



Phone: 902-429-1474
Fax: 902-429-1475
www.cansailexp.com



Accounting: September 2007 Financial Statements
QA-ACC-SEPT-001

October 31, 2007
Version 1.0

Prepared by: Jonathan Stevens

(Signature and date)

Approved by: Doug Prothero

(Signature and date)

Comments:

Canadian Sailing Expeditions Inc.
Unconsolidated Statement of Income
and Retained Earnings

For The Month Ending September 30, 2007

Unaudited



	<u>Sept '07</u>	<u>August '07</u>	<u>Change</u>
REVENUE			
Charter, food and beverage	-	-	-
Daytours, merchandise, shore excursion	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES			
Charter Cost	-	-	-
Advertising and Promotion	50,580.01	32,093.31	18,486.70
Management salaries	165,337.13	144,934.11	20,403.02
Administration Salaries	79,130.06	62,146.52	16,983.54
Insurance	7,118.56	5,439.63	1,678.93
General and Office	21,619.72	18,326.11	3,293.61
Telephone	17,327.35	16,067.97	1,259.38
Travel	13,188.19	10,579.09	2,609.10
Rent	17,313.56	15,514.44	1,799.12
Cash management charges	4,546.21	4,067.82	478.39
Professional fees	29,639.96	25,226.60	4,413.36
Legal Fees (Note 7)	54,521.62	54,521.62	-
	<u>460,322.37</u>	<u>388,917.22</u>	<u>71,405.15</u>
Income (loss) from operations	<u>(460,322.37)</u>	<u>(388,917.22)</u>	<u>(71,405.15)</u>
Interest Income	23,544.00	21,554.46	1,989.54
Interest Expense (Note 9)	(97,183.00)	(88,372.60)	(8,810.40)
Gain/Loss on Foreign Exchange	6,738.99	7,197.91	(458.92)
Net Income/Loss	<u>(527,222.38)</u>	<u>(448,537.45)</u>	<u>(78,684.93)</u>

Canadian Sailing Expeditions Inc.
Unconsolidated Balance Sheet
 Month End September 30,2007
 Unaudited



		Assets	
Current		Sept '07	August '07
Cash & Cash Equivalents		3,263	471,351
Trust funds for interest guarantee		400,000	400,000
Accounts receivable		912	912
Sales tax recoverable		202,519	166,862
Current portion of note receivable		3,500	3,500
Inventory		11,382	11,382
Prepaid expenses and deposits		13,092	42,733
Prepaid interest on convertible debenture (Note 8)		2,817	11,627
		<u>637,484</u>	<u>1,108,367</u>
Note receivable 3096000 NS Limited (Note 4)		346,500	346,500
Capital Assets -net of accumulated amortization (Notes 2a, 3)			
Caledonia		7,354,175	6,746,398
Hawk		354,333	346,241
Other		26,793	26,793
		<u>7,735,301</u>	<u>7,119,432</u>
TOTAL ASSETS		<u>8,719,284</u>	<u>8,574,299</u>
		Liabilities	
Current			
Accounts payable		632,074	449,314
Due to Tall ship Silva Inc.		132,737	132,858
Due to 3096000 NS Limited		4,084	4,084
Leases/financing		16,084	16,921
Bridge financing loan (Note 8)		4,678,185	4,636,212
Convertible Debenture (Note 9)		1,600,000	1,600,000
Shareholder advance		285,809	285,913
Current portion of long term debt (Note 5)		49,992	49,992
		<u>7,398,945</u>	<u>7,175,275</u>
Long term debt (Note 5)		416,676	416,676
Total Liabilities		<u>7,815,621</u>	<u>7,591,951</u>
		Shareholders' Equity	
Common shares (Note 6)		1,300,000	1,300,000
Retained earnings (Deficit)		(396,336)	(317,651)
		<u>903,664</u>	<u>982,349</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,719,284</u>	<u>8,574,299</u>

Canadian Sailing Expeditions Inc.
Forecasted Statement of Cash Flow
For The Month Ending September 30, 2007
Unaudited-See Notice to Reader



	<u>September 2007</u>
Operating Activities	
Net income	<u>(78,685)</u>
Increase (decrease) in accounts payable	182,760
Decrease (increase) in accounts receivable	
Decrease (increase) inventory	
Decrease (increase) in prepaid expenses	38,452
Decrease (increase) in sales tax recoverable	(35,656)
Increase (decrease) in due from TSSI	(121)
Increase (decrease) in due shareholder advance	(105)
Increase (decrease) in due from 3096000 N.S. Ltd.	
Cash flow from operations	<u>106,645</u>
Financing Activities	
Leases/Short Term Financing	(838)
Bridge Loan proceeds	
Repayment of long term debt	
Proceeds of Convertible Debenture	
Repayment of shareholder advance	
Accrued Interest on Financing Activities	<u>41,973</u>
Cash flow from financing	<u>41,136</u>
Investing Activities	
Purchase of capital assets	
Conversion costs of Caledonia/Hawk In Trust for Interest Guarantee	<u>(615,869)</u>
Cash invested	<u>(615,869)</u>
Increase (decrease) in cash during the period	(468,088)
Opening cash balance	471,351
Ending cash (and cash equivalents) balance	<u>3,263</u>

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements
September, 2007
Unaudited



1. General

The company was incorporated July 27, 2001 under the Companies Act of the Province of Nova Scotia and is not restricted by its articles from carrying on any business or exercising any power.

2. Significant Accounting Policies

- a) Capital assets and amortization
Vessels - 2.5%, declining balance method
Equipment - 20%, declining balance method

3. Capital Assets - Recorded At Cost,

	Cost	Accumulated Depreciation	Net Book Value Sept.30/07	Net Book Value Aug.31/07
Vessel Caledonia	7,375,175	21,000	7,354,175	6,746,398
Vessel Hawk	346,241	-	354,333	346,241
Office Equipment	33,521	6,728	26,793	26,793

4. Note receivable 3096000 Nova Scotia Limited

- bears no interest, repayable \$3,500 per year

5. Long Term Debt

ACOA	- no interest, unsecured	466,669
	- principle is \$500,000 when fully drawn down	
	- repayable over 10 years, \$4,166 monthly, commencing September 1, 2005	

6. Share Capital

Authorized	Issued		\$
10,000	725 Class A common shares no par value		625,000
10,000	325 Class B common shares no par value		325,000
10,000	350 Class C common shares no par value		350,000
10,000	- Non-voting common shares no par value		-
10,000	- Voting common shares no par value		-
10,000	- Class A preference shares no par value		-
10,000	- Class B preference shares no par value		-
<u>70,000</u>	<u>1,400</u>		<u>\$ 1,300,000</u>

7. Legal Fees

Legal fees incurred relating to convertible debenture may be capitalized in future period if they can be attributed directly to construction costs.

Canadian Sailing Expeditions Inc.
Notes To The Financial Statements
September, 2007
Unaudited



8. Short Term Debt

Romspen Investment Corporation

- \$6,000,000 bridge financing to complete the cost of construction of Tall Ship Caledonia
- First advance against mortgage \$1,832,887
- Second advance against mortgage \$957,395.13
- Third advance against mortgage \$791,492
- Forth advance against mortgage \$699,610
- Fifth advance against mortgage \$350,000
- Agreement in place for \$5,400,000 in permanent financing on completion of vessel
- \$504,000 in interest costs relief from a government agency on completion of vessel

9. Convertible Debenture

GrowthWorks Atlantic

- 8% interest, \$100,000 interest prepaid on closing
- Maturity date October 20, 2007
- Convertible any time before maturity date for Class D Common Shares