

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.: 200-11-019127-102
OFFICE No.: 908322-1000001

SUPERIOR COURT
Commercial Division

**IN THE MATTER OF A PLAN OF
ARRANGEMENT AND
REORGANIZATION OF:**

DAVIE YARDS INC., a legal person duly constituted under the *Canada Business Corporations Act*, having its head office and principal place of business at 22 George-D.-Davie Street, Lévis, Québec G6V 8V5.

Applicant

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC., a legal person duly constituted under the *Canada Business Corporations Act*, having a place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec H3B 4T9

Court-Appointed Monitor

**FOURTH REPORT TO THE COURT
SUBMITTED BY SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
IN ITS CAPACITY AS MONITOR**
(*Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended)

INTRODUCTION

1. On February 25, 2010, this Court issued an order (the “**Initial Order**”) under the *Companies' Creditors Arrangement Act* (“**CCAA**”) in respect of Davie Yards Inc. (“**Davie**” or the “**Company**”).
2. On March 26, 2010, the Stay Period was extended until May 25, 2010, pursuant to an order of the Court (“**First Stay Period Extension Order**”).
3. The present report (“**Fourth Report**”) covers:
 - (i) The Company’s operations since March 24, 2010.
 - (ii) The Monitor’s activities since March 24, 2010.
 - (iii) The Company’s request for an extension of the First Stay Period Extension Order.

4. In preparing this Fourth Report, the Monitor has relied upon unaudited financial information, the Company's records and its discussions with the management of the Company and its financial and legal advisors. While the Monitor has reviewed the information, some in draft format, submitted in the abridged time available, the Monitor has not performed an audit or other verification of such information. Forward looking financial information included in the Report is based on assumptions of the Company's management regarding future events, and actual results may vary from this information and such variations may be material.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars. Capitalized terms not defined in this Fourth Report are as defined in the previous Reports of the Monitor submitted to the Court and in the Initial Order.
6. A copy of this Fourth Report, of the motions filed in the CCAA Proceeding and of further reports of the Monitor will be available on the Monitor's website at www.deloitte.com/ca/davieyards. The Monitor has also established a hotline number that is referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the Company's restructuring or the CCAA proceedings.

THE COMPANY'S OPERATIONS SINCE MARCH 24, 2010

General

7. During the week ending April 23, 2010, the Company decided to suspend all remaining production work on the vessels and to temporarily lay off approximately one hundred additional employees. This decision was taken once it became apparent that the Company's clients and other principal stakeholders would not be prepared to fund the Company's shipbuilding activities even on a short term interim basis, without the participation of strategic or financial partners who would commit their expertise and contribute to funding the recapitalization. The Company had no alternative but to implement this initiative in order to preserve its cash resources while it continued to review its options and pursue its recapitalization and restructuring efforts with a view to ultimately submitting a plan of arrangement to the Company's creditors.
8. As at the date of this Fourth Report, approximately eighty persons are currently employed by Davie. These employees include management, engineers, accountants and security employees.
9. The Company continues to pay its employees in the normal course of business, as authorized by the Initial Order.
10. The highlights of the Company's financial performance for the period commencing on March 24, 2010 and ending on May 14, 2010 are presented in the Actual Cash Flow annexed hereto as Table A. Our comments on the financial performance of the Company during this period are as follows:
 - a. In comparison with the projected cash flow presented by the Company to the Court and filed with the Motion in Extension of Delay on March 24, 2010, the Company experienced a favorable variance of approximately \$185K in respect of the cash inflows. The variance is primarily attributable to some transfers of funds from an affiliated company to cover the Canadian income tax expenses of foreign employees working at Davie.

- b. In comparison with the projected cash flow presented by the Company to the Court and filed with the Motion in Extension of Delay on March 24, 2010, the Company experienced a favorable variance of approximately \$4.0M in respect of the cash outflows. The variance is primarily attributable to the following:
- i. Favorable variance of \$1,080K related to contingency provision fees, as this expense has been lower than anticipated;
 - ii. Favorable variance of \$671K related to salaries, as this expense has been lower than anticipated;
 - iii. Favorable timing variance of \$512K related to the material costs disbursement;
 - iv. Favorable variance of \$502K related to maintenance fees, as this expense has been lower than anticipated;
 - v. Favorable variance of \$422K related to the insurance premium costs, as this expense has been lower than anticipated;
 - vi. Favorable timing variance of \$235K related to CSST;
 - vii. Favorable variance of \$200K related to GST/QST paid to suppliers, as this expense has been lower than anticipated;
 - viii. Favorable variance of \$187K related to electricity, as this expense has been lower than anticipated;
 - ix. Favorable variance of \$120K related to heating, as this expense has been lower than anticipated;
 - x. Favorable timing variance of \$115K related to the other expenses initially budgeted.
11. As of the date of the Fourth Report, all expenses incurred have been or will be paid through the existing working capital of the Company. Consequently, the Company does not need additional financing as per the cash flow annexed hereto as Table B.

Tax Refund Investissement Québec (“IQ”)

12. With the assistance of its auditors, Davie completed the preparation of the Company’s income tax return and claims for fiscal year 2009 credit tax refunds with respect to the construction or conversion of vessels, from the Province of Quebec.
13. Based on the 2009 income tax return, the Company anticipates a tax refund of approximately C\$17.5M. This amount should be approved by the MRQ in September 2010. As mentioned in our First Report, IQ’s indebtedness is secured by hypothecs covering all movable assets, including receivables and cash tax credit refunds. Based on the actual agreement between the MRQ, IQ and Davie, this refund will be paid directly to IQ by the MRQ.

Cost to Complete Analysis

14. The Company has completed a preliminary analysis of the costs to complete the five vessels currently under construction (the “**Cost to Complete Analysis**”). The Company is still working on the supporting documentation and information relating thereto.
15. The results of the Cost to Complete Analysis indicate an important cash shortfall in order to complete the construction of the current projects. According to the Company, in addition, an important amount

will be required to provide the Company with the working capital required to complete the construction of the five vessels. The virtual data room (“**Data Room**”), as mentioned in paragraph 19 of this report, includes a copy of the Cost to Complete Analysis for the five vessels and this analysis is available to all stakeholders provided they execute the non-disclosure agreement (“**NDA**”).

16. A key assumption of the Cost to Complete Analysis is the timing of the ramp-up of the operations at the shipyard which is scheduled to begin on June 1, 2010. Based on the information currently available, the Company and the Monitor believe that a ramp-up date of June 1, 2010 for the construction of the vessels is not realistic. Any delay in resuming the production of the vessels will have an impact on the cost to complete analysis and may increase the net cash flow shortfall. At this time, the Company has begun to assess the impact that this timing issue may have on the costs of the vessels.
17. As indicated in our Second Report to the Court, the Monitor retained the services of an independent marine engineer to provide the Monitor with an independent opinion regarding the reasonableness of the technical assumptions underlying the Cost to Complete Analysis.
18. The independent marine engineer provided the Monitor with an interim report (the “**Interim Report**”) regarding the work performed by Davie in respect of the Cost to Complete Analysis as of May 17, 2010. On a summary basis, the Interim Report concludes that:
 - a. The Company’s methodology and review process to estimate the costs to complete of vessel 717 are reasonable;
 - b. As of the date of the Interim Report, it is not possible to determine the reasonableness of the costs to complete vessels 718, 719, 721 and 722 since all the complete supporting documentation and information is not ready and available at this time. However, the Interim Report does indicate that the Company has already provided a portion of the supporting documentation. The Company is in the process of providing the remaining supporting documentation to allow the independent marine engineer to complete its analysis.

Virtual Data room

19. Once the Cost to Complete Analysis was finalized, the Company, with the assistance of the Monitor, created a Data Room. The Data Room contains all relevant information and documentation related to Davie, including, amongst other things, the financial statements, client contracts, Cost to Complete Analysis, list of assets, technical data relevant to the building of the vessels, etc. The Company is updating the Data room on a regular basis with additional information including information requested by the parties having access to the Data Room.
20. Following the execution of NDA, Davie has granted access to the to the Data Room to the following stakeholders:
 - a. Export Development Corporation (“**EDC**”)
 - b. Cecon ASA (“**Cecon**”)
 - c. IQ

21. As of the date of the Fourth Report, Davie and Ocean Hotels are still negotiating the terms and conditions of an NDA, more specifically the conditions regarding the non-disclosure and restricted use of the non-public information.

Communication with stakeholders

22. Davie has communicated with most of the stakeholders on a regular basis.
23. Both EDC and IQ have access to the Data Room. Neither of these parties has since requested any additional information from Davie.
24. In late April 2010, Cecon retained a team of advisors (“**Cecon Team**”). The Cecon Team sent representatives to the shipyard for a week-long period to review the information and documentation included in the Data Room. During this period, the Cecon Team had multiple meetings with the management of Davie. Following these meetings, the Cecon Team requested additional information from the Company. Such additional information was provided to the Cecon Team by Davie.
25. As of the date of the Fourth Report, the Company has not been contacted by the Cecon Team or Cecon to discuss the results and conclusions of the analysis performed by the Cecon Team.

Appointment of a financial advisor

26. As mentioned in our Third Report, on May 7, 2010, the Company retained Rothschild as its financial advisor and investment banker in connection with a potential transaction.
27. Since its appointment, Rothschild has had several working sessions with the management and with the Monitor to better understand Davie’s current situation, the financial information currently available, the market opportunities, the current business plan discuss the potential partners and investors identified by the Company and Rothschild.
28. Rothschild has either scheduled meetings or met with several of the major stakeholders in order to assess their position with regards to Davie’s current situation.
29. In the context of its mandate, Rothschild has advised that it would seek to complete the following steps by the end of July 2010:
- a. Hold preliminary discussions with stakeholders;
 - b. Finalize buyers list;
 - c. Prepare marketing materials;
 - d. Establish first contact with potential buyers;
 - e. Solicit potential investors;
 - f. Continue ongoing discussions with stakeholders;
 - g. Obtain preliminary indications of interest.
30. The representatives of Rothschild have advised that it is likely that the process to close a transaction could take several months from receipt of preliminary indications of interest.

THE MONITOR'S ACTIVITIES SINCE MARCH 24, 2010

31. The Monitor is monitoring, on a weekly basis, the cash receipts and cash disbursements, which is done with the full collaboration of the Company's management. Consequently, cash flow forecasts are updated regularly following the weekly cash variations.
32. The Monitor assisted the Company in the preparation of the preliminary Cost to Complete Analysis.
33. The Monitor is also involved as a participant in most of the management working sessions, in meetings between the management and its financial advisor, in the discussions between the Company and its stakeholders, and regularly attends all of the Board meetings.
34. The Monitor is also updating the information available on its website on a regular basis.
35. The Monitor also supports the Company's efforts with regards to the Data Room, including access and currency of information.

Forensic Review

36. The Monitor retained Samson Bélair/Deloitte & Touche s.e.n.c.r.l. ("**Deloitte Forensic**") to review the movements of cash received by Davie from January 1, 2007 to February 28, 2010 (the "**Forensic Period**"). Essentially, the scope of the mandate was to determine the usage of funds received by the Company.
37. Deloitte Forensic prepared a preliminary report ("**Forensic Report**") regarding the work performed and the summary of findings as of May 17, 2010.
38. On a summary basis, the Forensic Report concludes that:
 - a. During the Forensic Period, more than 17,000 transactions were effected from the bank accounts maintained by Davie. As at the date of Interim Report, Deloitte Forensic had proceeded to reconcile a very significant percentage of these transactions and, as indicated below, continues in its efforts to reconcile all transactions;
 - b. Deloitte Forensic has identified approximately \$619M in receipts during the Forensic Period, and proceeded to allocate them to a vessel or to the general accounts, as the case may be;
 - c. Deloitte Forensic has identified approximately \$592M in disbursements during the Forensic Period, and proceeded to allocate them to a vessel or to the general accounts;
 - d. As of the date of the Forensic Report, \$43M of disbursements, have yet to be allocated to a vessel or to a general account. Deloitte Forensic will continue to allocate the disbursements by vessel or to the general accounts. However, it should be noted that no individual disbursement is greater than \$100K;
 - e. As all funds received by Davie were deposited in common Davie bank accounts, it is not possible to perform a detailed comprehensive tracing of all funds received;

- f. It appears that disbursements to related entities identified represent less than 2% (approximately \$11M) of Davie's total disbursements of \$592M during the Forensic Period, as indicated in the summary table. These disbursements appear to be related to loans, advances and payment of management fees and salaries.

| Related entities | \$000 |
|------------------|--------|
| Davie AS | 752 |
| Davie Yards AS | 4,573 |
| Davie Yards ASA | 4,522 |
| Teco Management | 1,263 |
| Total | 11,109 |

39. Deloitte Forensic will continue their analysis of the remaining \$43M of disbursements that need to be allocated to the vessels or to the general accounts and will also investigate the specific nature of each disbursement to related entities. Meanwhile, the Forensic Report will be made available to stakeholders and to creditors, upon request.
40. The Monitor intends to meet with the principal stakeholders to present the Forensic Report and to determine whether any further analysis is required.

EXTENSION OF THE STAY OF PROCEEDINGS PERIOD

41. Pursuant to the First Stay Period Extension Order, the Stay Period was extended until May 25, 2010.
42. The Company notified the Monitor of its intention to request an extension of the Stay Period until September 15, 2010 ("**Extension Period**") to allow the Company to continue its recapitalization and restructuring efforts and, more particularly, to allow Rothschild to run the investor/partner solicitation process ("**Solicitation Process**"). Following the completion of the Solicitation Process, the Company plans on developing and eventually submitting a plan of arrangement to its creditors under the CCAA.
43. Over the Extension Period, the Company will be focusing its efforts on:
- a. Completing the documentation for the Solicitation Process.
 - b. Establishing the Solicitation Process and identifying potential investors.
 - c. Discussing with stakeholders, creditors and customers to determine whether they are interested in participating in a transaction.
 - d. Negotiating the terms of a transaction with potential investors and/or with stakeholders.
 - e. Completing a transaction, if possible.
 - f. Establishing the procedure relating to the claims process.
 - g. Developing a plan of arrangement.
 - h. Supporting Rothschild through its process.

44. In support of the Company's request for an extension of the Stay Period until September 15, 2010, the Company is providing an updated weekly cash flow statement for the period of May 15, 2010 to September 15, 2010, which is attached hereto as Table B.

THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

45. It is the Monitor's view that the Company has acted in accordance with the Initial Order and related Orders of the Court.
46. It is the Monitor's opinion that an extension of the First Stay Period Extension Order to September 15, 2010 is necessary to allow the Company to continue its recapitalization or restructuring efforts, and establish the Solicitation Process, to discuss with stakeholders and potential investors, to establish the procedure relating to the claims process, to develop a plan of arrangement and to allow Rothschild the time it requires to fulfill its mandate. This extension should allow the Company to submit a plan of arrangement and will not cause any prejudice to the Company's creditors.
47. Based on our discussions with the Company's representatives, it is the Monitor's opinion that the Company has acted and continues to act in good faith and with due diligence, and will likely be able to develop a plan of arrangement during or at the expiry of the extension period.

The Monitor respectfully submits to the Court this Fourth Report.

DATED IN MONTREAL, this 20th day of May 2010.




SAMSON BÉLAIR/DELOITTE & TOUCHE INC.
In its capacity as Court-Appointed Monitor of
Davie Yards Inc.

Davie Yards Inc.
Actual Cash Flow

| (US\$000) | Eight weeks ended | | |
|---|-------------------|----------------|--------------|
| | May 14, 2010 | | |
| | Actual | Budget | Variance |
| Cash Inflows | | | |
| Others | 185 | - | 185 |
| | 185 | - | 185 |
| Cash Outflows | | | |
| <i>Vessel C-717</i> | | | |
| Salaries (ADP + fringes) C-717 | 405 | 656 | 251 |
| Material cost | 448 | 960 | 512 |
| Insurance premium | 356 | 778 | 422 |
| Contingency | 200 | 600 | 400 |
| | 1 409 | 2 994 | 1 585 |
| <i>Administration</i> | | | |
| Overhead salaries disbursement | 1 214 | 1 634 | 420 |
| Indemnities | - | 70 | 70 |
| Heating (Ultramar) | - | 120 | 120 |
| Electricity | 363 | 550 | 187 |
| Communications (Phone, etc.) | 55 | 28 | (27) |
| City taxes | - | 38 | 38 |
| CSST | - | 235 | 235 |
| Group insurance | 123 | 184 | 61 |
| Professional services | 1 382 | 1 376 | (6) |
| Davie Yards AS (Norway employees sal.) | 381 | 360 | (21) |
| Maintenance | 178 | 680 | 502 |
| GST/QST paid to suppliers | 200 | 400 | 200 |
| Contingency | 250 | 930 | 680 |
| | 4 146 | 6 605 | 2 459 |
| | 5 555 | 9 599 | 4 044 |
| Variation in Cash Balance | (5 370) | (9 599) | 4 229 |
| Exchange rate fluctuation (Note 1) | (135) | - | (135) |
| Opening Balance | 24 509 | 24 509 | - |
| Ending Balance | 19 004 | 14 910 | 4 094 |

Note 1:

The exchange rate fluctuation is simply due to the variation in exchange rate and cash balances held in foreign currency (other than the US dollar) by the company.

Davie Yards Inc.
Projected weekly cash flow
From May 15 to September 15, 2010

| (US\$000) | WEEK NUMBER | | Total | | | | | | | Total | | | | | | | Total | | | | | Total | | | | |
|--|-------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|---------------|
| | WEEK ENDING | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | | | |
| | | | 21-May | 28-May | 4-Jun | 11-Jun | 18-Jun | 25-Jun | 2-Jul | 9-Jul | 16-Jul | 23-Jul | 30-Jul | 6-Aug | 13-Aug | 20-Aug | 27-Aug | 3-Sep | 10-Sep | 15-Sep | September | May-September | | | | |
| Cash Inflows | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Others | | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | | |
| QST/QST | | | - | - | - | - | - | - | - | - | - | - | - | - | 1 536 | - | - | 1 536 | - | - | - | - | 1 536 | | | |
| Cash inflows total | | | - | - | - | - | - | - | - | - | - | - | - | - | 1 536 | - | - | 1 536 | - | - | - | - | 1 536 | | | |
| Cash Outflows | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <i>Vessel C-717</i> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Material cost | | | 40 | 110 | 226 | 226 | 226 | 226 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 054 | | |
| Insurance premium | | | - | - | - | - | 350 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 350 | | |
| Contingency | | | 100 | - | - | 100 | - | - | - | 100 | - | - | - | - | - | 100 | - | - | 100 | - | 100 | - | 100 | 500 | | |
| | | | 140 | 110 | 250 | 326 | 576 | 226 | - | 100 | - | - | - | - | - | 100 | - | - | 100 | - | 100 | - | 100 | 1 904 | | |
| <i>Administration</i> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Overhead salaries disbursement | | | 140 | 200 | 140 | 140 | 140 | 560 | 140 | 140 | 140 | 140 | 200 | 140 | 140 | 140 | 140 | 560 | 140 | 140 | 140 | 420 | - | 2 640 | | |
| Heating (Ultramar) | | | 10 | - | - | - | 10 | 10 | - | - | - | 10 | - | - | - | - | 10 | 10 | - | - | - | - | - | 40 | | |
| Electricity | | | - | - | 135 | 15 | - | 150 | 125 | 15 | - | - | - | 140 | 125 | 15 | - | 140 | 125 | 15 | - | 140 | - | 570 | | |
| Communications (Phone, etc.) | | | 5 | - | - | - | 20 | - | - | - | 20 | - | - | 20 | - | - | 20 | - | - | - | - | - | - | 65 | | |
| City taxes | | | 50 | - | - | - | - | - | 200 | - | - | - | - | - | - | - | 50 | 50 | - | - | - | - | - | 300 | | |
| Insurance premium | | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 300 | 300 | - | - | - | - | - | 300 | | |
| Group insurance | | | - | - | - | 50 | - | 50 | - | 50 | - | - | - | 50 | - | 50 | - | 50 | - | 50 | - | - | - | 200 | | |
| Professional services | | | 150 | 150 | 200 | 150 | 150 | 650 | 200 | 150 | 150 | 150 | 150 | 800 | 150 | 150 | 200 | 650 | 200 | 150 | 150 | 500 | - | 2 900 | | |
| Investment banker | | | 145 | - | 145 | - | - | 145 | 145 | - | - | - | - | 145 | 145 | - | - | 145 | 150 | - | - | - | - | 150 | | |
| Davie Yards AS (Norway employees sal.) | | | 325 | - | 230 | - | - | 230 | 230 | - | - | - | - | 230 | 230 | - | - | 230 | 230 | - | - | - | - | 1 245 | | |
| Maintenance | | | 50 | 50 | 50 | 50 | 50 | 200 | 50 | 50 | 50 | 50 | 50 | 250 | 50 | 50 | 50 | 200 | 50 | 50 | 50 | 50 | - | 900 | | |
| GST/QST paid to suppliers | | | 44 | 26 | 70 | 51 | 26 | 26 | 51 | 26 | 26 | 26 | 26 | 155 | 44 | 26 | 32 | 128 | 52 | 26 | 26 | 104 | - | 586 | | |
| Contingency | | | 50 | 50 | 100 | 50 | 50 | 200 | 50 | 50 | 50 | 50 | 50 | 250 | 50 | 50 | 50 | 200 | 50 | 50 | 50 | 50 | - | 900 | | |
| | | | 969 | 476 | 1 445 | 1 001 | 481 | 446 | 416 | 2 344 | 1 191 | 481 | 436 | 426 | 476 | 3 010 | 934 | 481 | 436 | 832 | 2 683 | 997 | 481 | 416 | 1 894 | 9 482 |
| Cash outflows total | | | 1 109 | 586 | 1 695 | 1 227 | 807 | 1 022 | 642 | 3 698 | 1 191 | 581 | 436 | 426 | 476 | 3 110 | 934 | 481 | 536 | 832 | 2 783 | 997 | 581 | 416 | 1 994 | 13 280 |
| Opening Balance | | | 19 004 | 17 895 | 19 004 | 17 309 | 16 082 | 15 275 | 14 253 | 17 309 | 13 611 | 12 420 | 11 839 | 11 403 | 10 977 | 13 611 | 10 501 | 9 567 | 10 622 | 10 086 | 10 501 | 9 254 | 8 257 | 7 676 | 9 254 | 19 004 |
| Cash inflows | | | - | - | - | - | - | - | - | - | - | - | - | - | 1 536 | - | - | 1 536 | - | - | - | - | - | - | - | 1 536 |
| Cash outflows | | | -1 109 | -586 | -1 695 | -1 227 | -807 | -1 022 | -642 | -3 698 | -1 191 | -581 | -436 | -426 | -476 | -3 110 | -934 | -481 | -536 | -832 | -2 783 | -997 | -581 | -416 | -1 994 | -13 280 |
| Closing Balance | | | 17 895 | 17 309 | 17 309 | 16 082 | 15 275 | 14 253 | 13 611 | 13 611 | 12 420 | 11 839 | 11 403 | 10 977 | 10 501 | 9 567 | 10 622 | 10 086 | 9 254 | 9 254 | 8 257 | 7 676 | 7 260 | 7 260 | 7 260 | |

Table B (cont.)

NOTES AND REPRESENTATIONS TO THE CASH FLOW STATEMENT

NOTE A – PURPOSE AND WARNINGS

The cash flow projections have been prepared solely for the purpose of the CCAA proceedings. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Since the cash flow projections are based on assumptions regarding future event, actual results will vary from the information presented, and the variations may be material.

NOTE B – DEFINITIONS

(1) CASH FLOW STATEMENT

In respect of the Company, it means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash flow of the Company as defined in section 2(1) of the Act based on Probable and Hypothetical Assumptions that reflect the Company's planned course of action for the period covered.

(2) HYPOTHETICAL ASSUMPTIONS

It means assumptions with respect to a set of economic conditions or courses of action which are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash Flow Statement.

(3) PROBABLE ASSUMPTIONS

It means assumptions that:

- (i) the Company believes reflect the most probable set of economic conditions and planned courses of action, **Suitably Supported** that are consistent with the plans of the Company; and
- (ii) provide a reasonable basis for the Cash Flow Statement.

(4) SUITABLY SUPPORTED

It means that the Assumptions are based on either one or more of the following factors:

- (i) The past performance of the Company;
- (ii) The performance of other industry/market participants engaged in similar activities as the Company;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

NOTE C – ASSUMPTIONS

| Assumptions | Source | Probable Assumption | Hypothetical Assumption |
|---|---|---------------------|-------------------------|
| <u>Opening cash balance</u> | Based on current bank balances | X | |
| <u>Exchange rates</u> | Exchange rates used by management are the following: <ul style="list-style-type: none"> • US\$ / C\$ = 1.00 / 0.9639 • US\$ / NOK = 1.00 / 6.00 | | X |
| <u>Forecast cash receipts</u> | | | |
| GST/QST | Based on the March 2010 GST and QST form completed by the Company (for amounts collected and paid for the period from December 2009 to March 2010) | X | |
| <u>Forecast cash disbursements</u> | | | |
| Material cost (C-717) | Based on management's expectations of material required for the production of the C-717 vessels | | X |
| Insurance premium (C-717) | Insurance premium to maintain coverage on all vessels | X | |
| Contingency (C-717) | General provision | | X |
| Overhead salaries disbursement | Based on management's detailed list of active employees | X | |
| Heating (Ultramar) | Weekly estimate of disbursements required based on historical costs and projected level of activity | X | |
| Electricity | Monthly estimate of disbursements required based on historical costs and projected level of activity | X | |
| Communications | Monthly estimate of disbursements required based on historical costs | X | |
| City taxes | Based on management's estimate of city taxes payable for the period from May to September 2010 | X | |
| Group insurance | Insurance costs for employees' insurance based on management's detailed list of active employees | X | |
| Professional services | Management's estimate of professional fees to be incurred in the following week for Monitor and legal services | | X |
| Investment banker | Management's estimate of professional fees to be incurred in the following months based on the engagement letter with Rothschild | X | |
| Davie Yards AS (Norway employees salaries) | Based on management's detailed list of active employees | X | |
| Maintenance | Management's estimated expenses required to preserve the assets | | X |

| Assumptions | Source | Probable Assumption | Hypothetical Assumption |
|---------------------------|--|---------------------|-------------------------|
| GST/QST paid to suppliers | Based on taxable disbursements made to suppliers during the period | x | |
| Contingency | General provision | | x |