

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT No.: 200-11-019127-102
OFFICE 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

**SIXTH 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 8, 2010, the Court issued an order exempting Davie from calling a general shareholders' meeting until the Court decides otherwise. If necessary, this exemption will have to be renewed by the Court no later than December 31, 2010.

6. This report (“**Sixth Report**”) concerns the following subjects:
 - (i) Davie’s operations since May 25, 2010;
 - (ii) Rothschild’s activities since May 25, 2010;
 - (iii) The Monitor’s activities since May 25, 2010.
7. In preparing this Sixth 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 Sixth 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.
8. Unless otherwise indicated, all monetary amounts mentioned in this Sixth Report are expressed in U.S. dollars. Capitalized terms not defined in this Sixth Report are as defined in a prior report of the Monitor or the Initial Order.
9. A copy of this Sixth Report, the motion record of this CCAA proceeding and further 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 MAY 25, 2010

General

10. In June 2010, twenty employees have resigned or have been laid off due to a lack of work and with a view of safeguarding financial resources. As of the date of this Sixth Report, Davie has 65 employees who are mainly responsible for general management, security and the management of financial and human resources.
 11. As of the date of this Sixth Report, 8 out of the 11 initial eligible Davie AS employees to the Davie AS KERP have been laid off or have resigned. However, considering the notice period provided by some of them, 10 eligible Davie employees to the Davie KERP are still working for Davie, through their notice period.
 12. The Company has continued to pay its employees in the normal course of business, as authorized by the Initial Order.
 13. Appendix A presents a statement of Davie’s cash operations for the four-week (4) period ended June 11, 2010. Highlights from the statement are as follows:
 - a. Overall, as at June 11, 2010, Davie had \$1.28 million more cash resources than budgeted;
 - b. Davie received \$29K in unbudgeted revenues during this period;
-

- c. Davie made vessel-related disbursements that were \$386K less than the amounts budgeted for this period;
 - d. Davie made disbursements related to management salaries that were \$865,000 less than the amounts budgeted for this period.
14. As of the date of this Sixth Report, all expenses incurred have been or will be paid out of Davie's working capital.
15. 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

16. Davie has filed its income tax returns for 2009 with the tax authorities. The processing of these returns will be monitored over the coming weeks and months.
17. The final amount of income tax credits claimed is \$17,388,293. As mentioned in our First Report, IQ's indebtedness is secured by hypothecs covering all movable assets, including receivables and cash tax credit refunds. Based on the actual agreement between the MRQ, IQ and Davie, this refund will be paid directly to IQ by the MRQ.

Cost to Complete Analysis

18. Davie has continued to assemble documents and information in support of its Cost to Complete Analysis.
19. Davie met with the Monitor and the independent marine engineer whose services were retained by the Monitor in order to discuss the assumptions supporting the Cost to Complete Analysis and to review the Interim Report prepared by the independent marine engineer.
20. The independent marine engineer continued to analyze the underlying assumptions of the Cost to Complete Analysis. To this end, a work session was held on June 3, 2010 with members of Davie's management, representatives of the Monitor and the independent marine engineer. Follow-up discussions have occurred since then on the issues raised during this work session. Another work session is planned for the week ending June 25, 2010.

Virtual Data Room

21. Following the signature of an NDA on or around May 21, 2010, Ocean Hotels was granted access to the Data Room. All main stakeholders now have access to the virtual Data Room.

Communications with stakeholders

22. Davie continues to regularly communicate with the main stakeholders. There have been meetings with its main stakeholders, and others are planned for the near future.
-

ROTHSCHILD'S ACTIVITIES SINCE MAY 25, 2010

23. 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.
24. Since Rothschild was retained, many work sessions have been held with management of Davie as well as with the Monitor and the Company's main stakeholders.
25. As part of its mandate and since May 25, 2010, Rothschild informed the Monitor that they have:
 - a. Had several due diligence meetings with Davie to discuss and review Davie's financial situation, including a detailed review of the cash shortfall to complete the existing vessels and a summary review of the collateral position of Davie and of the main stakeholders.
 - b. Held preliminary discussions with the key stakeholders of Davie;
 - c. Finalized the list of potential investors with the assistance of Davie, some of their advisors and the Board of Directors;
 - d. Prepared marketing material to support the sale process, including an investment teaser and a management presentation;
 - e. Made initial contact with some of the potential investors and sent approximately eight investment teasers to the potential investors that were identified.
26. Over the coming weeks, Rothschild plans to organize management presentations with interested potential investors and solicit preliminary indications of interest.

MONITOR'S ACTIVITIES SINCE MAY 25, 2010

General

27. The Monitor has analyzed Davie's receipts and disbursements on a weekly basis as well as variances from the budget.
 28. The Monitor participated in the work sessions on the Cost to Complete Analysis with the independent marine engineer and the management of Davie
 29. The Monitor continues to participate in Davie's board of directors meetings and restructuring committee meetings;
 30. The Monitor has participated in work sessions with Davie and Rothschild.
 31. The Monitor has continually updated the information available on its website, taking into account new information as it becomes available.
 32. The Monitor has updated the information presented in the Data Room on a regular basis.
 33. The Monitor has assisted Davie in its relationships with creditors/suppliers in addition to answering their requests for information.
-

Forensic Review

34. The Monitor met with most of the main stakeholders to discuss the content of the Forensic Report and inform them of the progress made in advancing Deloitte forensic's work since the date of this report. As of the date of this report, the Monitor has not met with Cecon. A meeting was requested by the Monitor to Cecon and the Monitor is currently waiting to hear back from Cecon with a proposed date for this meeting.
35. The Monitor received comments and suggestions from the stakeholders. Once all stakeholders have been met, the Monitor intends to form a forensic committee and continue his work with some additional analyses of Davie's monetary transactions.
36. As of the date of the Forensic Report, \$43 million of disbursements had yet to be allocated to a vessel or to a general account. Deloitte Forensic continued allocating cash outflows to a vessel or to the general accounts. The total cash outflows with allocations that have not been compiled at this time should amount to approximately \$8 million, a reduction of more than \$35 million since the date of the Forensic Report. However, it should be noted that no individual remaining disbursement is greater than \$10K.
37. Deloitte Forensic is currently analyzing transfers carried out with related parties identified in the Forensic Report.

GENERAL FINDINGS

38. It is the Monitor's opinion that the Company has acted in accordance with the Initial Order and the Court's other related orders.
39. 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 Sixth Report.

DATED AT MONTREAL, the 23rd day of June 2010.




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

Appendix A

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

	Four weeks period ended June 11th, 2010		
	Actual	Projections	Variance
Cash Inflows			
Others	29	-	29
	<u>29</u>	<u>-</u>	<u>29</u>
Cash Outflows			
<i>Vessel C-717</i>			
Material cost	16	602	586
Insurance premium	319	-	(319)
Contingency	-	200	200
	<u>335</u>	<u>802</u>	<u>467</u>
<i>Vessel C-721 et C-722</i>			
Material cost	81	-	(81)
	<u>81</u>	<u>-</u>	<u>(81)</u>
<i>Administration</i>			
Overhead salaries disbursement	585	620	35
Heating (Ultramar)	-	10	10
Electricity	102	150	48
Communications (Phone , ...)	8	5	(3)
City taxes	-	50	50
Insurance premium	-	-	-
Group Insurance	-	50	50
Professional services	566	650	84
Financial advisor	290	290	-
Davie Yards AS (Norway employees sal.)	311	555	244
Maintenance	50	200	150
GST / QST paid to suppliers	135	147	12
Contingency	50	200	150
Exchange rate (Gain / Loss)	(35)	-	35
	<u>2 062</u>	<u>2 927</u>	<u>865</u>
	2 478	3 729	1 251
Variation in Cash Balance	(2 449)	(3 729)	1 280
Opening Balance	<u>19 004</u>	<u>19 004</u>	<u>-</u>
Ending Balance	<u>16 555</u>	<u>15 275</u>	<u>1 280</u>

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 projected 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.