



No. S-113550
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, c. 57

AND

**IN THE MATTER OF WORLDSPAN MARINE INC., CRESCENT CUSTOM
YACHTS INC., QUEENSHIP MARINE INDUSTRIES LTD., 27222
DEVELOPMENTS LTD. AND COMPOSITE FRP PRODUCTS LTD.**

(the "Applicants")

**MONITOR'S
FIFTH REPORT TO COURT**

November 4, 2011

Boale, Wood & Company Ltd.

Monitor appointed in the
Companies' Creditors Arrangement Act proceedings of
Worldspan Marine Inc. Crescent Custom Yachts Inc.,
Queenship Marine Industries Ltd., 27222 Developments Ltd.
and Composite FRP Products Ltd.

**Suite 1140 – 800 West Pender Street
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TABLE OF CONTENTS

I. CCAA PROCEEDINGS.....	1
II. PURPOSE AND LIMITATIONS OF THE MONITOR'S FIFTH REPORT	4
III. MONITOR'S REPORT ON PROPOSED SALE OF THE PROPERTY	5
IV. CONCLUSIONS AND RECOMMENDATION.....	11

APPENDIX A - COLLIERS INTERNATIONAL LETTER NOVEMBER 3, 2011

I. CCAA PROCEEDINGS

On June 6, 2011, Worldspan Marine Inc. (“Worldspan”), Crescent Custom Yachts Inc. (“Crescent”), Queenship Marine Industries Inc. (“Queenship”), 27222 Developments Ltd. (“27222”) and Composite FRP Products Ltd. (“Composite”) (collectively, the “Companies”) obtained an Order from the Supreme Court of British Columbia (the “CCAA Order”) commencing proceedings under the *Companies’ Creditors Agreement Act* (the “CCAA”). Pursuant to the CCAA Order, Boale, Wood & Company Ltd. was appointed Monitor (the “Monitor”) by the Court.

The CCAA Order provided for a stay of proceedings against the Companies until June 23, 2011.

By Order dated June 23, 2011, the Supreme Court of British Columbia granted a further 30 day extension of the stay of proceedings to allow time for the Companies to make further arrangements to complete the construction of the Vessel and work on a restructuring plan for the stakeholders.

By Order dated July 22, 2011, the Supreme Court of British Columbia granted and imposed the following:

- A further extension of the stay of proceedings to September 20, 2011;
- A creditor claims process, outlining the procedure for creditor notification, submission and adjudication of claims, along with a claims filing deadline of September 9, 2011; and
- The appointment of a Vessel Construction Officer (“VCO”) in order to carry out, among other things, a completion cost analysis of the Vessel.

By Order dated August 11, 2011, the Supreme Court of British Columbia appointed Wolrige Mahon Limited as Vessel Construction Officer (VCO), with a mandate to

conduct an analysis of the cost to complete the construction of the Vessel. That report was issued in two parts, with the most recent and substantive part, on October 31, 2011.

By Order dated August 29, 2011, the Federal Court of Canada imposed the following:

- A procedure, in addition to the CCAA notice process, by which the Monitor must notify all creditors who wish to file maritime claims that they must do so by the claims filing deadline of September 9, 2011, by filing a claim with the Monitor;
- A further procedure by which the Monitor must thereafter notify those that have declared they have “maritime claims” that they must also then file an affidavit supporting their claims in the Federal Court of Canada; and
- The authority, with further permission of the Courts, to schedule a hearing of the claims and/or seek an order dealing with Vessel.

By Order dated September 19, 2011, the Supreme Court of British Columbia extended the stay of proceedings to December 16, 2011. The Companies sought at that hearing the right to market the Vessel to other purchasers, other than the main intended purchaser of the Vessel, Harry Sargeant III. The Court gave the Companies that right unless Mr. Sargeant posted \$4.0 million (US) in trust by September 29, 2011. Mr. Sargeant has not yet done so.

As a result, by Order dated October 7, 2011, the Federal Court of Canada allowed the Companies to market the Vessel to others. The court then set out numerous terms and conditions upon which this may be done.

By Order dated October 31, 2011, the Federal Court of Canada dismissed the maritime lien claims of numerous claimants and then set out numerous terms and conditions upon how the balance of the lien claims will be determined, along with the relative priority positions of those lien claims and other secured claims against the Vessel.

The next court hearing is scheduled for November 7, 2011 in the Supreme Court of British Columbia. At that hearing, the Companies will seek an order approving the sale of its real property and a lease-back of a portion of the property so as to allow the Companies to continue to construct the Vessel.

Certain documentation with respect to the CCAA Proceedings is available on the Monitor's website at <http://www.boalewood.ca/2011/06/06/worldspan-marine-inc-et-al/>

II. PURPOSE AND LIMITATIONS OF THE MONITOR'S FIFTH REPORT

The purpose of the Monitor's Fifth Report is to comment on the proposed sale of the land and building ("Property") by 27222 pursuant to Section 36 of the CCAA.

This Report has been prepared by the Monitor based on information obtained from the records of the Companies, discussions with management of the Companies and other professional advisors retained in this matter.

The financial information received from the Companies has not been audited, reviewed or otherwise verified by the Monitor as to its accuracy or completeness. As a result, readers are cautioned that this report has been prepared solely for the purposes of these proceedings and may not be suitable for any other purposes. The Monitor does not express an opinion or other form of assurance on the financial information presented in this report.

In addition, the Monitor assumes no responsibility or liability for and disclaims any and all liability for any loss or damage incurred by any party as a result of the use of this report in any manner or as a result of the circulation, publication or reproduction of it. Any use which any party makes of this report or any reliance on any decisions made based on it are the responsibility of that party.

III. MONITOR'S REPORT ON PROPOSED SALE OF THE PROPERTY

On October 28th, 2011 the Monitor received copies of the materials to be filed with the Court by the Companies with respect to the proposed sale of the Property by 27222 to 642385 B.C. Ltd. or its nominee (the "Purchaser"). The materials in support of the sale included the following:

- Affidavit of Michael Nesbit providing the background to the proposed sale including efforts made by the Companies to market the property, negotiations with the Purchaser, and the benefits of the proposed sale that includes a leaseback of approximately one-third of the building to allow for the completion of the Vessel;
- Letter of Intent ("LOI") executed by the Companies and the Purchaser that outlines the general terms of the proposed transaction;
- Agreement of Purchase and Sale ("Purchase Contract") executed by the 27222 but not the Purchaser;
- Lease Summary that requires further information to be added;
- Lease Agreement and schedules thereto (the "Lease") executed by 27222 and the Purchaser;
- Benefits Analysis of Selling the Property ("Benefit Analysis") prepared by Michael Nesbit, the Companies' accountant;
- Affidavits of Stephen Barnett and Don Ross, on behalf of secured creditors of 27222 in support of the proposed sale;

- Affidavit of Jim Hawkins, a manager at Worldspan with extensive experience in constructing super yachts, commenting on the sufficiency the space in the building being leased back to allow for the completion of the Vessel; and
- Letter dated October 12, 2011 from CBRE Limited Real Estate Brokerage commenting on the reasonableness of the proposed sale price of \$7,100,000

The Monitor has reviewed the materials referenced above, attended the premises to inspected the new tenancy arrangements and communicated with an independent realtor knowledgeable about the Property and reviewed an appraisal of the Property prepared by Burgess, Cawley, Sullivan & Associates dated January 11, 2011 (the "Appraisal"). The Appraisal was commissioned by CSPAN Financial (B.C.) Inc. ("CSPAN"), the first mortgagee on the Property, for financing purposes.

The Monitor's comments on the proposed sale of the Property follow:

Sale Process and Selling Price

The Property is located on the Fraser River at 27222 Lougheed Highway, Maple Ridge B.C. The land area is 9.31 acres and the building area is 90,435 square feet. The building was specifically constructed as a luxury yacht building facility and therefore is a special purpose building which likely limits the number of potential buyers.

Although the property has not been formally listed for sale and advertised through a Multiple Listing Service, we are advised that representatives of the Companies have been actively seeking a purchaser for several months.

The evidence provided by the Companies in support of the reasonableness of the purchase price includes the following:

- A letter dated October 12, 2011 from CBRE Limited, a reputable real estate brokerage firm, that recognizes the special purpose nature of building and concludes that the sale price of \$7,100,000 is reasonable given the current market conditions; and
- The 2011 Property Tax Assessment Notice that values the land and building at \$6,246,000; and

In addition to this information, the monitor has received a letter from Hart Buck of Colliers International, another reputable real estate brokerage firm, which also supports the reasonableness of the sale price. A copy of this letter is attached as Appendix A to this report.

The only evidence reviewed by the Monitor that does not support the reasonableness of the sale price is the Appraisal prepared on behalf of CSPAN that provides an opinion of fair market value of \$8,900,000. Given that the Appraisal was prepared on behalf of CSPAN almost one year ago for financing purposes, that Monitor does not consider this valuation to be representative of the current market value. The Monitor notes the following:

- Appraisals prepared for financing purposes generally provide a high valuation to maximize the potential financing being sought by the owner;
- The Appraisal assumes exposure to the market of approximately 9 months. Any benefit of exposing the Property to the market for a longer period of time would be mostly offset by the additional interest costs incurred during this period;
- To properly expose the property to the market would require a real estate broker whose commission could be as high as 5% on the sale price thus further eroding any benefit of more formally exposing the Property to the market;

- At the time of the Appraisal the financial difficulties of the Companies were not well known and therefore not likely to have been taken into account in establishing the market value. Today, any prospective purchasers will be well aware of the Companies' financial difficulties and will discount their offers accordingly; and
- It is likely that a purchaser of the building will require some modifications or upgrades to the building to suit their specific operational requirements so the price offered would be discounted to reflect the modification/upgrade costs.

The Monitor is of the view that even though a less formal sales process has been conducted, the Companies have been fortunate in finding a potential buyer whose business can utilize the space in the building that is not required for the Vessel construction operations. As a result of finding this unique buyer, the Companies have been able to negotiate a sale price that represents fair market value. The reasonableness of the sale price is further evidenced by the support of the other secured creditors of 27222 that will not be paid out from sale proceeds and will be left with a significant unsecured shortfall. It is the Monitor's opinion that the sale price for the Property is higher than would result in a bankruptcy.

LOI, Purchase Contract and Lease

The Monitor and its legal counsel have reviewed the LOI, Purchase Contract and Lease and provide the following comments on the business terms of the proposed transaction.

The benefits are as follows:

- As mentioned, the sale price of \$7,100,000 is considered reasonable based on the current market conditions;

- Leasing the Property and paying rent on the area required to facilitate completing the Vessel as compared to owning the Property and making mortgage payments will significantly reduce the monthly operating costs. According to the Benefit Analysis prepared by Michael Nesbit the estimated monthly savings are approximately \$83,000;
- The leasing of the Property could be critical to facilitating completion of the Vessel for a new purchaser, should such purchaser decide to have the Companies complete construction of the Vessel. So long as 27222 continue to own the Property, it is presumed that the status quo would remain regarding the Companies' continued use of the Property. Should this proposed sale not complete, however, and should the sale of the Property become necessary in the future, a new purchaser may not be prepared to accommodate the lease of the Property as contemplated by the LOI. The proposed transaction will assure the Companies of space to complete the Vessel, should they have a contract to do so, and remove the risk of the loss of the premises, other than in the event of a default under the Lease.
- The Lease is intended to allow for termination upon 90 days' notice which provides flexibility to the Companies in the event the purchaser of the Vessel decides not to have the Vessel constructed on the Property. Similarly the Companies can reduce the lease space upon 60 days' notice should it be determined that less space is required to complete construction of the Vessel; and
- The Lease is intended to allow for the removal of the wall to allow for the removal of the Vessel.

The concerns are as follows:

- Currently the Companies are occupying the Property without paying rent and the secured creditors are stayed from enforcing payment as a result of the CCAA Stay of Proceedings. The Lease terms, as currently drafted, do not recognize the

current CCAA and Federal Court proceedings of the Companies and provide the Landlord with normal remedies against the tenant for non-payment of rent such as the right to terminate the lease, re-enter and take possession of the Property;

The Companies will need to make arrangements to ensure the initial deposit is paid (three months rent), that they will be able to pay the deferred rent when due six months following the deferral period and that rent is paid going forward to avoid the risk of the landlord taking any actions for failure to pay rent; and,

- Once the Property is sold there is no longer any Non-Vessel Property (as defined in the Initial Order) of significant value to secure the Administrative Charge granted for the benefit of the Companies' legal counsel, the Monitor and the Monitor's Legal Counsel. Arrangements will have to be made for payment of or to provide appropriate security to cover the ongoing legal and monitoring fees following the sale.

In addition to the above concerns with respect to the business terms of the proposed transaction, the Monitor's counsel also identified several deficiencies with respect to the documents.

Monitor's counsel provided its comments on the documents to the Companies' counsel who amended the documents to more accurately and completely describe the business terms of the overall transaction. The revised documents were circulated to the parties. The revised documents have addressed the Monitor's comments; they will be submitted to Court prior to the hearing on Monday, November 7, 2011.

The Monitor has also expressed its concern to the Companies' counsel that the current Order being sought for approval of the sale of the Property should be conditional upon approval of the Lease by the Court and incorporate a requirement that the Monitor be satisfied that the Lease be entered into and binding on the Purchaser prior to closing. The Monitor notes that the proposed form of Order has been revised accordingly.

IV. CONCLUSIONS AND RECOMMENDATION

The Monitor is satisfied with the business terms of the proposed sale and lease back transaction including the sale price and is of the view that the significant monthly savings will benefit both the Companies and their creditors. The Monitor also believes that the proposed sale price of the Property is higher than would result in a bankruptcy.

The Monitor's counsel provided comments on the document deficiencies that resulted in changes to the Lease and the Purchase Contract. The revised documents are satisfactory to the Monitor and it is understood they will be submitted to the Court before the hearing on November 7, 2011.

The Monitor's primary concern, if the sale of the Property is approved by the Court, is that the Companies have not yet arranged financing to cover the deposit, future rent, operational costs and professional fees that will allow them to continue the restructuring efforts. These financial concerns are alleviated to some extent by the fact that the Lease negotiated by the Companies provides a six month deferral period for the payment of rent which deferral will allow the Companies some time to arrange a portion of the financing required. Counsel for the Companies have indicated that an application will be made to the Federal Court for a charge against the Vessel to cover the future rent, operational costs and professional fees until a sale of the Vessel is arranged.

In consideration of all the foregoing factors, and subject to the Monitor's concern regarding the Companies' ability to arrange the necessary financing for its future expenses, the Monitor recommends the Court approve the sale the Property and the Lease on the terms as set out in the LOI.

The Monitor continues to be of the opinion that the highest recovery to creditors will result from that sale of Vessel to a purchaser that has the Vessel completed by the Companies. The Vessel construction will allow the company to recommence its operations and finalize a restructuring plan for its creditors.

DATED at Vancouver, British Columbia, this 4th day of November, 2011.

Boale, Wood & Company Ltd.

Monitor Appointed in the *Companies'*
Creditors Arrangement Act Proceedings of
Worldspan Marine Inc. Crescent Custom Yachts Inc.,
Queenship Marine Industries Ltd., 27222 Developments Ltd.
and Composite FRP Products Ltd.

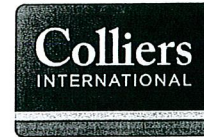


Per: John D. McEown, CA, CIRP

APPENDIX A

COLLIERS INTERNATIONAL LETTER NOVEMBER 3, 2011

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November 3, 2011

Mr. John McEown
Boale, Wood & Company Ltd.
#1140-800 West Pender Street
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Dear Mr. McEown,

RE: 27222 Lougheed Highway, Maple Ridge, BC

Colliers has been asked to provide an opinion on the current market value as it relates to an accepted offer on the property in the \$7,100,000 range. I have personal historical experience with subject property when it was the topic of a foreclosure proceeding brought about by Laurentian Bank of Canada approximately five years ago.

The subject property is improved with a purpose built yacht manufacturing facility and is not well suited to alternative (industrial) uses allowed under the current zoning, due primarily to the interior layout of the buildings. We were responsible for the marketing and sale of an East Richmond based Yacht manufacturer (under foreclosure) and found that very few of the industrial users could utilize and/or attribute value to the buildings on site given the specific use for which they were designed. If we were to eliminate any value attributed to the improvements at the Queenship facility, we are left with an eight acre parcel of land on the River at the eastern edge of the lower mainland's industrial land market.

Based on my 26 years in the Commercial real estate industry I am of the opinion that an offer at \$7,100,000 is at the upper end of the range of fair market value and not expect to see a higher offer come forward under our current market conditions.

Please call me with any questions or comments.

Yours truly,

COLLIERS INTERNATIONAL

A handwritten signature in black ink, appearing to read "Hart Buck", with a stylized flourish underneath.

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