

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"

THIRTEENTH REPORT OF THE MONITOR
JUNE 30, 2004

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**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
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JUNE 30, 2004**

INTRODUCTION

1. On September 16, 2003 Ivaco Inc. ("Ivaco") and certain of its affiliates (collectively the "Applicants" or the "Companies") filed for and obtained protection from their creditors pursuant to the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, *as amended* (the "CCAA"). The terms of these proceedings are governed by 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").
2. The Applicants included in the Initial Order consist of, amongst others, Ivaco, Ivaco Rolling Mills Inc., Ifastgroupe Inc., IFC (Fasteners) Inc. ("IFC"), and Docap (1985) Corporation ("Docap") and the related limited partnerships Ivaco Rolling Mills Limited Partnership ("IRM") and Ifastgroupe and Company Limited Partnership ("Ifastgroupe").
3. The Tenth Report of the Monitor (the "Tenth Report") was issued on June 3, 2004. It provided information with respect to the Applicants' motion in connection with the Sales Process as it relates to QIT. This Thirteenth Report of the Monitor (the "Report") is submitted in connection with the Applicants'

motion for directions in the continuing dispute with QIT concerning QIT's participation in the Sales Process and the confidentiality of the QIT supply contract and related documents. It provides this Honourable Court with information on the events that have transpired since the filing of the Tenth Report, the positions taken by the parties to the dispute and the Monitor's recommendation as to the fairness of these positions and their effect on the Sales Process.

TERMS OF REFERENCE

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

BACKGROUND

5. Prior to the filing of the Tenth Report and the June 9, 2004 attendance before the Honourable Mr. Justice Cumming, the Applicants provided QIT with disclosure of the confidential bids received in the Sales Process and the Applicants' preliminary assessment of the bids and appropriate next steps.
6. On the morning of the June 9th hearing, counsel for QIT and the Applicants, the Monitor and its counsel met to attempt to narrow the issues to be decided by this Honourable Court. Coming out of this meeting the parties agreed in substance to the form of order that was presented to the Honourable Mr. Justice Cumming, with the sole contested issue being the references to the CRO being involved in bidder meetings.
7. The order provided for three phases to the bidder/QIT process as follows:
 - I. QIT shall have seven days from the date of the order to meet with the bidders who submitted proposals, with the Monitor and CRO having

the right to participate in all such meetings. At the conclusion of the seven-day period, QIT shall inform the Monitor of those bidders with whom it is prepared to conduct further negotiations. After considering the views of QIT and the Applicants, the Monitor shall identify to the Applicants and QIT the bidders with whom further negotiations shall occur. If either QIT or the Applicants disagree with the Monitor, then they may apply to this Honourable Court for directions;

- II. After the qualified bidders have been identified, QIT shall disclose the relevant portions of the supply agreement to the bidders, under appropriate confidentiality arrangements. QIT and the Monitor shall have discussions to determine what portions of the agreement are relevant and to determine appropriate confidentiality arrangements. If QIT and the Monitor cannot agree or if the Applicants do not agree with the determination of QIT and the Monitor, QIT and the Applicants shall be at liberty to apply to this Honourable court for directions; and
- III. QIT shall then undertake negotiations with the bidders. The Monitor and the CRO shall be entitled to attend and participate in these negotiations. At the request of either QIT or a bidder, technical personnel from the Applicants will be entitled to participate. If the parties cannot agree on appropriate personnel, they shall seek further direction from this Honourable Court. At the request of QIT or a bidder, the Monitor or the CRO, at its/his discretion, may absent itself/himself from parts of the negotiations. If the Monitor or CRO refuses such a request, then QIT or the bidder may apply to this Honourable Court for directions.

8. The Monitor observed and participated in detailed negotiations between counsel to the Applicants and QIT concerning all three phases set out in the draft order. Counsel for the Applicants and QIT advised this Honourable Court at the beginning of the June 9th hearing that they had substantially agreed on the draft form of order described above and that the sole matter to be determined was the involvement of the CRO. The draft order handed up by QIT's counsel had square brackets around all references to the CRO. Neither the Applicant or QIT advised Mr. Justice Cumming that they were reserving their position to "opt out" of the agreed order if his Honour's ruling was adverse to the position they advanced in argument.
9. The Honourable Mr. Justice Cumming ruled on the issue in favour of the position of the Applicants supported by other stakeholders including the National Bank, Bank of Nova Scotia and the Noteholders. His endorsement is attached as Appendix A. The Order of the Honourable Mr. Justice Cumming (the "June 9th Order") is attached as Appendix B.

RECENT DEVELOPMENTS

10. After the Order of Mr. Justice Cumming, QIT advised the Monitor that it continued to strongly believe in its position as to the CRO and did not participate in the first phase of the Order. The Monitor and QIT have kept open lines of communication and the Monitor has made certain suggestions to QIT to try to advance matters to date with no success. The Monitor sought to get QIT's input as to the second phase. QIT's position is that a redacted version could go to financial bidder(s) but no version whatsoever could go to sale bidder(s).

MONITOR'S ANALYSIS AND RECOMMENDATION

11. From its outset, the Sales Process has contemplated that all the bidders would require an understanding of the historical and future relationship between the Applicants and QIT. It provided for the bidders to submit bids that were conditional on further due diligence relating to QIT (and labour matters). The Applicants believe, and the Monitor agrees, that it is reasonable and appropriate for bidders to require, and for the Applicants to provide, a significant amount of detail concerning the past business dealings between QIT and the Applicants, subject to prudent sensitivity to each bidder's current competitive position and appropriate safeguards with respect to commercially sensitive information contained in the contract.
12. The Monitor believes that QIT is sincere in its expression of its position of principle. In a CCAA proceeding no party is omniscient and in the stay period all parties are required to work together on a commercially reasonable basis. It is not in accordance with that spirit and practice which is necessary for the benefit of all stakeholders for any party to insist on its own "hard line" position, without attempting to work through problems if they are encountered in real time, especially having argued the issue and obtained the clear ruling of the supervising Court. In this instance without losing any positioning or leverage it may have, QIT has the ability to show flexibility and to "try it the other way", reserving the right to object if that "other way" is not working. If QIT had tried, discussions had gone ahead with the CRO present and legitimate or insuperable difficulties had arisen, the position might well be different. However, to participate in the court process, argue points and then not even attempt to make the court-directed process work is, in the view of the Monitor, not the way CCAA proceedings are or should be conducted as a matter of practice.

13. The Monitor is of the view that the directions in the June 9th Order are clear. The Honourable Mr. Justice Cumming's endorsement may provide guidance concerning QIT's right to opt out of participation in meetings that QIT believes are proving unproductive (if they had tried in good faith). However, the release of the supply contract to bidders (who are themselves bound by confidentiality agreements) is an important, distinct and long-identified element of the Sales Process that ought not to be delayed any longer.

All of which is respectfully submitted this 30th day of June 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

Jeffrey D. Kerbel
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.

APPENDIX A

COURT FILE NO.: 03-CL-5145

DATE: 20040610

**SUPERIOR COURT OF JUSTICE - ONTARIO
(COMMERCIAL LIST)**

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

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

BEFORE: CUMMING J.

COUNSEL: *M. P. Gottlieb, for the Applicants*
Michael E. Barrack and Geoff R. Hall, for QIT
E. Lamek, for the National Bank of Canada
Peter Howard, for the Monitor, Ernst & Young Inc.
D. V. MacDonald, for Bank of Nova Scotia
J. T. Porter, for UBS
Ken Rosenberg, for United Steel Workers of Canada

Heard: June 9, 2004

ENDORSEMENT**The Motion**

[1] The moving party Applicants, Ivaco Rolling Mills Limited Partnership, comprising some eight affiliated corporations ("IRM"), seek directions from the Court in respect of the sales process for its business under the *Companies' Creditors Arrangement Act* ("CCAA"). The motion raises an important issue relating to the respective roles of the Monitor and Chief Restructuring Officer in that process. The Court provided a decision at the conclusion of the hearing, with reasons to follow.

Background

[2] IRM is engaged in the steel manufacturing and processing business in Canada. QIT-Fer Et Titane Inc. ("QIT") is a major supplier to IRM of steel billets pursuant to a long-standing supply agreement. QIT is also a major unsecured creditor of IRM, being owed some \$62 million.

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[3] The Applicants obtained an Initial Order under the CCAA September 16, 2003. A Chief Restructuring Officer ("CRO") was appointed October 24, 2003.

[4] On December 11, 2003 this Court authorized IRM to pursue a dual-track restructuring process: one track is a stand-alone restructuring plan; the second track is the pursuit of a sales process.

[5] The Monitor, the CRO and the unsecured creditors of IRM have a concern that QIT seeks a way whereby it will be paid the monies owing to it by IRM outside the parameter of the CCAA proceeding. The record gives some force to this concern.

[6] A Court Order dated March 22, 2004 authorized a limited number of prospective purchasers to submit offers for the assets of one or more of the Applicants. Some four bidders have now submitted proposals in this regard. Understandably, it is a condition of the proposals that the bidders be able to satisfy themselves as to the nature and status of the historical and existing relationship between QIT and IRM and the nature of any relationship for the future between a buyer of IRM's business and QIT.

[7] The concern that has been raised by the Monitor, CRO and a number of IRM's creditors is that QIT may seek to enter into a relationship with a bidder whereby QIT could achieve some recovery of IRM's pre-filing debt of \$62 million at the expense of other unsecured creditors.

[8] Any purchaser of IRM requires a supply contract with QIT as there are no apparent competitors for its product sold to IRM. The concern is that QIT could insist upon a supply arrangement with the bidder at an unreasonably high price with the bidder offering an unreasonably low price for the assets of IRM. The creditors, Monitor, and the Applicants are concerned that QIT might enter into a supply arrangement with a bidder at the expense of IRM by virtue of the price for IRM's assets being lower than would otherwise be the case in a normal market transaction.

[9] Meetings have been set up to take place between the bidders, the Applicants through the CRO, the Monitor and QIT with a view to determining whether any one or more bidder can achieve a supply agreement with QIT within a context of a satisfactory unconditional bid by that bidder for the assets of one or more of the Applicants.

The Issue

[10] Several issues raised at the outset of the motion were settled by agreement as discussions progressed. It is not necessary to discuss these settled issues. The settled position provides that the Monitor can observe the negotiations to take place between QIT and each bidder. The settled position also provides that disclosure can be made to bidders of the existing supply agreement between IRM and QIT.

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[11] A single issue remained for determination by the Court at the conclusion of the hearing, being whether or not the CRO was to be part of the sales process. QIT took the position that the CRO should not be part of the process. The Applicants, the Monitor and the other major unsecured creditors all took the position that the CRO should be part of the sales process. Only QIT, supported by the United Steel Workers of Canada, took the contrary view.

[12] The only support for QIT came from the United Steel Workers of Canada, being the Union representing the workers of IRM through a collective bargaining agreement. The position expressed by counsel for the Union was that the continuity of IRM's business is critical to the direct welfare of its employees and is of indirect benefit to the community at large. There is a clear public interest in the welfare of the workers. Undoubtedly, that is a correct, and important observation.

[13] Thus, counsel for the Union argued further, the Court should accede to the position of QIT even though it might result in a failure to maximize the value of the IRM assets through the CAA proceeding. In my view, the Union's quite proper concern for the welfare of the workers cannot justify trumping the concern of creditors that they be treated fairly. Nor would it ever be in the broader notion of the public interest to allow a sales process perceived to be unfair to go forward. The public policy underlying the CCAA and its objectives would be undermined. Indeed, it might well be that any proposed sale would not then garner the requisite support of creditors required for approval under the CCAA. It might be that the business of IRM is more likely to fail, to the ultimate disadvantage of its workers, through a compromise to the integrity of the sales process. In any event, the Court could not sanction a proposed plan of compromise that was the result of an unfair process.

[14] QIT professes that if the CRO takes part in the negotiations between the bidders and QIT that this will necessarily inhibit the sales process. QIT claims this will be so because bidders will be reluctant to provide confidential information to QIT, and vice-versa, while recognizing that the CRO may then use that information to enhance an alternative stand-alone restructuring plan and consequentially advise against acceptance of the bidder's proposal.

Disposition

[15] There are certain fundamentals to a CCAA proceeding relevant to a determination of the issue at hand. First, there cannot be a sales process whereby one unsecured creditor secures a secret benefit or advantage over the other unsecured creditors. Such a result would be the equivalent of providing a preference for that creditor. Fairness to all the creditors is a prerequisite to a satisfactory sales process. Second, the sales process must be seen to be fair. That is, there must be transparency.

[16] Third, the sales process is to be determined by the Court after considering the advice of the Monitor and the position of the Applicants and their creditors. The sales

Page 4

process is not dictated by a supplier *qua* supplier. It may be the supplier does not wish to participate in the sales process given the nature of the process. That is for the supplier to determine in its own self-interest. In the situation at hand, QIT conceivably might say that it would rather lose its supplier relationship with IRM or a successor, to its apparent significant economic detriment, than proceed in the sales process.

[17] The CRO's attendance and participation in the sales process is critical because he is the independent party who must understand all the various bids and weigh each against the possibility of a stand-alone restructuring. He must ultimately make recommendations that engender confidence as being advanced on the best information and advice possible. The CRO is an active part of the negotiations in the sales process. He is not involved as a relatively passive observer in the manner of the Monitor.

[18] The sales process has been determined by the Applicants with the approval of the Court. The CRO represents the Applicants in that process. The intended sales process is one of trilateral negotiations. If QIT, IRM or any bidder wishes to discontinue such negotiations at any time that is, of course, that party's right. It is in the obvious self-interest of IRM, QIT, and any bidder to maintain the existing QIT to IRM (or successor) supply relationship. It would seem to be a win - win - win situation to come to a tripartite agreement. While no one can be ordered to enter into any new agreement every participant is required to engage in a sales process that is fair and is seen to be fair. The CRO is involved with the purpose of achieving the best result for the Applicants and a result which will be approved by the requisite number of creditors.

[19] Turning to the instant situation, there are a number of Applicants with different unsecured creditors for different Applicants. It is necessary that any negotiated sale (or restructuring) take into account such complexities so that fairness is achieved for all the creditors (and is seen to be achieved.)

[20] QIT proposed that the CRO would be excluded from the negotiations unless his presence was requested by either a bidder or by QIT. I disagree. In my view, the CRO has the right to attend and participate throughout the entirety of the negotiations in the sales process. In the event that a discrete issue arises in the context of a particular bidder's negotiations with QIT, such that there is disagreement as to whether the Monitor or CRO should be absent, then the further direction of the Court can be sought in the context of that specific issue. This will allow for QIT's expressed concerns for bidders in the negotiation process to be taken into account, should this be necessary. It is noted incidentally that no bidder has come forward in the hearing at hand to support QIT in respect of its expressed concerns about the sales process.

[21] Absent some compelling, exceptional factor to the contrary (not seen here), in my view, the Court should accept an applicant's proposed sales process under the CCAA, when it has been recommended by the Monitor and is supported by the disinterested major creditors. The Court has the discretion to stipulate a variation to such a proposed sales process plan. However, the exercising of such discretion would seem appropriate in only very exceptional circumstances.

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[22] An Order will issue in the form attached hereto as Annex "A". There are no costs granted to any party.


CUMMING J.

June 10, 2004

ANNEX "A"

Court File No. 03-CL-5145

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE	)	WEDNESDAY, THE 9th
MR. JUSTICE CUMMING	)	DAY OF JUNE, 2004

**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"****ORDER**

THIS MOTION, made by the Applicants for directions with respect to the sales process in respect of discussions involving QIT Fer et Titane Inc. ("QIT"), was heard this day at 393 University, Toronto.

ON READING the Notice of Motion, the Tenth Report of the Monitor, Ernst & Young Inc., the Affidavit of Randall C. Benson, the Affidavit of Gary A. O'Brien, and the Supplementary Affidavit of Randall C. Benson, and on hearing the submissions of counsel for the Applicants, the Monitor, QIT, the Informal Committee of Noteholders, the United Steelworkers of America, the Bank of Nova Scotia, the National Bank of Canada and UBS Securities LLC:

- 2 -

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record herein is abridged so that the motion is properly returnable today, and that any requirement for service of the Notice of Motion and of the Motion Record upon any party not served is dispensed with.
2. **THIS COURT ORDERS** that the sales process in respect of discussions involving QIT shall be governed by the following procedure:
 - (a) QIT shall have seven days from the date of this Order to meet with the bidders who have submitted final proposals in the second round of the sales process authorized by order of this court dated March 22, 2004. The Monitor and CRO shall have the right to attend and participate in all such meetings. At the conclusion of the seven day period, QIT shall inform the Monitor of those bidders with whom it is prepared to conduct further negotiations. After considering the views of QIT and the Applicants, the Monitor shall identify to the Applicants and QIT the bidders with whom further negotiations shall occur (the "Bidders"). If either QIT or the Applicants disagree with the Monitor then they may apply to the court for directions.
 - (b) After the Bidders have been identified, QIT shall disclose relevant portions of the long-term supply agreement dated April 15, 1999 between QIT and Ivaco Rolling Mills Limited Partnership ("IRM") which QIT claims has been terminated and which the Applicants claim has not been terminated (the "Agreement") to the Bidders, under appropriate confidentiality arrangements. QIT and the Monitor shall have discussions to determine what portions of the Agreement are relevant and to determine appropriate confidentiality arrangements. If they cannot agree,

- 3 -

they shall seek further directions from the court. Further, if the Applicants do not agree with the determination of QIT and the Monitor as to what portions of the Agreement are relevant, they shall be at liberty to apply to the court for further directions regarding the disclosure of the Agreement. This order shall be without prejudice to the Applicants' position that the Agreement is not confidential and that it may disclose the entire Agreement.

- (c) QIT shall then undertake negotiations with the Bidders. The Monitor and CRO shall be entitled to attend and participate in these negotiations so as to be in a position to report to the court on the outcome of them. No other parties shall participate in the negotiations, except that at the request of either QIT or a Bidder technical personnel from the Applicants will be entitled to participate in order to give necessary technical assistance. If the parties cannot agree on the appropriate participation of additional persons they shall seek further directions from the court. At the request of QIT and a Bidder, the Monitor may in its discretion absent itself from parts of negotiations which it considers best to proceed privately. If the Monitor refuses such request, QIT or the Bidder may apply to the court for directions. At the request of QIT or a Bidder, the CRO may in his discretion absent himself from parts of negotiations which he considers best to proceed privately. If the CRO refuses such request, QIT or the Bidder may apply to the court for directions.
- (d) The negotiations and meetings referred to shall be conducted under appropriate confidentiality arrangements.

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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.

T W E E N :

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APPLICANTS LISTED IN SCHEDULE "A"

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding Commenced at Toronto

ORDER

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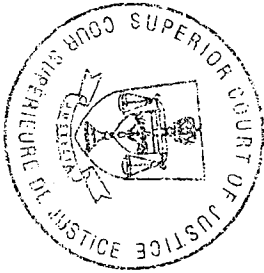
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Solicitors for the Responding Party
QIT-Per et Tibane Inc.

#3918374 v. 4

APPENDIX B



Court File No. 03-CL-5145

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE

)

WEDNESDAY, THE 9th

)

MR. JUSTICE CUMMING

)

DAY OF JUNE, 2004

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
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1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record herein is abridged so that the motion is properly returnable today, and that any requirement for service of the Notice of Motion and of the Motion Record upon any party not served is dispensed with.

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- (b) After the Bidders have been identified, QIT shall disclose relevant portions of the long-term supply agreement dated April 15, 1999 between QIT and Ivaco Rolling Mills Limited Partnership ("IRM") which QIT claims has been terminated and which the Applicants claim has not been terminated (the "Agreement") to the Bidders, under appropriate confidentiality arrangements. QIT and the Monitor shall have discussions to determine what portions of the Agreement are relevant and to determine appropriate confidentiality arrangements. If they cannot agree,

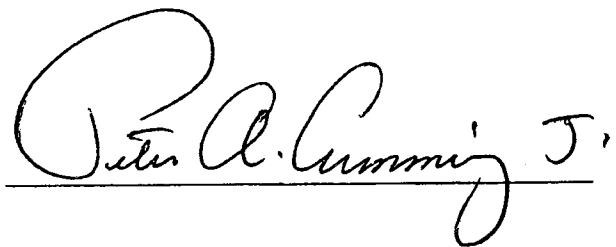
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- (c) QIT shall then undertake negotiations with the Bidders. The Monitor and CRO shall be entitled to attend and participate in these negotiations so as to be in a position to report to the court on the outcome of them. No other parties shall participate in the negotiations, except that at the request of either QIT or a Bidder technical personnel from the Applicants will be entitled to participate in order to give necessary technical assistance. If the parties cannot agree on the appropriate participation of additional persons they shall seek further directions from the court. At the request of QIT and a Bidder, the Monitor may in its discretion absent itself from parts of negotiations which it considers best to proceed privately. If the Monitor refuses such request, QIT or the Bidder may apply to the court for directions. At the request of QIT or a Bidder, the CRO may in his discretion absent himself from parts of negotiations which he considers best to proceed privately. If the CRO refuses such request, QIT or the Bidder may apply to the court for directions.
- (d) The negotiations and meetings referred to shall be conducted under appropriate confidentiality arrangements.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

JUN 29 2004

PER/PAR



SCHEDULE "A"

APPLICANTS FILING FOR CCAA

1. Ivaco Inc.
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3. Ifastgroupe Inc.
4. IFC (Fasteners) Inc.
5. Ifastgroupe Realty Inc.
6. Docap (1985) Corporation
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8. 3632610 Canada Inc.

BETWEEN:

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

Court File No. 03-CL-5145

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

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding Commenced at Toronto

ORDER

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QIT-Fer et Titane Inc.

#3918374 v. 4