Court File No. 03-CL-5145

ONTARIO
SUPERIOR COURT OF JUSTICE
Commercial List

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF IVACO INC. AND THE APPLICANTS LISTED IN SCHEDULE "A"

EIGHTEENTH REPORT OF THE MONITOR
OCTOBER 22, 2004

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INTRODUCTION

1. Ivaco Inc. ("Ivaco") and certain of its affiliates (collectively the "Applicants") obtained protection from their creditors pursuant to the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, *as amended* (the "CCAA") through an order of this Honourable Court dated September 16, 2003, as amended and restated (the "Initial Order"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed as monitor (the "Monitor") of the Applicants.

2. The Applicants for the Initial Order were, among others, Ivaco, Ivaco Rolling Mills Inc., Ifastgroupe Inc., IFC (Fasteners) Inc., and Docap (1985) Corporation and the related limited partnerships Ivaco Rolling Mills Limited Partnership ("IRM") and Ifastgroupe and Company Limited Partnership ("Ifastgroupe").

3. This Eighteenth Report of the Monitor (the "Report") is provided to this Honourable Court in support of the Applicants' request for approval of the buying-out of leases and certain capital expenditures over and above the Court authorized limit and as an update on non-core asset sales.

TERMS OF REFERENCE

4. In preparing this Report, the Monitor has relied upon information from the Applicants and the Applicants' records, as well as discussions with management of the Applicants and with the Applicants' advisors. The Monitor has not performed an audit or other verification of such information.

5. Capitalized terms not defined in this Report are as defined in the Initial Order and the Monitor's previous reports. All references to dollars are in Canadian currency unless otherwise noted.

SALES PROCESS

Equipment and Lease negotiations

6. From the beginning of this CCAA proceeding the Applicants have engaged in a continuing analysis of their leases, pursuant to which they reviewed the necessity of each piece of equipment under lease as well as the cost of each lease. This analysis allowed the Applicants to identify unnecessary equipment and terminate leases related thereto. Only a few leases were terminated. In addition, discussions were held with certain of the large lessors in an attempt to renegotiate the terms of their leases. The lessors indicated that they preferred to see the Sales Process more fully developed before committing to any compromise or renegotiation.

7. In conjunction with the Asset Purchase Agreements ("APA") signed between Heico and certain of the Applicants on August 6, 2004 and approved by this Honourable Court on August 18, 2004, the Applicants further refined their initial analysis and established a ranking of equipment from that which it considered critical and difficult to replace to that equipment that would be easily

replaceable. This refined analysis was provided to Heico in order to assist Heico in its assessment of the equipment it should keep as part of the transaction.

8. Simultaneously, the Applicants had discussions with the lessors with whom the Applicants had significant leases, either in number or value or both, in order to evaluate the lessors' willingness to assign such leases to Heico or to have the leases bought out for cash prior to or on closing of the Heico transaction. The Applicants have advised Heico of this strategy from the outset and agreed to introduce Heico to the lessors if the relevant lease is to be assigned to Heico. The Applicants and Heico have differing views with respect to their interpretation of the APA provisions respecting Heico's right to have contact with the lessors. Negotiations to buy out several leases continued without Heico's involvement with the lessors.

9. The Applicants have negotiated a buy-out agreement with Caterpillar Financial Services Limited ("Caterpillar") and are in the final stages of negotiating two more buy-out agreements with large lessors. Several other less-advanced negotiations are currently underway.

10. Although the details of the negotiated buy-out with Caterpillar (nine pieces of equipment at IRM and one at Ifastgroupe) will not be disclosed in this Report (due to the confidential and commercially sensitive nature of the arrangement), the Monitor has reviewed the buy-out proposal and believes that this buy-out serves an economic and an operational purpose for the Applicants, both in the event the transaction with Heico is closed and in the event that it does not. The buy-out provides for payment of the negotiated amount as soon as possible, but in any event prior to closing of the Heico transaction.

11. The Monitor is of the view that the Caterpillar buy-out proposal is in the interest of stakeholders, as the leases for a number of these pieces of equipment have expired during the course of the CCAA proceedings, similar custom-built

application specific replacement equipment is not readily available, and the Applicants would have to deliver similar equipment to Heico upon closing to allow for the uninterrupted operation of the IRM rolling mill.

12. In addition, the Applicants are requesting authorization to finalize other buy-out proposals from this Honourable Court as they are negotiated, without having to seek authorization from this Honourable Court on each occasion. The Applicants have agreed that any future buy-out proposals would be subject to the consent of the Monitor, who may consult with the relevant member(s) of the Informal Advisory Committee (having an interest in the Applicant where the lease is held) in considering whether to provide its approval.

13. The Monitor is of the view that the Applicants should be authorized to enter into future lease buy-out proposals without seeking Court authorization on each occasion but such buy-outs would be subject to the consent of the Monitor as discussed above.

<u>November 30, 2004 Closing</u>

14. As indicated in previous Monitor's Reports, the closing of the transaction between Heico and certain of the Applicants is anticipated to occur on November 30, 2004. Both parties have been working to achieve the agreed upon closing date.

15. There is still a considerable amount of work to accomplish before November 30, 2004 for the closing to take place on that date. To date, both parties have taken firm positions on commercial and process issues that have arisen. The Monitor is involved to assist the parties in working through these issues and to ensure, on behalf of the stakeholders, that it is in able to report, should it ultimately become necessary, on the issues and the positions of the parties.

16. The Monitor will report to this Honourable Court if and when it appears likely that the closing will not occur on the expected date.

CAPITAL EXPENDITURES

17. Pursuant to paragraph 15(g) of the Initial Order, the Applicants were authorized to spend up to a maximum of $500,000 on necessary and sustaining capital expenditures with respect to the property of the Applicants.

18. In the Ninth Report of the Monitor, the Monitor provided an update on the status of the Applicants' capital expenditures and requested an increase in their authorized capital expenditure limit to $1.2 million. This Honourable Court approved the Applicants' requested increase and the Applicants have stayed within their authorized approved capital expenditure limit throughout this proceeding.

19. Since the signing of the APA, the Applicants have engaged in discussions with Heico in order to determine what capital expenditures could be made in order to improve the operations of the Applicants generally. The APA provides that capital expenditures incurred by the Applicants during the period between the execution of the APA and the closing date that are agreed to in advance in writing by Heico will be added to the purchase price to be paid by Heico on closing (the "Heico Capital Expenditures").

20. A Heico Capital Expenditure opportunity has been identified, and other opportunities are under review by both parties. The existing Heico Capital Expenditure totals approximately $1.5 million and relates to one essential piece of equipment for Ifastgroupe. The Applicants are requesting from this Honourable Court authorization to make Heico Capital Expenditures, with the written consent of Heico, without having these capital expenditures applied to the already authorized capital expenditure limit of $1.2 million.

21. The Monitor confirms that under the APA the cost of any Heico Capital Expenditures will be borne by Heico if the Heico transaction closes. If the sale does not close, the Applicants will not be reimbursed for the Heico Capital Expenditures. As a result of the inherent possibility of the closing not occurring, the Applicants must assess the business case underlying each proposed Heico Capital Expenditure in case the Heico transaction does not close. The Applicants propose that a balancing of interests and probabilities would support some latitude in assessing the business cases and likely impact on stakeholders with appropriate consultation with the Monitor and the relevant members of the Informal Advisory Committee.

22. The Monitor is of the view that a Heico Capital Expenditure limit should be established in the amount of $2.0 million to permit the Applicants the appropriate flexibility to resolve issues with Heico on an expedited basis.

STATUS OF NON-CORE ASSET SALES

<u>Real Estate</u>

23. As set out in the Monitor's previous reports, Ivaco has sold certain properties and has various other properties presently listed for sale. Below is an update on the status of the Virginia property transaction.

Warrenton, Virginia

- As indicated in the Seventeenth Report of the Monitor, the Applicants had entered into an Agreement of Purchase and Sale for a purchase price of US$1,650,000. The property is being sold on an "as is where is" basis and closing was expected to occur on September 30, 2004.

- On September 24, 2004, the Purchaser indicated that it was experiencing some problems with obtaining the required financing for the purchase and requested that the closing be delayed until October 30, 2004. After some negotiations, the Applicants agreed to extend closing until October 25, 2004. In return, the Purchaser agreed that the US$250,000 deposit could immediately be released from escrow.

IMT Corporation

24. IMT Corporation ("IMT") is a wholly owned subsidiary of Ivaco Inc. and is not an Applicant in these proceedings. The background relating to this transaction is summarized in the Fifteenth Report of the Monitor. Given that the equity value of IMT is an asset of the Applicants, the Monitor has observed the sale process undertaken by the Applicants to date to realize on any such equity value and provides its comments below.

- On August 11, 2004 IMT signed a purchase and sale agreement with a newly formed private company 2051554 Ontario Inc. The closing was expected to occur around September 17, 2004. It is estimated that the sale would yield an estimated recovery of $4.0 to $5.0 million to Ivaco.

- In working towards closing this transaction, a number of issues have arisen which have delayed the closing. The parties continue to work towards settling the issues.

Distributions to National Bank

25. Pursuant to the Order of this Honourable Court dated May 11, 2004, Ivaco was authorized to distribute existing and future proceeds of sale from the Applicants' non-core assets to National Bank, subject to any prior ranking liens or encumbrances and/or closing adjustments.

- As at October 19, 2004, the Applicants have remitted the following proceeds to National Bank as partial repayment of National Bank's secured indebtedness.

DESCRIPTION	CDN$	US$
Equipment Sales	5,751	320,500
Chambly Industrial Property	495,162	
Marieville Property	528,540	
AIG Insurance Claim		1,350,000
Arrowhead Property	2,619,744	
Chambly Vacant Property	423,203	
Totals	4,072,400	1,670,500

MONITOR'S ANALYSIS AND RECOMMENDATION

26. The Applicants are working diligently and in good faith to ensure that the transaction with Heico closes on November 30, 2004. The ability of the Applicants to engage in lease buy-outs prior to closing will assist the Applicants in meeting this objective. The Applicants have also requested this Honourable Court's approval to make Heico Capital Expenditures to a maximum of $2.0 million.

27. The Monitor considers that the explanations of the Applicants as to the rationale for lease buy-outs and the Heico Capital Expenditure limit are reasonable and justified in the circumstances. Accordingly, the Monitor recommends that this

Honourable Court grant the Applicants' request for authorization to enter into and complete lease buy-outs on the basis described above and to establish a Heico Capital Expenditure limit of $2.0 million.

All of which is respectfully submitted this 22nd day of October, 2004.

ERNST & YOUNG INC.

In its capacity as Court-Appointed Monitor of
Ivaco Inc. and certain of its affiliates

Per

Brian M. Denega
Senior Vice-President

SCHEDULE "A"

Applicants Filing for CCAA

1. Ivaco Inc.
2. Ivaco Rolling Mills Inc.
3. Ifastgroupe Inc.
4. IFC (Fasteners) Inc.
5. Ifastgroupe Realty Inc.
6. Docap (1985) Corporation
7. Florida Sub One Holdings, Inc.
8. 3632610 Canada Inc.