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"

FIFTEENTH REPORT OF THE MONITOR
AUGUST 9, 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. ("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. Subject to this Honourable Court's approval, certain of the Applicants (collectively the "Sellers") have entered into separate agreements (collectively the "Purchase Agreements") to sell their main operating business (in the case of Ivaco, its Ontario and Quebec Sivaco divisions ("Sivaco")) to III Canada Acquisition Company (the "Purchaser"), a Delaware company controlled by The Heico Companies, L.L.C. ("Heico").

4. This Fifteenth Report of the Monitor (the "Report") addresses the Applicants' request for: 1) approval of the Purchase Agreements and related documents comprising the agreements between the Sellers and the Purchaser; and 2) an extension of the Stay of Proceedings to allow sufficient time for closing of the sales under the Purchase Agreements and is organized as follows:

- Terms of Reference
- Overview
- Description of Business and Related Assets
- Description of the Sales Process and Marketing Efforts
- Summary of the Purchase Agreements
- Monitor's Assessment of Value
- Alternatives to a Sale of the Purchased Assets
- Financial Performance and Cash Flow Projections
- Status of QIT Post-CCAA Consignment Arrangement
- Debtor-in-Possession Financing
- Status of Non-Core Assets
- Claims Process Update
- Extension of the Stay of Proceedings
- Monitor's Analysis and Recommendations

TERMS OF REFERENCE

5. In preparing this Report, the Monitor has relied upon company-prepared unaudited financial information and records as well as discussions with management of the Applicants and with UBS. The Monitor has not performed an audit or other verification of such information. An examination of the financial projections prepared by the Applicants as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information and estimates on timelines relied upon in this Report are based on assumptions regarding future events. Actual results achieved will vary from this information, maybe materially.

6. This Report also contains a summary of certain of the principal business terms of the Purchase Agreements and related documents. This summary may not provide details of all the material terms of the Purchase Agreements or other agreements relating to the proposed transactions. The summary of the elements of the Purchase Agreements is that which the Monitor considers to be relevant to the stakeholders and this Honourable Court in evaluating the Applicant's request for approval of the proposed sales. For a number of reasons, including confidentiality and maintaining the ability to proceed with alternatives should these Purchase Agreements not be approved, or the transactions not close, the actual contract documents are not enclosed with this Report. Each of the Purchase Agreements is substantially similar.

7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the Initial Order, the Monitor's previous reports and the Purchase Agreements.

OVERVIEW

8. The Applicants have followed the Court-approved dual track process to identify and finalize the optimal available arrangement for the collectivity of stakeholders of each of the Applicants. With the approval of this Honourable Court, the Applicants retained UBS as their financial advisors and have fully utilized the services and skills of UBS throughout the process.

9. At the outset of these proceedings, the Applicants' stakeholders expressed a strong preference for an independent, external CRO to oversee the Company's operational and financial reorganization. As a result, with the approval of this Honourable Court, the Independent Committee of the Board of Directors appointed Mr. Randall Benson as CRO effective October 24, 2003. Mr. Benson has been actively involved in considering the alternative strategies available to the Applicants and in negotiating the Purchase Agreements.

10. Concerns were also expressed as to potential conflicts or preferences and so the Monitor has been more extensively involved through oversight and attendances at meetings in the Sales Process than would normally be the case. The Monitor has not observed anything other than a straightforward, fairly-run process with no pre-conceived goals or attempts to manoeuvre to arrive at any result other than that determined by market forces.

11. The dual track process provided the opportunity for sponsors for a stand-alone plan to come forward. Major stakeholders of the Applicants have both the financial ability and experience to either initiate or participate in such a plan if so interested and have chosen not to do so.

12. The canvass of the market for interested purchasers/investors was thoroughly and professionally done with sufficient time for all potentially interested persons to obtain such information as they might require. UBS and the Applicants have treated all potentially interested persons fairly and afforded them substantially equal information and opportunity. The financial results of their businesses and improving industry environment have assisted the Applicants.

13. Based on the analysis completed by the Applicants with the assistance of UBS, the offer of the Purchaser selected by the Applicants is the best available offer for each of the Sellers. The Monitor supports the Applicants' requests for approval.

DESCRIPTION OF BUSINESS AND RELATED ASSETS

14. The Applicants' operations include the steel and wire rod manufacturing facilities operated by IRM located in L'Orignal, Ontario near Ottawa, the Sivaco wire rod processing plants in Marieville, Quebec and Ingersoll, Ontario and the Ifastgroupe nut, bolt and speciality fastener operations in Marieville, Quebec and Ingersoll and Mississauga, Ontario (collectively the "Principal Businesses" and individually a "Principal Business" as the context requires).

15. The Principal Businesses are forecast to achieve aggregate gross revenue of approximately $1.1 billion for fiscal 2004 including sales to affiliates of

approximately $213 million. IRM's revenue is projected to be approximately $630 million (including approximately $204 million of sales to affiliates) while Ifastgroupe and Sivaco project approximately $323 million and $215 million respectively (including a combined total of approximately $9 million to affiliates). Approximately 70% of the revenue is to customers in the United States and is subject to foreign exchange risk. This had a significant impact on the Applicants' performance in 2003.

16. As the Principal Businesses are primarily manufacturing businesses, Working Capital is an important part of value. Included in Working Capital for the purposes of the Purchase Agreements are the accounts receivable, inventory and prepaid expenses less the accrued liabilities consisting of post-filing trade payables, freight, duties and utilities (the "Accrued Liabilities"). The net consolidated Working Capital for the Principal Businesses as at May 31, 2004 was approximately $299 million. Based on projected earnings (including price increases) and cash flow, the Working Capital as at September 30, 2004 was projected by management to be approximately $293 million, which was the projection used for the Purchase Agreements.

DESCRIPTION OF THE SALES PROCESS AND MARKETING EFFORTS

17. Under the Court-approved dual-track process, the Applicants engaged UBS to seek proposals from potential purchasers and investors for any or all of the Applicants' businesses or assets.

18. During the Sales Process, the Applicants also devoted considerable effort to analyzing the stand-alone restructuring options for each Applicant. With the assistance of UBS, the Applicants used their business plans to estimate a theoretical enterprise value for each Applicant. The result was provided to the Informal Advisory Committee to elicit their feedback. This estimate of value has also been used by the Applicants for the purposes of comparison to the bids received.

19. The Applicants and UBS (after consultation with the Monitor) have taken the following actions to properly canvass the market and to comply with the December 11, 2003 Process Order and the Sales Process approved by this Honourable Court on March 22, 2004:

- With the assistance of UBS, Confidential Information Memoranda ("CIMs") were prepared by the Applicants for each of Sivaco, IRM and Ifastgroupe in advance of the January 5, 2004 deadline established by the Process Order.

- The Applicants and UBS provided draft versions of the CIMs to certain major stakeholders for comment. Changes requested were responded to by providing additional analysis relevant to the issues and making some of the changes.

- Concurrently with the development of the CIMs, the Applicants, assisted by UBS and in consultation with the Monitor, compiled a list of prospective purchasers and/or investors. The Applicants provided the proposed list to certain major stakeholders and invited them to suggest additional parties to be contacted. In early January, UBS initiated contact with every party identified by UBS, the Applicants or the major stakeholders and provided a non-confidential summary of the opportunities to those expressing any interest.

- The parties who expressed interest also received the Applicants' proposed form of confidentiality agreement. Parties that signed confidentiality agreements were provided with CIMs.

- UBS contacted seventy-six parties to determine their interest and sent summary overviews of the business units to more than fifty parties. Thirty-six parties signed confidentiality agreements and received the CIM for one or more of the Principal Businesses. Seventeen parties provided a preliminary indication of interest by February 6, 2004.

- The Applicants in consultation with UBS determined that ten of these parties should be invited to participate in the Second Round.

- The Second Round of the Sales Process commenced in mid-March during which bidders conducted due diligence and were provided with access to management. The Second Round was designed to require bidders to submit binding offers by the end of an approximately six-week period, ending on April 30, 2004 (which was later extended to May 14, 2004, as discussed below).

- This length of time was considered to be sufficient to allow the bidders to satisfy themselves as to the future prospects of the Principal Businesses and to be in a position to submit definitive offers with minimal conditions relating to general due diligence. It also addressed the needs of the stakeholders to obtain market feedback on the Sales Process in order to make decisions concerning the appropriate exit strategy for each Applicant (i.e. sale versus stand-alone restructuring).

- The Second Round of due diligence also provided bidders with access to key members of the management team for each Applicant, plant tours and electronic and physical data rooms containing business, financial, environmental and legal information for each of the Principal Businesses presented on an unconsolidated basis.

- As directed by the Court, the Monitor was involved throughout the Sales Process, attending all management presentations to bidders, facility tours and all material follow-up meetings with the bidders. The Applicants, together with the Monitor, kept the members of the Informal Advisory Committee apprised of the course of conduct of the Sales Process.

- The Applicants provided bidders with the opportunity to submit bids for each of Sivaco, IRM and Ifastgroupe separately or in combination. This was in accordance with the open, flexible and unconsolidated approach to be followed in both the restructuring and sale options. It also addressed the concerns of each Applicant's stakeholders that bidders be free to bid for all, part or parts of the Principal Businesses and that the bids reflect a market driven allocation of value among the Principal Businesses. In the assessment of the Monitor, the Applicants and UBS fairly presented this opportunity to each and every interested party and did not have any pre-ordained result toward which they tried to shunt or cajole the bidders.

- With respect to Ifastgroupe (which has three distinct business units), bidders were also invited to bid on any individual business unit(s) if they did not wish to acquire or would be willing to purchase less than all of Ifastgroupe.

- The Sales Process provided that bidders were not to have discussions with the Applicants' labour unions or major suppliers during the Second Round. Bidders were asked to include details in their Second Round bids of conditions with respect to unions or suppliers, including the legal and economic terms upon which they based the value(s) of their bid(s).

- The Applicants requested that bidders submit a mark-up of the form of purchase agreement provided to them for each Applicant on which they were bidding.

- As discussed in previous reports, after receiving feedback from a number of bidders regarding the status of their due diligence and consulting with members of the Informal Advisory Committee, the Applicants concluded, based in part on advice from UBS with the concurrence of the Monitor, that it was appropriate to extend the bid deadline to May 14, 2004.

- On May 14, 2004, the Applicants received three potentially viable asset purchase offers for all three entities together and one potentially viable exit-financing proposal that related to the stand-alone restructuring path. The Applicants, their financial and legal advisors, the Monitor and the relevant members of the Informal Advisory Committee reviewed the bids and discussed next steps.

- The Sales Process provided for a period during which the Applicants clarified and negotiated the terms and conditions of the Purchase Agreements including determining what further conditions, if any, were attached to the bids.

- Since May 14, 2004, the Applicants have responded to numerous information requests from the bidders to advance the Sales Process. The Applicants held discussions with each of the bidders to clarify aspects of the bids in order to conduct a fair assessment of the merits of each bid.

- To facilitate the clearing of as many conditions as possible, the bidders and their legal and financial advisors continued to be provided with extensive access to business, financial, environmental and legal information on the various businesses. Key members of the management team were made available to each of the bidders as required. Information in the data rooms was supplemented and updated.

- Two of the bidders advanced negotiations of their proposed purchase agreements during this period and provided detailed mark-ups of the purchase agreements as requested.

- The Sales Process as approved contained the potential for an exclusivity period during which the selected bidder or bidders would have the opportunity to enter into negotiations with suppliers, including QIT, and the Applicants' labour unions. It was originally thought that the buyers would maintain these as conditions requiring an exclusivity period to address them.

- Due in part to the court proceedings with QIT and the USWA that have required time and attention in court, clarification took longer than originally contemplated.

- The Monitor has been present for the material discussions with the potential purchasers/bidders and had discussions with UBS and the Applicants to ensure compliance with the Sales Process in not making any bidder a "stalking horse" for other bidders. UBS reports that while all the bidders have, perhaps understandably, sought to know the terms of the other bids including price, UBS has not provided this information to the bidders. The Monitor considers that the Sales Process has been fairly followed and no potential purchaser has been used as a stalking horse. All bidders have been provided with essentially the same information and opportunity.

- After May 15, 2004, the Applicants, in consultation with their legal advisors, UBS and the Monitor, undertook the process described above of clarifying the consideration and form of purchase agreements offered. The parties were provided with the same guidance on the competitiveness of their offer, including the proposed terms within the purchase agreements.

- The Applicants, their legal advisors, UBS and the Monitor consulted with members of the Informal Advisory Committee to review the summary of competitive bids and the Applicants' recommendation on proceeding to finalize definitive purchase agreements. The members of the Informal Advisory Committee have each advised that the Purchaser's bid was preferable and concurred with the Applicants' decision to proceed with finalizing the Purchase Agreements.

- As the Purchaser has not stipulated any conditions as to entering into new or amended agreements with QIT or the Union, there is no need for any exclusivity period to allow for such agreements to be reached.

- The Applicants' recommendation of the Purchaser is based on the Purchase Price and lack of conditionality in comparison to the other bidders' offers including closing conditions and the likelihood of a timely closing. The other bidders maintained conditions in their bids relating to negotiating supply agreements with QIT and entering into negotiations with the Union. The Purchaser's proposal is superior as it represents not only the highest cash offer but also contains the fewest conditions to Closing. The selected bid is also preferable to the other bids in terms of the projected net cash recovery to creditors for each Applicant.

- The Applicants provided a summary of the offers received to the Restructuring Committee of the Board of Directors following which a presentation was made to the Board of Directors. The Board of Directors approved the sale of the Principal Businesses to the Purchaser and authorized the Applicants to proceed with finalizing the Purchase Agreements.

- On August 6, 2004, the Sellers and the Purchaser executed the Purchase Agreements. The Purchase Agreements are conditional upon Court Approval.

20. The Monitor considers that the process summarized in this Report complied with the Process Order and Sales Process directed by this Honourable Court. The Principal Businesses were properly exposed to the market of potential purchasers for a period sufficient to indicate the Seller was under no compulsion to sell. The Monitor considers that the proposed transaction is a result of competition amongst fully informed prudent purchasers in the marketplace and that the price achieved reflects a market transaction. The way the clarification period has worked out has meant that no additional Exclusivity Period as defined in the Sales Process will be required and the Monitor considers that this is advantageous to the Applicants and the stakeholders.

SUMMARY OF THE PURCHASE AGREEMENTS

21. The Purchase Agreements are the result of a competitive sales process and extensive negotiation between the Applicants with the assistance of UBS (in consultation with the Monitor), and the Purchaser, and their respective counsel. Affiliates of the Purchaser have experience in the steel industry including substantial U.S. wire manufacturing operations.

22. A summary of the major terms and conditions of the Purchase Agreements follows.

<u>Purchase Price:</u>

23. The Purchaser submitted a cash offer for all three businesses. The Purchase Price payable by the Purchaser to the Sellers is $170 million for IRM, $129 million for

Ifastgroupe and $76 million for Sivaco for an aggregate total of $375 million (the "Sale Price") plus the Accrued Liabilities (consisting of post-filing Trade Payables, Freight, Duties and Utilities) and non-sustaining capital expenditures incurred with the approval of the Purchaser before the Closing Date. The purchase of each Principal Business is conditional upon the purchase of the other two Principal Businesses.

24. On the Closing Date the Sellers will transfer to the Purchaser all of the Purchased Assets and the Purchaser will assume certain liabilities, defined as the Assumed Liabilities. The Purchased Assets represent the rights, properties and assets of each of IRM, Ifastgroupe and Sivaco and are detailed in the Purchase Agreements. The Purchased Assets do not include the shares of Docap, IMT Corporation, litigation assets, certain excess real estate and cash or cash equivalents held by any of the Applicants. The Assumed Liabilities, which are to be deducted from the Purchase Price, represent liabilities and obligations relating to the businesses, including the deficit in the pension plans for unionized employees (on a going concern basis), the assumption of post-retirement benefit liabilities for unionized employees, the outstanding obligations with respect to certain capital leases, equipment loans and mortgages on real property, accrued vacation pay and the Accrued Liabilities. Also deducted from the Purchase Price are the transfer taxes payable upon transfer of the Purchased Assets.

25. The Cash Amount (after deducting from the Purchase Price the liabilities discussed above, the Environmental Credit described below and any Consent Fees or Lost Contract Credits relating to Contracts or Purchased Assets) is payable in cash on the Closing Date and is estimated to be approximately $127 million for IRM, $89 million for Ifastgroupe and $38 million for Sivaco for total aggregate cash of approximately $254 million.

26. The Applicants will also be responsible for paying all payroll related liabilities, sales and income taxes and other fees and expenses incurred up to the Closing Date as well as any cure payments the Sellers elect to pay prior to Closing in

order to minimize the cost of assigning the Assumed Contracts to the Buyer. The Applicants may elect to have the Purchaser pay certain cure payments or the Applicants may repudiate certain leases and replace the underlying assets. If payment is elected, the amount of such payments reduces the Cash Amount (Consent Fees as described above). The total amount of cure payments required to be paid to assign the Assumed Contracts to the Buyer is subject to negotiation and therefore not determinable at present.

Adjustments Relating to Working Capital

27. A significant potential adjustment in addition to the determination of the Cash Amount relates to the Working Capital Adjustment for each of the Purchased Businesses. The following is a summary of how this adjustment is to be determined:

- A statement of actual Working Capital as at the Closing Date will be prepared within twenty-three days after the Closing Date and will be compared to the projected Working Capital as at September 30, 2004, which projection is annexed as Exhibit B to the Purchase Agreements. The amount by which the Working Capital determined as at the Time of Closing exceeds the Estimated Working Capital will be a positive adjustment (and any shortfall a negative adjustment) ("Adjustment"). If the Adjustment is a negative number, that amount will be released to the Purchaser (from the Holdback Amount discussed below) whereas a positive amount is a credit to the Seller.

- In the event there is a dispute as to the calculation of the Adjustment, a dispute notice and dispute resolution procedure, consisting of submission of the dispute to a nationally recognized independent accounting firm, is provided for in the Purchase Agreements.

- The Adjustment for Working Capital is based on future events which cannot be predicted with certainty. The Applicants believe that the Minimum Working Capital condition discussed below will be met at Closing. Working

Capital is to be determined in accordance with Canadian GAAP and (to the extent consistent with Canadian GAAP) on a basis consistent with past practice of the Sellers. The Monitor has not reviewed and is not able to express an opinion on the likelihood of: (i) there being a divergence between past practices and Canadian GAAP; and (ii) whether any divergence would result in a material change to Working Capital.

28. Another potential Adjustment to the Cash Amount may arise as a result of revaluing certain of the Assumed Liabilities as at the Closing Date, in particular the Pension Deficit and Post-Retirement Benefits. To the extent that the actual Pension Deficit and Post-Retirement Benefits are greater or less than the estimated amounts, the Cash Amount will be adjusted accordingly.

Adjustments Relating to Environmental Matters

29. During the sixty day period following Court Approval of the Purchase Agreements, the Purchaser is entitled to conduct environmental due diligence in respect of the Real Property being acquired and may deliver to the Sellers no later than five business days following the expiration of the sixty day period an Environmental Assessment Summary as to the following:

- Each matter that constitutes a non-compliance with environmental law ("Compliance Designated Matter") or that would reasonably be expected to result in an enforceable requirement under environmental law for closure, remediation, clean-up, removal or disposal of any hazardous material ("HazMat Designated Matter"); and

- (a) The amount of each anticipated expenditure related to rectification or remediation of each of the Compliance Designated Matters and the HazMat Designated Matters referred to above; and (b) the expenditures resulting from the anticipated expenditures referred to above to: (i) achieve compliance with environmental law in all material respects after Closing with respect to each Compliance Designated Matter; and (ii) comply with any enforceable requirement reasonably expected to be imposed with respect to each HazMat Designated Matter (collectively the "Original Environmental Costs").

30. In the event the Sellers dispute the Original Environmental Costs reflected in the Environmental Assessment Summary, a dispute resolution procedure, consisting of submission of the dispute to an independent Environmental Expert, is provided for in the Purchase Agreements and is to result in the determination prior to Closing of the Final Environmental Costs.

31. The Purchase Agreements provide that the Sellers will be responsible for the first $10 million (in the aggregate for all three Principal Businesses) of the Final Environmental Costs. This represents an aggregate reduction to the Purchase Price for all three transactions regardless of the actual Final Environmental Costs. The Purchaser will be solely responsible for the next $10 million of aggregate Final Environmental Costs with no adjustment to the Purchase Price. The next $5 million of costs will be the Seller's responsibility to cure and will be a reduction to the Purchase Price ("Environmental Excess Credit"). Any additional environmental costs in excess of $25 million but less than $30 million will be at the Purchaser's risk with no adjustment to the Purchase Price. It is a condition of Closing in favour of the Purchaser that the Final Environmental Costs do not exceed $30 million. If they do, the Purchaser may terminate the Purchase Agreement. The credit against the Purchase Price of the first $10 million of the Final Environmental Costs is allocated among the Principal Businesses as follows: IRM $6.6 million; Ifastgroupe $2.0 million; and Sivaco $1.4 million. The Monitor considers that this rough allocation is reasonable in light of the known environmental issues. The Environmental Excess Credit, if any, to a maximum of $5 million will be allocated as a credit against the Purchase Price for each Principal Business pro-rata to the share of Final Environmental Costs attributable to that Principal Business.

Employees

32. The Purchase Agreements provide significant benefits by potentially preserving employment and transferring costs and claims that would otherwise serve to reduce recoveries to the Applicants' creditors. The more significant provisions include:

    - The Purchaser will become the successor employer under the existing collective bargaining agreements and pension plan arrangements for unionized employees. As such, the Purchaser will be bound by the collective agreements and pension plan arrangements effective as of the time of Closing, including the obligation to remedy all pension contributions payments that are unpaid by an Applicant in respect of unionized employees as at the Closing Date.

    - The service of each unionized employee with the Sellers shall be recognized for all purposes including eligibility to participate in pension and benefit plans.

    - The Purchaser shall make an offer of employment to substantially all of the non-union employees employed by the Sellers effective as at the time of Closing on terms and conditions that are not materially less advantageous in the aggregate than existing employment terms of such employees (except existing accrued pension, retirement and other benefit entitlements).

    - The Purchaser is not obliged to make offers of employment to the existing management group although the Purchaser intends to have discussions as to future employment arrangements.

    - The Purchaser will not assume any pension, retirement or other employee benefit programs or plans in respect of the approximately 500 non-unionized employees.

33. Taken as a whole, the employee related provisions of the Purchase Agreements provide an opportunity for continued employment of approximately 2200 employees.

Representations and Warranties

34. The Applicants are pursuing a going concern sale of their Principal Businesses. The price reflects this. In order to realize a going concern value for the businesses and to complete the transaction on an expedited basis, the Sellers are making certain representations and warranties to the Purchaser.

35. The following are the areas in which material representations and warranties are made by the Sellers :

- Standard corporate organization and authority.
- Delivery of materially correct and complete copies of Contracts.
- Non-infringement of Intellectual Property.
- Sufficiency and operating condition of the Purchased Assets to conduct the Principal Businesses as currently conducted.
- Material compliance by the Principal Businesses with applicable laws.

36. Aside from the standard representations and warranties made by the Purchaser, Heico and Heico Holding, Inc. jointly and severally represent and warrant to the Sellers that they and their respective affiliates have and will have at the time of Closing, and (in the absence of the Purchaser obtaining its own financing) will make available to the Purchaser on the Closing Date, sufficient resources in the aggregate to permit the Purchaser to meet all of its obligations under the Purchase Agreements, including satisfaction of the Purchase Price.

37. The Monitor considers that these representations and warranties have been reached through a lengthy and robust commercial negotiation between arms-length sophisticated parties with access to legal and financial advice.

Purchaser's Termination Rights

38. The Purchase Agreements may be terminated by the Purchaser on written notice to the Sellers in the following circumstances:

- Prior to the Closing Date, if any of the Seller's representation and warranties have been materially breached (except that the Seller may provide to the Purchaser during the Interim Period (but no later than five business days prior to Closing) updated Schedules reflecting changes to the matters described in such schedules so long as such changes do not represent a Material Adverse Change).

- At or before the time of Closing, if any of the terms, covenants and conditions of the Purchase Agreement have been materially breached.

- If this Honourable Court does not approve the Purchase Agreements or, if required by the Court, the Monitor has not filed a duly executed Monitor's Certificate.

- If any legal or regulatory action or proceeding is pending or threatened to enjoin, restrict or prohibit the purchase and sale of the Purchased Assets.

- If the Escrow Agreement (with respect to Deposit and Holdback Amounts in the Purchase Agreements) is not in full force and effect.

- If the Final Environmental Costs exceed $30 million.

- If all conditions of Closing by the Purchaser of each of the Principal Businesses have not been met or waived and all documents relating to the completion of the Purchase Agreements have not been delivered.

- As at the Closing Date, if the estimated amount of Working Capital is less than the Minimum Working Capital requirement of $278 million.

- If a Material Adverse Effect (which is applicable on an asset by asset and liability by liability basis) giving rise to a Material Adverse Change (which is applicable only to the Purchased Assets taken as a whole) has occurred. A Material Adverse Effect includes those events that adversely effect the use or value of any Purchased Assets or Assumed Liabilities or the financial condition and results of operations of the Principal Business but specifically excludes the effect of events or changes in circumstances relating to: (i) the industries and markets in which the businesses operate (but includes the effect of unusual and significantly material events in the industry or markets in which the Principal Businesses operate) (ii) interest rates, currency fluctuations and general financial market conditions (but shall include the effect of catastrophic financial market events) (iii) changes in applicable law and rates of tax and duties (but includes changes that would prevent the Purchaser operating the Principal Business in substantially the same manner as the Seller) and (iv) the QIT contract or the supply arrangements between the Sellers or any of their affiliates and QIT.

Other

39. The Purchaser has agreed that entering into agreements with QIT and the Union are not conditions of closing. The Purchaser will take an assignment of IRM's right in and to the QIT contract, if any, without recourse to IRM. The failure of the Purchaser to reach an agreement with QIT is not a Material Adverse Change under any Purchase Agreement.

40. The Purchase Agreements provide for a deposit of $15 million to be paid by the Purchaser to the Monitor, acting as Escrow Agent, in the amount of $5 million for each of IRM, Ifastgroupe and Sivaco. The Monitor seeks the approval of this Honourable Court to act as Escrow Agent. The Escrow Agent shall also receive on Closing an amount equal to 20% of the Estimated Cash Amount (less the

deposit referred to above) which shall be the Holdback Amount. The Holdback Amount shall be retained by the Escrow Agent pending a final determination of any Adjustments as discussed above. The Escrow Agent shall release the Escrow Funds in accordance with any joint direction of the relevant Seller and Buyer, failing receipt of which the Escrow Agent shall comply with the directions of this Honourable Court as to the disposition of the funds.

41. The Purchaser is not limited to recourse to the Holdback Amount in its rights and remedies against any particular Seller. The parties have agreed that up to 60% of the cash paid on closing will be available immediately after Closing to the Sellers for distribution to their respective creditors. The Purchaser has released any claim it may have against such 60% of the cash paid on closing. In addition, subject to this Honourable Court's approval and the Purchaser's right to contest the Applicants' motion for such approval, the Applicants will be at liberty to distribute the cash retained on closing. The remaining 40% of the final cash amount including the 20% Holdback will be retained until the final Adjustments that are subject to bona fide disputes as discussed above have been determined. If the quantum of any disputed Adjustments is less than the 40% holdback, the Sellers may distribute an additional amount to their creditors equal to the difference between the 40% and the disputed adjustments. The Purchaser shall not have recourse against the Holdback Amount of any of the other Sellers to satisfy any liabilities of an individual Seller. In other words, the Purchaser's recourse against any Seller is not cross-collateralized by the other Sellers or their Holdback Amounts.

MONITOR'S ASSESSMENT OF VALUE

42. Since mid-April, the Applicants have been engaged in a complete review of their respective business plans. This review has formed the foundation for consideration of the option to pursue a stand-alone restructuring strategy that does not involve the sale of the Principal Businesses.

43. At the request of the Applicants, the Monitor has involved valuation professionals from Ernst & Young Corporate Finance Inc. ("EYCF") to consider the business on an individual and consolidated basis in order to be in a position to compare the Purchase Price achieved to an estimate of the theoretical enterprise value of each of the Principal Businesses on a stand-alone basis. It should be stressed that the work undertaken has not attained the level of a formal valuation but rather is an informal assessment. EYCF undertook a preliminary discounted cash flow approach to valuing the Principal Businesses on a stand-alone basis. EYCF also reviewed transaction multiples and trading benchmarks for selected steel industry companies.

44. The Applicants, assisted by UBS and in consultation with the Monitor, have analyzed theoretical values of a stand-alone reorganization. Based on such theoretical analysis, the Applicants are of the view that the theoretical estimated value of the Principal Businesses on a stand-alone basis (assuming a stand-alone transaction can be completed as discussed below) may exceed the Purchase Price being offered. Based on its assessment, the Monitor concurs with the Applicants' view; however, the Applicants and the Monitor (based on its assessment) believe that the Purchase Price compares favourably with the lower end of the range of theoretical values on a stand-alone basis.

45. Value on a stand-alone basis at present is both speculative and hypothetical in nature and there would be significant risks and uncertainty associated with pursuing this track further. These risks include the following:

<u>Value Risk -</u> The range of values which may be achieved under a stand-alone restructuring scenario are dependent on a number of external factors which will likely fluctuate and the fluctuations may be material. Factors that could negatively impact on the estimated range of values include the following:

- A decline in steel prices. Steel prices have risen sharply over the last several months and reached all time highs based on: 1) an increase in raw material prices and costs of making steel; 2) raw material shortages limiting steel output; 3) Chinese consumption and import growth driving foreign steel away from the United States; 4) economic recovery in the United States and recent increase in demand; 5) high freight rates limiting imports to the United States; and 6) the weaker U.S. dollar and resulting increased competitiveness of domestic players.

- A return to the market conditions experienced during fiscal 2003. Given the cyclical nature of the steel industry, a decline in existing market conditions over an extended period of time could impact on projected earnings that form the foundation of the stand-alone valuation. At present, the market appears to be at a peak and there is a great deal of uncertainty within the marketplace with respect to the timing of the next trough.

- An inability to achieve the forecasted profit margins and expected cost savings through operational efficiencies.

- A further strengthening of the Canadian dollar.

- Market conditions affecting the amount and terms of any borrowings to support a stand-alone plan.

Closing Risk – Based on a review of the exit-financing proposal submitted by the private equity sponsor, it is likely that a number of conditions would have to be addressed and satisfied before any stand-alone plan could be achieved. These include the following:

- Obtaining concessions in the collective bargaining agreements relating to unionized pension plans and post-retirement benefit plans.

- Negotiation with the Unions to achieve annual labour cost savings.

- Obtaining deferred payment of missed pension funding over a number of years.

- Obtaining a new long-term supply contract with QIT.

- Closing of a transaction.
- Obtaining the required approval of the major stakeholders and the creditors to a Plan(s) of Arrangement.

46. The overall price in the Purchase Agreements is in the range of values that the Monitor considers reasonable for the businesses viewed as a totality based on the assessment done by the Monitor's valuation professionals described above. While for reasons of confidentiality and commercial common sense (given the contingency that the deal has yet to close) it would not be prudent to reveal the ranges, the Monitor considers that it should inform this Honourable Court that the values are not at the upper end of its range and while the proposed transactions are a good deal for all the creditors, it is clear that the Purchaser perceives and is obtaining the opportunity for substantial upside as well.

47. In terms of the prices assigned to each of the three businesses by the Purchaser, the Monitor considers that each of the prices is within a zone of reasonable and fair values for each of the separate businesses. The value ascribed to IRM is somewhat at the higher end of the range in comparison to the other two, but still within the zone of reasonableness. The Monitor considers that in all likelihood the Purchaser did its own assessment of the creditor recoveries for each separate business and chose its allocation with that practical consideration in mind. As stated above, the Applicants and UBS did not try to influence this allocation. The Monitor does not believe that the allocation is artificial in this aspect so as to be a departure from real value ranges, but the Monitor does wish to draw this to the attention of this Honourable Court.

ALTERNATIVES TO A SALE OF THE PRINCIPAL BUSINESS

<u>Stand-Alone Restructuring</u>

48. On May 15, 2004, the Applicants received a proposal for a sponsored stand-alone restructuring plan, essentially by way of exit financing. A significant amount of operational and structural due diligence to allow the sponsor to advance the

proposal, which involves investing new debt capital as part of financing a restructuring plan, has not been done.

49. The Applicants, their advisors and the Monitor held discussions with the party that submitted the exit-financing proposal. This party was kept apprised as appropriate as to the Sales Process. The party indicated that it understood that its proposal was an alternative to a sale of the Principal Businesses. In the latter part of July 2004, the stand-alone bidder sent the Applicants a letter formally withdrawing its proposal. The Monitor considers that: (i) with the certainty and risk factors associated with the exit-financing plan, the offer was not competitive with the bid ultimately accepted as set out above; and (ii) although it has now been formally withdrawn, it remains a possible option that could potentially be developed if for any reason the optimal offer does not proceed.

Liquidation of the Purchased Assets

50. Absent a sale of the Purchased Assets or a stand-alone restructuring as discussed above, the most likely alternative would be the liquidation of the Principal Businesses and the non-core assets on a basis other than as a going concern. This result would have negative ramifications to the Applicants' employees, customers and creditors.

51. The Monitor has analyzed the recoveries to creditors in this scenario. It has concluded that the recoveries to creditors would be materially less than would be realized under the sale to the Purchaser in accordance with the terms of the Purchase Agreements. Estimated liquidation values of the assets of the Principal Businesses net of the cost to settle bona-fide post-filing trade liabilities (which are being assumed by the Purchaser under the Purchase Agreements) are materially less than the aggregate cash likely to be generated for distribution to creditors under the Purchase Agreements. In addition, in a liquidation certain substantial pre-filing liabilities being assumed under the Purchase Agreements would form the basis for claims against each Applicant and would dilute the recovery to other creditors. Liquidation would take a significant period of time and would require

funding to complete. Even after considering the costs that will be incurred to obtain the necessary consents to satisfy the Closing Date conditions, the terms of the Purchase Agreements offer material financial benefits over a liquidation of the Principal Businesses on a non-going concern basis.

FINANCIAL PERFORMANCE AND CASH FLOW PROJECTIONS

52. The Applicants are in the process of finalizing their revised cash flow projections for the period from August 2, 2004 to December 31, 2004. The Monitor will include these projections in a supplement to this Report to be filed before the return of the Applicants' pending motion.

STATUS OF QIT POST-CCAA CONSIGNMENT ARRANGEMENT

53. On July 22, 2004, QIT wrote to the Applicants terminating their post-CCAA consignment agreement effective August 7, 2004. As a result, IRM was required to pay for the existing consignment stock and any future deliveries to IRM. QIT agreed to allow IRM to gradually draw down the existing consignment inventory over a two to three month period.

54. On July 29, 2004 in response to QIT's termination notice, IRM advised QIT that it preferred to purchase the entire inventory immediately. Accordingly, on July 29, 2004 IRM paid QIT approximately $10.4 million representing full and final payment in respect for the consignment inventory. IRM will continue to order and pay for billets as required from QIT under existing arrangements.

STATUS OF DIP FINANCING

55. As previously discussed, the Applicants prepare and distribute on a bi-weekly basis a report that provides the stakeholders and other parties on the Service List with, among other information, a summary of the amounts outstanding under the DIP facilities at the end of each two-week period.

56. The table below shows the Applicants' net cash balances as at opening on August 6, 2004. Net cash balances include the balance in the operating bank account less

any outstanding cheques, the deposits at the RBC blocked bank account, the balance of the GE DIP facility and any outstanding letters of credit.

Entity In Millions	Net Cash (DIP) Balance
IRM	$14.8
Ifastgroupe	$17.7
Ivaco	($0.6)
Docap	$1.5
Total	$33.4

Note 1: Balances are net of outstanding letters of credit in respect of IRM and Ifastgroupe in the amounts of $1.5 million and $1.1 million respectively.

57. The Applicants continue to operate within their DIP loan limits. The Ivaco Sub DIP is $2.0 million (on a 50% / 50% basis from IRM and Ifastgroupe) but is offset by $1.4 million of cash in its operating bank account leaving a negative net cash balance of $0.6 million. The Docap DIP remains unutilized.

STATUS OF NON-CORE ASSETS

58. The Applicants have identified several assets that are not necessary as part of their core businesses. The Applicants have either realized or are in the process of realizing on certain of these non-core assets.

IMT Corporation

59. IMT Corporation ("IMT"), which is not part of this CCAA proceeding, is a wholly owned subsidiary of Ivaco. With operations in Ingersoll and Port Colborne, Ontario, it manufactures high quality precision-machined components for the tractor-trailer, original equipment manufacturing and defence industries. IMT owes its principal secured lender, Canadian Imperial Bank of Commerce ("CIBC"), approximately $10 million.

60. The Applicants engaged Continua Capital Inc. ("Continua") to conduct a formal sale process in respect of IMT. The process commenced on November 19, 2003. Expressions of interest were due on January 16, 2004 and several were received. In consultation with the Monitor and CIBC, the Applicants authorized Continua to pursue exclusive negotiations with one interested party (the "Purchaser").

61. On April 27, 2004, the Applicants signed a letter of intent with the Purchaser to purchase certain of IMT's assets and assume certain of its specified liabilities. The letter of intent included a seventy-five day exclusivity period that was extended by ten days to July 20, 2004. An Agreement of Purchase and Sale is expected to be executed shortly.

<u>Docap</u>

62. Docap is a wholly owned subsidiary of Ivaco and an importer and distributor of automotive and industrial products to customers located in both Canada and the United States. The majority of its products are imported from overseas. Docap owes its principal lender, National Bank approximately $3.9 million under a loan secured by, among other things, a General Security Agreement covering inventory and accounts receivable.

63. The Applicants also engaged Continua to conduct a sale process in respect of Docap. The process commenced on November 19, 2003. Expressions of interest were due on January 16, 2004 and several parties expressed an interest in acquiring the business and/or specific assets.

64. Continua and the Applicants have concluded that the transaction having the most chance of successful completion would be with the current management team of Docap. Management's offer has been submitted to the National Bank for approval. If the approval of the National Bank is obtained, the transaction will be presented to this Honourable Court for approval. Should the National Bank not accept the offer, the Applicants will consider other alternatives, including

liquidation. The Monitor will report further to this Honourable Court as more information becomes available.

Real Estate

65. As set out in the Monitor's previous reports, Ivaco has sold certain properties and has various other properties presently listed for sale.

Warrenton, Virginia

- This property consists of two parcels of land containing approximately 48 acres and a 128,000 square foot building located in the Town of Warrenton, Fauquier County, Virginia. The property is no longer needed for the Applicants' business and has been on the market since 2000.

- As indicated in the Third Report of the Monitor, the Applicants had executed a preliminary sale contract, subject to certain conditions, for U.S.$4.5 million. However, based on a meeting the Applicants had with planning officials from the Town of Warrenton, the Monitor is advised that the Town has rejected the prospective purchaser's plan to rezone the land for residential use and, as a result the offer has been withdrawn.

- With very little chance of any residential development on the property, the Applicants attempted to re-market the property as industrial land, at a significantly reduced price. In mid June 2004, the Applicants received an offer for the property and after negotiation executed an Agreement of Purchase and Sale on June 24, 2004 in the amount of US$1,775,000. The potential purchaser was to provide a fully refundable deposit of US$250,000 to a local escrow agent. The terms of the agreement provided that the purchaser could terminate the agreement at any time prior to closing without penalty. As a result of its ongoing due diligence, the purchaser has identified issues with respect to the property and has indicated it will exercise its termination rights unless the purchase price is adjusted downward.

Discussions are continuing between the Applicants and the potential purchaser with a view to resolving any remaining issues and completing a transaction.

CLAIMS PROCESS UPDATE

66. On June 18, 2004, this Honourable Court issued an Order authorizing the Applicants to conduct a process for calling for and determining claims of its creditors (the "Claims Procedure Order"). Among other things, the Claims Procedure Order established August 6, 2004 as the bar date with respect to claims arising prior to September 16, 2003 or after September 16, 2003 as a result of the restructuring, repudiation or termination on or before June 18, 2004 of any contract, lease, employment agreement, etc.

67. The Monitor will include information as to the overall amounts claimed in an update report before the return of the Applicants' pending motion.

EXTENSION OF THE STAY OF PROCEEDINGS

68. In connection with the approval of the Purchase Agreements by this Honourable Court, the Applicants are seeking an extension of the Stay of Termination Date to December 15, 2004. This time period is in part necessary for the Purchaser to complete the necessary environmental due diligence and to satisfy the conditions of Closing.

MONITOR'S ANALYSIS AND RECOMMENDATION

<u>Sale of the Principal Businesses</u>

69. In developing and implementing the dual-track process to evaluate both sale and restructuring options, the Applicants and their advisors have been mindful of the unique concerns and perspectives of each major constituency. As was painfully evident at the commencement of this restructuring, there were differing stakeholder views as to the relative value of each of the Applicant's businesses and in the optimal approach to unlocking that value. Also, as described in previous Monitor's Reports, there was a high degree of scepticism from

stakeholders as to the Applicants' intentions and ability to execute a plan that was in the best interests of their real economic stakeholders.

70. After initial stabilization of the businesses, the Applicants addressed the stakeholders' concerns through the dual track process which was designed to canvass all possible realization/exit strategies for each Applicant on its own merit and as part of the continuing combined group of companies. The foundation for all aspects of this exercise was the refinement of each business' "normalized" cash flow (using earnings before interest, taxes, depreciation and amortization ("EBITDA") as a proxy).

71. With the assistance of UBS, the Applicants established estimated normalized EBITDA for fiscal 2004 for each Applicant based on business conditions present in late 2003. These estimates formed the basis for preliminary assessments of value provided to members of the Informal Advisory Committee in December 2003 and January 2004 and for the information initially provided to potential bidders in the Sales Process.

72. The significant strengthening of the steel industry starting in early 2004 created a more positive outlook for the Applicants' financial performance, at least in the near to medium term. In light of this upturn, the Applicants revised their estimates of normalized EBITDA for 2004 and invited bidders to reflect the latest economic conditions and projections in their submissions.

73. The Applicants (working with UBS) and the Monitor have each conducted their own assessments of the theoretical enterprise value of each Applicant. In light of the cyclical nature and volatility of the steel industry, it is not meaningful to attempt to calculate a precise theoretical value based on a single year's estimated EBITDA. Accordingly, the Monitor instructed the valuation professionals from EYCF to prepare an assessment of the range of likely theoretical value for each Applicant on a stand-alone basis assuming the fiscal 2004 normalized EBITDA estimates provided by the Applicants (the "Monitor's Value Assessment").

74. Concurrently with the analysis described above, UBS conducted the Sales Process in accordance with the orders and directions of this Honourable Court. The Monitor observed the Sales Process and participated directly in all material aspects of it. From its observations, the Monitor is of the view that the Sales Process was conducted in a manner that: (i) complied with the Sales Process Order; (ii) was fair to all participants in it; (iii) maintained appropriate confidentiality and a level playing field for all bidders; and (iv) resulted in a reasonable, market-based bid for the business and assets of Sivaco, IRM and Ifastgroupe.

75. The Purchaser's proposal as reflected in the Purchase Agreements provides a substantial recovery to the unsecured creditors of both Ifastgroupe and IRM and to the secured creditor of Ivaco. It provides better recoveries to the creditors of each Applicant than the other bids received. In the Monitor's view, the Purchaser's agreement to remove conditions relating to the USWA and QIT eliminated significant risk relating to completion of the transaction that remained in the other purchase bids and the stand-alone restructuring option. In addition, the Monitor has concluded that, after giving effect to the structure of the Purchase Agreements and the risk associated with completing satisfactory negotiations with major suppliers and the USWA, the value to creditors implicit in the Purchase Agreements falls within the theoretical range of value indicated by the Monitor's Value Assessment.

76. The Purchase Agreements also provide for no pre-closing amendments to the unionized employees' collective bargaining agreements (unless consented to by the relevant Union), full assumption of the pension plan obligations to unionized employees (including restoration of missed past service contributions on terms consistent with applicable laws and contracts) and preservation of the employment of substantially all of the Applicants' unionized and non-unionized employees.

77. In light of all the foregoing, the Monitor believes the Purchase Agreements represent the opportunity for a reasonable recovery to the stakeholders of each Applicant, the greatest probability of closing and a reasonable prospect of bringing this proceeding to a timely completion.

78. For the reasons outlined in this Report, the Monitor recommends that the Court approve the Purchase Agreements and the Monitor acting as the Escrow Agent.

Extension of Stay of Proceedings

79. The Applicants are working diligently and in good faith. As discussed in this and previous Monitor's Reports, the Applicants have sought to pursue options to maximize value to creditors in a cost effective and responsible manner. The sale of the Principal Businesses appears to be a viable alternative that provides demonstrable benefits to the Applicants' creditors compared to liquidation.

80. The Applicants are working with the Monitor to develop a plan for the expeditious distribution of proceeds to stakeholders.

81. It is estimated at present that Closing will occur on November 30, 2004. For the reasons outlined in this Report, the Monitor recommends that this Honourable Court grant the Applicants' request to extend the Stay Termination Date to December 15, 2004.

All of which is respectfully submitted this 9th day of August 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.