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-FIFTH REPORT OF THE MONITOR
APRIL 16, 2007

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 monitor (the "Monitor") of the Applicants.

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

3. The Thirty-Fourth report of the Monitor (the "Thirty-Fourth Report") was filed on March 28, 2007. It provided a general update on the status of these proceedings and information to support the approval of: (i) a Subsequent Claims Procedure; (ii) the admission of the intercompany claims filed by the Applicants against one another (and this Honourable Court's directions as to their set-off); (iii) the allocation of sales proceeds between Ifastgroupe and IFC; (iv) a declaration that the D&O Claims

asserted by the Bank of Nova Scotia against the directors and officers of Ivaco and IRM are not covered by the Director's Charge, as defined in the Initial Order; and (v) mediation to resolve any remaining inter-creditor and pension issues to facilitate a distribution to creditors in the event that the continuing discussions described below do not result in a timely resolution.

4. The Thirty-Fourth Report provided information as to the status of the proceeding, some of the issues for resolution and the options open to the stakeholders as to how to proceed. The date of April 20, 2007 was set for the return of the matter and the resolution of the issues identified in the 34th and prior Monitor Reports. It was hoped that in the intervening period there might be resolution of some or all of the issues outstanding.

5. This Thirty-Fifth Report of the Monitor (the "Report") is provided in part as a supplement to the Thirty-Fourth Report. The Report is organized as follows:
- Issues Affecting a Potential Interim Distribution
- Status of the Working Capital Adjustment Dispute
- Monitor's Analysis and Recommendations

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. The estimates provided in this report are based on the Monitor's current assessment and incorporate assumptions as to possible future events and outcomes. The Monitor has not audited or otherwise verified the figures and estimates included herein. Actual results may vary and the differences may be material.

ISSUES AFFECTING A POTENTIAL INTERIM DISTRIBUTION

7. As discussed in the Thirty-Fourth Report, there are essentially two categories of claim-related issues that remain unresolved preventing an interim distribution of any

meaningful amount. These issues can be summarily described as: (i) inter-creditor claim issues, primarily involving the IRM estate and its major creditors; and (ii) the quantum, priority and the applicability of joint and several liability relating to the pension claims. These issues have been described to varying degrees in previous reports and further summary details concerning the IRM inter-creditor issues are provided below. The Thirty-Fourth Report contained a detailed description of the issues surrounding the pension claims and that description will not be repeated here.

8. Without a resolution of these claim-related issues, the structure, quantum and timing of a partial interim distribution remains uncertain. In addition, the claim issues outstanding at present would require a reserve and holdback of significant amounts for the unsecured creditors in the IRM and Ifastgroupe estates and for the secured creditor in the Ivaco estate, thereby reducing the amount available for distribution by a material amount.

9. These issues have been identified and discussed for some considerable time. Although the IRM creditors on the IAC have been engaged in meaningful discussions, especially over the last several months, they have not yet resolved their issues either among themselves or in a way that the Monitor would recommend to all the creditors of IRM and the other Applicants. It may be that the backstop of a formal mediation would provide the necessary impetus to get their discussions "over the hump" either before or at the mediation and this is the least intrusive avenue open to the Monitor in the circumstances described in the previous reports.

Inter-Creditor Issues

10. The inter-creditor disputes essentially relate to issues concerning the valuation of creditors' claims. There are three types of claim-related issues that remain unresolved: (i) treatment of interest from September 16, 2003 to present; (ii) the appropriate foreign exchange rates for valuing foreign currency denominated claims; and (iii) the admissibility and calculation of make-whole premiums on the unsecured notes. In

addition, there are discussions taking place concerning the potential dilutive impact of the claim by BNS against the directors and officers of IRM and Ivaco.

(i) Interest

11. In determining the estimated value of claims shown on page 15 of the Thirty-Fourth Report, the Monitor excluded any interest calculated on creditors' claims from the date of the CCAA filing to present (as provided in the Claims Procedure Order). There are obviously alternatives, based on different regimes, as to the treatment of post-filing interest ranging from including post-filing interest after September 16, 2003 to not including any post-filing interest. Some creditors have expressed the view that only creditors who have a contractual rate of interest with the Applicants should receive post-filing interest if any post-filing interest is to be admitted. Another option is to allow post-filing interest whether or not there is a contractual rate of interest with those creditors who do not have a contractual rate receiving an arbitrary rate of interest stipulated by this Honourable Court. No agreement has yet been reached among the IRM IAC members.

(ii) Foreign Exchange

12. The estimated amount of claims reflected in the Thirty-Fourth Report valued foreign-denominated claims using the exchange rate in effect at September 16, 2003 (consistent with the Claims Procedure Order). The Canadian dollar has appreciated substantially relative to the US dollar. The foreign exchange rate as at September 16, 2003 was one US dollar to 1.369 Canadian dollars. The exchange rate as of April 2, 2007 was one US dollar to 1.1556 Canadian dollars. Again no consensus has been reached to date as to how foreign-denominated claims should be valued.

(iii) Make-Whole Premiums

13. In determining the estimated value of claims in the Thirty-Fourth Report, the Monitor has included the full value of the make-whole premium on note holder claims. The terms of the note agreements provide for the calculation of any make-whole premium

by subtracting the sum of the unpaid principal amount of a note as at the appropriate valuation date from the present value of all amounts of principal and interest on such note that would otherwise have become due on or after that same valuation date. Certain creditors have expressed a view that make-whole premiums should not be admitted as part of the claims. The IRM IAC members are continuing their discussions concerning these amounts and the appropriate valuation date.

(iv) BNS Claim

14. The Monitor understands that an additional factor under discussion among the IRM IAC members is the effect of any indemnity claim (whether secured or unsecured) arising as a result of the BNS Action against the directors and officers of Ivaco and IRM on the recoveries to the other IRM creditors.

Settlement Progress and Current Status

15. The IAC was originally established in early 2004 as a "sounding board" for the Applicants and the Monitor in the context of the Sale Process approved by this Honourable Court on March 22, 2004. The terms of reference for the IAC as reflected in an exhibit to the March 22, 2004 order provide that the IAC is comprised of "an informal group of major financial creditors who have signed confidentiality agreements". It states that the IAC "has been formed for consultative purposes only and has no status to make decisions on behalf of the Applicants". Each participant in the IAC "through its position as a major creditor of one or more of the Applicants, has reserved all of its rights as a creditor" and the IAC members reserved certain rights "to ensure that their individual interests as creditors are protected".

16. Apart from the issues described above, the Monitor has resolved substantially all of the contentious creditor claims issues arising out of the process authorized by the Claims Procedure Order. To date the IAC has taken the lead in attempting to find a commercial resolution of these remaining major claim issues.

17. The Monitor has been actively involved to support and facilitate discussions and to monitor the interests of the unrepresented creditors in the hope that there would be a commercially reasonable resolution acceptable for all creditors of the estates that could be recommended by the Monitor and approved by this Honourable Court.

18. The Monitor has prepared over two hundred different illustrative settlement scenarios over the last eighteen months to assist the IAC creditors in negotiating their outstanding claim issues.

19. The IRM IAC members have indicated that after the IRM inter-creditor issues have been settled they will again turn their attention to addressing the pension issues and resume discussions with the non-IRM IAC member with a view to engaging in negotiations with the Pension Parties in pursuit of a global resolution and substantial wind-up of the estates.

20. The Monitor has recently been provided with an update from some of the IRM IAC creditors which indicates that they have made substantial progress toward resolving their inter-creditor issues in the recent weeks and that they believe that these matters may be resolved as among the IRM IAC members within the next two weeks. As a result, it has been suggested to the Monitor that the issue of a directed mediation should be deferred for a period of two weeks from the return of the Monitor's motion to enable the parties to focus on completing their negotiations if possible.

STATUS OF WORKING CAPITAL DISPUTE ADJUSTMENT

21. The final written submissions were provided to KPMG on March 23, 2007. In addition, the Monitor and Heico responded to additional clarification questions received from KPMG. KPMG has advised the parties that it intends to issue its report on or before April 24, 2007. What, if any, further proceedings may eventuate based on the decision of the Honourable Mr. Justice Ground dated December 15, 2006 will depend upon the contents of the report.

MONITOR'S ANALYSIS AND RECOMMENDATION

22. It has been over two years since the Heico transaction closed and the Monitor took possession of approximately $275 million in cash. There is, understandably, considerable frustration that a distribution of any of this significant pool of creditor funds has not taken place.

23. There have been bona fide attempts by the IAC and Pension Parties over the last eighteen months to resolve the pension claim issues, including a mediation of the pension issues almost one year ago and numerous off the record discussions and proposals since that time. The pension issues remain unresolved and, for reasons described herein, to the knowledge of the Monitor there have been no advances in the dialogue between the Pension Parties and the IAC since late 2006.

24. Some members of the IAC and the Pension Parties have expressed reluctance for another attempt at mediation and others have expressed support.

25. The members of the IAC and the Pension Parties are entitled to and do in fact act in their own respective interests as individual creditors and are not charged with any responsibility to act in the best interests of all creditors (ie. as if they were inspectors in a bankruptcy). The Monitor considers that its obligation is to take reasonable steps to press for a resolution of the claims and permit the administration of these estates to move forward for the benefit of all creditors.

26. In light of the continuing delay and the prospect of significant further delay even after the IRM issues are resolved, on behalf of the creditors who are not represented by the IAC or the Pension Parties and who have been waiting since December 1, 2004 (when the Heico transaction closed) to receive distributions, the Monitor believes that it is appropriate for this Honourable Court to intervene to impose mediation on the parties if the current discussions do not bear fruit within the coming weeks. RSJ Winkler, the original mediator, has expressed a willingness to continue to assist.

27. The Monitor asks that this issue be returnable in approximately two weeks on a date that this Honourable Court is able to accommodate to allow the IRM parties to continue and hopefully finalize the resolution of the issues.

28. It may be that, if a mediation is ordered, in the time before it is scheduled the IRM creditors may resolve their issues thereby enabling meaningful discussions to occur with the Pension Parties with a view to a global settlement. It is also possible that the IAC and Pension Parties could come to a resolution before any mediation. The Monitor will continue to support any and all efforts to achieve a resolution without resort to another round of mediation; however, there are over one thousand other creditors with claims in the IRM and Ifastgroupe estates who are not represented in these private discussions and who must rely on the Monitor and this Honourable Court to take appropriate steps to wind up these estates and allow for a distribution to creditors to proceed as soon as possible.

29. The Monitor will report to this Honourable Court after the Subsequent Claims Bar Date and the mediation, if so ordered, on the status of the settlement discussions and alternatives to advance the administration of the estates.

All of which is respectfully submitted this 16th day of April, 2007.

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