

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

**TENTH 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 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 once again to October 29, 2010, in accordance with an order of the Court.
7. This report ("**Tenth Report**") concerns the following subjects:
 - (i) The Company's operations since September 15, 2010;
 - (ii) The Monitor's activities since September 15, 2010;
 - (iii) Extension of the Stay Period;
 - (iv) The Monitor's conclusions and recommendations.
8. In preparing this Tenth 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 Tenth 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.
9. Unless otherwise indicated, all monetary amounts mentioned in this Tenth Report are expressed in U.S. dollars. Capitalized terms not defined in this Tenth Report are defined in a prior report of the Monitor or the Initial Order.
10. A copy of this Tenth 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 SEPTEMBER 15, 2010

General

11. Vessel production operations continue to be postponed to maintain the Company's cash resources.
 12. With the consent of the Monitor, the Company implemented a working plan to protect vessels under construction from upcoming winter conditions. According to the Company, this work should be completed in November 2010.
 13. As of October 22, 2010, the Company had 83 employees, 30 of which are dedicated to preservation work on vessels under construction. As soon as the preservation work will be completed, the Company is planning to reduce the number of employees down to the minimum number necessary to conduct the affairs of the Company.
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14. The Company has continued to pay its employees in the normal course of business, in conformity with the Initial Order.

15. The Company's priority remains the recapitalization and restructuring of its affairs.

Cash Flows

16. **Table A** hereto attached presents a statement of the Company's cash operations for the period of 7 weeks beginning September 4, 2010 and ending October 22, 2010. Highlights of the cash variance for this period are as follows:

- i. Unfavorable variance of \$ 444K related to the cash inflows. This is a timing variance related to GST/QST credit that was scheduled to be received by Company. This amount should be received in November 2010;
- ii. Favorable variance of \$ 212K related to costs savings realized by the Company into the cash outflows associated to preservation work on the vessels under construction;
- iii. Favorable variance of \$ 800K related to the administration cost cash outflows, essentially related to professional services and contingency. The variance related to professional services consists to a timing difference, as these costs should be incurred at completion of a transaction.

17. As of October 22, 2010, the Company had approximately \$ 11,800,000 in cash. This is a positive variance of \$ 816,000 in comparison with the amount of \$ 10,984,000 that was projected as at September 15, 2010.

18. To date, all expenses incurred have been or will be paid out of the Company's working capital.

Potential Investors

19. The Company, with the assistance of its financial advisor, continued discussions with several potential industrial investors or groups of potential industrial investors.

20. Certain potential industrial investors conducted several days of due diligence work on the Company's business.

21. The Company met on two occasions with a new group of potential investors. Access to the Virtual Data Room was granted to their representatives after execution of a confidentiality agreement.

22. Foreign potential industrial investors visited the shipyard and met with the Company and various stakeholders.

23. The Company received a letter from a potential investor communicating its intent to potentially provide the required investment to allow the shipyard to resume operations following its emergence from CCAA. The letter is a non-binding indication of interest in nature and is highly conditional. The Company is planning to meet with this potential investor in the near future.

24. The Company informed the Monitor that it has been advised that offers will be tabled by one or more potential investors in the very near future.

The National Shipbuilding Procurement Strategy (“NSPS”)

25. As stated in our Ninth Report, 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.
26. On October 8, 2010, Public Works and Government Services Canada announced the results of a solicitation of interest and qualification process to build large vessels for Canada under the NSPS. Five Canadian shipyards have been short-listed to build these large vessels. The Company is one of those five shipyards that have been selected.
27. Public Works and Government Services Canada engaged an internationally recognized third-party expert to perform a benchmarking and capability assessment of the short-listed Canadian shipyards. The Company’s capability benchmarking and capability assessment will be performed by this expert during the first week of November 2010. The Company is currently finalizing its preparation for this analysis. The expert’s analysis report should be made available to the Company during the month of January 2011.
28. On October 8, 2010, Public Works and Government Services Canada issued a press release reiterating that the announcement of the two selected Canadian shipyards will be made in Spring 2011. Therefore, the NSPS timeline described in our Ninth Report has not been modified.

Cost to Complete Analysis

29. The Company has completed its Cost to Complete Analysis, and has provided supporting documentation to all potential investors and stakeholders through the Virtual Data Room.
30. The independent marine engineer selected by the Monitor, Mr John A. Tylawsky, P.E., has completed the analysis of the underlying assumptions of the Cost to Complete Analysis. In his opinion, the assumptions used by the Company in its Cost to Complete Analysis are reasonable. The independent marine engineer presented the conclusion of its report to the Company. The Company is satisfied with this conclusion. The Monitor does not intend to make the independent marine engineer’s report publicly available as this report contains sensitive confidential information that is already available to interested parties in the Virtual Data Room.
31. Variances in the assumptions used by the Company in its Cost to Complete Analysis could potentially have a significant impact on the projections made. Neither the Monitor nor the Company is currently able to evaluate the potential impact of the potential variances with respect to each or all of these assumptions.

MONITOR’S ACTIVITIES SINCE SEPTEMBER 15, 2010

General

32. The Monitor has analyzed the Company’s receipts and disbursements on a weekly basis as well as variances from the initial budget.
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33. The Monitor has continued to attend meetings held by the Financial Restructuring Committee and the Board of Directors.
34. The Monitor has continually updated the information available on its website, taking into account new information as it becomes available.
35. The Monitor assisted the Company in its efforts to maintain the Virtual Data Room with up-to-date information.
36. The Monitor has attended meetings between the Company and potential industrial investors.
37. The Monitor has supported and continues to support the Company as part of the due diligence process carried out by 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 of the work carried out by the Company as part of the NSPS selection process in which it is involved.

Forensic Review

41. On September 15, 2010, a third meeting of the Forensic Committee was held. During this meeting, Deloitte Forensic presented the results of its analysis.
42. On September 24, 2010, the Monitor circulated a copy of Deloitte Forensic's final report to the Forensic Committee members.
43. On September 30, 2010, a fourth meeting of the Forensic Committee was held. During this meeting, Deloitte Forensic answered questions addressed by the Forensic Committee members regarding the report circulated to them. As all answers were provided in the meeting and the majority of the members are satisfied with the analyses performed by Deloitte Forensic and the results of these analyses, it has been decided by the majority of the members that no additional analyses should be performed by Deloitte Forensic. The Forensic Committee was subsequently dissolved.

EXTENSION OF THE STAY OF PROCEEDINGS PERIOD AND EXEMPTION TO HOLD AN ANNUAL GENERAL MEETING OF THE SHAREHOLDERS ("AGM") PERIOD

44. Pursuant to the extension granted by the Court on September 15, 2010, the Stay Period was extended until October 29, 2010.
 45. The Company informed the Monitor of its intention to seek from the Court a fourth extension of the Stay Period to January 21, 2011 to allow the Company to:
 - a. Continue to take necessary steps pursuant to the NSPS;
 - b. Advance its Solicitation Process;
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- c. Advance the negotiations with one or more potential industrial investors
 - d. Establish a procedure with respect to its creditors' claim process ;
 - e. Develop a plan of arrangement.
46. In support of the Company's request for a fourth extension of the Stay Period, the Company is providing an updated weekly cash flow statement for the period of November 1, 2010 to January 28, 2011, which is attached hereto as **Table B**. As at January 21, 2011, the Company is expecting to have approximately \$ 5,966,000 in cash.
47. In its judgment dated June 8, 2010, the Court provided the Company with an exemption to hold an AGM until December 31, 2010.
48. The Company informed the Monitor of its intention to seek from the Court an extension of this exemption until March 31, 2011.

MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

49. 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.
50. It is the Monitor's opinion that the Company has acted and continues to act in good faith and diligently in its restructuring process.
51. It is the Monitor's opinion that the fourth extension of the Stay Period requested by the Company is reasonable and necessary to allow the Company to submit a plan of arrangement.
52. 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.
53. It is the Monitor's opinion that to proceed to the AGM at this juncture would likely only lead to a disruption of the orderly restructuring process that the Company is proceeding before this Court. Furthermore, it is the Monitor's opinion that an extension of the exemption period to hold and AGM until March 31, 2011, will not cause any serious prejudice to its Stakeholders.

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

DATED IN MONTREAL, the 26th day of October 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)

	Seven weeks period		
	September 4th to October 22nd, 2010		
	Actual	Projections (note 2)	Variance (note 3)
Cash Inflows			
Others	964	1,408	(444)
	964	1,408	(444)
Cash Outflows			
<i>Vessel C-717</i>			
Salaries	144	180	(36)
Material costs	50	150	(100)
Contingency	24	100	(76)
	218	430	(212)
<i>Administration</i>			
Overhead salaries disbursement	551	560	(9)
Heating (Ultramar)	83	70	13
Electricity	203	240	(37)
Communications (Phone,...)	39	40	(1)
Group Insurance	29	60	(31)
Professional services	620	950	(330)
Financial advisor	392	350	42
Davie Yards AS	151	200	(49)
Maintenance	70	135	(65)
GST / QST paid to suppliers	145	187	(42)
Contingency	59	350	(291)
	2,342	3,142	(800)
	2,560	3,572	(1,012)
Variation in Cash Balance	(1,596)	(2,164)	568
Opening Balance	13,148	13,148	-
Exchange rate	248	-	248
Ending Balance	11,800	10,984	816

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 September 15th, 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, Navware Canada Inc., board members attendance fees, and Investment Quebec related professionnal fees.

Table B

Davie Yards Inc.

Projected weekly cash flow

From October 23, 2010 to January 29, 2011

WEEK NUMBER (US\$000)	<i>Total</i>							<i>Total</i>							<i>Total</i>				<i>Total</i>
	WEEK ENDING	1 29-Oct	2 October	3 5-Nov	4 12-Nov	5 19-Nov	6 26-Nov	7 November	8 3-Dec	9 10-Dec	10 17-Dec	11 24-Dec	12 31-Dec	13 December	14 8-Jan	15 15-Jan	16 22-Jan	17 29-Jan	18 January
Cash Inflows																			
QST/GST	-	-	532	-	-	77	609	-	-	-	-	96	96	-	-	-	78	78	783
Cash inflows total	-	-	532	-	-	77	609	-	-	-	-	96	96	-	-	-	78	78	783
Cash Outflows																			
<i>Vessel C-717 to C-722</i>																			
Salaries (ADP + fringes)	38	38	38	38	38	-	114	-	-	-	-	-	-	-	-	-	-	-	152
Material cost	25	25	25	25	25	15	90	25	15	10	-	-	50	-	25	10	-	-	200
Insurance premium	-	-	-	-	-	-	-	-	319	-	-	-	319	-	-	-	-	-	319
Contingency	-	-	50	-	50	-	100	-	50	-	50	-	100	-	50	-	-	-	250
	63	63	113	63	113	15	304	25	384	10	50	-	469	-	75	10	-	-	921
<i>Administration</i>																			
Overhead salaries disbursement	80	80	80	80	65	65	290	65	65	65	115	65	375	65	65	65	65	65	1,005
Heating (Ultramar)	-	-	50	-	50	50	150	50	50	50	75	75	300	50	75	50	75	75	700
Electricity	-	-	110	20	-	-	130	125	25	-	-	-	150	125	25	-	-	-	430
Communications (Phone, etc.)	-	-	-	-	-	20	20	-	-	-	20	-	20	-	-	-	-	20	60
City taxes	-	-	-	21	-	-	21	-	-	-	-	-	-	-	-	-	-	-	21
Insurance premium	-	-	-	220	-	-	220	-	-	-	-	-	-	-	95	-	-	-	315
CSST	-	-	150	-	-	-	150	-	-	-	-	-	-	-	-	30	-	-	180
Group insurance	30	30	-	-	30	-	30	-	30	-	-	-	30	-	30	-	-	-	120
Professional services	100	100	100	100	100	100	400	100	100	50	100	50	400	50	150	100	100	400	1,300
Investment banker	-	-	100	-	-	25	125	100	-	-	-	-	25	125	100	-	-	15	365
Davie Yards AS	40	40	90	-	-	-	90	90	-	-	-	-	90	90	-	-	-	-	310
Maintenance	25	25	15	25	25	15	80	15	50	15	25	15	120	15	50	15	50	130	355
GST/QST paid to suppliers	16	16	28	16	16	18	78	28	20	8	16	12	84	21	26	15	21	83	261
Contingency	62	62	30	60	30	60	180	30	60	30	60	30	210	30	30	30	30	120	572
	353	353	753	542	316	353	1,964	603	400	218	411	272	1,904	546	546	305	376	1,773	5,994
Cash outflows total	416	416	866	605	429	368	2,268	628	784	228	461	272	2,373	546	621	315	376	1,858	6,915
Opening Balance	11,800	11,800	11,384	11,050	10,445	10,016	11,384	9,725	9,097	8,313	8,085	7,624	9,725	7,448	6,902	6,281	5,966	7,448	11,800
Cash inflows	-	-	532	-	-	77	609	-	-	-	-	96	96	-	-	-	78	78	783
Cash outflows	-416	-416	-866	-605	-429	-368	-2,268	-628	-784	-228	-461	-272	-2,373	-546	-621	-315	-376	-1,858	-6,915
Closing Balance	11,384	11,384	11,050	10,445	10,016	9,725	9,725	9,097	8,313	8,085	7,624	7,448	7,448	6,902	6,281	5,966	5,668	5,668	5,668

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 / 1.02 • 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	
CSST	Based on management estimate of CSST payable.	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 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