

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
No.: 200-11-019127-102
BUREAU No.: 908322

SUPERIOR COURT
Commercial Division

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

DAVIE YARDS INC., a legal person duly incorporated according to law, having its head office at 22 George-D.-Davie Street, Lévis, Quebec G6V 8V5

Applicant

– and –

SAMSON BÉLAIR/DELOITTE & TOUCHE INC., a legal person, duly incorporated according to law, having a place of business at 1 Place Ville Marie, Suite 3000, Montreal, Quebec H3B 4T9

Court-Appointed Monitor

**NINTH 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, Davie Yards Inc. ("**Davie**" or the "**Company**") obtained protection from its creditors under the *Companies' Creditors Arrangement Act* ("**CCAA**") pursuant to an Order rendered by this Honourable Court ("**Initial Order**").
2. On March 26, 2010, the Stay Period was extended to May 25, 2010, in accordance with an order of the Court.
3. On May 25, 2010, the Stay Period was extended once again to September 15, 2010, in accordance with an order of the Court.
4. In its judgment dated May 25, 2010, the Court ordered the Monitor to submit, on June 25, July 25, August 25 and September 15, 2010, a report on the state of Davie's financial and business affairs.

5. On or around June 23, 2010, July 20, 2010 and August 24, 2010, the Monitor respectively filed in the Court record its Sixth Report, Seventh Report and Eighth Report in accordance with the order of May 25, 2010. A copy of these three reports was sent to each of the parties that have requested to be on the service list. A copy of these three reports was also made available on the Monitor's website.
6. Pursuant to the order of May 25, 2010, any stakeholder can submit a written request to the Monitor to obtain detailed information or documents relating to these reports. To date, no request has been submitted to the Monitor.
7. This report ("**Ninth Report**") concerns the following subjects:
 - (i) The Company's operations since August 25, 2010;
 - (ii) The Monitor's activities since August 25, 2010;
 - (iii) Extension of the stay of proceedings period;
 - (iv) The Monitor's conclusions and recommendations.
8. In preparing this Ninth Report, the Monitor has relied upon unaudited financial information on the Company, the Company's accounting records, and its discussions with the management of the Company and its financial and legal advisors. While the Monitor has reviewed the information submitted, the Monitor has not performed an audit or other verification of such information. Forward-looking financial information included in the Ninth 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.
9. Unless otherwise indicated, all monetary amounts mentioned in this Ninth Report are expressed in U.S. dollars. Capitalized terms not defined in this Ninth Report are as defined in a prior report of the Monitor or the Initial Order.
10. A copy of this Ninth Report, the motion record of this CCAA proceeding and subsequent reports of the Monitor will be available on the Monitor's website at www.deloitte.com/ca/davieyards. The Monitor has also established a toll-free hotline 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.

THE COMPANY'S OPERATIONS SINCE AUGUST 25, 2010

General

11. The production work on the vessels remains suspended in order to preserve its cash resources. The Company focused its effort on reviewing its options and pursuing its recapitalization and restructuring efforts.
12. Since our Eighth Report, the number of employees has been slightly reduced to approximately fifty-three (53) persons, which constitute at this time, according to management, the minimum employees necessary to conduct the affairs of the Company and pursue its recapitalization and restructuring efforts.

13. The Company has continued to pay its employees in the normal course of business, in conformity with the Initial Order.

Cash Flows

14. **Table A** presents a statement of Davie's cash operations for the period of four (4) weeks beginning August 7, 2010 and ending September 3, 2010 and for the period of sixteen (16) weeks from the date of the last extension order to September 3, 2010.

15. Highlights of the Company's financial performance for the period are as follows:

- a. As of September 3, 2010, Davie had approximately \$4,958K more cash than initially budgeted sixteen (16) weeks ago. This variance is primarily attributable to the following:
 - i. Unfavorable variance of \$872K related to the cash inflows. This variance is a timing variance as the GST/QST amount that was supposed to be received by Davie has been delayed in time. This amount should be received in September 2010;
 - ii. Favorable variance of \$1,002K related to the cash outflows associated to vessels under construction. This is mainly due to the fact that all work has now been stopped on vessels under construction, which was not initially forecasted;
 - iii. Favorable variance of \$3,305K related to the administration cost cash outflows, excluding professional services. This variance is explained by the initiative implemented by the management in order to preserve the cash and, as stated above, that all work has now been stopped on vessels under construction;
 - iv. Favorable variance of 1,325K related to professional services, as these expenses have been lower than anticipated.

16. As of September 3, 2010, Davie has approximately \$13,148K of cash. This is a positive variance of \$4,891K in comparison with the amount of \$8,257K that was forecasted in the Fourth Report issued by the Monitor in May 2010

17. So far, all expenses incurred have been or will be paid out of Davie's working capital.

Potential Investors

18. Davie, with the assistance of its financial advisor, continued discussions with several industrial potential investors or groups of potential industrial investors.

19. Access to the Virtual Data Room was granted to a new group of potential industrial investors after they executed a customary confidentiality agreement. To date, representatives from twelve (12) different entities have signed the confidentiality agreement and have obtained access to the data room.

20. Davie informed the Monitor that it is still confident that it will shortly be receiving indication of interest from one or several potential industrial investors.

The National Shipbuilding Procurement Strategy (“NSPS”)

21. On June 3, 2010, the Government of Canada announced the NSPS. For the construction of large vessels, the NSPS represents a historic and important shift in shipbuilding procurement, moving from a project-by-project competition basis to a long-term strategic sourcing approach.
22. As part of the NSPS, two Canadian shipyards will be selected for the construction of all of the large vessels expected to be purchased by the Government of Canada over the upcoming decades. Several billions of dollars in contracts will be tendered.
23. Further information with respect to the NSPS was communicated to industry members during a meeting called by Public Works and Government Services Canada on August 27, 2010, which was attended by Davie’s management.
24. The Monitor has reviewed the content of the NSPS documents made available to the industry through Public Works and Government Services Canada. The Monitor’s understanding of the NSPS process is the following:
 - a. A pre-selection process will be completed by Public Works and Government Services Canada during the months of September and October 2010. Davie will comply with this process and believes in its chances for success.
 - b. From October to December 2010, the pre-selected shipyards will be the object of an evaluation as to their capability and productivity. The evaluation will be conducted by an independent analyst mandated by the Government of Canada.
 - c. From January to April 2011, the pre-selected shipyards will have to respond to a request for proposals in relation to the NSPS.
 - d. During the month of June 2011, the Government of Canada should conclude its selection process and two (2) shipyards will be selected for the construction of the large vessels to be purchased by the Government of Canada over the next thirty (30) years as part of the NSPS.
25. The implementation of the NSPS by the Government of Canada could have a significant impact on the future outlook of Davie and on the interest that potential investors may have in the shipyard. It is therefore important for Davie, as per its management, to take the necessary steps to ensure that the Company is pre-selected in accordance with the pre-qualification criteria provided in the publicly available NSPS rules.

THE MONITOR’S ACTIVITIES SINCE AUGUST 25, 2010

General

26. The Monitor has analyzed Davie’s receipts and disbursements on a weekly basis as well as variances from the initial budget.
27. The Monitor has continued to attend meetings of the Financial Restructuring Committee and the Board of Directors.

28. The Monitor has continually updated the information available on its website, taking into account new information as they became available.
29. The Monitor assisted Davie in its efforts to maintain the Virtual Data Room with up-to-date information.
30. The Monitor has assisted Davie in its relationships with creditors/suppliers in addition to answering their requests for information.
31. The Monitor made efforts to ensure that Davie and the other affected parties comply with the CCAA's Initial Order and subsequent orders.

Forensic Review

32. As stated in our Eighth Report to the Court, Deloitte Forensic has completed the analysis of transactions between Davie and five (5) suppliers that were specifically identified among Davie's largest suppliers.
33. Deloitte Forensic has also completed the analysis of transfers made by Davie to related companies.
34. On September 14, 2010, a third meeting with the Forensic Committee is scheduled to take place. During this meeting, Deloitte Forensic will present the results of its analysis.
35. Based on discussion held during the two previous Forensic Committee meetings, the Monitor does not anticipate that any additional analysis will be required by the Forensic Committee.

EXTENSION OF THE STAY OF PROCEEDINGS PERIOD

36. Pursuant to the extension granted by the Court on May 25, 2010, the Stay Period was extended until September 15, 2010.
37. Davie informed the Monitor of its intention to seek from the Court a third extension of the Stay Period to October 29, 2010 to allow Davie to:
 - a. Take the necessary steps pursuant to the NSPS;
 - b. Advance its Solicitation Process;
 - c. Advance the negotiation with one or more industrial investor;
 - d. Establish a procedure with respect to the claiming procedure of its creditors;
 - e. Develop a plan of arrangement.
38. In support of the Company's request for a third extension of the Stay Period, the Company is providing an updated weekly cash flow statement for the period of September 3 to October 29, 2010, which is attached hereto as **Table B**. As of October 29, 2010, Davie is planning to have in cash approximately \$10,626K.

THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

39. It is the Monitor's opinion that the Company continued to act in accordance with the Initial Order and the other related orders issued by the Court.
40. It is the Monitor's opinion that Davie has acted and continues to act in good faith and diligently in the process of its restructuring.
41. It is the Monitor's opinion that the third extension of the Stay Period requested by Davie is reasonable and necessary to allow the Company to submit a plan of arrangement to its creditors.
42. It is the Monitor's opinion that Davie should be allowed to pursue its Solicitation Process and to take the necessary steps in order to be pre-selected pursuant to the NSPS and that, if the Company be put into receivership or became a bankrupt company, the likelihood of being pre-selected would be quite remote.
43. It is the Monitor's opinion that the extension of the Stay Period requested by Davie should not cause any serious damage to its creditors.

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

DATED IN MONTREAL, the 10th day of September
2010.




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

Table A

Davie Yards Inc.
Actual Cash Flow
Unaudited - Compiled from reports of Davie Yards inc. management
(In thousand dollars US)

	Four weeks period August 7th to September 3rd, 2010			Sixteen weeks period ended September 3rd, 2010		
	Actual	Projections	Variance	Actual	Projections	Variance
Cash Inflows						
Others	170	1 536	(1 366)	664	1 536	(872)
	<u>170</u>	<u>1 536</u>	<u>(1 366)</u>	<u>664</u>	<u>1 536</u>	<u>(872)</u>
Cash Outflows						
<i>Vessel C-717</i>						
Material cost	21	-	(21)	52	1 054	1 002
Insurance premium	305	-	(305)	624	350	(274)
Contingency	-	100	100	-	400	400
	<u>326</u>	<u>100</u>	<u>(226)</u>	<u>676</u>	<u>1 804</u>	<u>1 128</u>
<i>Vessel C-721 et C-722</i>						
Material cost	15	-	(15)	112	-	(112)
Insurance premium	14	-	(14)	14	-	(14)
	<u>29</u>	<u>-</u>	<u>(29)</u>	<u>126</u>	<u>-</u>	<u>(126)</u>
<i>Administration</i>						
Overhead salaries disbursement	333	560	227	1 931	2 360	429
Heating (Ultramar)	-	10	10	-	40	40
Electricity	15	140	125	334	555	221
Communications (Phone , ...)	22	20	(2)	70	65	(5)
City taxes	159	50	(109)	297	300	3
Insurance premium	220	300	80	220	300	80
Group Insurance	27	50	23	86	150	64
Professional services (note 3)	170	700	530	1 275	2 600	1 325
Financial advisor	144	150	6	578	730	152
Davie Yards AS (Norway employees sal.)	82	230	148	393	1 245	852
Maintenance	27	200	173	144	800	656
GST / QST paid to suppliers	49	136	87	299	534	235
Contingency	56	200	144	222	800	578
	<u>1 304</u>	<u>2 746</u>	<u>1 442</u>	<u>5 849</u>	<u>10 479</u>	<u>4 630</u>
	<u>1 659</u>	<u>2 846</u>	<u>1 187</u>	<u>6 651</u>	<u>12 283</u>	<u>5 632</u>
Variation in Cash Balance	(1 489)	(1 310)	(179)	(5 987)	(10 747)	4 760
Opening Balance	14 696	9 567	5 129	19 004	19 004	-
Exchange rate	(59)	-	(59)	131	-	131
Ending Balance	13 148	8 257	4 891	13 148	8 257	4 891

Note 1: Reserves and restrictions

For the purposes of the preparation of this document, the monitor relied on unaudited financial information given by Davies Yards Inc. ("Davie"), Davie's accounting documents, and discussions with Davie's management. While the monitor reviewed the information provided by Davie, the monitor did not audit the information.

Note 2: Projections

Projections refer to values contained in the weekly cash flow prepared by Davie's management and submitted to the Superior Court of Quebec (200-11-019127-102) on or around May 20th, 2010.

Note 3 - Professional services

The professional service fees included fees of the Company legal counsel, the Monitor, the Monitor legal counsel, Secor Group, Navware Canada Inc. and Investment Quebec related professional fees. It also includes the Financial Restructuring Committee fees.

Table B

Davie Yards Inc.**Projected weekly cash flow**

From September 6 to October 29, 2010

WEEK NUMBER (US\$000) WEEK ENDING	<i>Total</i>								<i>Total</i>	<i>Total</i>	
	1 10-Sep	2 17-Sep	3 24-Sep	September	4 1-Oct	5 8-Oct	6 15-Oct	7 22-Oct	8 29-Oct	October	Sept - Oct
<u>Cash Inflows</u>											
QST/GST	80	-	1 275	1 355	-	-	-	53	-	53	1 408
Cash inflows total	80	-	1 275	1 355	-	-	-	53	-	53	1 408
<u>Cash Outflows</u>											
<i>Vessel C-717 to C-722</i>											
Salaries (ADP + fringes)	-	-	-	-	30	50	50	50	50	230	230
Material cost	25	20	25	70	15	25	15	25	15	95	165
Contingency	50	-	-	50	-	-	-	50	-	50	100
	75	20	25	120	45	75	65	125	65	375	495
<i>Administration</i>											
Overhead salaries disbursement	80	80	80	240	80	80	80	80	80	400	640
Heating (Ultramar)	10	-	-	10	-	10	-	50	-	60	70
Electricity	-	100	20	120	100	20	-	-	-	120	240
Communications (Phone, etc.)	-	-	20	20	-	-	-	20	-	20	40
Group insurance	-	30	-	30	-	-	30	-	-	30	60
Professional services	150	150	150	450	100	150	100	150	100	600	1 050
Investment banker	145	60	-	205	-	145	-	-	30	175	380
Davie Yards AS (Norway employees sal.)	-	100	-	100	100	-	-	-	-	100	200
Maintenance	15	15	15	45	15	25	25	25	15	105	150
GST/QST paid to suppliers	40	29	21	91	15	42	16	23	19	114	205
Contingency	50	50	50	150	50	50	50	50	50	250	400
	490	614	356	1 461	460	522	301	398	294	1 974	3 435
Cash outflows total	565	634	381	1 581	505	597	366	523	359	2 349	3 930
Opening Balance	13 148	12 663	12 028	13 148	12 922	12 417	11 820	11 454	10 984	12 922	13 148
Cash inflows	80	-	1 275	1 355	-	-	-	53	-	53	1 408
Cash outflows	-565	-634	-381	-1 581	-505	-597	-366	-523	-359	-2 349	-3 930
Closing Balance	12 663	12 028	12 922	12 922	12 417	11 820	11 454	10 984	10 626	10 626	10 626

Table B (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
<u>Opening cash balance</u>	Based on current bank balances	x	

<u>Exchange Rate</u>	Exchange rates used by management are the following: <ul style="list-style-type: none"> • US \$ / Cnd \$ = 1.00 / 1.05 • US \$ / NOK = 1.00 / 6.00 		x
<u>Forecast Cash receipts:</u>			
QST / GST	Based on actual QST and GST form completed by the company and estimates of current and future months taxable disbursements.	x	
<u>Forecast Cash disbursements:</u>			
Salaries (ADP + fringes) (<i>Vessels</i>)	Based on management expectations of employees required to secure and prepare the vessels for the upcoming winter season.	x	
Material Cost (<i>Vessels</i>)	Based on management expectations of material required to preserve the vessels.		x
Insurance premium (<i>Vessels</i>)	Insurance premium to maintain coverage on all vessels.	x	
Contingency (<i>Vessels</i>)	General provision.		x
Overhead salaries disbursement	Based on management 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 estimate of city taxes payable.	x	
Insurance premium	Insurance premium to maintain coverage on the buildings and the various assets of the yard.	x	
Group Insurance	Insurance costs for employees insurance based on management detailed list of active employees.	x	
Professional services	Management estimate of professional fees to be incurred in the following months for the monitor and the legal services.		x
Investment banker	Management estimate of professional fees to be incurred in the following months based on engagement letter with Rothschild.	x	
Davie Yards AS (Norway employees salaries)	Based on management detailed list of active employees.	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