

Canadian American Transportation Systems, LLC ("CATS" or the "Company") promised to purchase a vessel to operate a high-quality fast ferry service between Rochester and Toronto. CATS made good on this promise by purchasing the fastest, largest vessel of its type in the world and succeeded in opening the first new international border crossing between the United States and Canada in many years. Testimonials from CATS' passengers have praised the fast ferry for its high-quality service. Moreover, this service has revitalized the Port of Rochester and the surrounding community, as the Spirit of Ontario I is home ported in Rochester and thousands of people visit the area daily to watch the vessel sail through the river. Further, CATS promised to create jobs in Rochester. CATS has delivered on this promise by utilizing services like Rochester Works to create over two hundred jobs directly associated with the fast ferry service.

While CATS has fulfilled all of its promises, many others have not. These failed promises, coupled with numerous events outside of the Company's control, have caused severe financial harm to the Company that seriously jeopardizes its future. These events are detailed as follows:

1) Delay in Service Commencement

The shipbuilder's unilateral decision to dock the vessel in New York City to showcase the vessel while en route to Rochester led to an approximately three week delay in the launch of CATS' fast ferry service due to the vessel crashing into a dock. In addition, once the vessel arrived in Rochester it was determined that the engines needed substantial repair work before service could commence, requiring an additional three week delay. As a result of these significant delays, both of which were completely out of CATS' control, CATS has incurred in excess of over \$2,000,000 in non-recurring expenses and suffered a tremendous loss of anticipated revenue.

The unnecessary payroll expenses incurred by CATS during the delays were incredible. CATS assembled its crew and terminal staff for training sessions that could not be held due to the vessel's collision with the dock in New York City. During this time, CATS incurred payroll expenses totaling \$231,399. Once the vessel arrived in Rochester, CATS reassembled its employees for training, but it was forced to quickly curtail such training when it was determined that the vessel needed to go to Toronto for substantial engine repairs. Payroll expenses during this period totaled \$244,912. CATS had no choice then but to furlough its crew for one month. Unfortunately, however, due to the logistical hiring and special qualifications of those captains and sea crew that had relocated to Rochester, CATS was required to keep employed certain of its key employees for the length of the furlough, costing the Company an additional \$166,237.

In addition to its substantial payroll expenses, CATS incurred costly and unneeded expenses with respect to marketing, insurance, operations and legal fees. In anticipation of its May launch, the Company expended \$183,826 in marketing and promotions, an amount that was largely wasted due to the delays in CATS' launch.

The Company has also paid unnecessary insurance premiums totaling \$195,000. Per custom in the ferry industry, the Company had to join various insurance clubs and have different insurance amounts issued in subscription form. This mandatory insurance format required CATS' insurances to become effective on May 1st, 2004, the vessel's original estimated closing date. With monthly insurance premiums of about \$130,000, the Company incurred unnecessary insurance premiums of \$195,000.

Various contractual obligations of CATS to a third party operations company imposed additional expenses on the Company. Even though ferry operations did not begin as scheduled, CATS was contractually obligated to pay this third party operator \$70,000 for the period between May 1st and the eventual launch date of June 19th.

The launch delays prohibited CATS from closing on its financing during the contemplated time frame, forcing the Company to enter into charter leases with the shipbuilder at a cumulative cost of \$219,973. Moreover, CATS has been assessed legal fees in excess of \$300,000 for various matters related to the charter agreements and late delivery and damage to the vessel, and has suffered many smaller charges that in the aggregate total in excess of \$250,000. These charges include shipping and freight fees for re-deliveries of goods, spoilage of inventories, interest fees and late charges due to lack of revenues to meet Company expenses, survey fees for the damage to the vessel and other miscellaneous expenses.

In addition to the delays causing unnecessary expenditures of over \$2,000,000, the delays resulted in tremendous lost revenue and incalculable adverse publicity to CATS. The Company's inability to commence operations on May 1st as scheduled resulted in lost revenues estimated at approximately \$5,000,000. The Company was unable to obtain business interruption insurance before commencing operations, so none of its estimated revenue loss is recoverable. Further, the lengthy delay in service commencement led to a great deal of negative press directed at CATS, harming both the Company's reputation and its passenger bookings.

2) Inability to Transport Commercial Traffic

The Company's business plan always contemplated its ability to transport commercial vehicles. In fact, a condition precedent to CATS closing its financing for the vessel was documentation from U.S. Customs that CATS had obtained all necessary licenses to operate its business as contemplated. U.S. Customs provided a letter to the Company that all approvals and licenses had been obtained by the Company. Despite this representation, to date CATS has not been granted permission by U.S. Customs to transport commercial vehicles. The Company's need to carry commercial traffic is critical to its survival. The revenue from commercial traffic, conservatively estimated at \$18,000 per day, was expected to offset a good portion of the Company's operating overhead and the continued prohibition on such transport has put a severe crimp in CATS' cash flow. To date, U.S. Customs refusal to allow CATS to transport commercial traffic has deprived the Company of over \$500,000 in commercial traffic revenue.

3) Great Lakes Pilotage Fees

When the Company selected a shipbuilder over four years, it sought a shipbuilder in either the United States or Canada, but neither country contained a shipyard that had the ability to construct a high speed ferry with the size and speed required for the service contemplated by CATS. Forced to build its vessel, the Spirit of Ontario I, in Australia, the vessel is a currently a foreign flagged vessel operating between the United States and Canada, and CATS is required to pay substantial Great Lakes pilotage fees. The Company's request to have these pilotage fees reduced or eliminated prior to its commencement of service was rejected. Currently, CATS is paying over \$5,000 per day (or over \$1,800,000 per annum) for a Great Lakes pilot to travel on the vessel during each voyage.

4) Canadian Customs Fees

The fast ferry service has established a new international border crossing. Since the inception of the fast ferry, CATS has been given assurances by many high-ranking Canadian government officials that the Customs and Immigration agents stationed at the Toronto Port would be provided to oversee the border crossing at no charge CATS, much like the procedure in place in the United States at the Port of Rochester. Despite these assurances, CATS has been required to unconditionally pay, in advance, Canadian Customs for the customs and immigration service provided at the Toronto Port. We have been mandated to pay for Canadian Customs and Immigrations services. The cost to CATS is about \$1,250 CAD per trip (or \$900,000 CAD per annum).

5) Toronto Terminal

Originally, CATS was scheduled to commence operations in August of 2003. Since the inception of the fast ferry service, the Toronto Port Authority ("TPA") has been steadfast in its guarantees to CATS that it would have a state of the art terminal constructed by the launch of service. Today it is July, 2004, and there is still no permanent terminal in place. TPA's failure to provide its promised terminal has forced CATS to operate from a temporary facility consisting of modular trailers and tents, resulting in CATS incurring substantial extra costs to perform its operations and adequately provide for the comfort and safety of its passengers. Further, there is no separate area for embarking and disembarking for vehicles and passengers in Toronto. The temporary terminal affects both rider-ship and scheduling, as the arrangement is ill-equipped to handle inclement weather. There is no covered walkway between the trailer and the vessel and the TPA does not have any contingency plan in place for the upcoming change in seasons from summer to fall and winter. The temporary terminal inconveniences our passengers, acts to dissuade prospective passengers from traveling, adversely affects the turnaround time because walk-on passengers must utilize the vehicle ramp to enter and exit the vessel, and overall hampers the Company's fast ferry operations.

6) Forced Adjustment to Sailing Schedule

CATS original business plan contemplated three round trips each day. The abovementioned cash flow constraints, however, joined with the increased operating costs incurred by CATS on a daily basis pursuant to the customs and pilotage fees in order to remain operational, and the additional embarkation and disembarkation times resulting from the lack of a permanent facility in Toronto, has forced the Company to alter its schedule and offer only two round trips per day, instead of the planned three. The lost revenue as a result of the cancellation of the planned third sailing is estimated to be approximately \$37,000 per day.