

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

SUPERIOR COURT
Commercial Chamber

**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

**ELEVENTH 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 Honorable 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 its Sixth Report, Seventh Report and Eighth Report in accordance with the judgment 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. On September 15, 2010, the Stay Period was extended to October 29, 2010, in accordance with an order of the Court.
7. Finally, on October 29, 2010, for the fourth time, the Stay Period was extended to January 21, 2011, in accordance with an order of the Court.
8. This report ("**Eleventh Report**") concerns the following subjects:
 - (i) The Company's operations since October 29, 2010;
 - (ii) The Monitor's activities since October 29, 2010;
 - (iii) The Extension of the Stay Period;
 - (iv) The Monitor's conclusions and recommendations.
9. In preparing this Eleventh Report, the Monitor has relied on 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 this Eleventh Report is based on assumptions of the Company's management regarding future events. Actual results achieved will vary from this information and the variations may be material.
10. Unless otherwise indicated, all monetary amounts mentioned in this Eleventh Report are expressed in U.S. dollars. Capitalized terms not defined in this Eleventh Report are defined in a prior report of the Monitor or the Initial Order.
11. A copy of this Eleventh Report, the motion record of these CCAA proceedings 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.

COMPANY'S OPERATIONS SINCE OCTOBER 29, 2010

General

12. Vessel production operations continue to be suspended to maintain the Company's cash resources.
 13. The Company has completed its work to protect the vessels under construction from winter conditions.
 14. As anticipated in our previous report, dated October 26, 2010, as at the date of the Eleventh report, 38 persons are working for the Company, either part-time or full-time. 14 employees perform direct security and maintenance work on the shipyard and the property contained therein. Most of the other employees work primarily on the Company's restructuring operations and/or on the NSPS selection process.
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15. The Company has continued to pay its employees in the normal course of business, in conformity with the Initial Order.
16. The Company's priority remains the recapitalization and restructuring of its affairs, which is also related to the outcome of the ongoing NSPS program and ongoing Solicitation Process.

Cash Flows

17. **Table A** hereto attached presents a statement of the Company's cash operations for the period of eleven weeks beginning October 23, 2010 and ending January 7, 2011. Highlights of the cash variance for this period are as follows:
 - a) Favorable variance of \$195K related to the cash inflows. This is due to miscellaneous cash inflows that were not projected in the last budget and mainly consist of interests revenues and revenues generated by the sale of scrap metal;
 - b) Favorable variance of \$257K as costs related to preservation work on the vessels under construction were lower than projected;
 - c) Favorable variance of \$1,557K related to the administration cost cash outflows. This favorable variance is mainly due to:
 - i. A reassessment of the CSST which is expected to be lower than initially projected (\$150K);
 - ii. Professional expenses were lower than projected by \$549K. This variance is due to a timing difference, as these costs should be incurred at completion of a transaction;
 - iii. A portion of the contingency costs that have been projected have not been incurred by the Company. This variance consist to a favorable variance of \$352K;
 - iv. Heating and maintenance costs have been lower than projected by \$300K. This is essentially due to more favorable weather conditions.
 - v. Insurance premiums were \$94K higher than projected due to the fact that the Company paid the D&O insurance premium a week prior the scheduled date.
 - vi. Investment banker fees that were projected to be paid during the first week of January 2011 have been postponed by one week, which result in a timing difference of \$147K reflected in **Table B**.
 - vii. GST/QST paid to suppliers were \$98K lower than projected due to lower taxable expenses made by the Company.

18. As of January 7, 2011, the Company had approximately \$9,111,000 in cash. This is a positive variance of \$2,209,000 in comparison with the amount of \$6,902,000 that was initially projected.
19. To date, all expenses incurred have been or will be paid out of the Company's working capital.

Potential Investors

20. In furtherance of its Solicitation Process, during the month of November 2010, in collaboration with Rothschild and under the supervision of the Monitor, the Company implemented a formal solicitation of interest process.
21. In this respect, on November 12, 2010, the Company sent a solicitation of interest to all the investors who had previously shown an interest. December 6, 2010 had been set by the Company as the deadline to submit a letter of interest. Several potential investors ("**Potential Investors**") responded favorably to this solicitation of interest.
22. As at the date hereof each Potential Investors has required, as a condition to their letter of interest, that they obtain exclusive negotiating rights before they perform a complete due diligence, intended to result in a final transaction. Also, they have indicated that a final transaction will likely be conditional on the Company being selected pursuant to the NSPS.
23. The Company held many discussions and meetings with Potential Investors in an effort to agree on the acceptable terms and conditions to be set out in a letter of offer that could allow the Company to grant exclusive negotiating rights. As of the date of this Eleventh Report, these discussions are still ongoing. The Company informed the Monitor that based on the current state of discussions it is expected that an acceptable letter of offer may be agreed upon during the forthcoming weeks.

The National Shipbuilding Procurement Strategy

24. As part of the NSPS launched in June 2010, the Government of Canada is actively pursuing the selection process whereby two Canadian shipyards will be selected to enter into an Umbrella Agreement with the Government of Canada whereby such shipyards will obtain resulting contracts for shipbuilding of combat or non-combat vessels to be acquired by the Government of Canada over the next 30 years to renew its fleet.
 25. In November and December 2010, as well as on January 7, 2011, the Company took part in meetings convened by the Government of Canada as part of the NSPS. These meetings were essentially intended to inform the five preselected shipyards of the selection criteria and how the selection process will be governed and managed.
 26. Also, as indicated in our Tenth Report, Public Works Canada engaged a third-party expert to perform a benchmarking and capability assessment of the five pre-selected shipyards. This assessment has been performed in November 2010. Davie should receive a preliminary report of the expert analysis by the end of January 2011. The content of this report is a critical element of the NSPS selection process.
 27. According to the recent information made available by the Government of Canada, the next steps of the NSPS selection process are as follows:
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- (i) The Government of Canada will issue the final text of the request for proposal (the “RFP”) by the end of January 2011;
 - (ii) Proposals need to be filed by the five pre-selected shipyards by May 2011;
 - (iii) The Government of Canada will be selecting two shipyards in June 2011.
28. The Company has ongoing communication with Public Works and Government Services Canada to ensure that it has an accurate understanding of the NSPS process and that the Company meets the mandatory requirements.
29. The Company expects to carry out the subsequent steps in the NSPS selection process in close collaboration with the potential investor that will have entered into a letter of offer with the Company.

Income Tax Refund

30. In December 2010, the Company received a cheque in an amount of C\$17,388,214 from Revenu Québec representing tax credits for the 2009 financial year. The amount received by the Company corresponds to the amount expected to be received. The cheque received was immediately endorsed by the Company and remitted to Investissement Québec (“IQ”) to be applied against the its loan secured by these tax credits, as set out in the relevant agreement between Davie and IQ and as mentioned in our previous reports.

Directors and officers (“D&O”) insurance

31. The Company maintains a D&O insurance policy with a coverage limit of C\$15,000,000. During the first week of 2011, the Company has paid the annual premium of C\$95,000 to cover the twelve months period ending January 30, 2012.
32. The Company has negotiated a pre-paid D&O insurance run-off endorsement to be triggered at the date that the Company emerges as a restructured entity or enters into BIA proceedings. This run-off insurance extends for six years, starting January 30, 2011. The cost of this run-off is C\$190,000 which is fully payable at policy inception.

MONITOR’S ACTIVITIES SINCE OCTOBER 29, 2010

General

33. The Monitor has continued to analyze the Company’s receipts and disbursements on a weekly basis as well as variances from the initial budget.
34. The Monitor has continued to attend the meetings held by the Financial Restructuring Committee and the Board of Directors.
35. The Monitor has continually updated the information available on its website, taking into account new information as it becomes available.
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36. The Monitor assisted the Company in its efforts to maintain the Virtual Data Room with up-to-date information.
37. The Monitor has attended meetings and conference calls between the Company and Potential Investors.
38. The Monitor has assisted the Company in its relationships with creditors/suppliers and shareholders in addition to answering their requests for information.
39. The Monitor made efforts to ensure that the Company and the other affected parties comply with the CCAA's Initial Order and subsequent orders.
40. The Monitor has been kept apprised on a regular basis of the work carried out by the Company as part of the NSPS selection process in which Davie is involved.

EXTENSION OF THE STAY OF PROCEEDINGS PERIOD

41. Pursuant to the extension granted by the Court on October 29, 2010, the Stay Period was extended until January 21, 2011.
42. The Company informed the Monitor of it intends to seek from the Court a fifth extension of the Stay Period to February 18, 2011 to allow the Company to:
 - a. Agree on the content of a letter of offer with a Potential Investors which shall include an exclusive negotiating rights;
 - b. Negotiate a transaction with the selected Potential Investors;
 - c. Continue to take all the necessary steps pursuant to the NSPS selection process, including the preparation of a response to the RFP;
 - d. Establish a procedure with respect to its creditors' claim process;
 - e. Develop a plan of arrangement.
43. In support of the Company's request for a fifth extension of the Stay Period, the Company is providing an updated weekly cash flow statement for the period of January 10, 2011 to February 19, 2011, which is attached hereto as **Table B**. As February 19, 2011, the Company is planning to have approximately \$6,297,000 in cash.

MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

44. 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.
 45. It is the Monitor's opinion that the Company has acted and continues to act in good faith and diligently in its restructuring process.
 46. It is the Monitor's opinion that the fifth extension of the Stay Period requested by the Company is reasonable and necessary to allow the Company to submit a plan of arrangement.
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47. It is the Monitor's opinion that the extension of the Stay Period requested by the Company should not cause any serious prejudice to its creditors.

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

DATED IN MONTREAL, the 13th day of January 2011.



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

Table A

TABLE A

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

	Eleven weeks period		
	October 23 to January 7, 2011		
	Actual	Projections (note 2)	Variance (note 3)
Cash Inflows			
Others	166	-	166
GST/QST Reimbursement	734	705	29
Cash inflows total	900	705	195
Cash Outflows			
<i>Vessel C-717 to C-722</i>			
Salaries (ADP + fringes)	81	152	(71)
Material costs	55	165	(110)
Insurance premium	343	319	24
Contingency	100	200	(100)
	579	836	(257)
<i>Administration</i>			
Overhead salaries disbursement	807	810	(3)
Heating (Ultramar)	325	500	(175)
Electricity	377	405	(28)
Communications (Phone, etc.)	50	40	10
City taxes	21	21	-
Insurance premium	314	220	94
CSST	-	150	(150)
Group Insurance	82	90	(8)
Professional services	401	950	(549)
Investment banker	203	350	(147)
Davie Yards AS	284	310	(26)
Maintenance	115	240	(125)
GST/QST paid to suppliers	101	199	(98)
Contingency	130	482	(352)
	3,210	4,767	(1,557)
Cash outflows total	3,789	5,603	(1,814)
Opening Balance	11,800	11,800	-
Cash inflows	900	705	195
Exchange rate	200	-	200
Cash outflows	(3,789)	(5,603)	1,814
Closing Balance	9,111	6,902	2,209

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 October 26th, 2010.

Note 3: Professionnal services

The professionnal service fees included fees of the Company legal counsel, the Monitor, the Monitor's legal counsel, the marine independent engineer, Secor Group, board members attendance fees, and Investment Quebec related professionnal fees.

Table B

Davie Yards Inc.
Projected weekly cash flow
From January 8 to February 26, 2011
(In thousand US dollars)

TABLE B

Week number	1	2	3	4	5	6	7	Sub-total	Sub-total	Total
Week ending	15-Jan	22-Jan	29-Jan	5-Feb	12-Feb	19-Feb	26-Feb	Sub-total	Sub-total	Total
Cash Inflows										
Others	200	-	-	200	-	-	-	-	-	200
GST/QST	-	-	-	-	-	-	47	47	47	47
Cash inflows total	200	-	-	200	-	-	47	47	47	247
Cash Outflows										
<i>Vessel C-717 to C-722</i>										
Salaries (ADP + fringes)	-	-	-	-	-	-	-	-	-	-
Material cost	15	10	-	25	-	15	10	25	25	50
Insurance premium	-	-	-	-	-	-	-	-	-	-
Contingency	-	-	50	50	-	50	-	50	50	100
	15	10	50	75	-	65	10	75	75	150
<i>Administration</i>										
Overhead salaries disbursement	70	70	70	210	70	70	70	280	280	490
Heating (Ultramar)	60	75	75	210	50	75	50	225	225	435
Electricity	34	-	-	34	125	25	-	150	150	184
Communications (Phone, etc.)	-	20	-	20	-	-	20	20	20	40
City taxes	-	-	-	-	-	-	-	-	-	-
Insurance premium	190	-	-	190	-	-	220	220	220	410
CSST	-	-	-	-	-	-	-	-	-	-
Group insurance	20	-	-	20	-	20	-	20	20	40
Professional services	150	100	100	350	50	100	50	300	300	650
Investment banker	100	-	15	115	100	-	15	115	115	230
Davie Yards AS	70	-	-	70	-	70	-	70	70	140
Maintenance	25	15	25	65	15	25	20	75	75	140
GST/QST paid to suppliers	36	15	18	69	21	16	9	64	64	133
Contingency	30	30	30	90	30	110	30	200	200	290
	785	325	333	1,442	461	511	449	1,739	1,739	3,181
Cash outflows total	800	335	383	1,517	461	576	459	1,814	1,814	3,331
Opening Balance	9,111	8,511	8,176	9,111	7,794	7,332	6,756	6,297	7,794	9,111
Cash inflows	200	-	-	200	-	-	47	47	47	247
Cash outflows	(800)	(335)	(383)	(1,517)	(461)	(576)	(459)	(1,814)	(1,814)	(3,331)
Ending Balance	8,511	8,176	7,794	7,794	7,332	6,756	6,297	6,027	6,027	6,027

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 / 1.00 • US \$ / NOK = 1.00 / 6.00 		X
<u>Forecast Cash receipts:</u>			
Others	Recovery of a deposit paid in Federal Court by the Company in a dispute with a marine transport supplier which had retained merchandise.	X	
GST / QST	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. Currently there are 38 employees on payroll.	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 (Phone, etc.)	Monthly estimate of disbursements required based on historical costs.	X	
City taxes	No city tax payable during the budgeted period.	X	
Insurance premium	Premium for the D&O insurance policy run-off and for the extension of the property insurance policy.	X	
CSST	Since January 1, 2011, CSST charges are included in the salaries.	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. Professional services include the fees of the Company legal counsel, the Monitor, the Monitor's legal counsel and others professionals selected by the Company.		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 Norwegians 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