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"

THIRTY-FIRST REPORT OF THE MONITOR
FEBRUARY 24, 2006

STIKEMAN ELLIOTT LLP
Barristers & Solicitors
5300 Commerce Court West
199 Bay Street
Toronto, ON M5L 1B9

Peter F.C. Howard/LSUC #22056F
Tel: (416) 869-5613
Fax: (416) 861-0445

Solicitors for the Monitor,
Ernst & Young Inc.

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"

THIRTY-FIRST REPORT OF THE MONITOR
FEBRUARY 24, 2006

INTRODUCTION

1. Ivaco Inc. ("Ivaco") and certain of its affiliates 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 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 and Ifastgroupe and Company Limited Partnership.

3. IMT Corporation ("IMT" or the "Vendor") is a wholly owned subsidiary of Ivaco and is not an applicant in these CCAA proceedings. On August 13, 2004, the Monitor filed its Sixteenth Report recommending that the Court approve the sale of the assets of IMT. An excerpt from the Monitor's Sixteenth Report summarizing the IMT sales process and recommending the IMT sale is attached as Appendix "A". On August 18, 2004, this Honourable Court issued an Order

approving the sale. A copy of the Approval Order is attached as Appendix "B". The IMT transaction closed on November 26, 2004.

4. On December 17, 2004, the Monitor obtained an Interim Additional Powers Order, which, amongst other things, authorized the Monitor to complete all aspects of the sale transaction between IMT and IMT Partnership (the "Purchaser") and to effect the distribution of the proceeds therefrom to IMT's creditors and shareholder, Ivaco. The major obstacle now standing in the way of a distribution to Ivaco is the resolution of a working capital dispute that has arisen between IMT and the Purchaser. As discussed below, the parties have agreed to engage BDO Dunwoody LLP ("BDO") to resolve the dispute.

5. This Thirty-First Report of the Monitor is provided to this Honorable Court in support of the Monitor's request for approval of an order limiting BDO's liability from third party actions.

TERMS OF REFERENCE

6. 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.

IMT SALE PROCESS

7. The Asset Purchase Agreement (the "APA") provides that the final purchase price will be determined following a working capital adjustment post-closing; however, a dispute has arisen with respect to the post-closing calculation of the working capital adjustment. Section 3.5 of the APA provides a mechanism for the resolution of the working capital dispute through the appointment of an expert. A chronology of the more significant events relating to the working capital dispute are summarized below:

- The IMT transaction closed on November 26, 2004.

- In accordance with the provisions of the APA, on February 24, 2005, IMT provided the Purchaser with an audited balance sheet, a working capital schedule, and a statement of adjustments to net working capital. The working capital adjustment owing by the Purchaser, as determined by IMT, is approximately $2 million.

- On March 23, 2005, pursuant to Section 3.5 (b) of the APA, the Purchaser delivered to the Vendor a Dispute Notice setting out the amount of the working capital and other adjustments as per the Purchaser.

- The Dispute Notice delivered by the Purchaser indicates that it agrees that the Purchaser is required to make a further payment to the Vendor for the working capital adjustment in the approximate amount of $700,000.

- On April 18, 2005, IMT sent a letter to the Purchaser responding to various adjustments made by the Purchaser and stating that the Vendor did not accept the majority of the adjustments set out in the Purchaser's Dispute Notice.

- On April 26, 2005 the Purchaser responded to the April 18, 2005 letter of the Vendor further stating that there are significant remaining differences between the parties regarding the calculation of working capital.

- The parties negotiated a form of engagement letter with BDO to resolve the working capital dispute (the "Engagement Letter"). BDO has requested an indemnity from the parties for any action commenced against BDO by a third party.

8. In order to protect the assets of the IMT from an indemnity claim by BDO while providing the appropriate protection to BDO, the Monitor respectfully requests an order from this Honourable Court providing certain protections to BDO from third party actions. A similar order was obtained with respect to the engagement of KPMG LLP in the Heico working capital dispute.

9. Obtaining the requested order is the only remaining obstacle to the appointment of BDO and the commencement of the dispute resolution process.

MONITOR'S ANALYSIS AND RECOMMENDATION

10. For the reasons outlined above, the Monitor recommends that this Honourable Court approve an order: (i) that BDO shall not incur any liability as a result of its appointment or conduct pursuant to the Engagement Letter, save and except for gross negligence or wilful misconduct on its part; and (ii) no action or other proceeding may be commenced against BDO in any way arising from or related to its capacity or conduct pursuant to the Engagement Letter, except with prior leave of this Court on notice to BDO and the Monitor.

All of which is respectfully submitted this 24th day of February, 2006.

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.

APPENDIX A

STATUS OF NON-CORE ASSET SALES

IMT Corporation

24. IMT Corporation ("IMT") is a wholly owned subsidiary of Ivaco Inc. and is not an Applicant in these proceedings. The background to the current situation is summarized in the Fifteenth Report. Because the equity value of IMT is an asset of an Applicant, the Monitor has observed the sale process undertaken to realize on any such equity value and provides its observations to assist this Honourable Court in assessing the Applicants' request for approval of the purchase and sale agreement arising out of the sale process.

25. On August 11, 2004 IMT signed a purchase and sale agreement with a newly formed private company 2051554 Ontario Inc. headed by Mr. James Hacking, a former Vice President and General Manager of IMT Corporation and Mr. Greg Edmonds the owner of Drive Products Inc. a customer of IMT Corporation.

26. As previously reported, the Applicants and IMT engaged Continua Capital Inc. ("Continua") to conduct a process to solicit bids for the businesses comprising IMT in whole or in parts. The highlights of the process run by Continua are set out below:

- Continua with the assistance of IMT, and in consultation with the Applicants, prepared a Confidential Information Memorandum ("CIM") for the IMT Assets and developed a list of potential purchasers.
- The potential purchasers were contacted and those who wished to evaluate a potential acquisition of the IMT Assets and signed a confidentiality agreement received the CIM.
- Potential purchasers who received the CIM were invited to submit preliminary indications of interest for the IMT Assets by January 16, 2004. Some proposals were received after January 16, 2004 and were considered as long as they did not delay the process.

- In total, Continua contacted 20 parties. Of the 20 parties contacted, 14 parties executed confidentiality agreements and six parties provided preliminary non-binding expressions of interest.
- The Applicants, with the assistance of Continua, evaluated all of the proposals received during the first step of the sale process and determined that five of the potential acquirors, should be invited to participate in the second step of the sale process. An additional party expressed an interest in acquiring the IMT Assets and was added to the list of potential acquirors participating in the second step of the sale process.
- The potential acquirors selected to participate in the second step of the sale process were invited to submit Letters of Intent ("LOI") by March 2, 2004. This date was extended to March 15, 2004 for all the parties to permit the additional party sufficient time to submit its proposal. In addition, two other groups that had joined late in the process were continuing their due diligence past the March 15, 2004 deadline. Given the small number of interested aquirors, the Applicants agreed to allow these parties to continue with the sale process. Both parties were informed that they were late in joining the sale process and that the sale process could be closed at any time.
- Prior to the close of business on March 15, 2004, Continua received two offers to acquire the IMT Assets.
- The Applicants in consultation with Continua reviewed the two offers and it was determined that both of the offers were not acceptable and were rejected.
- Both parties revised their purchase price to more acceptable levels and clarified other outstanding issues within their respective offers.

- On April 2, 2004, the Applicants assisted by Continua, decided to move forward with one single acquiror (the "Acquiror"). The criteria used to select the single acquiror (outlined below in detail) included; i) purchase price, ii) financing conditions, iii) closing conditions and iv) timing.
- The LOI was executed by an officer of IMT on April 27, 2004.
- During the 75 day exclusivity period which began on April 27, 2004, the Acquiror worked on securing financing, clarifying the conditions in the LOI and completing its due diligence.

27. Continua's recommendation of the Acquiror, which is supported by the Applicants, is based on the purchase price, the lack of conditionality in comparison to the other offers, the greatest ability to close the transaction from a financing perspective and the timeliness of closing. Subject to this Honourable Court's approval, closing is expected to occur around September 17, 2004. It is estimated that the sale would yield an estimated recovery of $4 to $5 million to Ivaco.

28. Based on a competitive sale process run by Continua and Continua's recommendation, it is the Monitor's view that the proposed transaction represents the best available recovery in the circumstances. The net equity value ultimately flowing to Ivaco Inc. will be covered by the security held by National Bank. The Applicants have consulted with National Bank throughout the sale process. Accordingly, the Monitor recommends that this Honourable Court authorize IMT to complete the transaction.

MONITOR'S ANALYSIS AND RECOMMENDATION

IMT Corporation

30. Although IMT is not part of the Applicants' CCAA proceedings, the Monitor recommends that this Honourable Court approve the sale of IMT as it represents a commercially reasonable, market-based recovery.

All of which is respectfully submitted this 13th 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

APPENDIX B

Court File No. 03-CL-5145

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	WEDNESDAY, THE 18TH
	)	
JUSTICE FARLEY	)	DAY OF AUGUST, 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 or Plans of Compromise or Arrangement of Ivaco Inc. and the Applicants listed in Schedule "A"

APPROVAL ORDER
(IMT Corporation)

THIS MOTION, made by the Applicants for an order approving the Asset Purchase Agreement dated as of August 11, 2004 (the "IMT APA") entered into between IMT Corporation (the "Vendor") and 2051554 Ontario Inc. (the "Purchaser") regarding certain property owned by the Vendor as described in the Supplementary Report of the Monitor dated August 13, 2004 (the "Report") and authorizing the Vendor to complete the IMT APA was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the Report and on hearing the submissions of counsel for the Applicants, the Monitor and others.

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and Motion Record herein be and is hereby abridged such that this motion is properly

returnable today and further that service thereof upon any other person, party or entity not served or otherwise notified be and is hereby dispensed with.

2. **THIS COURT ORDERS AND DECLARES** that the terms of the IMT APA are fair and commercially reasonable and were arrived at in a commercially reasonable manner.

3. **THIS COURT ORDERS** that the Vendor be and is hereby authorized, empowered and directed to sell, transfer, assign and otherwise convey all of its right, title and interest of, in and to the Purchased Assets (as defined in the IMT APA) to the Purchaser in accordance with the terms and conditions of the IMT APA.

4. **THIS COURT ORDERS** that the Vendor is hereby authorized, empowered and directed, to:

(a) execute and deliver, *nunc pro tunc*, the IMT APA to the Purchaser; and

(b) implement and complete the transaction contemplated in the IMT APA substantially in accordance with the terms and conditions of the IMT APA, with such non-material alterations, amendments, deletions and additions as the Vendor and the Purchaser may agree.

5. **THIS COURT ORDERS** that, in completing the transaction contemplated in the IMT APA, subject to the terms and conditions thereof, the Vendor be and it is hereby authorized:

(a) to execute and deliver such additional, related and ancillary documents and assurances governing or giving effect to the transaction contemplated in the IMT APA as the Vendor, in its discretion, may deem to be reasonably necessary or advisable to conclude the transaction contemplated in the IMT APA; and

(b) to take such steps as are, in the opinion of the Vendor, necessary or incidental to the performance of its obligations pursuant to the IMT APA and as may be necessary or desirable to comply with this Order or otherwise give effect to the IMT APA.

6. **THIS COURT ORDERS** that, notwithstanding:

(a) the pendency of these proceedings;

(b) any assignment in bankruptcy by the Vendor or the Applicants;

(c) the pendency of any petitions for a receiving order issued or hereafter issued pursuant to the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c. B-3, as amended (the "BIA") and any receiving order issued pursuant to any such petitions in respect of the Vendor or the Applicants;

(d) the appointment of any receiver or interim receiver over the assets of the Vendor or the Applicants; or

(e) the provisions of any federal or provincial statute;

the IMT APA and the transaction contemplated thereby:

(i) will not be void or voidable at the instance of creditors or claimants and do not constitute, nor shall they be deemed to be, settlements, fraudulent preferences, assignments, fraudulent conveyances, or other reviewable transactions under the BIA or any other applicable federal or provincial legislation;

(ii) do not constitute conduct meriting an oppression remedy; and

(iii) shall be binding on any trustee in bankruptcy, any receiver, any interim receiver or any other party that may be appointed in respect of the Vendor or the Applicants.

Registrar

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

AUG 1 9 2004

PER/PAR:

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.

IN THE MATTER OF the *Companies' Creditors Arrangement Act*
R.S.C. 1985, c. C-36

AND IN THE MATTER of a Plan of Compromise or Arrangement of Ivaco Inc. and the Applicants listed in Schedule "A"

Court File No. 03-CL-5145

Ontario
Superior Court of Justice

Proceeding Commenced at Toronto

APPROVAL ORDER
(IMT Corporation)

DAVIES WARD PHILLIPS & VINEBERG LLP
Barristers & Solicitors
1 First Canadian Place
Suite 4400
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Matthew P. Gottlieb (LSUC #32268B)
Karine De Champlain (LSUC #45919U)
Tel: 416.863.0900
Fax: 416.863.0871

Solicitors for the Applicants