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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.:
OFFICE No.: 908322

S U P E R I O R C O U R T
Commercial Division

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

DAVIE YARDS INC., a legal person, duly incorporated according to law, 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. having a place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec H3B 4T9

Proposed Court-Appointed Monitor

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

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars. Capitalized terms not otherwise defined are as defined in the Motion for an Initial Order ("Motion"), filed under the Companies' Creditors Arrangement Act ("CCAA") proceedings.

2. This report is filed with this Honorable Court for the purpose of advising the Court in respect of a number of factual and procedural matters listed in paragraph 3 below, and to provide the Proposed Monitor's recommendations regarding the proposed Initial Order.

3. The topics covered in the Report include the following:

   (i) The Proposed Monitor's prior relationship with the Company;

   (ii) The business, financial affairs and financial results of the Company;

   (iii) The Company's cash flow forecast;

(iv) Charges in the draft Initial Order;

(v) Key employee retention program ("**KERP**"); and

(vi) The Proposed Monitor's conclusion and recommendation.

4. In preparing this Report, the Proposed Monitor has relied upon unaudited financial information, the Company's records, the Motion and discussions with the management of the Company and its financial and legal advisors. While the Proposed Monitor has reviewed the information, some in draft format, submitted in the abridged time available, the Proposed 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 achieved will vary from this information and the variations may be material.

THE PROPOSED MONITOR'S PRIOR RELATIONSHIP WITH THE COMPANY

5. Deloitte & Touche LLP has not provided any significant services to the Company over the past two years and has not acted in the capacity of an auditor or an accountant. Therefore, the Proposed Monitor is of the view that the non-involvement of Deloitte & Touche LLP with the Company would not compel a court to disqualify the Proposed Monitor from acting in the capacity of monitor of the Company in the circumstances of this case pursuant to section 11.7(2)(a) of the CCAA.

THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF THE COMPANY

6. The head office of the Company is located at 22 George D. Davie Street, Lévis, Québec G6V 8V5. The Company was incorporated on September 12, 2006 under the *Canada Business Corporations Act* ("**CBCA**"). As appears in the Motion, there are currently approximately 1,765 employees, including approximately 1,538 unionized employees, located at the shipyard in Lévis, Québec. The Company is a public company whose shares are traded on the Toronto Stock Exchange ("**TSX**"), under the symbol DAV. Offshore Holding AS, a Norwegian company organized under the laws of Norway, holds directly and indirectly approximately 37.8% of the Company's voting shares. Cecon ASA ("**Cecon**"), a Norwegian company, is also an important shareholder and client of the Company and holds approximately 33.1% of the outstanding common shares of the Company. The remaining common shares are widely held (see Appendix "A" for current organization chart).

7. The shipyard operated by the Company was established in 1825 and operates the largest Canadian shipyard. The shipyard has undergone several restructurings throughout the years and has been an important source of employment in the Québec City region. The Company's primary product and market focus includes the construction of complex offshore rigs, offshore service vessels, specialized ships and other offshore constructions.

8. The market for building complex offshore vessels is global, but the principal competitors operate from Europe. The competitors for projects will vary greatly depending on the type of vessel and available capacity at the shipyards for the requested delivery dates. For the specialized offshore vessels market, competition is normally based on price, on-time delivery, reputation, quality of workmanship and customer relations.

9. The Company's current two primary customers are Cecon and Ocean Hotels PLC ("**Ocean**"), a public company based in Cyprus.

10. The Company currently has three (3) contracts for the construction of three (3) offshore construction vessels for Cecon ("**Cecon Vessels**"). As mentioned previously, Cecon is an important shareholder of the Company. The Company has recently determined that it has incurred significant cost overruns with respect to the construction of the Cecon Vessels. The Company estimates that the degree of completion of the Cecon Vessels ranges approximately between 38% and 69%.

11. The Company currently has two (2) other contracts for the construction of two (2) multi-purpose accommodation vessels for Ocean ("**Ocean Vessels**"). The Company owns approximately 12.5% of the shares of Ocean. The Proposed Monitor is advised that Ocean has made all required progress payments under its contracts as of the date hereof. Work in respect of the Ocean Vessels to date has consisted primarily in the procurement of materials.

12. As appears from the Motion, Export Development Canada ("**EDC**") has provided funding to allow Cecon and Ocean to meet their obligation to the Company under their respective agreements.

    The following table sets out selected financial information for the periods indicated. The selected financial information below has been derived from the corresponding financial statements and accompanying notes for the indicated periods (see Appendix "B" for most recent financial statements).

    Summary of Annual Operating Results
    (Amounts in thousands of U.S. dollars)

	2009	2008	2007
Income Statement			
Revenues	124,005	88,221	46,790
Gross margin	(41,002)	10,293	(9,770)
EBITDA	(58,488)	(10,010)	(22,440)
Net loss	(62,649)	(24,139)	(15,174)

13. As described in the table above, the Company has sustained important losses over the past three years. According to the management of the Company, these losses are largely attributable to fixed selling prices, higher labor costs than anticipated, higher raw material costs than expected and the December 2008 shipyard shutdown. The Company was also negatively impacted by foreign currency variations.

14. As a result of the significant cost overruns and insufficient working capital and funds to complete the Cecon Vessels and Ocean Vessels (collectively the "**Vessels**"), the Company is unable to continue to operate in the normal course and has determined that it has no alternative but to temporarily suspend all work on the Ocean Vessels and Cecon Vessels 718 and 719, and to temporarily lay off approximately 1,600 employees.

THE COMPANY'S MAIN CREDITORS

15. The Proposed Monitor has been advised that the Company's only secured lender is Investissement Québec ("**IQ**") to whom the Company owes approximately $31.5 million.

16. The IQ indebtedness is secured by hypothecs covering all movable assets, including receivables and cash tax credit refunds. According to the Company, as of December 31, 2009, the outstanding tax credit refunds total approximately $16.2 million.

17. The Proposed Monitor has not completed a review of these credit facilities. The Proposed Monitor has based its report on the assumption that the security granted in favour of IQ is valid and enforceable.

18. The approximate total amount owed by the Company to trade creditors, as of February 22, 2010, was approximately $24 million. In addition, there was approximately $1.8 million owed to trade creditors which was incurred but not billed as of the same date.

19. According to the management of the Company, payroll obligations are current. The Company uses a payroll service, ADP Services, to pay its employees on a weekly basis. Management has informed the Proposed Monitor that the obligations of the Company with respect to government remittances are also current.

20. According to the Company's books and records, the secured and unsecured creditors have claims for a total amount of approximately $57.3 million.

THE COMPANY'S CASH FLOW FORECAST

21. The statement of projected cash flow of the Company as of February 20, 2010 ("**Cash Flow Statement**"), attached as Appendix "C" to this report, has been prepared by the management of the Company for the purpose described in the Notes to the Cash Flow Statement, using the Probable and Hypothetical Assumptions set out in the Notes to the Cash Flow Statement.

22. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions on the information provided to us by the management and employees of the Company. Since these Hypothetical Assumptions are not being supported, our involvement with respect to them was limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by the management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.

23. Based on our review and the foregoing reserves and limitations, nothing has come to our attention that causes us to believe that, in all material respects:

    a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
    b) As at the date of this report, the Probable Assumptions developed by the Company are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or

c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

24. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no opinion as to whether the projections in the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report. Neither do we express any opinion as to the performance of the Company's statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia* the payment of wages, the government remittances and the payroll deductions to be made by the Company.

25. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

26. The Company's Cash Flow Statement is for a period of fourteen (14) weeks from February 22 to May 29, 2010. The key assumptions used in the Cash Flow Statement are based on a revised fiscal year 2010 operating plan as discussed above. The Company's cash balance as of February 22, 2010 is of approximately $28.7 million. The Company did not budget any cash inflows and has budgeted minimal disbursements to maintain the minimal level of employees and conservatory and security expenses. The Company's management believes that the forecast is reasonable.

27. The Company anticipates more restrictive payment terms for purchases following the announcement of the CCAA proceedings. As such, the Company has anticipated certain paid upon delivery purchases and payment of deposits to certain utility providers.

28. The Cash Flow Statement shows the Company's use of its cash balance to fund the Company's working capital requirements for the duration of the CCAA proceedings. The Company does not anticipate any significant cash inflows during this period.

CHARGES IN THE DRAFT INITIAL ORDER

29. The draft Initial Order provides for a charge in the amount of $1 million for the Proposed Monitor, counsel to the Proposed Monitor, the Applicant's counsel and the Applicant's financial advisors as security for their professional fees and disbursements incurred before and after the making of the draft Initial Order in respect of these CCAA proceedings (the "**Administration Charge**"). The Administration Charge has been established based on the respective professionals' previous history and experience with restructuring of similar magnitude and complexity. The Proposed Monitor believes that the Administration Charge is required and is reasonable under the circumstances.

30. The directors' and officers' charge ("**D&O Charge**"), as described in the Motion and the draft Initial Order, provides for a charge in the amount of $5 million as security for various indemnities provided to the directors and officers by the Company in the draft Initial Order.

31. The Proposed Monitor has been advised that the D&O Charge is necessary for the continued service of the Applicant's directors and officers during the Company's restructuring and that the quantum has

been calculated relative to the statutory obligations of the Applicant for which the directors and officers may be held liable.

32. Given that the Company will require the committed involvement of its directors and officers to successfully go through the restructuring process, the Proposed Monitor believes that the D&O Charge is required under the circumstances. The Proposed Monitor has not been provided with detailed information on a per-employee basis in order to calculate the potential exposure of the directors and officers. However, the Company has provided the proposed Monitor with a summary overview of the potential liabilities for the directors and officers which support the quantum requested.

KEY EMPLOYEE RETENTION PROGRAM

33. The Company has identified 11 existing employees who are seconded to it by Davie Holding AS (the "**Eligible Davie AS Employees**") and 10 existing employees (the "**Eligible Davie Employees**" and together with the Eligible Davie AS Employees, the ("**Eligible Employees**") that are critical to the preservation of the Company's enterprise value.

34. The Company believes that the continued employment of the Eligible Employees is crucial to its successful restructuring and that absent the establishment of an incentive plan in favor of the Eligible Employees, they are likely to seek other employment opportunities.

35. The Company has agreed to an employee retention plan for the Eligible Davie AS Employees (the **"Davie AS KERP"**) and to a separate employee retention plan for the Eligible Davie Employees (the **"Davie KERP"**) and together with the Davie AS KERP, the ("**KERPs**"), with the principal purpose of providing an incentive for the Eligible Employees to remain with the Company during its restructuring efforts.

36. On February 24, 2010 the board of directors of the Company approved the KERPs for the Eligible Employees.

37. Under the KERPs, each of the Eligible Employees is eligible to receive up to a prescribed maximum amount (the **"Incentive Payment"**) provided that the Eligible Employee remains actively employed by Davie or Davie AS, as the case may be, throughout the term of their respective contracts.

38. Amounts sufficient to provide for the payments to be made to the Eligible Davie Employees under the relevant KERP, in accordance with the terms thereof, will be remitted by the Company to the Proposed Monitor, to be held by the Monitor in escrow, for the benefit of the Eligible Employees. Amounts sufficient to provide for the payments to be made to the Eligible Davie AS Employees under the KERP, in accordance with the terms thereof, will be remitted by the Company to Davie AS, to be distributed by Davie AS in accordance with the terms of the relevant KERP.

39. The proposed Monitor has reviewed the KERPs and believes that the terms thereof are reasonable and justified in the circumstances.

THE PROPOSED MONITOR'S CONCLUSION AND RECOMMENDATION

40. The Proposed Monitor believes that it is appropriate that the Company be granted the benefit of

protection under the CCAA. Such protection will enable the Company to stabilize operations while reviewing the status of its work in process and exploring all strategic alternatives, including securing new financing or investments. Moreover, the Company will continue discussions with its key stakeholders regarding its restructuring under the CCAA.

41. Given the complexity of the operations of the Company and the current financial situation of the Company, the Proposed Monitor supports the need for the KERPs.

42. Further to the Proposed Monitor's review of the proposed Initial Order, the Proposed Monitor supports the charges and thresholds described therein, including:

- the Administration Charge of $1 million;
- the D&O Charge of $5 million.

The Proposed Monitor respectfully submits to the Court this, its First Report.

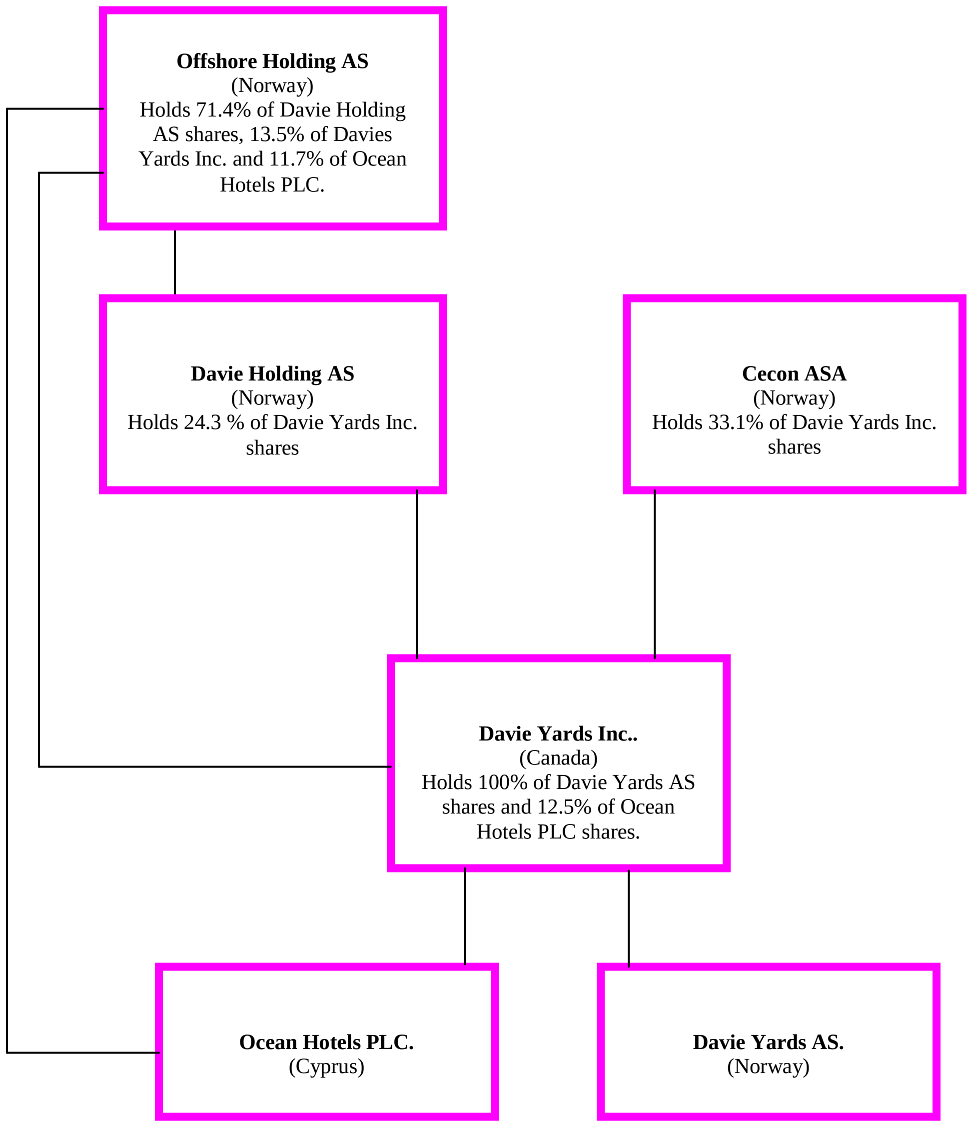
DATED AT MONTREAL, this 24rth day of February 2010.

Samson Bélair/Deloitte & Touche Inc.

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

Appendix A

Appendix A : Organizational Chart



Appendix B

Appendix B

Davie Yards Inc.

Balance Sheet

(in thousand of dollars)	FY-07 Dec-07 Actual	FY-08 Dec-08 Actual	FY-09 Dec-09 Actual
ASSETS			
Current assets			
Cash and cash equivalents	23 876	1 588	56 839
Accounts receivable	2 397	65 103	22 336
Advances to parent company	4 150	-	-
Inventories	617	1 880	2 495
Advances to suppliers	-	-	-
Loan to Ocean Hotels Plc.	-	-	350
Prepaid expenses	446	475	494
Others	12 427	-	-
Total current assets	**43 913**	**69 046**	**82 514**
Investment in Ocean Hotels Plc.	10 021	6 113	6 113
Deferred share issue costs	1 402	-	-
Long term receivable	1 153	2 659	2 778
Property, plant and equipment	34 572	37 880	35 878
	91 061	**115 698**	**127 283**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Curent liabilities			
Accounts payable and accrued liabilities	15 024	51 133	35 241
Progress billing in excess of related costs and profits	66 106	43 647	109 407
Due to parent company	287	-	-
Deffered credit	173	-	-
Current portion of long-term debt	1 066	9 093	19 601
Total current liabilities	**82 656**	**103 873**	**164 249**
Loan from the ultimate parent company	-	3 728	-
Long-term debt	436	2 635	78
Total liabilities	**83 092**	**110 236**	**164 327**
Shareholders' equity			
Share capital	25 002	47 469	67 610
Warrants	-	3 405	3 405
Contributed surplus	-	1 344	2 150
Deficit	(17 033)	(46 756)	(110 209)
	7 969	**5 462**	**(37 044)**
	91 061	**115 698**	**127 283**

Davie Yards Inc.

Income Statement

(in thousand of dollars)	FY-07 Dec-07 Actual	FY-08 Dec-08 Actual	FY-09 Dec-09 Actual
Revenues	46 790	88 221	124 005
Cost of sales - excluding amortization	56 560	77 928	165 007
General and administration	14 434	19 046	17 133
Amortization of property, plant and equipment	1 358	2 430	2 769
Derivative instrument fair value adjustment	(8 787)	7 086	-
	63 565	106 490	184 909
Operation (loss) gain before the following:	(16 775)	(18 269)	(60 904)
Available-for-sale securities impairment	-	3 908	-
Stock-based compensation	-	1 344	802
Interest income	(668)	(872)	(354)
Interest on long-term debt	163	705	1 392
Foreign exchange loss (gain)	(1 096)	785	(95)
	(1 601)	5 870	1 745
Net (loss) income and comprehensive (loss) income	(15 174)	(24 139)	(62 649)

Appendix C

Appendix C - The Cash Flow Statement

Proposed Monitor's Report on Cash Flow

The statement of projected cash flow ("**Cash Flow Statement**") of this report of the Company as of the 22nd day of February, 2010 has been prepared by the management of the Company for the purpose described in Notes to the Cash Flow Statement, using Probable and Hypothetical Assumptions set out in the Notes to the Cash Flow Statement.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
b) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

The Cash Flow Statement has been prepared solely for the purpose described in Notes on the face of the Cash Flow Statement, and readers are cautioned that it may not be appropriate for other purposes.

Davie Yards Inc.
Weekly Cash Flow
From February 22 to May 29 2010

	Projections	*Total*	*Projections*	*Projections*	*Projections*	*Projections*	*Total*	*Projections*	*Projections*	*Projections*	*Projections*	*Projections*	*Total*	*Projections*	*Projections*	*Projections*	*Projections*	*Total*	*Total*
WEEK NUMBER	1		2	3	4	5		6	7	8	9	10		11	12	13	14		
('000) USD WEEK ENDING	**27-02-10**	**February**	**06-03-10**	**13-03-10**	**20-03-10**	**27-03-10**	**March**	**03-04-10**	**10-04-10**	**17-04-10**	**24-04-10**	**30-04-10**	**April**	**08-05-10**	**15-05-10**	**22-05-10**	**29-05-10**	**May**	**Feb - May**
Cash Inflows																			
Others	138	138	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	138
Cash inflows total	**138**	**138**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**138**
Cash Outflows																			
Vessel C-717																			
Salaries (ADP + fringes) C-717	-	-	82	82	82	82	328	82	82	82	82	82	410	82	82	82	82	328	1 066
Material Cost	-	-	202	202	202	202	808	54	54	54	54	54	270	54	54	54	54	216	1 294
Insurance premium	-	-	-	-	-	778	778	-	-	-	-	-	-	-	-	-	-	-	778
Contingency	-	-	-	-	300	-	300	-	300	-	-	-	300	-	300	-	-	300	900
	-	-	284	284	584	1 062	2 214	136	436	136	136	136	980	136	436	136	136	844	4 038
Vessel C-718																			
Material C-718	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vessel C-719																			
Material C-719	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administration																			
Overhead salaries disbursement	140	140	196	196	196	196	784	196	196	196	196	196	980	196	196	196	196	784	2 688
Indemnities	2 509	2 509	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 509
Heating (Ultramar)	75	75	125	125	125	125	500	125	125	100	75	50	475	50	-	-	-	50	1 100
Electricity	-	-	255	15	251	-	521	-	15	255	-	-	270	-	15	235	-	250	1 041
Communications (Phone , …)	-	-	20	-	20	-	40	-	-	20	-	-	20	-	-	20	-	20	80
Group Insurance	-	-	-	125	-	-	125	-	125	-	-	-	125	-	125	-	-	125	375
Professional services	482	482	200	200	150	150	700	100	150	100	100	100	550	100	100	200	100	500	2 232
Davie Yards AS (Norway employees sal.)	-	-	150	-	-	-	150	150	-	-	-	-	150	150	-	-	-	150	450
Maintenance	65	65	85	85	85	85	340	85	85	85	85	85	425	85	85	85	85	340	1 170
GST / QST paid to suppliers	-	-	50	50	50	50	200	50	50	50	50	50	250	50	50	50	50	200	650
Contingency	25	25	373	108	108	108	697	357	92	92	92	92	725	373	108	108	108	697	2 144
	3 296	3 296	1 454	904	985	714	4 057	1 063	838	898	598	573	3 970	1 004	679	894	539	3 116	14 439
KERP																			
Kerp transfer		-	1 807				1 807						-					-	1 807
	-	-	1 807	-	-	-	1 807	-	-	-	-	-	-	-	-	-	-	-	1 807
Cash outflows total	**3 296**	**3 296**	**3 545**	**1 188**	**1 569**	**1 776**	**8 078**	**1 199**	**1 274**	**1 034**	**734**	**709**	**4 950**	**1 140**	**1 115**	**1 030**	**675**	**3 960**	**20 284**
Opening Balance	**28 735**	**28 735**	**25 577**	**22 032**	**20 844**	**19 275**	**25 577**	**17 499**	**16 300**	**15 026**	**13 992**	**13 258**	**17 499**	**12 549**	**11 409**	**10 294**	**9 264**	**12 549**	**28 735**
Cash inflows	138	138	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	138
Cash outflows	-3 296	-3 296	-3 545	-1 188	-1 569	-1 776	-8 078	-1 199	-1 274	-1 034	-734	-709	-4 950	-1 140	-1 115	-1 030	-675	-3 960	-20 284
Closing Balance	**25 577**	**25 577**	**22 032**	**20 844**	**19 275**	**17 499**	**17 499**	**16 300**	**15 026**	**13 992**	**13 258**	**12 549**	**12 549**	**11 409**	**10 294**	**9 264**	**8 589**	**8 589**	**8 589**

Appendix C (con't)

NOTES TO THE CASH-FLOW STATEMENT

NOTE A – PURPOSE

The purpose of these cash-flow projections is to determine the liquidity requirements of the Company during the CCAA proceedings.

NOTE B - DEFINITIONS

(1) CASH-FLOW STATEMENT
In respect of a Company, 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:
Means assumptions with respect to a set of economic conditions or courses of action that 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:
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:
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
Opening cash balance	Based on current bank balances	x	

Exchange Rate	Exchange rates used by management are the following: • US $ / Cnd $ = 1.0375 / 1.00 • US $ / Euro = 1.50 / 1.00		x
Forecast Cash receipts:			
Other	Proceeds from the sale of a piece of equipment of a US military vessel.	x	
Forecast Cash disbursements:			
Salaries (C-717)	Based on management detailed list of employees to be retained by the company.	x	
Material Cost (C-717)	Based on the detailed listing of material required for the production of the C-717 vessels.		x
Other Material Cost (C-717)	Based on the detailed listing of material required for the production of the C-717 vessels.		x
Insurance premium (C-717)	Insurance premium for additional coverage required due to increase in value of vessel C-717.	x	
Contingency (C-717)	General provision.		x
Material (C-718)	Based on management estimate of material that will need to be purchased from critical suppliers in order to received material for the vessel C 717.		x
Material (C-719)	Based on management estimate of material that will need to be purchased from critical suppliers in order to received material for the vessel C 717.		x
Overhead salaries disbursement	Based on management detailed list of employees to be retained by the company.	x	
Indemnities	Based on projected lay-offs and mandatory indemnities required by collective bargaining agreements.	x	
Heating (Ultramar)	Weekly estimate of disbursements required based on historical costs.	x	
Electricity	Monthly estimate of disbursements required based on historical costs.	x	
Communications	Monthly estimate of disbursements required based on historical costs.	x	
Group Insurance	Insurance costs for employees insurance based on management detailed list of employees (already identified) to be retained by the company.	x	

Professional services	Management estimate of professional fees to be incurred in the following week for monitor and legal services.		x
Davie Yards AS (Norway employees salaries)	Based on management detailed list of employees (already identified) to be retained by the company.	x	
Maintenance	Management estimated expenses required to preserve the assets.		x
GST / QST paid to suppliers	Based on taxable disbursements made to suppliers during the period.	x	
Contingency	General provision.		x
KERP	Based on management detailed list of key employees (already identified) to be retained by the company.	x	