

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

**SEVENTH 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 24 and September 15, 2010, a report on the state of Davie's financial and business affairs.

5. On June 23, 2010, the Monitor filed its Sixth Report with the Court, or the first of the four reports required under the judgment of May 25, 2010. A copy of the Sixth Report was sent to each of the parties having appeared and was made available on the Monitor's website.
6. Pursuant to the judgment of May 25, 2010, all stakeholders can submit a written request to the Monitor to obtain detailed information or documents, including a request with respect to the Sixth Report. No such written request has been submitted to the Monitor since the Sixth Report was issued.
7. This report ("**Seventh Report**") concerns the following subjects:
 - (i) Company operations since June 25, 2010;
 - (ii) Rothschild's activities since June 25, 2010;
 - (iii) The Monitor's activities since June 25, 2010.
8. In preparing this Seventh 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 in the abridged time available, the Monitor has not performed an audit or other verification of such information. Forward-looking financial information included in the Seventh 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 Seventh Report are expressed in U.S. dollars. Capitalized terms not defined in this Seventh Report are as defined in a prior report of the Monitor or the Initial Order.
10. A copy of this Seventh Report, the motion record of this CCAA proceeding and subsequent reports of the Monitor are 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 OPERATIONS SINCE JUNE 25, 2010

General

11. As of the date of this report, approximately 55 employees are still employed by Davie. Since our Sixth Report, ten additional employees have resigned or have been laid off due to completion of defined activities, with the objective to preserve the financial resources of the Company.
12. Davie, jointly with Emploi-Québec, established a reclassification assistance committee to support employees who had to be temporarily dismissed. The establishment of this committee is required six (6) months after an initial massive lay-off, which occurred in February 2010.
13. The Company has continued to pay its current employees in the normal course of business, as authorized by the Initial Order.

14. Appendix A presents a statement of Davie's cash operations for the four (4) week period beginning June 12 and ending July 9, 2010. Highlights from the statement are as follows:
 - a. As of July 9, 2010, Davie had approximately \$4,008,000 in additional cash than initially budgeted;
 - b. Davie received \$353,000 in unbudgeted revenues during this period. These revenues consisted of refunds of sale taxes;
 - c. Davie recorded \$12,000 in cash outflows related to vessels. This represents approximately \$890,000 less cash outflows than what was budgeted for the period. In short, virtually all work has now been stopped on vessels currently under construction, and only certain vessel conservation costs were incurred;
 - d. Davie recorded \$1,126,000 in cash outflows in administration expenses. This represents approximately \$1,408,000 less cash outflows than what was budgeted for the period. This variance is largely attributable to delay in the receipt and payment of certain invoices included in the budget for the period.
15. As of the date of this Seventh Report, all expenses incurred have been or will be paid out of Davie's working capital.
16. At this time, there is nothing that would lead us to believe that Davie will need additional financing to meet current obligations between now and September 15, 2010.

Income tax refund

17. Davie informed the Monitor that its application for tax credits is being processed.
18. Davie informed the Monitor that it had no new information that would require a re-assessment of the total expected income tax credits. As a result, Davie still expects to receive the amount of \$17,388,293 claimed on or about the month of September 2010.

Cost to Complete Analysis

19. Davie continued to assemble documents and information in support of its Cost to Complete Analysis.
20. Davie, the Monitor and the independent marine engineer retained by the Monitor met again to discuss the assumptions underlying the Cost to Complete Analysis and the content of the independent marine engineer's interim report.
21. The independent marine engineer continued to analyze the underlying assumptions of the Cost to Complete Analysis. To this end, three (3) working meetings were held on June 21 and on July 6 and 7, 2010 with members of Davie's management, representatives of the Monitor and the independent marine engineer. Another work session is planned for the week ending July 30, 2010 in order to conclude the analysis.
22. The independent marine engineer informed the Monitor that he will be able to present to the Monitor and Davie his conclusions during the week ending July 30, 2010. Meetings have already been scheduled with Davie's management, the Monitor and the independent marine engineer for this purpose. The Monitor should be able to provide to the Court the final conclusions of this analysis in its next report.

Virtual Data Room

23. With the assistance of the Monitor, Davie is maintaining up-to-date information in the Virtual Data Room. This information is available to all the major stakeholders.

Communications with stakeholders

24. Davie continues to communicate with the stakeholders on a regular basis. Davie has informed the Monitor that it has had many telephone discussions with the major stakeholders in order to keep them informed of developments as they unfold.

ROTHSCHILD'S ACTIVITIES SINCE JUNE 25, 2010

25. On May 7, 2010, Davie retained the services of Rothschild to act in the capacity of financial advisor. On May 10, 2010, the Court approved the agreement concluded to this effect between Davie and Rothschild.

26. Since Rothschild was retained, numerous working sessions have been held with the management of Davie as well as with the Monitor and the Company's main stakeholders.

27. As part of its mandate and since June 25, 2010, Rothschild informed the Monitor that they have:

- a. Held further discussions with key stakeholders of Davie;
- b. Completed, together with the Company, marketing materials to support the sale process including an investment teaser and a management presentation;
- c. Initiated contact with virtually all potential investors on the buyers list compiled with the assistance of the Company;
- d. Participated in and provided support to Davie's senior management team in relation to management presentations to potential investors.

28. Over the coming weeks, Rothschild will:

- a. Organize and attend management presentations with interested potential investors;
- b. Analyze any preliminary indication of interest received from potential investors in due course.

THE MONITOR'S ACTIVITIES SINCE JUNE 25, 2010

General

29. The Monitor has analyzed Davie's receipts and disbursements on a weekly basis as well as variances from the budget.

30. The Monitor participated in the analysis of the underlying assumptions of the independent marine engineer's Cost to Complete Analysis.

31. The Monitor has continued to participate in the meetings of Davie's board of directors and financial restructuring committee.

32. The Monitor continued to participate in work sessions with Davie and Rothschild.

33. The Monitor has continually updated the information available on its website, taking into account new information as it becomes available.
34. The Monitor provided Davie with assistance in its efforts to maintain the Virtual Data Room with up-to-date information made available to all the major stakeholders.
35. The Monitor has assisted Davie in its relationships with creditors/suppliers in addition to answering their requests for information.
36. The Monitor made efforts to ensure that Davie and other parties subject to CCAA's orders comply with the CCAA's Initial Order and subsequent orders.

Forensic Review

37. As indicated in the Sixth Report, the Monitor created an informal committee (the "Forensic Committee") consisting of a representative from each of the major stakeholders. The purpose of the Forensic Committee is to allow the Monitor to submit the scope and results of the work done so far by Deloitte Forensic to the major stakeholders and allow the Monitor to obtain stakeholders' comments and suggestions on the nature and scope of any additional analyses that Deloitte Forensic would need to perform in order to satisfy them.
38. On July 13 and 15, 2010, the Monitor held two meetings with the Forensic Committee. Based on the discussions between the members of the Forensic Committee, the majority of them decided to recommend that Deloitte Forensic perform a certain number of supplementary tests in order to provide the stakeholders with the actual nature and value of certain transactions between the Company and some specific suppliers.
39. A third meeting of the Forensic Committee will take place in August 2010 in order to present Deloitte Forensic's preliminary results with respect to the supplemental analyses requested by the Forensic Committee.
40. In the meanwhile, Deloitte Forensic has continued allocating cash outflows to a vessel or to the general accounts. As of the date of the Forensic Review, the total unallocated cash outflows were approximately \$43 million; as at June 23, 2010, they were approximately \$8 million and, as of the date of this report, they are approximately \$6.5 million. Given the minimal value of the individual amounts that make up the balance of the current unallocated amounts of \$6.5 million, Deloitte Forensic does not intend to perform the work required to allocate them unless otherwise directed, since, in the Monitor's opinion, this work would not be the best interest of the stakeholders from a cost/benefit stand point, in light of the cost involved.
41. In addition, Deloitte Forensic also continued to analyze transfers made by Davie to related companies prior to the filing date. To date, a large portion of these transfers has already been analyzed. However, the Company is in the process of providing Deloitte Forensic with supporting documents for a total amount of approximately \$2 million such that Deloitte Forensic can complete its analysis. Deloitte Forensic expects to have completed this work during the month of August 2010, provided that it receives the required supporting documents from Davie.

GENERAL FINDINGS

42. It is the Monitor's opinion that the Company continued to act in accordance with the Initial Order and the Court's other, related orders.
43. It is the Monitor's opinion that Davie has acted and continues to act in good faith and diligently in the process of its reorganization.

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

DATED IN MONTREAL, the 20th day of July 2010.



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

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

	Four weeks period June 12th to July 9th, 2010			Eight weeks period ended July 9th, 2010		
	Actual	Projections	Variance	Actual	Projections	Variance
Cash Inflows						
Others	353	-	353	382	-	382
	353	-	353	382	-	382
Cash Outflows						
<i>Vessel C-717</i>						
Material cost	12	452	440	28	1,054	1,026
Insurance premium	-	350	350	319	350	31
Contingency	-	100	100	-	300	300
	12	902	890	347	1,704	1,357
<i>Vessel C-721 et C-722</i>						
Material cost	1	-	(1)	82	-	(82)
	1	-	(1)	82	-	(82)
<i>Administration</i>						
Overhead salaries disbursement	542	560	18	1,127	1,180	53
Heating (Ultramar)	-	10	10	-	20	20
Electricity	21	140	119	123	290	167
Communications (Phone , ...)	18	20	2	26	25	(1)
City taxes	138	200	62	138	250	112
Insurance premium	-	-	-	-	-	-
Group Insurance	33	50	17	33	100	67
Professional services	230	650	420	796	1,300	504
Financial advisor	-	145	145	290	435	145
Davie Yards AS (Norway employees sal.)	-	230	230	311	785	474
Maintenance	35	200	165	85	400	315
GST / QST paid to suppliers	39	129	90	174	276	102
Contingency	70	200	130	120	400	280
	1,126	2,534	1,408	3,223	5,461	2,238
	1,139	3,436	2,297	3,652	7,165	3,513
Variation in Cash Balance	(786)	(3,436)	2,650	(3,270)	(7,165)	3,895
Opening Balance	16,555	15,275	-	19,004	19,004	-
Exchange rate	(78)	-	78	(113)	-	113
Ending Balance	15,847	11,839	4,008	15,847	11,839	4,008

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.