

2008

S.H. No. 297999

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.

SECOND REPORT OF MONITOR – BDO DUNWOODY GOODMAN ROSEN INC.

July 21, 2008

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1. SECOND REPORT OF THE MONITOR – GENERAL COMMENTS

- 1.1. Pursuant to an Order (“Initial Order”) of the Supreme Court of Nova Scotia (“the Court”) dated June 27, 2008, BDO Dunwoody Goodman Rosen Inc. was appointed as the Monitor (“the Monitor”) pursuant to the application of Canadian Sailing Expeditions Inc. (“CSE”) for protection under the Companies’ Creditors Arrangement Act (“CCAA”). The Initial Order was granted by Mr. Justice Gerald R.P. Moir.
- 1.2. Under Paragraph 2 of the Initial Order, it was specified that a further hearing in the CCAA proceeding is to be held on Thursday, July 24, 2008 at 9:30 a.m. or such alternative date as the Court may fix, at which time the Initial Order may be supplemented or otherwise varied and the Stay of Termination Date as defined in the Initial Order is to be either extended or terminated. The Comeback Date Hearing is changed and is now scheduled for 9:30 a.m. on July 25, 2008. A Consent Order is in the process of being obtained.
- 1.3. On July 4, 2008, CSE made application to the Court for an Order approving arrangements for Debtor-in-Possession (“DIP”) financing. An Order (“DIP Order”) for this purpose was granted by The Honorable Chief Justice Joseph P. Kennedy, which DIP Order authorized CSE to enter into an arrangement to obtain a non-revolving credit facility (“DIP Facility”) from Growthworks Atlantic Venture Fund Limited (“Growthworks”) to a maximum principal amount of \$500,000 on the terms and conditions set out in a June 27, 2008 commitment letter between the DIP Lender and CSE. A copy of the DIP Order is attached hereto as Exhibit 1.
- 1.4. The Monitor prepared its First Report to the Court under date of July 2, 2008 and this report was filed with the Court prior to the DIP financing hearing held on July 4, 2008. The Monitor’s First Report of July 2, 2008 and a Supplemental Report dated July 4, 2008 as delivered directly to The Honorable Chief Justice P. Kennedy were both considered at the DIP hearing of July 4, 2008.
- 1.5. The Supplemental Report to The Honorable Chief Justice Kennedy dated July 4, 2008 dealt with a comparison of projections prepared by CSE on the basis of laying up the vessel *The Caledonia* on one hand as opposed to operating the cruise vessel on the other hand. The analysis provided by CSE through the Monitor supported the CSE position that it is advantageous for the vessel *The Caledonia* to keep operating as opposed to tying it up at a wharf without operations during the CCAA proceeding.
- 1.6. Since the date of the Monitor’s First Report on July 2, 2008, the Monitor advises that we have undertaken or have been involved in various actions and activities which may be generally described hereafter as follows:

- On a daily basis, we have been in contact and communication with Douglas Prothero, CEO of CSE, and/or Jonathan Stevens, CFO of CSE, CSE's legal counsel, and counsel to the Monitor for the purpose of continuing the review of various financial matters, operations, and the status of the CCAA proceeding.
- On a daily basis, we have fielded numerous communications by telephone, email, or correspondence with creditors as to the status of CSE and we have responded to their inquiries and concerns, including answering their questions about pre-filing obligations and post-filing supply of goods and services and the certainty of payment related thereto.
- We have reviewed the Cash Flow Projections and related materials provided to us by CSE on a weekly basis and, in a number of instances, we have arranged for corrections and changes to be made in the Cash Flow Projections where we believed it appropriate after discussing same with Mr. Stevens of CSE.
- We have sent copies of the Cash Flow Projections that were supplied to us by CSE to counsel for various secured creditors for distribution to their respective clients as well as to other parties who requested this information. In each case, the Monitor provided its comments on the Cash Flow Projections for the respective week and we responded to questions raised by parties who received the information.
- In addition to the continued contact and communications with the officers of CSE, its legal counsel, and counsel to the Monitor, we attended at certain meetings with them to discuss various aspects of the CCAA process, including present DIP financing, future DIP financing, and the various elements of a Plan of Arrangement.
- We communicated with senior officers and legal counsel for Growthworks with respect to various aspects of the CCAA proceeding.
- We communicated with officials of Canada Revenue Agency ("CRA") with respect to the obligations owed to CRA and the potential for a field audit by CRA officials.
- We established a Monitor's website (www.bdo.ca/canadiansailing) on which we have placed all of the materials filed with the Court in the CCAA proceeding and other materials related thereto that we thought appropriate.
- We have attended to a number of other matters and numerous communications with various parties with respect to the CCAA filing by CSE.

1.7 Since the Initial Hearing on June 27, 2008, the Monitor and its counsel attended the Court hearing in Halifax on July 4, 2008 with respect to the CSE application for DIP financing and the granting of the DIP Order attached hereto as Exhibit 1.

1.8 We have asked Monitor's counsel, Carl Holm, QC of Wickwire Holm, to obtain all of the security documentation from secured creditors of CSE and to review said documentation and provide the Monitor with a report as to the validity and priority of the various security instruments. Mr. Holm has commenced his security review and has raised some queries that require further explanation and documentation, but the preliminary indication is that there are no material or practical changes to the anticipated security positions.

2. CASH FLOW, CASH FLOW PROJECTIONS, AND DEBTOR-IN-POSSESSION (“DIP”) FINANCING

- 2.1. The Monitor’s First Report to This Honorable Court dated July 2, 2008 included a Cash Flow Projection including CCAA professional fees, a second Cash Flow Projection not including CCAA professional fees, and a third Cash Flow Projection prepared on a weekly basis from June 30, 2008 through to September 28, 2008, a 13 week period.
- 2.2. The Monitor advises the Court that it has established a regime and timing related thereto for the provision of and limited review of the Weekly Cash Flow information as provided by CSE to the Monitor. The arrangement between the Monitor and CSE is that CSE provides its Weekly Cash Flow to the Monitor no later than 3:00 p.m. on the Monday following each week. With the Cash Flow Projection are included various other materials including copies of bank statements for each account, a bank reconciliation for each account, a listing of cheques and deposits for each account, the trust listing for passenger fares paid in advance, a list of accounts receivable, and a list of post-CCAA filing accounts payable. The Monitor provided CSE with a format for the Cash Flow Report which includes the details of the actual Cash Flow for the week in question as compared to the Cash Flow Projection for the same week and a column for the variance between the two. There is a second set of columns which are the cumulative Cash Flow columns for all weeks to date for the actual Cash Flow and the Cash Flow Projections and then the variance for the cumulative amounts.
- 2.3. The Monitor undertakes a limited review of the Cash Flow materials provided. The Monitor does not perform an audit and does not verify the accuracy or completeness of all of the materials provided by CSE. The limited review procedures undertaken by the Monitor include:
- Compare copies of bank statements to bank reconciliation for each account.
 - Review each bank reconciliation.
 - Trace, on a sample basis, disbursements and receipts to the respective bank statements and to the actual Cash Flow.
 - Compare the actual Cash Flow to the Cash Flow Projections to determine if there are significant actual cash disbursements in excess of the Cash Flow Projection as previously provided and obtain any explanations related thereto.
 - Compare a listing of trust account balances to funds held in trust including the reconciliation thereof.
 - Agree carry-forward balances.
 - Discuss any significant variances of revenue and expenses with CSE management and obtain explanations.
- 2.4. After completing the limited review referred to above in Paragraph 2.3, the Monitor distributes the Weekly Cash Flow Projection Report to the various secured creditors,

their legal counsel, or other parties who have requested same. This distribution is usually completed sometime on the Wednesday of the week following, depending on the number of corrections, changes, or explanations that are required to the Cash Flow Projection.

2.5. Attached as Exhibit 2 is the Weekly Cash Flow for week number three, being the week of July 13 to July 19 inclusive, including the cumulative position for the first three weeks of the CCAA proceeding through to July 19, 2008.

2.6. The Monitor's comments in summary on Exhibit 2 are:

- Actual revenue is consistent with plan and there is no material variance.
- The DIP funds drawn are \$25,000 more than plan.
- Expenses are \$82,283 more than plan in week three and \$43,345 more than plan for the accumulated three weeks.
- The fact that cash on hand at the end of week two was high and represented a timing difference in the payment of some items.
- Expenses have such a large variance because payroll is being paid weekly or bi-weekly, but were not planned that way, and certain suppliers are requiring cash payments in advance of supply of goods.
- Cash on hand does not include pre-paid fare deposits which are kept in separate trust accounts. Pre-paid fares total \$212,799 and trust cash and GICs on hand to respond to these fares paid in advance total \$212,944, an insignificant difference of \$145 which is more than the trust amount required.
- As at July 18, 2008, accounts receivable are \$3,414, being a damage claim receivable. The operating accounts payable post-CCAA filing are \$36,481, related to post-June 27 expenses of \$14,348 and payroll deductions of \$22,133.

2.7 The Monitor has been provided with updated Monthly Cash Receipts and Disbursements for the complete months of July, August, and September, 2008. Attached as Exhibit 3 is the Monthly Cash Projection for the three month period through to the end of September, 2008. The Monitor notes that according to Exhibit 3, DIP funds expected to be required by the end of August will be \$605,000, an amount that is considerably more than the present DIP approved by the Court at \$500,000. It is further noted that by the end of September, according to Exhibit 3, DIP funds would top out at \$800,000. Based on these projections, it appears that CSE will have to make a further application to the Court for an increase in DIP financing sometime before the end of August, 2008, or earlier if it appears cash will be used more quickly.

2.8 To assist CSE, the Monitor has contacted two potential sources of DIP financing that may replace or supplement the DIP financing presently in place with Growthworks.

3. CCAA PROFESSIONAL FEES

- 3.1. Paragraph 30 of the Initial Order provides for the payment of the reasonable fees and disbursements of the Monitor (including the reasonable solicitor and client fees and disbursements of any counsel retained by the Monitor) and the reasonable solicitor and client fees and disbursements of counsel to CSE.
- 3.2. Paragraph 31 of the Initial Order provides that the Monitor, counsel to the Monitor, and Federal's counsel, as security for their reasonable professional fees and disbursements incurred both before and after the making of the Initial Order in respect to the CCAA proceedings, were granted a charge against all present and future property of CSE in the form of an Administration Charge, such charge not to exceed \$300,000 without further Order of the Court.
- 3.3. Attached as Exhibit 4 is a schedule of the details of the CCAA professional fees including those which are subject to the Administration Charge where they are unpaid. Exhibit 4 portrays total fees as billed (\$58,559.15) and indicates which ones are paid (\$35,488.81) or are unpaid (\$23,070.34), as the case may be as of July 21, 2008, although the Monitor notes that due to timing differences in the receipt of payment for fees in relation to the preparation of this report, certain fees reflected as unpaid may indeed be paid.
- 3.4. Pursuant to Paragraph 19 of the DIP Order of July 4, 2008 (Exhibit 1), the priority of the Administration Charge referred to in Paragraph 3.3 herein is limited, firstly, to \$75,000 and is then, secondly, intersected by the DIP Charge ("DIP Loan"), and then, thirdly, the remaining Administration Charge has next priority. As at the date of this present report, the \$23,070.34 would be subject to the Administration Charge.

4. STATUS OF PLAN OF ARRANGEMENT UNDER CCAA

- 4.1. The Monitor has exchanged communications with Douglas Prothero, the Chief Executive Officer of CSE, as to information that was to be provided to the Monitor on a regular basis to assist us in satisfying the requirements of Section 11(6) of the CCAA. Under that section, the Monitor needs to be assured as best he can so that the burden of proof to satisfy the Court on granting an application is on CSE who must satisfy the Court that:
- (a) circumstances exist that make an Order appropriate; and
 - (b) satisfy the Court that CSE have acted in good faith and are continuing to act in good faith and with due diligence.
- 4.2. In Paragraph 6.1 of its First Report to the Court dated July 2, 2008, the Monitor reported on the prospects of the Plan of Arrangement at that time and, in particular, that any CCAA Plan of Arrangement might include:
- an injection of new capital funding or a conversion of debt to equity and/or accommodations and participation from certain secured creditor interests; or
 - the sale of the vessel *The Caledonia* under an aggressive marketing plan; or
 - the long-term charter of the vessel *The Caledonia*.
- 4.3. Whatever form the Plan of Arrangement might take, it will require some time to form up the Plan and some further time to initiate the necessary actions to conclude it.
- 4.4. Mr. Prothero has met with the Monitor and has provided the Monitor with both a written and verbal update of the actions undertaken which could be important elements in establishing the Plan of Arrangement and in its initiation.
- 4.5. The Monitor is satisfied that CSE's management has acted and is continuing to act in good faith and with due diligence in bringing forth a workable Plan of Arrangement for the consideration of creditors.

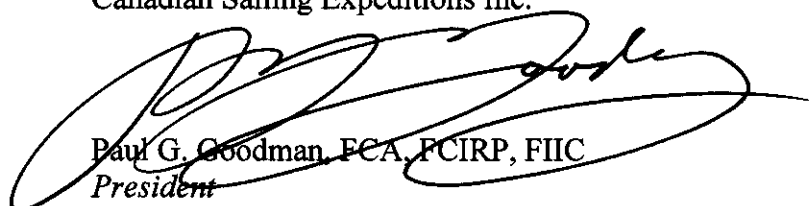
5. RECOMMENDATIONS

- 5.1. As previously indicated, the Monitor believes that by its actions, CSE is acting in good faith and with due diligence in moving forward to the preparation of a Plan of Arrangement, and whereas the actual net Cash Flow of CSE is not materially adverse to the Cash Flow Plan nor Projections as previously presented to This Honorable Court, the Monitor recommends that CSE be granted an extension and continuance of the Stay of Termination Date under the CCAA and hence an extension of time to make further progress towards the development and completion of a Plan of Arrangement for consideration of the creditors, such extension to be not less than 45 days from July 24, 2008 (now July 25, 2008). The Monitor is of the view that CSE cannot complete all of the important activities necessary to bring forth a Plan of Arrangement for consideration in a timeframe which would be less than the 45 days.
- 5.2. The Monitor recommends that CSE return to the Court not later than August 20, 2008 at which time CSE must make an application for an increase in the DIP financing level that is consistent with the Cash Flow Projections.
- 5.3. The Monitor further recommends that where a hearing on increased DIP financing may be held in mid August, and subject to the outcome of that hearing resulting in a DIP increase, the Monitor recommends that a second application also be made at the same time to establish the Claims Bar Process.

Dated at Halifax, Nova Scotia this 21st day of July, 2008.

Respectfully submitted

BDO DUNWOODY GOODMAN ROSEN INC.
Court-Appointed Monitor in the CCAA Proceeding of
Canadian Sailing Expeditions Inc.



Paul G. Goodman, FCA, FCIRP, FIIC
President



IN THE SUPREME COURT OF NOVA SCOTIA

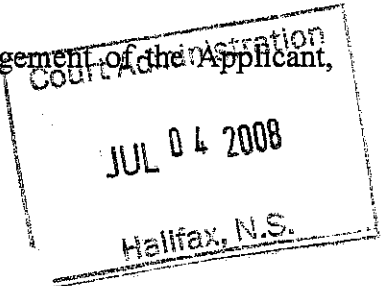
IN THE MATTER OF:

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.



ORDER

J.P.K.
C.J.
4.C.

BEFORE THE HONOURABLE CHIEF JUSTICE JOSEPH P. KENNEDY IN CHAMBERS

UPON READING the Affidavit of Douglas Prothero sworn June 30, 2008 and the First Report of BDO Dunwoody Goodman Rosen Inc., as Monitor of Canadian Sailing Expeditions Inc. (the "Company") dated July 2, 2008 (the "Monitor's First Report");

AND UPON HEARING Robert G. MacKeigan Q.C., counsel for the Company;

IT IS HEREBY ORDERED THAT:

1. The Company not be required to serve notice of this application on any of its creditors except for the Senior Secured Creditors (as defined in the Order of Justice Moir issued June 27, 2008 (the "Initial Order").
2. The Monitor's First Report and the activities of the Monitor described therein are hereby approved.
3. The Company is hereby authorized and empowered to enter into an arrangement to obtain a non-revolving credit facility (the "DIP Facility") from Growthworks Atlantic Venture Fund Limited (the "DIP Lender") in the maximum total principal amount of \$500,000, on the terms and conditions set forth in the June 27, 2008 commitment letter between the DIP Lender and the Company, as such agreement may from time to time hereafter be amended by the parties thereto, with the consent of the Monitor and approval of the Court (the "DIP Commitment Letter"), to fund the ongoing, ordinary course of activities of the Company and to permit the Company to pay such amounts as may be permitted by the terms of this Order, the Initial Order, and the DIP Commitment Letter.

4. The Company shall be authorized to borrow and shall otherwise obtain credit from the DIP Lender in accordance with the DIP Commitment Letter provided that the total outstanding principal amount thereunder does not at any time exceed \$500,000 and the Company is hereby authorized and directed to perform all of its obligations under the DIP Commitment Letter and the DIP Credit Documentation (as defined below), and the Company shall pay when due all principal and interest under the DIP Facility, provided that nothing in this Order shall oblige the DIP Lender to make any advance to the Company.
5. The DIP Lender is hereby granted a first priority charge, mortgage and security interest in all present and after-acquired real and personal property of the Company ("Property"), including (without limitation) a marine mortgage on the vessel "Caledonia" (ON 370565) (the DIP Marine Mortgage) (collectively the foregoing are collectively referred to in this Order as the "DIP Charge"), as security for repayment of all amounts advanced or owing pursuant to the DIP Commitment Letter, the DIP Credit Documentation and this Order (or any of them) together with all interest, fees, expenses, charges and other amounts payable in respect thereof (collectively, the "DIP Liabilities").
6. The Company is hereby authorized and empowered to execute and deliver to the DIP Lender such mortgages, charges, hypothecs, security agreements, debentures (collectively, the "DIP Security") and such other agreements and documents (together with the DIP Security, the "DIP Credit Documentation") as are contemplated by the DIP Commitment Letter or the DIP Charge or as may be reasonably required by the DIP Lender from time to time in respect of borrowings under the DIP Facility.
7. Notwithstanding that the Company has granted a marine mortgage over the vessel *Caledonia* in favour of Caterpillar Financial Services Limited dated November 16, 2007 (the "Caterpillar Marine Mortgage") and that the Company has granted a marine mortgage over the vessel *Caledonia* in favour of Nova Scotia Business Inc. dated November 16, 2007 (The "NSBI Marine Mortgage") or that the Caterpillar Marine Mortgage and NSBI Marine Mortgage have been registered on the Ship Registry maintained by Transport Canada under the *Canada Shipping Act* (the "Ship Registry"), the DIP Marine Mortgage, when executed, delivered and registered on the Ship Registry, shall constitute a first priority marine mortgage over the *Caledonia* in priority to the Caterpillar Marine Mortgage and the NSBI Marine Mortgage.
8. The DIP Security and the DIP Charge shall be deemed to have attached, as of 12:01 a.m. (Halifax time) on the date of the Initial Order, to all Property of the Company with respect to all advances made and to be made under the DIP Facility.
9. The Company shall pay to the DIP Lender when due all amounts owing, and shall perform all other obligations of the Company to the DIP Lender pursuant to the DIP Commitment Letter, the DIP Credit Documentation and this Order (or any one of them).

10. Subject to the following, nothing in this Order or the Initial Order shall apply to prevent, enjoin, restrain or stay:
- (a) Any right of the DIP Lender to terminate the making of or refuse to make advances to the Company under the DIP Commitment Letter and to make demands thereunder, or from issuing any notices of intention to enforce security, notices of power of sale, notices of disposition or other such notices, and from exercising any acceleration rights or rights of set-off or combination of accounts, or any rights and remedies under the DIP Credit Documentation, the DIP Charge or the DIP Security;
 - (b) Without limiting paragraph (a) above, prevent the DIP Lender from applying to this Court for the appointment of an interim receiver, receiver and manager and/or for the appointment of a trustee in bankruptcy in connection with the enforcement of the DIP Charge and the DIP Security or the payment of the DIP Liabilities or for other relief;
 - (c) The DIP Lender from exercising its rights and remedies as and against the Company in respect of the DIP Charge or the DIP Credit Documentation; and
 - (d) The Company from paying amounts from time to time on account of the DIP Liabilities to the extent permitted by this Order in accordance with DIP Commitment Letter and the DIP Credit Documentation.

Notwithstanding any other provision of this Order, the DIP Lender shall not enforce any security (or exercise any right of set-off or combination of accounts) against the Company or its Property without the prior leave of this Court, provided that the DIP Lender may deliver to the Company demands and notices and exercise acceleration rights without the leave of the Court.

11. The DIP Lender, in such capacity, shall, unless it otherwise agrees, be treated in all respects as an unaffected creditor in these proceedings, in the reorganization plan by the Company or in any other plan filed by the Company (the "Plan") with respect to the DIP Liabilities and, unless otherwise agreed by the DIP Lender, all indebtedness and liability owing by the Company to the DIP Lender with respect to the DIP Facility shall be paid to the DIP Lender in full no later than the date of implementation of the Plan.
12. The DIP Lender and its advisors shall be given clear and unfettered access to the books and records of the Company and such other information as the DIP Lender and its advisors deem necessary or appropriate.
13. No order shall be made varying, rescinding or otherwise affecting the provisions of this Order with respect to the DIP Facility, the DIP Credit Documentation, the DIP Charge or the DIP Security unless either:
- (a) Notice of application for such order is served on the DIP Lender by the moving party within ten (10) days after such moving party is served with a copy of this Order; or


- (b) The DIP Lender applies for or consents to such order.
14. The Company shall execute all documents and take such other actions necessary or appropriate to give effect to the DIP Charge.
 15. The DIP Charge shall attach to all present and future Property of the Company, including any lease, sublease, offer to lease or other contract, except that the DIP Charge shall not attach to the last day of the term of any lease of real property or to any such lease, sublease, offer to lease, or other contract to the extent that such attachment would constitute a breach of its terms or permit a party to terminate such agreement. If the DIP Charge does not attach to any Property in accordance with this paragraph, the Company shall hold its interests in such lease, sublease, offer to lease or other contract or any proceeds therefrom in trust for the DIP Lender and shall assign such interests to the DIP Lender or its assignees upon obtaining the required consent or upon order of the Court.
 16. Advances made under the DIP Facility shall be made to the Company as required for the operations of the Company, as determined by the Monitor and approved by the DIP Lender. The DIP Charge resulting from any such advance has priority over all other mortgages, marine mortgages, charges, security interests, liens and encumbrances of any kind or nature (collectively, the "Encumbrances" and individually, an "Encumbrance") in or against any and all of the Property of the Company, subject to: (i) applicable prior statutory liens, and (ii) personal property secured in favour of any of the lenders identified under the heading "Leases" at Exhibit H to the affidavit of Douglas Prothero filed June 26, 2008 together with any proceeds thereof.
 17. Except as otherwise expressly provided for herein, the Company shall not borrow any amounts or grant any Encumbrance on any of its Property from the date of this Order unless the Company obtains the prior written consent of the DIP Lender and approval of this Court.
 18. None of the DIP Charge, the obligations of the Company pursuant to the DIP Charge, the DIP Liabilities or any of the documents delivered pursuant thereto, shall be illegal, invalid or non-binding obligations of the Company or otherwise rendered unenforceable against the Company or any of the Property, nor shall they be void or voidable by creditors or shareholders of the Company, a trustee in bankruptcy of the Company or any other person by reason of:
 - (a) The pendency of these proceedings and the declarations of insolvency made herein;
 - (b) The pendency of any petitions for any receiving order or any receiving orders issued under the *Bankruptcy and Insolvency Act* ("BIA") in respect of the Company, or any assignment under the BIA being made or deemed to have been made; or
 - (c) The provisions of any federal or provincial law.

19. The DIP Charge and the Administration Charge have relative priority as follows:
 - (a) Firstly, the Administration Charge to a maximum principal amount of \$75,000;
 - (b) Secondly, the DIP Charge; and
 - (c) Thirdly, the remaining Administration Charge (if any).
20. The beneficiaries of the DIP Charge may, but shall not be required to file, register, record or perfect the DIP Charge, notice thereof or any financing statement with respect thereto and the DIP Charge shall be valid and enforceable for all purposes against all existing and after acquired property for any purpose with priority over any right, title or interest filed, registered, recorded or perfected prior or subsequent to the DIP Charge coming into existence despite any failure to file, register, record or perfect the DIP Charge, notice thereof, or any financing statement with respect thereto. Despite anything in this Order, the beneficiaries of the DIP Charge may take such steps as they deem necessary or appropriate to register, record or perfect the DIP Charge, notice thereof or any financing statement with respect thereto, if they deem it advisable to do so.
21. The creation of the DIP Charge and the payments made by the Company and any agreements, instruments or other documents delivered pursuant to this Order to do not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable or reviewable transactions under any applicable law.
22. None of the DIP Charge, the DIP Facility, or the DIP Credit Documentation shall be, or be deemed to be, invalid or ineffective by reason of any negative covenant, prohibition or other similar provision with respect to incurring debt or other obligations or the creation of any Encumbrance contained in any agreement to which the Company is a party and, notwithstanding any provision to the contrary in such agreements:
 - (a) None of the DIP Charge, the obtaining of the DIP Facility, or the creation of any of the DIP Credit Documentation and none of the execution, delivery, performance, perfection or registration of any agreement, instrument or other documents delivered pursuant thereto shall create or be deemed to constitute a breach by the Company of any agreement to which it is a party; and
 - (b) No person shall have any liability to any other person whatsoever as a result of any breach of any agreement caused by or resulting from the DIP Charge, the obtaining of the DIP Facility, the creation of any of the DIP Credit Documentation or the execution, delivery, performance, perfection or registration of any agreements, instruments or other documentation delivered pursuant thereto.
23. This Court requests the aid and recognition of any court or any judicial, regulatory or administrative body in any province or territory of Canada (including the assistance of any Court in Canada pursuant to Section 17 of the CCAA) and the Federal Court of Canada and any judicial, regulatory or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province and any court or

any judicial, regulatory or administrative body of the United States and the states or other subdivisions of the United States and of any other nation or state to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

DATED at Halifax, Nova Scotia this 4 day of July, 2008.

GEORGE GHOSN
Deputy Prothonotary


Deputy Prothonotary

IN THE SUPREME COURT OF NOVA SCOTIA
I hereby certify that the foregoing document,
identified by the Seal of the Court, is a true
copy of the original document on file herein.
Dated the 4 day of July A.D., 2008


Deputy Prothonotary

EXHIBIT 2

Canadian Sailing Expeditions Inc.
Weekly Cash Receipts and Disbursements
Week #3

| | CURRENT WEEK | | | ACCUMULATED POSITION | | |
|-------------------------------------|-------------------------|---------------|-----------------|-----------------------|----------------|---------------|
| | Week 3 | | | Week 1-3 | | |
| | Jul 13 - Jul 19 2008 | | | Jun 30-Jul 19 2008 | | |
| | Actual | Planned | Variance | Actual End | Planned End | Variance |
| CASH, BEGINNING OF PERIOD | 120,485 | 16,058 | 104,427 | 58,767 | 58,767 | - |
| CASH RECEIPTS: | | | | | | |
| Caledonia Revenue | 21,050 | 22,864 | (1,814) | 42,500 | 44,248 | (1,748) |
| Charter Fees | 20,487 | 21,081 | (594) | 39,401 | 40,797 | (1,395) |
| Bar | 215 | 690 | (476) | 901 | 1,336 | (435) |
| Excursion (gross-see note below) | 172 | 518 | (345) | 1,255 | 1,002 | 253 |
| Merchandise | 177 | 575 | (399) | 943 | 1,113 | (170) |
| Tips Collected - to be disbursed | 642 | | 642 | 3,180 | | 3,180 |
| HST Collected | 2,772 | | 2,772 | 5,658 | | 5,658 |
| DIP Funds | | 35,000 | (35,000) | 210,000 | 185,000 | 25,000 |
| | 24,464 | 57,864 | (33,400) | 261,337 | 229,248 | 32,089 |
| CASH DISBURSEMENTS: | | | | | | |
| Accounts Payable | | | | | | |
| Uncleared Cheques | | | - | 57,774 | 64,944 | (7,171) |
| Credit Card Bill | | 5,000 | (5,000) | 2,000 | 10,000 | (8,000) |
| Accrued Current Payroll Liabilities | 16,668 | 23,971 | (7,303) | 16,668 | 23,971 | (7,303) |
| General and Office | 4,899 | 593 | 4,306 | 5,122 | 3,373 | 1,749 |
| Postage/Courier | 93 | 160 | (67) | 93 | 400 | (307) |
| Office Supplies | | 80 | (80) | 223 | 160 | 63 |
| Computer Supplies/Repairs | | 34 | (34) | - | 68 | (68) |
| General | | 100 | (100) | - | 300 | (300) |
| Professional Memberships | | 61 | (61) | - | 122 | (122) |
| Licenses/Permits | 103 | 33 | 70 | 103 | 66 | 37 |
| Telephone equipment | | | - | - | | - |
| Office Phones/Long Distance | 1,368 | | 1,368 | 1,368 | | 1,368 |
| Cell | 636 | | 636 | 636 | | 636 |
| Security | | | - | - | | - |
| Rent | 2,699 | | 2,699 | 2,699 | 1,799 | 900 |
| Computer Equipment | | 125 | (125) | - | 457 | (457) |
| Salaries (see note) | - | - | - | 24,664 | 35,100 | (10,436) |
| Combined net pay (all office wk 1) | | | - | 9,148 | 12,034 | (2,886) |
| Management salaries | - | - | - | 4,210 | 7,786 | (3,576) |
| CEO | | | - | 1,734 | 3,115 | (1,381) |
| Director Operations | | | - | 1,734 | 3,115 | (1,381) |
| Director Marine Operations | | | - | 743 | 1,557 | (814) |
| Benefits | | | - | - | - | - |
| Sales and Marketing Salaries | - | - | - | 9,383 | 12,525 | (3,141) |
| US Sales & Marketing | | | - | 5,832 | 6,438 | (605) |
| Corporate Sales | | | - | 1,267 | 2,156 | (889) |
| Marketing Associate | | | - | 1,375 | 2,396 | (1,020) |
| Full Time Consumer Sales | | | - | 908 | - | 908 |
| Full Time Consumer Sales | | | - | - | 1,535 | (1,535) |
| Part-time sales | | | - | - | - | - |
| Administration Salaries | - | - | - | 1,923 | 2,755 | (832) |
| Controller | | | - | - | - | - |
| Special Projects | | | - | 1,374 | 2,156 | (783) |
| Cruise Coordinator | | | - | 549 | 599 | (50) |
| Professional fees | 22,383 | 12,500 | 9,883 | 34,888 | 20,000 | 14,888 |
| Legals | 19,429 | | 19,429 | 24,075 | - | 24,075 |
| Consultancy | 2,954 | 7,500 | (4,546) | 10,813 | 15,000 | (4,187) |
| Accounting (D.Smith Bal/Audit) | | 5,000 | (5,000) | - | 5,000 | (5,000) |
| Insurance | - | - | - | - | - | - |
| Hull & Machinery Caledonia | | | - | - | - | - |
| Hull & Machinery Hawk | | | - | - | - | - |

Canadian Sailing Expeditions Inc.
Weekly Cash Receipts and Disbursements
Week #3

CURRENT WEEK
Week 3
Jul 13 - Jul 19
2008

ACCUMULATED POSITION
Week 1-3
Jun 30-Jul 19
2008

| | | | | | | |
|--|---------------|--------------|----------------|---------------|---------------|-----------------|
| <i>Protection & Indemnity</i> | | | - | - | - | - |
| <i>Loss of Use</i> | | | - | - | - | - |
| <i>Outstanding Builder's Risk</i> | | | - | - | - | - |
| <i>COFR</i> | | | - | - | - | - |
| <i>MII</i> | | | - | - | - | - |
| <i>Director's Insurance/Life/Office</i> | | | - | - | - | - |
| Sales & Marketing | 4,110 | 6,000 | (1,890) | 5,568 | 18,000 | (12,432) |
| General | 3,122 | 6,000 | (2,878) | 3,852 | 18,000 | (14,148) |
| Travel | 74 | | 74 | 74 | | 74 |
| Refinancing | 914 | | 914 | 1,642 | | 1,642 |
| Caledonia POS System | 433 | | 433 | 433 | 390 | 43 |
| Hawk Mooring | 500 | | 500 | 500 | 600 | (100) |
| Charter Cost | 36,087 | 5,303 | 30,784 | 94,669 | 56,357 | 38,312 |
| Variable Costs | 17,973 | 3,666 | 14,308 | 29,211 | 6,875 | 22,336 |
| <i>Catering</i> | 7,538 | 2,142 | 5,395 | 11,454 | 4,285 | 7,170 |
| <i>Alcohol</i> | | 286 | (286) | - | 571 | (571) |
| <i>Supplies</i> | 1,025 | 314 | 711 | 1,346 | 628 | 718 |
| <i>Merchandise</i> | | 468 | (468) | - | 935 | (935) |
| <i>Commissions</i> | 965 | 456 | 508 | 965 | 456 | 508 |
| <i>Excursions</i> | 446 | | 446 | 446 | | 446 |
| <i>Petty Cash to Ship (see note below)</i> | 8,000 | | 8,000 | 15,000 | | 15,000 |
| Fixed Costs | 18,114 | 1,637 | 16,477 | 65,457 | 49,482 | 15,975 |
| <i>Crew Charter</i> | 18,114 | - | 18,114 | 62,703 | 44,570 | 18,133 |
| <i>Combined Net Pays (see note)</i> | 18,114 | | 18,114 | 62,703 | 44,570 | 18,133 |
| <i>Master</i> | | | - | - | - | - |
| <i>First Mate</i> | | | - | - | - | - |
| <i>Bosun</i> | | | - | - | - | - |
| <i>Bosun Mate</i> | | | - | - | - | - |
| <i>Chief Engineer</i> | | | - | - | - | - |
| <i>Second Engineer</i> | | | - | - | - | - |
| <i>Chef</i> | | | - | - | - | - |
| <i>Sous Chef</i> | | | - | - | - | - |
| <i>Steward</i> | | | - | - | - | - |
| <i>Steward</i> | | | - | - | - | - |
| <i>Steward</i> | | | - | - | - | - |
| <i>Steward</i> | | | - | - | - | - |
| <i>Steward</i> | | | - | - | - | - |
| <i>Apprentice</i> | | | - | - | - | - |
| <i>Apprentice</i> | | | - | - | - | - |
| <i>Apprentice</i> | | | - | - | - | - |
| <i>Apprentice</i> | | | - | - | - | - |
| <i>Apprentice</i> | | | - | - | - | - |
| <i>Apprentice</i> | | | - | - | - | - |
| <i>Crew Provisions</i> | | 971 | (971) | 1,941 | 2,912 | (971) |
| <i>Crew Changes</i> | | 667 | (667) | 813 | 2,000 | (1,187) |
| <i>Pilot Fees</i> | | | - | - | - | - |
| <i>Repositioning</i> | | | - | - | - | - |
| Leases entered into for Caledonia | 2,012 | | 2,012 | 2,012 | 2,234 | (222) |
| Fuel | 43,964 | | 43,964 | 56,031 | 23,996 | 32,035 |
| Docking | - | 917 | (917) | - | 2,750 | (2,750) |
| <i>Docking</i> | | 667 | (667) | - | 2,000 | (2,000) |
| <i>Garbage</i> | | 250 | (250) | - | 750 | (750) |
| Repair and Maintenance | 2,438 | 2,582 | (144) | 2,892 | 8,244 | (5,352) |
| <i>Repairs Electrical</i> | | 425 | (425) | - | 1,275 | (1,275) |
| <i>Repairs Plumbing</i> | | 255 | (255) | - | 765 | (765) |
| <i>Repairs Rigging</i> | 89 | 425 | (337) | 89 | 1,275 | (1,187) |

Canadian Sailing Expeditions Inc.
Weekly Cash Receipts and Disbursements
Week #3

| | CURRENT WEEK Week 3 Jul 13 - Jul 19 2008 | | | ACCUMULATED POSITION Week 1-3 Jun 30-Jul 19 2008 | | |
|------------------------------------|---|---------------|-----------------|---|----------------|-----------------|
| <i>Repairs Mechanical</i> | 640 | 510 | 130 | 640 | 1,530 | (890) |
| <i>Repairs Paint</i> | 705 | 340 | 365 | 705 | 1,020 | (315) |
| <i>Repairs Drydock</i> | | - | - | - | - | - |
| <i>Repairs Wetdock</i> | | - | - | - | - | - |
| <i>Anchor Repair</i> | | - | - | 75 | - | 75 |
| <i>Repairs General</i> | 1,004 | 627 | 377 | 1,384 | 2,379 | (995) |
| Financing Related | 50 | 500 | (450) | 913 | 1,500 | (587) |
| <i>Bank Charges</i> | 50 | 100 | (50) | 913 | 300 | 613 |
| <i>NSBI Loan Guarantee Payment</i> | - | - | - | - | - | - |
| <i>Cash Management Charges</i> | - | 400 | (400) | - | 1,200 | (1,200) |
| <i>Line of Credit Interest</i> | - | - | - | - | - | - |
| HST Paid on Expenses | 6,105 | | 6,105 | 10,669 | | 10,669 |
| | 139,649 | 57,366 | 82,283 | 314,804 | 271,459 | 43,345 |
| CASH, END OF PERIOD | 5,300 | 16,556 | (11,256) | 5,300 | 16,556 | (11,256) |

| | |
|------------------------------------|--------------|
| US\$ Account Reconciled Balance | 4,612 |
| CAD Account Reconciled Balance | 688 |
| Old Operating Account Rec. Balance | - |
| TOTAL BALANCES - BANKS | 5,300 |

Note: Salaries showing below forecast due to cash not being paid out for payroll expenses - it will show over in the next period when paid.

Note: Excursion revenue shown as gross figure but forecasted figure was based on a net commission - a further breakdown of those costs are in progress as much of it is paid for by the petty cash given to the ship.

Canadian Sailing Expeditions Inc.
Monthly Cash Receipts and Disbursements

EXHIBIT 3

Rev Date: 18-Jul-08

| | July 2008 | August 2008 | September 2008 | Total July-Sept |
|--|----------------|----------------|-------------------|--------------------|
| CASH, BEGINNING OF PERIOD | 58,767 | 28,555 | 40,624 | 58,767 |
| CASH, END OF PERIOD | 28,555 | 40,624 | 49,328 | 49,328 |
| CASH RECEIPTS: | | | | |
| Caledonia Revenue | 136,059 | 93,357 | 146,757 | 376,174 |
| <i>Charter Fees Booked</i> | 119,128 | 82,727 | 65,575 | 237,429 |
| <i>Charter Fees Forecasted</i> | 5,457 | 22,942 | 76,706 | 105,106 |
| <i>Bar</i> | 4,147 | 2,976 | 5,604 | 12,727 |
| <i>Excursion Commission</i> | 3,678 | 2,232 | 4,203 | 10,112 |
| <i>Merchandise</i> | 3,650 | 2,480 | 4,670 | 10,800 |
| DIP Funds | 360,000 | 245,000 | 195,000 | 800,000 |
| Tips Collected - To be disbursed | 2,537 | | | 2,537 |
| HST on Sales | 2,886 | | | 2,886 |
| | 501,482 | 338,357 | 341,757 | 1,181,596 |
| CASH DISBURSEMENTS: | | | | |
| Uncleared Cheques | 57,774 | | | 57,774 |
| Credit Card Bill | 2,000 | | | 2,000 |
| Accrued Current Payroll Liabilities | 16,700 | 13,000 | | 29,700 |
| General and Office | 8,997 | 5,804 | 7,603 | 22,404 |
| <i>Postage/Courier</i> | 720 | 800 | 800 | 2,320 |
| <i>Office Supplies</i> | 328 | 400 | 400 | 1,128 |
| <i>Computer Supplies/Repairs</i> | 136 | 170 | 170 | 476 |
| <i>General</i> | 500 | 500 | 500 | 1,500 |
| <i>Professional Memberships</i> | 244 | 305 | 305 | 854 |
| <i>Licenses/Permits</i> | 133 | 166 | 166 | 465 |
| <i>Telephone equipment</i> | 230 | 230 | 230 | 690 |
| <i>Office Phones/Long Distance</i> | 1,200 | 1,200 | 1,200 | 3,600 |
| <i>Cell</i> | 1,200 | 1,200 | 1,200 | 3,600 |
| <i>Rent</i> | 3,598 | - | 1,799 | 5,397 |
| <i>Computer Equipment</i> | 708 | 833 | 833 | 2,374 |
| Salaries | 46,911 | 40,893 | 47,964 | 135,767 |
| <i>Combined net pay (all office wk 2)</i> | 9,148 | - | - | 9,148 |
| Management salaries | 13,797 | 15,573 | 17,373 | 46,743 |
| <i>CEO</i> | 4,848 | 6,229 | 6,229 | 17,306 |
| <i>Director Operations</i> | 4,848 | 6,229 | 6,229 | 17,306 |
| <i>Director Marine Operations</i> | 2,300 | 3,115 | 3,115 | 8,530 |
| <i>Benefits</i> | 1,800 | - | 1,800 | 3,600 |
| Sales and Marketing Salaries | 18,689 | 18,612 | 18,612 | 55,912 |
| <i>US Sales & Marketing</i> | 9,051 | 6,438 | 6,438 | 21,926 |
| <i>Corporate Sales</i> | 3,423 | 4,313 | 4,313 | 12,048 |
| <i>Marketing Associate</i> | 3,771 | 4,792 | 4,792 | 13,355 |
| <i>Full Time Consumer Sales</i> | - | - | - | - |
| <i>Full Time Consumer Sales</i> | 2,443 | 3,070 | 3,070 | 8,583 |
| <i>Part-time sales</i> | - | - | - | - |
| Administration Salaries | 5,277 | 6,708 | 11,979 | 23,965 |
| <i>Controller</i> | - | - | 5,271 | 5,271 |
| <i>Special Projects</i> | 3,530 | 4,313 | 4,313 | 12,155 |
| <i>Cruise Coordinator</i> | 1,747 | 2,396 | 2,396 | 6,539 |
| Professional fees | 111,005 | 57,500 | 95,000 | 263,505 |
| <i>Consultancy</i> | 106,005 | 52,500 | 90,000 | 248,505 |
| <i>Accounting (Audit)</i> | 5,000 | 5,000 | 5,000 | 15,000 |
| Insurance | 15,225 | 23,700 | 11,305 | 50,230 |
| <i>Hull & Machinery Caledonia</i> | 10,700 | 10,700 | 10,700 | 32,100 |
| <i>Hull & Machinery Hawk</i> | - | - | 605 | 605 |
| <i>Protection & Indemnity</i> | - | 13,000 | - | 13,000 |
| <i>Director's Insurance/Life/Office</i> | 4,525 | - | - | 4,525 |
| Sales & Marketing Operating Expenses | 29,496 | 24,000 | 24,000 | 77,496 |
| <i>Caledonia POS System</i> | 780 | - | 390 | 1,170 |
| <i>Hawk Mooring</i> | 1,200 | - | 600 | 1,800 |
| Charter Cost | 143,907 | 111,678 | 94,244 | 349,829 |
| Variable Costs | 30,164 | 28,167 | 25,797 | 84,129 |
| <i>Catering</i> | 10,344 | 8,946 | 9,072 | 28,361 |
| <i>Alcohol</i> | 857 | 1,193 | 1,299 | 3,349 |
| <i>Supplies</i> | 1,022 | 1,420 | 1,662 | 4,105 |
| <i>Merchandise</i> | 1,403 | 1,953 | 2,177 | 5,482 |
| <i>Petty Cash to Ship (to code when spent)</i> | 7,000 | - | - | 7,000 |
| <i>Tips disbursed</i> | 2,537 | - | - | 2,537 |
| <i>Commissions</i> | 7,003 | 14,655 | 11,637 | 33,295 |
| Fixed Costs | 113,743 | 83,511 | 68,447 | 265,701 |
| <i>Crew Charter</i> | 104,849 | 75,325 | 60,260 | 240,434 |
| <i>Crew Provisions</i> | 5,581 | 4,853 | 4,853 | 15,287 |
| <i>Crew Changes</i> | 3,313 | 3,333 | 3,333 | 9,979 |
| Leases entered into for Caledonia | 4,468 | - | 2,234 | 6,702 |
| Fuel | 62,766 | 30,747 | 30,747 | 124,260 |
| Docking | 4,583 | 4,583 | 4,583 | 13,749 |
| <i>Docking</i> | 3,333 | 3,333 | 3,333 | 9,999 |
| <i>Garbage</i> | 1,250 | 1,250 | 1,250 | 3,750 |
| Repairs and Maintenance | 13,410 | 12,283 | 12,283 | 37,976 |
| Financing Related | 2,663 | 2,100 | 2,100 | 6,863 |
| <i>Bank Charges</i> | 1,163 | 500 | 500 | 2,163 |
| <i>Cash Management Charges</i> | 1,500 | 1,600 | 1,600 | 4,700 |
| HST on purchases | 9,808 | - | - | 9,808 |
| | 531,694 | 326,288 | 333,053 | 1,191,034 |
| CASH, END OF PERIOD | 28,555 | 40,624 | 49,328 | 49,328 |

EXHIBIT 4

**CCAA OF
CANADIAN SAILING EXPEDITIONS INC.
DETAILS OF CCAA PROFESSIONAL FEES AS AT JULY 21, 2008**

| <u>Supplier</u> | <u>Period</u> | <u>Total Invoices Including Disbursements and HST</u> | <u>Payments</u> | <u>Balance Unpaid</u> |
|--|-------------------------|---|---------------------|---------------------------|
| BDO Dunwoody Goodman Rosen Inc. (Monitor) | | | | |
| - First account | June 27/08 – July 6/08 | \$ 8,880.19 | \$ 8,880.19 | 0 |
| - Second account | July 7/08 – July 13/08 | 3,338.02 | 3,338.02 | 0 |
| - Third account | July 14/08 – July 20/08 | 6,785.09 | 0 | \$ 6,785.09 |
| Subtotal (Notes 1 & 2) | | <u>19,003.30</u> | <u>12,218.21</u> | <u>6,785.09</u> |
| Wickwire Holm (Counsel to the Monitor) | | | | |
| - First account | June 26/08 – July 4/08 | 5,249.15 | 5,249.15 | 0 |
| - Second account | July 9/08 – July 20/08 | 4,073.65 | 0 | 4,073.65 |
| Subtotal (Notes 1 & 2) | | <u>9,322.80</u> | <u>5,249.15</u> | <u>4,073.65</u> |
| Cox & Palmer (Counsel to CSE) | | | | |
| - First account | June 27/08 – July 4/08 | 18,021.45 | 18,021.45 | 0 |
| - Second account | July 7/08 – July 11/08 | 4,183.82 | 0 | 4,183.82 |
| - Third account | July 2/08 – July 17/08 | 8,027.78 | 0 | 8,027.78 |
| Subtotal (Notes 1 & 2) | | <u>30,233.05</u> | <u>18,021.45</u> | <u>12,211.60</u> |
| Grand Totals | | <u>\$ 58,559.15</u> | <u>\$ 35,488.81</u> | <u>\$ 23,070.34</u> |

NOTE 1: The above amounts include time charges, disbursements, and HST.

NOTE 2: Due to timing differences in the receipt of payment for the professional fees by CSE in relation to the preparation of the present report, certain accounts reflected above as unpaid may, in fact, now be paid.