

C A N A D A
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

**EIGHTH 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 and July 20, 2010, the Monitor respectively filed its Sixth Report and Seventh Report in accordance with the judgment of May 25, 2010. A copy of these two reports was sent

to each of the parties having appeared. A copy of these two reports was also made available on the Monitor's website.

6. Under the judgment of May 25, 2010, all stakeholders can submit a written request to the Monitor for detailed information or documents relating to these reports. To date, no similar request has been submitted to the Monitor.
7. This report ("**Eighth Report**") concerns the following subjects:
 - (i) Company's operations since July 25, 2010;
 - (ii) Rothschild's activities since July 25, 2010;
 - (iii) The Monitor's activities since July 25, 2010.
8. In preparing this Eighth 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 Eighth 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 Eighth Report are expressed in U.S. dollars. Capitalized terms not defined in this Eighth Report are as defined in a prior report of the Monitor or the Initial Order.
10. A copy of this Eighth 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.

COMPANY'S OPERATIONS SINCE JULY 25, 2010

General

11. Since our Seventh Report, the number of employees has remained stable.
 12. The Company has continued to pay its employees in the normal course of business, in conformity with the Initial Order.
 13. Appendix A presents a statement of Davie's cash operations for the period of four (4) weeks beginning July 9 and ending August 6, 2010. Highlights from the statement are as follows:
 - a. As of August 6, 2010, Davie had approximately \$5,129,000 more cash than initially budgeted twelve weeks ago;
 - b. Davie received \$112,000 in unbudgeted revenues during this period. These revenues consisted of refunds of commodity taxes;
 - c. Virtually all work has now been stopped on vessels currently under construction, and only certain vessel conservation costs were incurred;
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- d. Davie recorded \$1,320,000 in cash outflows for its administration during this period. This represents approximately \$950,000 less cash outflows than were budgeted for the period.
14. As of the date of this Eighth Report, Davie has approximately \$13,800,000 of cash.
15. As of the date of this Eighth Report, all expenses incurred have been or will be paid out of Davie's working capital.
16. As of the date of this Eighth Report, nothing would lead us to believe that Davie will need additional financing to meet its current obligations during the period ending on September 15, 2010.

Potential Investors

17. Davie actively took steps to find a new investor. In this regard, Davie initiated or continued discussions with several potential investors or groups of potential industrial investors.
18. Access to the Virtual Data Room was granted to each of the potential industrial investors after they executed a customary confidentiality agreement. Davie has provided its assistance to the potential investors with respect to the due diligence of the information contained in the Virtual Data Room.
19. Davie informed the Monitor of its intention to obtain shortly a preliminary indication of interest from one or more potential industrial investors.

Income Tax Refund

20. Davie reiterated to the Monitor that its application for tax credits is being processed.
21. 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 is still of the opinion that the amount of \$17,388,293 should be received in the month of September 2010. As mentioned in a previous report, this amount should be applied to reimburse IQ's loan.

Cost to Complete Analysis

22. Davie continued to assemble documents and information in support of its Cost to Complete Analysis.
 23. The independent marine engineer retained by the Monitor continued to analyze the underlying assumptions of the Cost to Complete Analysis. Davie, the Monitor and the independent marine engineer retained by the Monitor met again to discuss the assumptions underlying the Cost to Complete Analysis. Work sessions, among other things, were held on July 27 and 28, 2010.
 24. The independent marine engineer verbally informed the Monitor and Davie's management of the conclusion resulting from his analyses and reviews. In his opinion, the assumptions used by Davie's management in the Cost to Complete Analysis are reasonable.
 25. The Monitor expects to receive shortly a final report from the independent marine engineer.
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Virtual Data Room

26. With the assistance of the Monitor, Davie continued to maintain up-to-date information in the Virtual Data Room. This information is available to all the major stakeholders provided a customary confidentiality agreement is executed.

Communications with stakeholders

27. Davie continues to communicate with the stakeholders on a regular basis. Davie has informed the Monitor that it has had discussions regularly with the major stakeholders in order to keep them informed of developments as they unfold. Meetings have also been held with some of the aforementioned.

ROTHSCHILD'S ACTIVITIES SINCE JULY 25, 2010

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

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

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

- a. Held further discussions with key stakeholders of Davie.
- b. Finalized to contact all of the selected investors that had been previously identified with the assistance of the Company's management, members of the Board of Directors and the Monitor.
- c. Held conversations either by phone or in person with selected potential investors to discuss the investment opportunity in Davie.
- d. Provided support to Davie's senior management team in relation to potential investors' due diligence, including participating in management presentations made to potential investors.

31. Over the coming weeks, Rothschild will:

- a. Organize and attend additional management presentations made to interested potential investors.
- b. Provide assistance and support to Davie's senior management team in relation to the investor due diligence process.
- c. Discuss with those potential investors that are actively engaged in due diligence the timing and process to formalize their interest in Davie.

THE MONITOR'S ACTIVITIES SINCE JULY 25, 2010

General

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

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

34. The Monitor has continued to participate in meetings of Davie's Board of Directors and financial restructuring committee.
35. The Monitor continued to participate in work sessions with Davie and Rothschild.
36. The Monitor has continually updated the information available on its website, taking into account new information as they became available.
37. The Monitor assisted Davie in its efforts to maintain the Virtual Data Room with up-to-date information.
38. The Monitor has assisted Davie in its relationships with creditors/suppliers in addition to answering their requests for information.
39. The Monitor made efforts to ensure that Davie and the other affected parties comply with the CCAA's Initial Order and subsequent orders.
40. The Monitor took steps to suspend any legal proceedings initiated by creditors against Davie or in relation to Davie's property.
41. The Monitor attended meetings held between Davie and potential investors.

Forensic Review

42. Pursuant to its discussions with the Forensic Committee, and consistent with the recommendation addressed to the Monitor by the majority of its members, Deloitte Forensic analyzed transactions between Davie and five suppliers that were specifically identified among Davie's largest suppliers.
 43. Deloitte Forensic informed the Monitor that it was in the process of finishing gathering the information required for the analysis of these transactions. Deloitte Forensic also informed the Monitor that a final report on this additional review will be prepared shortly.
 44. In addition, Deloitte Forensic continued to analyze transfers made by Davie to related companies. Deloitte Forensic informed the Monitor that a final report on the analysis of these transfers will be prepared shortly, provided that it receives the required supporting documents from Davie.
 45. The Monitor expects to have a third meeting with the Forensic Committee in September 2010 to discuss of Deloitte Forensic's findings.
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GENERAL FINDINGS

46. 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.
47. It is the Monitor's opinion that Davie has acted and continues to act in good faith and diligently in the process of its restructuration.

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

DATED IN MONTREAL, the 23rd day of August 2010.



Sam. Francis Nadeau

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 July 9th to August 6th, 2010			Twelve weeks period ended August 6th, 2010		
	Actual	Projections	Variance	Actual	Projections	Variance
Cash Inflows						
Others	112	-	112	494	-	494
	112	-	112	494	-	494
Cash Outflows						
<i>Vessel C-717</i>						
Material cost	3	-	(3)	31	1,054	1,023
Insurance premium	-	-	-	319	350	31
Contingency	-	-	-	-	300	300
	3	-	(3)	350	1,704	1,354
<i>Vessel C-721 et C-722</i>						
Material cost	15	-	(15)	97	-	(97)
	15	-	(15)	97	-	(97)
<i>Administration</i>						
Overhead salaries disbursement	471	620	149	1,598	1,800	202
Heating (Ultramar)	-	10	10	-	30	30
Electricity	196	125	(71)	319	415	96
Communications (Phone , ...)	22	20	(2)	48	45	(3)
City taxes	-	-	-	138	250	112
Insurance premium	-	-	-	-	-	-
Group Insurance	26	-	(26)	59	100	41
Professional services	309	600	291	1,105	1,900	795
Financial advisor	144	145	1	434	580	146
Davie Yards AS (Norway employees sal.)	-	230	230	311	1,015	704
Maintenance	32	200	168	117	600	483
GST / QST paid to suppliers	76	122	46	250	398	148
Contingency	46	200	154	166	600	434
	1,322	2,272	950	4,545	7,733	3,188
	1,340	2,272	932	4,992	9,437	4,445
Variation in Cash Balance	(1,228)	(2,272)	1,044	(4,498)	(9,437)	4,939
Opening Balance	15,847	11,839	4,008	19,004	19,004	-
Exchange rate	77	-	77	190	-	190
Ending Balance	14,696	9,567	5,129	14,696	9,567	5,129

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.