SCHEDULE 1

KPMG

FINAL REPORT OF KPMG LLP

IVACO WORKING CAPITAL PROCEEDINGS

Dated April 24, 2007

Private & Confidential

IVACO WORKING CAPITAL PROCEEDINGS

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KPMG

KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Fax (905) 523-2222
Internet www.kpmg.ca

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Ifastgroupe 2004 L.P.
Ivaco Rolling Mills 2004 L.P.
Sivaco Wire Group 2004 L.P.
c/o Heico Holding, Inc.
5600 Three First National Plaza
Chicago, Illinois 60602

Attention: El Roskovensky

Ifastgroupe and Company, Limited Partnership
Ifastgroupe Realty Inc.
IFC (Fasteners) Inc.
Ivaco Rolling Mills Limited Partnership
Ivaco Rolling Mills Inc.
1039028 Ontario Inc.
Ivaco Inc.
c/o Ernst & Young Inc., in its capacity as Court-appointed Monitor
222 Bay Street
P.O. Box 251
Toronto, Ontario M5K 1J7

Attention: Brian M. Denega

April 24, 2007

Dear Ladies and Gentlemen:

Re: Report of KPMG as Expert

Purpose

Pursuant to Section 2.12 of the three amended and restated asset purchase agreements dated as of November 30, 2004 (each an "APA" and collectively the "APAs") for the acquisition by Ifastgroupe 2004 L.P., Ivaco Rolling Mills 2004 L.P. and Sivaco Wire Group L.P. (collectively, the "Heico Parties") of the businesses formerly operated by Ifastgroupe and Company, Limited Partnership, Ifastgroupe Realty Inc., IFC (Fasteners) Inc., Ivaco Rolling Mills Limited Partnership, Ivaco Rolling Mills Inc., 1039028 Ontario Inc., and Ivaco Inc. (collectively the "Ivaco Parties"), the Heico Parties and the Ivaco Parties requested that KPMG LLP ("KPMG") act as the Expert (as defined in Section 2.12 of the APAs) to determine the Adjustments (as that term is defined in the APAs) and any corresponding amendments to Exhibit "B" of the APAs.

The engagement letter dated January 17, 2006, attached hereto as Appendix A, describes our agreement with respect to your requirements, the scope of the Expert's services and the necessary professional arrangements. The KPMG engagement team for this matter has been led by John Buschhausen and includes Susan Glass and John Rockx. The resumes of the foregoing are included with the engagement letter in Appendix A.

The Expert has conducted itself and delivers herewith its final report in accordance with the protocol (the "Protocol", which is included with the Order of Mr. Justice Farley and related Engagement Letter in Appendix A) approved by Mr. Justice Farley, the APAs and the reasons of Justice Farley dated June 2, 2005, the reasons and order of Justice Farley dated August 4 and 8, 2005, the order of Justice Ground dated November 7, 2006 and the reasons of Justice Ground dated December 15, 2006. The foregoing orders and reasons are attached as Appendix B.

Executive Summary:

Background

The operations of the Ivaco Parties included steel and wire rod manufacturing facilities operated by Ivaco Rolling Mills ("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 specialty fastener operations in Marieville, Quebec and Ingersoll and Mississauga, Ontario.

On September 16, 2003, the Ivaco Parties obtained protection from their creditors pursuant to the Companies' Creditors Arrangement Act ("CCAA"), and Ernst & Young Inc. was appointed as Monitor. The Ivaco Parties followed a Court approved dual track process to identify and finalize the optimal arrangement for the stakeholders of each of the Ivaco Parties and, with the approval of the Court, UBS was retained as financial advisor. Effective October 24, 2003, Mr. Randall Benson was engaged by the Independent Committee of the Board of Directors of the Ivaco Parties as Chief Restructuring Office ("CRO") to consider alternative strategies under the dual track process and, as applicable, to negotiate the APAs. The dual track process involved the assessment of stand-alone restructuring options for each of the Ivaco Parties to emerge from CCAA and, alternatively, the sale of the Ivaco Parties to interested purchasers or investors by UBS.

Confidential Information Memoranda ("CIM") were prepared and provided to prospective purchasers and investors in early January 2004 and, by February 6, 2004, seventeen parties provided a preliminary indication of interest. Ten of the latter parties were invited to participate in a second round of due diligence commencing mid-March 2004, including access to management of IRM, Sivaco and Ifastgroupe, plant tours, and data rooms with business, financial, environmental and legal information for each of the Ivaco Parties on an unconsolidated basis.

The second round bidding process allowed each bidder to submit bids for each of the Ivaco Parties separately or in combination. Bidders were not allowed to have discussions with the labour unions of the Ivaco Parties or their major suppliers during the second round. By May 14, 2004, the bidding deadline for the second round, three viable asset purchase offers for the Ivaco Parties and one stand-alone financial restructuring proposal were received. Two of the bidders, including

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Heico, provided detailed draft purchase agreements as requested and in the ensuing period subsequent to May 14, 2004 the Ivaco Parties, led by the CRO, clarified and negotiated the terms and conditions related to each bid.

During this period, the Heico bid for the Ivaco Parties emerged as the preferred bid based on price and the fact that Heico had not stipulated any conditions with respect to revised or amended agreements with either the labour unions or QIT-Fer et Titane Inc. ("QIT") which was a major supplier of raw material to IRM. On August 6, 2004, the Ivaco Parties and the Heico Parties executed the APAs, conditional on Court approval which was granted on August 18, 2004. From that latter date to November 30, 2004, extensive negotiations took place between the Ivaco Parties and the Heico Parties on numerous business issues, including environmental matters, pension plan matters, the cancellation of leases and the assignment of certain contracts.

Amended and restated APAs were executed by the parties on November 30, 2004 (the "Closing Date").

The Working Capital Adjustment Process

Section 2.11(a)(i) of each of the APAs defines and provides for an Adjustment on account of Working Capital, as that latter term is defined elsewhere in each of the APAs.

Simply, the APAs define the Adjustment as the difference between the amount of Working Capital determined as at the Closing Date, November 30, 2004 and the amount of estimated Working Capital as at September 30, 2004.

The Working Capital as at November 30, 2004 was required by the APAs to be calculated by the Ivaco Parties by December 23, 2004 and to be presented in Exhibit C of each APA as the "Working Capital calculation". The amount of estimated Working Capital as at September 30, 2004 was calculated by the Ivaco Parties prior to August 6, 2004 and was presented in each APA on that date as Exhibit B. To the extent that the amount of Working Capital in Exhibit C exceeded the amount of Working Capital in Exhibit B there would be a positive Adjustment and any shortfall would result in a negative Adjustment.

The Exhibit B and Exhibit C amounts in the APAs as such relates to the Working Capital calculation can be summarized as follows:

IRM	
Exhibit B	$ 85,007,000
Exhibit C	$114,503,000
Adjustment	$ 29,496,000
Sivaco	
Exhibit B	$ 58,807,000
Exhibit C	$ 68,700,000
Adjustment	$ 9,893,000

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Ifastgroupe	
Exhibit B	$149,160,000
Exhibit C	$176,511,000
Adjustment	$ 27,351,000
Total Adjustment	**$ 66,740,000**

When Exhibit C was prepared by the Sellers, they noted an error in the determination of Working Capital for purposes of Exhibit B for IRM and, for comparability, they requested an increase in the Baseline Working Capital in Exhibit B by $3,427,000 to remove an amount that had been inadvertently included, contrary to the provisions of the APA (see IRM Reference C-5.1 in Appendix, page F-25). Accordingly, the Seller's proposed Adjustment for IRM was presented as $26,069,000 and the Total Adjustment was presented as **$63,313,000.**

Section 2.12 of each of the APAs spells out the process by which the Heico Parties, as Purchasers, can dispute the calculation of the Adjustments and the role of the Expert if the dispute cannot be resolved by mutual agreement of the parties. The Heico Parties did avail themselves of the dispute provisions of Section 2.12 and, based on the Reply Submission prepared by the Heico Parties dated March 9, 2007, they are presently objecting or disputing approximately 30 matters related to the above-noted working capital Adjustment totaling **$43,780,000.**

Both parties were unable to resolve the working capital Adjustment dispute and sought clarification from Justice Farley respecting the role of the Expert. Justice Farley outlined the role of the Expert in his order and related reasons referred to above and, subsequently, he approved the related Protocol which outlined the step-by-step process to be followed by the parties and the related time frame for each step. KPMG was engaged as Expert on January 17, 2006. Initial submissions were received on February 17, 2006. Interviews were conducted by the Expert of fifteen individuals as outlined in Appendix C during the period March 8, 2006 to December 5, 2006; the length of the process being protracted by both parties as they sought further direction from the Court regarding what was referred to as the Ivaco Working Capital Proceedings in the related transcripts of these interviews. Written questions from the Expert and responses from the parties were also presented during this latter period.

The Initial Written Submissions prepared by each of the parties under the Protocol indicated that the two parties had a fundamental disagreement related to the interpretation of Section 2.11 and 2.12 of the APAs as well as the Reasons for the August 4, 2004 decision of Justice Farley.

The parties sought the direction of Justice Ground who, in his Reasons of December 15, 2006, noted: "The issue may be broadly described as whether the Expert is to do a free-standing review of both Exhibits B and C and revise and prepare final Exhibits B and C (as Heico contends) or whether the Expert is to finalize Exhibit C and then, to the extent Exhibit C is changed and the accounting policies used in Exhibit C are different, the Expert may consider whether a concomitant change to Exhibit B is warranted (as Ivaco contends)."

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Justice Ground's Order dated November 7, 2006 states that:

1 "This Court orders that KPMG is directed to prepare and deliver to the parties its report on the working capital adjustment in accordance with the timetable set forth in Sections 4 and 5 of the Protocol and include in the report a calculation of the working capital determined pursuant to the approach specified in each of the parties' initial written submissions, provided always that KPMG is to indicate in its report the approach it accepts and the reasons of such acceptance and the reasons, on an accounting basis, as to why the other approach is not accepted or is unsuitable."

Conclusions of the Expert

The following conclusions as determined by KPMG with respect to the Adjustments address each of the Heico and the Ivaco Approaches as such were summarized by Justice Ground in his Reasons of December 15, 2006 and are presented separately for each APA of IRM, Sivaco and Ifastgroupe and in total.

Under the Heico Approach:

IRM	
Exhibit B, as determined by the Expert	$ 94,356,000
Exhibit C, as determined by the Expert	$114,603,000
Adjustment	$ 20,247,000
Sivaco	
Exhibit B, as determined by the Expert	$ 60,104,000
Exhibit C, as determined by the Expert	$ 68,231,000
Adjustment	$ 8,127,000
Ifastgroupe	
Exhibit B, as determined by the Expert	$151,215,000
Exhibit C, as determined by the Expert	$175,728,000
Adjustment	$ 24,513,000
Total Adjustment	**$ 52,887,000**

Detailed Exhibits B and C for each of IRM, Sivaco and Ifastgroupe in accordance with the Heico Approach are included in Appendix D.

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Under the Ivaco Approach:

IRM	
Exhibit B, as determined by the Expert	$ 89,939,000
Exhibit C, as determined by the Expert	$114,603,000
Adjustment	$ 24,664,000
Sivaco	
Exhibit B, as determined by the Expert	$ 58,972,000
Exhibit C, as determined by the Expert	$ 68,231,000
Adjustment	$ 9,259,000
Ifastgroupe	
Exhibit B, as determined by the Expert	$150,079,000
Exhibit C, as determined by the Expert	$175,728,000
Adjustment	$ 25,649,000
Total Adjustment	**$ 59,572,000**

Detailed Exhibits B and C for each of IRM, Sivaco and Ifastgroupe in accordance with the Ivaco Approach are included in Appendix E.

Further, and in accordance with the Order of Justice Ground dated November 7, 2006, KPMG has determined that the Heico Approach is preferable to the Ivaco Approach for the following reasons:

- The free-standing review of both Exhibits B and C results in greater comparability and therefore relevance of the resulting working capital adjustment for purposes of the APAs.

- Comparability and relevance of financial information are general accounting financial concepts that underpin Canadian Generally Accepted Accounting Principles ("GAAP") for the measurement, preparation and presentation of both general purpose and special purpose financial information.

- The Heico approach lends itself to a more logical application of Canadian GAAP to achieve consistency in the application of Canadian GAAP to specific comparable components of working capital on a virtual line-by-line basis.

The Ivaco Approach was determined to not be preferable for the following reasons:

- Adjustments to Exhibit B would be limited to matters that arose from adjustments to Exhibit C and would, therefore, result in impaired comparability and relevance of the resulting working capital calculations contrary to general accounting guidance under Canadian GAAP.

- The adjustments to Exhibit B by the Expert would be limited to those that would result from GAAP-based adjustments made by the Expert to Exhibit C, but would not allow for GAAP-based adjustments made by the Seller in preparing Exhibit C and would, therefore, result in an overly narrow technical approach that would require the Expert to ignore in-substance inconsistencies between Exhibit B and Exhibit C (for example, see Reference Ivaco Inc B-4 in Appendix F, page F-35, conclusion with respect to the Ivaco Approach).

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2004 Steel Industry

The May 2004 report to the North American Steel Trade Committee ("NASTC") regarding recent steel developments noted rising global steel consumption (American Iron & Steel Institute) which was being driven by consumption growth in China in excess of 60%. Analysis of the world steel situation at that time by NASTC viewed China as a "wild card" macro economic factor that had caused massive increases in demand and prices for related raw materials primarily scrap and iron ore. Chinese production capacity was growing rapidly but was unable to keep up entirely with the growing demand for steel in China with the result that China was a net importer of steel at that time. China's emergence as a dominant manufacturing force and its recent status as the world's largest producer and consumer of steel underpinned North American steel industry economics throughout 2004. Other developing countries, notably India, Brazil and Russia, were also adding production capacity according to NASTC.

North American steel markets were experiencing improving conditions in early 2004 with most publicly traded steel companies having reported Q1 2004 profits when NASTC issued its May 2004 report on steel market developments. Stelco, which was under bankruptcy protection, was generating record profits in 2004. Informed observers like Dominion Bond Rating Services were expressing concern about the creditworthiness of domestic steel makers as a result of rising costs squeezing profit margins.

A number of North American steel producers had recently emerged from restructuring processes with lower cost structures, and the consolidation of the global and North American steel industries continued throughout 2004, resulting in fewer steel suppliers with more economic clout. Price escalation clauses in contracts with major customers became more common along with the prevalence of spot pricing strategies to protect steel producers from the volatile costs of underlying raw material commodities, such as scrap. US spot market selling prices for hot band steel, a benchmark for flat rolled pricing, escalated throughout the first nine months of 2004, reaching record levels by September 2004 before easing as North American economic growth accelerated. Steel industry participants described the foregoing market conditions of 2004 as "unprecedented" and in stark contrast to the previous three years when the North American economy suffered through a significant downturn in economic activity, manufacturing and capital spending declined resulting in reduced demand for steel and steel fabricated products and, for Canadian manufacturing exporters, the rapid rise in the value of the Canadian dollar against the US dollar severely depressed earnings and cash flow.

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The Commercial Economics of the Transaction

As previously noted, the sale of the IRM, Ifastgroupe and Sivaco business units were structured as three separate asset transactions whereby the Heico Parties acquired the operating assets ("Purchased Assets") of each target from the Ivaco Parties on November 30, 2004 in exchange for Assumed Liabilities and cash. Specifically, each transaction involved the acquisition of the Purchased Assets as defined in Section 2.1 of the APAs. Purchased Assets included all machinery and equipment, real property, furniture and fixtures, computer equipment, accounts receivable, inventories, prepaid expenses, assumed contracts, leasehold interests, net duty drawbacks, licenses and permits, books and records, intellectual property and general goodwill of the targets.

In exchange, the Heico Parties agreed to assume and satisfy the Assumed Liabilities as defined in Section 2.5 of the APAs, comprised of certain post-petition accounts payable and accruals, pension plan liabilities, equipment loans, real property mortgages, assumed contracts, post-retirement benefit obligations and other liabilities. The difference between the Purchased Assets and the Assumed Liabilities was to be settled by a cash payment.

The Purchase Price in each final APA was structured as a base sale price ("Base Sale Price") for the Purchase Assets of each target that was subject to various adjustments including the difference between the estimate of projected working capital ("the Baseline Working Capital") at September 30, 2004 and the actual working capital as of the Closing Date. The Baseline Working Capital as at September 30, 2004 was presented in Exhibit B of each APA.

The Base Sale Prices and the Baseline Working Capital balances are summarized as follows:

	Base Sale Price	Baseline Working Capital
IRM	$170,000,000	$ 85,007,000
Sivaco	76,000,000	58,807,000
Ifastgroupe	129,000,000	149,160,000
Total	$375,000,000	$292,974,000

The minimum level of aggregate working capital to be delivered at the Closing Date was established at $278,000,000, compared to the total Baseline Working Capital of $292,974,000.

Based on interviews with the Heico Parties, we understand that the Base Sale Price for the targets was established using a capitalized EBITDA valuation approach. EBITDA is defined as earnings before interest income and expense, income taxes, depreciation and amortization.

Under the capitalized EBITDA approach, the maintainable EBITDA of a business is estimated and multiplied by an appropriate multiple that reflects general economic conditions, industry prospects, specific company risks and opportunities and the inherent risks of achieving the estimated level of maintainable EBITDA. The product of the maintainable EBITDA and the selected multiple represents the Enterprise Value of the business, which would be comparable to the Base Sale Price as presented above. Implicit in the determination of Enterprise Value is the notion of a normal level of investment in working capital that would be required to support the business and the generation of the estimated level of maintainable EBITDA.

Calendar 2004 was an abnormal year in the global steel industry as it was characterized by rapidly increasing prices and generally strong profitability for steel industry participants. The pricing variability in calendar 2004 would have made it more difficult than normal to establish a maintainable EBITDA level for a steel-related business as well as to establish a normal level of investment in working capital. Furthermore, it was generally viewed that calendar 2004 pricing represented a temporary "bubble" in the global steel industry and that profits and pricing would gradually decline to more traditional levels. The pricing of the IRM, Ifastgroupe and Sivaco businesses was further complicated by the fact that the targets were operating under CCAA, and that normal business terms (e.g. credit terms from suppliers) would not have existed in many instances.

What is Exhibit B?

Heico asserts that Exhibit B was intended by them to be a forecast prepared in accordance with CICA Handbook Section 4250. Ivaco asserts that Exhibit B was simply a management estimate, not a forecast.

A key issue, therefore, centres on the question, "What is Exhibit B?". The content of the nineteen separate interviews which were transcribed for all but the first interview, the information provided by the parties in their various submissions and in response to written questions from the Expert and a review of the APAs by the Expert brought clarity to this very important question in the context of GAAP, the negotiation of the transactions and the APAs themselves.

a) In the Context of Generally Accepted Accounting Principles

Accounting standards for the measurement, presentation and disclosure of future oriented financial information ("FOFI"), including projections and forecasts, are addressed in Section 4250 of the CICA Handbook. The objective of the FOFI standards is to assist users of such information with their evaluation of an entity. CICA 4250 provides guidance regarding the circumstances in which general purpose FOFI (as defined by CICA 4250.65) or special purpose FOFI (as defined by CICA 4250.07) is applicable and, typically, when FOFI is prepared in contemplation of a transaction, then general purpose FOFI would be applicable. The guidance in CICA 4250 also makes the distinction between a forecast (as defined by CICA 4250.04) and a projection (as defined by CICA 4250.05) and in the circumstances of this matter a projection would not likely have been relevant to the parties.

However, if Exhibit B had been prepared in compliance with CICA 4250, it would have specifically incorporated the following required disclosures of CICA 4250:

- *Future-oriented financial information should include a cautionary note to the effect that actual results achieved for the period covered will vary from the information presented and that the variations may be material. [OCT. 1989]*

- *Future-oriented financial information should be clearly labelled as either a forecast or a projection. [OCT. 1989]*

- *An entity presenting future-oriented financial information should disclose:*

  - *the effective date of the underlying assumptions,*

  - *the extent to which actual financial results are incorporated and the period covered by those results, and*

  - *whether or not the entity intends to update the future-oriented financial information subsequent to issue. [OCT. 1989]*

- *Significant assumptions underlying future-oriented financial information should be disclosed. Hypotheses should be separately disclosed and identified as such. [OCT. 1989]*

- *When a forecast is presented, the entity should disclose that the forecast has been prepared using assumptions all of which reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions. [OCT. 1989]*

- *When a projection is presented, the entity should disclose that the projection has been prepared using assumptions that reflect the entity's planned courses of action for the period covered given management's judgment as to the most probable set of economic conditions, together with one or more hypotheses that are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in management's judgment. [OCT. 1989]*

- *When the future-oriented financial information incorporates a change in accounting policy the change should be described and its effect disclosed. [OCT. 1989]*

- *When special purpose future-oriented financial information is presented the entity should disclose the identity of the intended users, the purpose for which the information has been prepared and a caution that the information may not be appropriate for purposes other than that described. [OCT. 1989]*

- *When a projection is presented, the entity should disclose the purpose for which it has been prepared and should caution that the projection may not be appropriate for purposes other than that described. [OCT. 1989]*

Exhibit B does not include any of the foregoing required disclosures and as such is factually, from a GAAP perspective, not a CICA 4250 forecast or projection.

b) In the Context of the Negotiations

The use of an actual or historical period end baseline for the working capital adjustment in each of the APAs could not be agreed upon by the negotiators for the Ivaco Parties and the Heico Parties. The negotiators identified the CCCA process itself and the somewhat seasonal nature of parts of the business as factors that entered into their negotiation of what each party considered to be the appropriate baseline for the potential working capital adjustment. The negotiators agreed to use the estimated working capital as at September 30, 2004 as the Baseline Working Capital on or around the first week of July 2004 in conjunction with negotiation of the various terms of the respective APAs and working capital definitions.

Hugh Blakely, Chief Financial Officer ("CFO") of the Ivaco businesses, advised that he was required by the negotiators for the Ivaco Parties to review each of the APAs and to provide input regarding definitions related to the determination of working capital, its components, past accounting practices and the formatting of Exhibit B consistent with the definitions and terms of each APA.

The CFO coordinated the preparation of Exhibit B on behalf of each business unit. The CFO, who is a Chartered Accountant, advised in his interviews, including one under oath, that he was not knowledgeable of any of the accounting standards of CICA 4250 and that he was not directed by the negotiators for the Ivaco Parties to prepare a forecast of working capital as at September 30, 2004 in accordance with the recommendations of CICA 4250. The Divisional Controllers advised that they were directed by the CFO regarding the estimated September 30, 2004 working capital information and specific components of working capital required from them to allow the CFO to prepare the estimated September 30, 2004 working capital calculations for Exhibit B.

The Divisional Controllers of each of IRM, Sivaco and Ifastgroupe were not provided with the APAs and therefore were not knowledgeable of their terms or definitions. The CRO, Randy Benson, who is not a Chartered Accountant, advised that the Divisional Controllers and the CFO adapted their respective internal budgeting or forecasting processes to prepare Exhibit B so that this exhibit would conform with the working capital definitions in each of the APAs. The Divisional Controllers advised that they believed that the estimated working capital amounts as at September 30, 2004 were prepared by them based on accounting policies consistent with the requirements of GAAP and past practices of their respective business units. Gillian Stacey, a lawyer and a member of the negotiating team for the Ivaco Parties, in reference to the drafting of the wording and format of Exhibit B stated, " I don't even know what CICA 4250 is. But I can tell you nobody ever asked us to have those numbers meet a particular standard."

The negotiating team for the Heico Parties was comprised of three lawyers, led by Stanley Meadows, and included Helen Freidli and Brooks Gruemmer. The negotiators for the Heico Parties were not knowledgeable of Canadian GAAP. Stanley Meadows acknowledged that the Heico Parties had access, through their auditors' Canadian affiliate, to expertise in Canadian GAAP but he could not confirm if that had ever been requested in conjunction with these negotiations. With respect to Section 2.11 of the APAs as that related to Working Capital and the preparation of Exhibit C "in accordance with Canadian GAAP and to the extent consistent with Canadian GAAP, applied on a basis consistent with past practice", the Heico negotiating team negotiated wording, including wording suggestions regarding how the basis for calculation and preparation of Exhibit C related to the basis on which Exhibit B was calculated and prepared, through to the evening of August 4, 2004. There was no apparent lack of effort on the part of both parties to achieve clarity regarding the basis for calculation of these two key exhibits, yet it is equally clear that neither party at the time of drafting the APAs sought to require the preparation of Exhibit B with the specific requirement of CICA 4250 for greater certainty. When asked about the terminology used to describe Exhibit B; "Estimated Working Capital, Projected Working Capital as at September 30, 2004", Helen Friedli stated, "It means the same thing in my nomenclature. You know, a forecast and estimate means the same thing". Gillian Stacey when questioned on the same description of Exhibit B stated that she probably authored those words, that Exhibit B "was an estimate", not "a projection as defined in the Securities Act" and that the negotiators for the Heico Parties did not ask her to clarify or specify what those words meant.

Based on an examination of various iterations of Exhibit B presented by the parties to the Expert during the Working Capital Proceedings, it is apparent that the Exhibit B estimated working capital calculations were prepared in the office of the CFO with input from the CRO over an approximate three week period in July 2004, ending on July 18 or 19, 2004 accordingly to Hugh Blakely, when the final amount that appears in each Exhibit B "was pretty well firmed up".

In the context of the negotiations it is clear that neither party consciously sought the preparation of, or prepared, Exhibit B in accordance with the very specific and rigorous requirements of a CICA 4250 forecast.

c) In the Context of the APAs

Each of the three APAs was originally executed on August 6, 2004 and provided for a working capital adjustment to the Base Sale Price for the change in working capital between the estimated working capital at September 30, 2004 (the baseline) and the working capital at the Closing Date, which was November 30, 2004. The APAs defined working capital, its components and exclusions. There was no documentation to indicate that either party requested or agreed to any wording or terminology changes with respect to Working Capital and its determination in accordance with Section 2.11 between the originally executed set of APAs on August 6, 2004 and the Amended and Restated APAs dated November 30, 2004.

The APAs do not specify that Exhibit B be prepared in accordance with CICA 4250. Exhibit B in each APA is titled "Estimated Working Capital – Company Name, Projected Working Capital as at September 30, 2004". The word "forecast" is not used in either Exhibit B or elsewhere in the three APAs.

There is only one reference within the APAs to a specific standard of the CICA and that is in Section 2.10, which references the "the valuation methodology as prescribed by CICA Handbook Section 3461" and that reference was apparently suggested by the actuarial advisors to the negotiators with respect to Post-Retirement Benefits, a potentially complex measurement matter.

In the context of the APAs, therefore, the lack of specific reference to CICA 4250 forecast standards to bring greater certainty to the measurement methodology that might have been expected by either party for purposes of the Determination of Working Capital, and, in fact, the specific description of Exhibit B in the APAs as both an estimate and a projection, indicates that GAAP guidance, and specifically CICA 4250, was neither considered nor bargained for.

KPMG's Analysis and Conclusion Regarding the Nature of Exhibit B

While Exhibit B is neither a forecast nor a projection in accordance with GAAP, it is clearly a financial summary of working capital subject to general as well as specific GAAP recommendations for the recognition and measurement of the balances required to be included therein in accordance with the definitions and terms of the APAs. Exhibit B is not general purpose in nature, as that term is defined and understood in the context of the CICA Handbook, but, rather, special purpose in nature in that its preparation was specifically for the purposes of the transactions to acquire each of IRM, Sivaco and Ifastgroupe. The terms of these APAs serve the parties to define what components of working capital the parties agreed to be included and what components are to be excluded. GAAP does not guide this selection process, the parties by mutual agreement and the APAs do that. The APAs then define the basis for preparation of exhibits which include these working capital components. For Exhibits A and C, the agreed financial information therein was to be "prepared in accordance with either (i) Canadian GAAP, and, to the extent consistent with Canadian GAAP, on a basis consistent with the past practice of the Seller and each other Selling Party or (ii) as otherwise specifically provided in this agreement." While the APAs do not specifically establish the foregoing standard for the preparation of Exhibit B, Section 2.10 does state that if "the basis for calculation and preparation of Exhibit C differs from the basis on which Exhibits A and B were calculated and prepared, then Exhibits A and B shall be deemed to be amended so as to reflect an identical basis for calculation as Exhibit C." The foregoing wording actually speaks to the key financial reporting concept of comparability and comparability of the financial information reflected in these exhibits and, as such, that would obviously be very important to the parties for the special purpose intended.

General accounting standards as well as specific accounting standards as outlined in the CICA Handbook and related primary GAAP sources as defined by Canadian GAAP can be applied to the preparation of financial information, such as Exhibit B, even though that exhibit is clearly not general purpose in nature. The Division Controllers and the CFO involved in the preparation of Exhibit B confirmed their belief that the components of working capital reflected in Exhibit B were prepared in accordance with past accounting policies and they believed those policies to be consistent with Canadian GAAP standards. General accounting standards and related financial concepts underpin many other areas of specific accounting standards within Canadian GAAP. For example, CICA 1751 requires that *"The measurement principles and methods followed in preparing both annual financial statements and interim financial statements are designed to achieve the same objective of providing useful information to financial statement users. Financial information is useful when it is relevant, reliable, comparable and understandable. While measurements in both annual financial statements and interim financial statements are often based on reasonable estimates, the preparation of interim financial statements generally will require a greater use of estimation than annual financial statements."* Exhibit B financial information should also be subject to the foregoing objectives of relevance, reliability, comparability and understandability to meet the special purpose needs of the users of such. The relevance of the financial information in Exhibit B is, for the most part, driven by the terms and definitions in the APAs regarding which elements of working capital are to be included and, conversely, which elements are to be excluded. The reliability objective may best be met through the preparation of financial information based on a standard, such as specific GAAP standards applicable to the working capital components that the parties have agreed to include in Exhibit B, using the best available information affecting the measurement of the component. The comparability objective is a key standard of GAAP and is met when accounting principles are applied consistently from fiscal year to fiscal year and from fiscal year to the September 30, 2004 period end. For example, CICA 1751.18, *Interim Financial Statements* requires that *"An enterprise should apply the same accounting policies and methods of their application in its interim financial statements as it applied in its most recent annual financial statement."* Understandability of financial statements is enhanced through disclosures by way of notes to the financial statements, however, in the case of Exhibit B this objective was limited by the agreed format and presentation of the specific components of working capital for the special purpose nature of this financial information.

In the context of the negotiations between the parties, September 30, 2004 was understood by the parties to be a targeted closing date for the proposed transactions and, as such, the relevance and reliability of the financial information estimates in Exhibit B would best be achieved by treating September 30, 2004 as a fiscal period end rather than a simple interim period end. Accordingly, certain estimates and planned standard costing adjustments which the businesses would expect to perfect or true up at such dates should be factored into the estimates of working capital components at that date in order to enhance the consistency and thus the comparability of the baseline and Closing Date working capital calculations as reflected in Exhibits B and C. CICA 1751, Interim Financial Statements recognizes, as noted above, that fiscal year-end reporting as distinct from interim financial reporting typically involves a reduced level of estimation and to achieve that enterprises such as the Ivaco businesses that have complex production costing environments using standard costing processes will conduct inventory counts at or near the fiscal year end to true up variances associated with underlying price changes for components of cost, volume and capacity utilization to establish the actual laid down costs of known quantities on hand. The APAs required a physical count at the Closing Date as well. Therefore, the estimates used in the preparation of Exhibit B should have been developed on the basis that September 30, 2004 would be equivalent to the normal fiscal year end "hard close" which was historically achieved by a full physical count the month prior to the historical year end of December 31st. In the context of the transactions, the foregoing approach to the measurement, preparation and presentation of the agreed working capital estimates for purposes of Exhibit B would, in accordance with general accounting standards and concepts of GAAP, seem to be necessary to achieve, as fulsome as possible, the foregoing objectives of relevance, reliability, comparability and understandability to meet the special purpose needs of the parties to the APAs who are relying on such financial information for purposes of the transaction.

Another important consideration in the preparation of general purpose financial statements as well as other special purpose financial information is the determination and disclosure to the users of such of the date on which such information was substantially complete. For example, general standards in the CICA Handbook exist regarding the dating of auditor's reports on financial statements and, as noted above, CICA 4250 requires the disclosure of the effective date of the underlying assumptions associated with forecasts. The APA required that Exhibit C be prepared 23 days after the Closing Date, so that became the date of substantial completion and, in fact, issuance. Determination of the date of substantial completion is an important consideration in the context of Exhibit B because the date of substantial completion or the effective date of such is germane to many of the points of dispute between the parties. For purposes of our report, we have based our conclusions on the indicated fact pattern that the three Exhibit Bs were substantially complete by July 18 or 19, 2004 based on the facts and circumstances and related information known to management involved in the preparation thereof at or immediately prior to that date.

Decision Framework

Information pertinent to the decisions and conclusions of the Expert was gathered through submissions of the parties, interviews as noted above and supplemental questions in writing and related responses of the parties in accordance with the terms of the Protocol. The following basic considerations guided our conclusions:

- What does the language of the APA indicate was agreed to by the parties in terms of the components of working capital presented in Exhibit C and B? This has been referred to as "what's in and what's out" by certain participants in this process.

- What specific Canadian GAAP guidance applies to the foregoing components of working capital?

- What general accounting guidance or financial concepts apply to the preparation, measurement and presentation of Exhibit C and B working capital calculations?

We determined that the first consideration would logically take precedence over the other considerations and for certain matters initially disputed by the Purchasers, the parties were able to resolve and agree on the matter based on the language of the APAs as it related to specific components of working capital that were specified to be either included or excluded by definition. Further, the first consideration also was applied equally under both the Heico and Ivaco Approaches on the basis that it seemed to make more sense to conclude equally on matters that factually were already agreed to by both parties in terms of what specific components of working capital are either to be included or excluded from the working capital calculations for Exhibit B and C. In fact, in preparing Exhibit C, the Sellers noted an example of a working capital component that had inadvertently been included in Exhibit B and sought to correct that.

The Canadian GAAP considerations as they apply to the very basic question of "What is Exhibit B" have been addressed separately above.

The positions of the two parties, background information and the conclusions of the Expert with respect to each of the individual matters of dispute are outlined separately in Appendix F.

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Restrictions and Limitations

Our engagement and final report herewith are subject to the Standard Terms and Conditions ("T&C") attached to the engagement letter presented in Appendix A to this report. KPMG acknowledges that the terms of the Protocol shall prevail to the extent of any conflict with the T&C and that, notwithstanding paragraph 5 of the T&C, our report prepared pursuant to this engagement may be used by either the Ivaco Parties or the Heico Parties in connection with Court proceedings and we expressly consent to such use.

Yours truly,

KPMG LLP

John W. Buschhausen, FCA
Partner
(905) 523-2230

APPENDIX A

COURT ORDER DATED JANUARY 16, 2006 (INCLUDING A COPY OF THE ENGAGEMENT LETTER OF KPMG LLP)

APPENDIX B

COPIES OF COURT ORDERS AND REASONS DATED:

- June 2, 2005
- August 4, 2005
- August 8, 2005
- November 7, 2006
- December 15, 2006

APPENDIX C

LIST OF INDIVIDUALS INTERVIEWED

Appendix C
Working Capital Proceeding
Interview List

Date	Interviewee	Title/Role	Location
8-Mar-06	Randall Benson	Chief Restructuring Officer	Toronto
19-Apr-06	Normand Devine	Divisional Controller, Sivaco	Montreal
	Hugh Blakely	Chief Financial Officer	Montreal
	James Wilson	Corporate Controller	Montreal
24-Apr-06	Patrice Gervais	Divisional Controller, Ifast	Montreal
	Philippe Dussault	Divisional Controller, IRM	Montreal
	Hugh Blakely	Chief Financial Officer	Montreal
	Gordon Silverman	Chief Executive Officer	Montreal
	David Goldsmith	General Manager, IRM	Montreal
	Michel Marleau	Ernst & Young Inc. - Monitor	Montreal
27-Apr-06	Jonathon Hicks	Financial Analyst - Heico	Toronto
28-Apr-06	Randall Benson	CRO	Toronto
3-May-06	Andrew Kramer	UBS Securities Inc.	Toronto
14-Jul-06	Gillian Stacey	Lawyer - Davies	Toronto
21-Jul-06	Hugh Blakely	Chief Financial Officer	Toronto
27-Jul-06	Linda Scipio Del Campo	Ernst & Young Inc. - Monitor	Toronto
23-Aug-06	Helen Freidli	Lawyer - McDermott Will	Toronto
24-Aug-06	Stanley Meadows	Lawyer - McDermott Will	Toronto
5-Dec-06	Stanley Meadows	Lawyer - McDermott Will	Toronto

APPENDIX D

SUMMARY OF ADJUSTMENTS TO EXHIBIT B and EXHIBIT C

UNDER THE HEICO APPROACH

EXHIBIT B
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

HEICO APPROACH

		ORIGINAL EXHIBIT B PER APA				REVISED EXHIBIT B				FINAL EXHIBIT B PER KPMG			
Working Capital Calculation		IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total
Accounts receivable	$	43,137	36,903	29,564	109,604	43,137	36,903	29,564	109,604	43,949	39,357	29,621	112,927
Inventory		110,555	69,005	31,670	211,230	110,555	69,005	31,670	211,230	110,867	70,718	32,392	213,977
Prepaid expenses		5,035	1,109	213	6,357	5,035	1,109	213	6,357	5,035	1,109	321	6,465
Minus:													
Trade payables		(8,592)	(19,746)	(2,179)	(30,517)	(8,592)	(19,060)	(2,179)	(29,831)	(8,411)	(15,633)	(1,769)	(25,813)
Freight & duties		(225)	(1,062)	(461)	(1,748)	(225)	(1,062)	(461)	(1,748)	(225)	(812)	(461)	(1,498)
Utilities		(750)	(1,202)	-	(1,952)	(750)	(1,202)	-	(1,952)	-	(383)	-	(383)
Estimated working capital	$	149,160	85,007	58,807	292,974	149,160	85,693	58,807	293,660	151,215	94,356	60,104	305,675

EXHIBIT B
IFASTGROUPE AND COMPANY, L.P.
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

HEICO APPROACH

Working Capital Calculation		Original Exhibit B	Mutual Adjustments		Reference	Revised Exhibit B	KPMG Adjustments			Reference	Final Exhibit B Per KPMG
Accounts receivable	$	43,137	-			43,137	180	632		C-1 / B-7	43,949
Inventory		110,555				110,555	312			C-2	110,867
Prepaid expenses		5,035				5,035					5,035
Minus:						-					-
Trade payables		(8,592)	-			(8,592)	121	48	12	B-3 / B-4 / B-5	(8,411)
Freight & duties		(225)				(225)					(225)
Utilities		(750)				(750)	750			B-1	-
Estimated working capital	$	149,160	-	-		149,160	1,363	680	12		151,215

Notes:
B-1 Intercompany utilities payable to IRM was included in projected utilities payable in error, mistake per APA to include intercompany balances
B-3 Legal and audit accruals were an retained liability, should be excluded from projected working capital
B-4 Pre-filing payable for tooling equipment should not be in accounts payable; an excluded liability
B-5 Removal of auto slush accrual from projected September 30, 2004 working capital to be consistent with November 30, 2004 approach
B-7 Reduce projected AFDA at September 30, 2004 to be consistent with approach at Nov 30, 2004; limited specific account identification for projections
C-1 Reduce projected AFDA at September 30, 2004 to exclude AFDA on pre-filing Accounts Receivable; consistent with approach at November 30, 2004
C-2 Inconsistent approach in calculation of reserve against spare parts inventories

EXHIBIT B
IVACO ROLLING MILLS, L.P.
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

HEICO APPROACH

Working Capital Calculation		Original Exhibit B	Mutual Adjustments		Reference	Revised Exhibit B	KPMG Adjustments		Reference	Final Exhibit B Per KPMG
Accounts receivable	$	36,903				36,903	2,454		B-3	39,357
Inventory		69,005				69,005	1,413	300	B-4 / C-3	70,718
Prepaid expenses		1,109				1,109				1,109
Minus:						-				-
Trade payables		(19,746)	686		B-8	(19,060)	3,427		C-5.1	(15,633)
Freight & duties		(1,062)				(1,062)	250		B-7	(812)
Utilities		(1,202)				(1,202)	819		B-5	(383)
Estimated working capital	$	85,007	686	-		85,693	8,363	300		94,356

Notes:
B-3 Inconsistent calculation of AFDA between September 30, 2004 and November 30, 2004
B-4 Inconsistent calculation of reserve on rod inventory between Sept 30, 2004 and Nov 30, 2004
B-5 Hydro substation accrual represents a pre-CCAA liability and should be excluded from liabilities pursuant to the APA
B-7 Remove general reserve from September 30, 2004 estimate of freight liabilities as this is inconsistent with Nov 30, 2004 specific accrual approach
B-8 Sellers agree to eliminate anti-dumping legal fees included in September 30, 2004 Trade Payables as this represents a retained liability
C-3 Inconsistent treatment of billet reserve between September 30, 2004 and November 30, 2004
C-5.1 Removal of QIT anti-dumping duty deposit liability included in Sept 30, 2004 Trade Payables (in error); Exhibit C does not include this liability

EXHIBIT B
IVACO INC.
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

HEICO APPROACH

Working Capital Calculation		Original Exhibit B	Mutual Adjustments		Reference	Revised Exhibit B	KPMG Adjustments		Reference	Final Exhibit B Per KPMG
Accounts receivable	$	29,564				29,564	57		C-1.2	29,621
Inventory		31,670				31,670	696	26	B-3/C-2	32,392
Prepaid expenses		213				213	108		B-5	321
Minus:						-				-
Trade payables		(2,179)				(2,179)	410		B-4	(1,769)
Freight & duties		(461)				(461)				(461)
Utilities		-				-				-
Estimated working capital	$	58,807	-	-		58,807	1,271	26		60,104

Notes:
B-3 Partial reduction of inventory yield reserve in projected September 30, 2004 working capital.
B-4 Reduction of payables to eliminate outstanding cheques balance
B-5 Omission of corporate prepaids in determination of projected working capital at September 30, 2004 (a mistake).
C-1.2 Increase in accounts receivable at September 30, 2004 on account of pre filing credits in AFDA for wire racks
C-2 Increase in inventory at September 30, 2004 for a partial reduction in the general inventory reserve

HEICO APPROACH

EXHIBIT C
FINAL WORKING CAPITAL as at November 30, 2004
TOTAL (C$ 000's)

		ORIGINAL EXHIBIT C PER APA				REVISED EXHIBIT C				FINAL EXHIBIT C PER KPMG			
Working Capital Calculation		IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total
Accounts receivable	$	40,999	29,125	27,064	97,188	40,999	29,125	27,055	97,179	40,888	29,125	27,055	97,068
Inventory		136,690	94,594	39,913	271,197	136,270	94,594	39,913	270,777	136,270	94,594	39,913	270,777
Prepaid expenses		3,043	1,204	3,383	7,630	2,919	1,204	3,383	7,506	2,919	1,204	3,383	7,506
Minus:													
Trade payables		(4,011)	(8,438)	(1,332)	(13,781)	(4,011)	(8,338)	(1,792)	(14,141)	(4,139)	(8,338)	(1,792)	(14,269)
Freight & duties		(210)	(428)	(328)	(966)	(210)	(428)	(328)	(966)	(210)	(428)	(328)	(966)
Utilities		-	(1,554)	-	(1,554)	-	(1,554)	-	(1,554)	-	(1,554)	-	(1,554)
Actual working capital	$	176,511	114,503	68,700	359,714	175,967	114,603	68,231	358,801	175,728	114,603	68,231	358,562

EXHIBIT C
IFASTGROUPE AND COMPANY, L.P.
FINAL WORKING CAPITAL as at November 30, 2004
(C$ 000's)

HEICO APPROACH

Working Capital Calculation		Original Exhibit C	Mutual Adjustments		Reference	Revised Exhibit C	KPMG Adjustments		Reference	Final Exhibit C Per KPMG
Accounts receivable	$	40,999				40,999	(111)		C-5	40,888
Inventory		136,690	(287)	(133)	C-2.1 / C-2.2	136,270				136,270
Prepaid expenses		3,043	(124)		C-6	2,919				2,919
Minus:						-				-
Trade payables		(4,011)				(4,011)	(128)		C-4	(4,139)
Freight & duties		(210)				(210)				(210)
Utilities		-				-				-
Actual working capital	$	176,511	(411)	(133)		175,967	(239)	-		175,728

Notes:
C-2.1 Removal of spare parts inventory
C-2.2 Include a reserve on tooling
C-4 Increase payables for bonafide miscellaneous accruals at November 30, 2004 (partial reversal of Seller deduction)
C-5 Payroll balances in accounts receivable, contrary to APA
C-6 Removal of an expired letter of credit from prepaids

EXHIBIT C
IVACO ROLLING MILLS, L.P.
FINAL WORKING CAPITAL as at November 30, 2004
(C$ 000's)

HEICO APPROACH

Working Capital Calculation		Original Exhibit C	Mutual Adjustments		Reference	Revised Exhibit C	KPMG Adjustments		Reference	Final Exhibit C Per KPMG
Accounts receivable	$	29,125				29,125				29,125
Inventory		94,594				94,594				94,594
Prepaid expenses		1,204				1,204				1,204
Minus:						-				-
Trade payables		(8,438)	100		C-4	(8,338)				(8,338)
Freight & duties		(428)				(428)				(428)
Utilities		(1,554)				(1,554)				(1,554)
Actual working capital	$	114,503	100	-		114,603	-	-		114,603

Notes:
C-4 Sellers agree to eliminate anti-dumping legal fees included in November 30, 2004 Trade Payables as this represents a retained liability

EXHIBIT C
IVACO INC.
FINAL WORKING CAPITAL as at November 30, 2004
(C$ 000's)

HEICO APPROACH

Working Capital Calculation		Original Exhibit C	Mutual Adjustments		Reference	Revised Exhibit C	KPMG Adjustments		Reference	Final Exhibit C Per KPMG
Accounts receivable	$	27,064	(9)		C-1.5	27,055				27,055
Inventory		39,913				39,913				39,913
Prepaid expenses		3,383				3,383				3,383
Minus:						-				-
Trade payables		(1,332)	(460)		C-6	(1,792)				(1,792)
Freight & duties		(328)				(328)				(328)
Utilities		-				-				-
Actual working capital	$	68,700	(469)	-		68,231	-	-		68,231

Notes:
C-1.5 Reduce accounts receivable for amounts owing by third party creditors
C-6 Increase to accounts payable to correct a reduction for payroll related accruals recorded twice in error

APPENDIX E

SUMMARY OF ADJUSTMENTS TO EXHIBIT B and EXHIBIT C

UNDER THE IVACO APPROACH

EXHIBIT B
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

IVACO APPROACH

		ORIGINAL EXHIBIT B (PER APA)				REVISED EXHIBIT B				FINAL EXHIBIT B PER KPMG			
Working Capital Calculation		IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total
Accounts receivable	$	43,137	36,903	29,564	109,604	43,137	36,903	29,564	109,604	43,137	36,903	29,621	109,661
Inventory		110,555	69,005	31,670	211,230	110,555	69,005	31,670	211,230	110,555	69,005	31,670	211,230
Prepaid expenses		5,035	1,109	213	6,357	5,035	1,109	213	6,357	5,035	1,109	321	6,465
Minus:													
Trade payables		(8,592)	(19,746)	(2,179)	(30,517)	(8,592)	(19,060)	(2,179)	(29,831)	(8,423)	(15,633)	(2,179)	(26,235)
Freight & duties		(225)	(1,062)	(461)	(1,748)	(225)	(1,062)	(461)	(1,748)	(225)	(1,062)	(461)	(1,748)
Utilities		(750)	(1,202)	-	(1,952)	(750)	(1,202)	-	(1,952)	-	(383)	-	(383)
Estimated working capital	$	149,160	85,007	58,807	292,974	149,160	85,693	58,807	293,660	150,079	89,939	58,972	298,990

EXHIBIT B
IFASTGROUPE AND COMPANY, L.P.
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

IVACO APPROACH

Working Capital Calculation		Original Exhibit B	Mutual Adjustments		Reference	Revised Exhibit B	KPMG Adjustments		Reference	Final Exhibit B Per KPMG
Accounts receivable	$	43,137	-			43,137				43,137
Inventory		110,555				110,555				110,555
Prepaid expenses		5,035				5,035				5,035
Minus:						-				-
Trade payables		(8,592)				(8,592)	121	48	B-3 / B-4	(8,423)
Freight & duties		(225)				(225)				(225)
Utilities		(750)				(750)	750		B-1	-
Estimated working capital	$	149,160	-	-		149,160	871	48		150,079

Notes:
B-1 Intercompany utilities payable to IRM was included in projected utilities payable in error, mistake per APA to include interco balances
B-3 Legal and audit accruals were a retained liability, should be excluded from projected working capital
B-4 Pre-filing payable for tooling equipment should not be in accounts payable; an excluded liability

EXHIBIT B
IVACO ROLLING MILLS, L.P.
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004
(C$ 000's)

IVACO APPROACH

Working Capital Calculation		Original Exhibit B	Mutual Adjustments		Reference	Revised Exhibit B	KPMG Adjustments		Reference	Final Exhibit B Per KPMG
Accounts receivable	$	36,903				36,903				36,903
Inventory		69,005				69,005				69,005
Prepaid expenses		1,109				1,109				1,109
Minus:						-				-
Trade payables		(19,746)	686		B-8	(19,060)	3,427		C-5.1	(15,633)
Freight & duties		(1,062)				(1,062)				(1,062)
Utilities		(1,202)				(1,202)	819		B-5	(383)
Estimated working capital	$	85,007	686	-		85,693	4,246	-		89,939

Notes:
B-8 Sellers agree to eliminate anti-dumping legal fees included in September 30, 2004 Trade Payables as this represents a retained liability
C-5.1 Removal of QIT anti-dumping duty deposit liability included in September 30, 2004 Trade Payables (in error); Exhibit C does not include this liability
B-5 Hydro substation accrual represents a pre-CCAA liability and should be excluded from liabilities pursuant to the APA.

EXHIBIT B
IVACO INC.
ESTIMATED WORKING CAPITAL
Projected Working Capital as at September 30, 2004

IVACO APPROACH

Working Capital Calculation		Original Exhibit B	Mutual Adjustments		Reference	Revised Exhibit B	KPMG Adjustments		Reference	Final Exhibit B Per KPMG
Accounts receivable	$	29,564				29,564	57		C1.2	29,621
Inventory		31,670				31,670	-		-	31,670
Prepaid expenses		213				213	108		B-5	321
Minus:						-				-
Trade payables		(2,179)				(2,179)	-		-	(2,179)
Freight & duties		(461)				(461)				(461)
Utilities		-				-				-
Estimated working capital	$	58,807	-	-		58,807	165	-		58,972

Notes:
B-5 Omission of corporate prepaids in determination of projected working capital at September 30, 2004.
C-1.2 Increase in accounts receivable at September 30, 2004 on account of pre filing credits in AFDA related to wire racks

EXHIBIT C
FINAL WORKING CAPITAL as at NOVEMBER 30, 2004
TOTAL - (C$ 000's)

IVACO APPROACH

		ORIGINAL EXHIBIT C (PER APA)				REVISED EXHIBIT C				FINAL EXHIBIT C PER KPMG			
Working Capital Calculation		IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total	IFAST	IRM	IVACO	Total
Accounts receivable	$	40,999	29,125	27,064	97,188	40,999	29,125	27,055	97,179	40,888	29,125	27,055	97,068
Inventory		136,690	94,594	39,913	271,197	136,270	94,594	39,913	270,777	136,270	94,594	39,913	270,777
Prepaid expenses		3,043	1,204	3,383	7,630	2,919	1,204	3,383	7,506	2,919	1,204	3,383	7,506
Minus:													
Trade payables		(4,011)	(8,438)	(1,332)	(13,781)	(4,011)	(8,338)	(1,792)	(14,141)	(4,139)	(8,338)	(1,792)	(14,269)
Freight & duties		(210)	(428)	(328)	(966)	(210)	(428)	(328)	(966)	(210)	(428)	(328)	(966)
Utilities		-	(1,554)	-	(1,554)	-	(1,554)	-	(1,554)	-	(1,554)	-	(1,554)
Actual working capital	$	176,511	114,503	68,700	359,714	175,967	114,603	68,231	358,801	175,728	114,603	68,231	358,562

EXHIBIT C
IFASTGROUPE AND COMPANY, L.P.
FINAL WORKING CAPITAL as at NOVEMBER 30, 2004
(C$ 000's)

IVACO APPROACH

Working Capital Calculation		Original Exhibit C	Mutual Adjustments		Reference	Revised Exhibit C	KPMG Adjustments		Reference	Final Exhibit C Per KPMG
Accounts receivable	$	40,999				40,999	(111)		C-5	40,888
Inventory		136,690	(287)	(133)	C-2.1 / C-2.2	136,270				136,270
Prepaid expenses		3,043	(124)		C-6	2,919				2,919
Minus:						-				-
Trade payables		(4,011)				(4,011)	(128)		C-4	(4,139)
Freight & duties		(210)				(210)				(210)
Utilities		-				-				-
Actual working capital	$	176,511	(411)	(133)		175,967	(239)	-		175,728

Notes:

C-2.1 Decrease in inventory to remove spare parts inventory, as conceded by Sellers
C-2.2 Decrease in inventory to include a reserve on tooling
C-4 Increase trade payables for bonafide miscellaneous accruals at November 30, 2004.
C-5 Decrease in accounts receivable to remove payroll balances
C-6 Removal of an expired letter of credit from prepaid expenses, as conceded by Sellers

EXHIBIT C
IVACO ROLLING MILLS, L.P.
FINAL WORKING CAPITAL as at NOVEMBER 30, 2004
(C$ 000's)

IVACO APPROACH

Working Capital Calculation		Original Exhibit C	Mutual Adjustments		Reference	Revised Exhibit C	KPMG Adjustments		Reference	Final Exhibit C Per KPMG
Accounts receivable	$	29,125				29,125				29,125
Inventory		94,594				94,594				94,594
Prepaid expenses		1,204				1,204				1,204
Minus:						-				-
Trade payables		(8,438)	100		C-4	(8,338)				(8,338)
Freight & duties		(428)				(428)				(428)
Utilities		(1,554)				(1,554)				(1,554)
Actual working capital	$	114,503	100	-		114,603	-	-		114,603

Notes:

C-4 Sellers agree to eliminate anti-dumping legal fees included in November 30, 2004 Trade Payables as this represents a retained liability

EXHIBIT C
IVACO INC.
FINAL WORKING CAPITAL as at NOVEMBER 30, 2004
($ 000's)

IVACO APPROACH

Working Capital Calculation		Original Exhibit C	Mutual Adjustments		Reference	Revised Exhibit C	KPMG Adjustments		Reference	Final Exhibit C Per KPMG
Accounts receivable	$	27,064	(9)		C-1.5	27,055				27,055
Inventory		39,913				39,913				39,913
Prepaid expenses		3,383				3,383				3,383
Minus:						-				-
Trade payables		(1,332)	(460)		C-6	(1,792)				(1,792)
Freight & duties		(328)				(328)				(328)
Utilities		-				-				-
Actual working capital	$	68,700	(469)	-		68,231	-	-		68,231

Notes:
C-1.5 Reduce accounts receivable for amounts owing by third party creditors
C-6 Increase to accounts payable to include deductions at source

APPENDIX F

REVIEW OF INDIVIDUAL MATTERS IN DISPUTE

Ivaco Rolling Mills L.P.
Reference B-1
QIT Consignment Inventory
Amount in Dispute - $10,448,000

Issue:

In late July 2004, QIT-Fer et Titane Inc. ("QIT") indicated that it was unilaterally cancelling the terms of a Consignment Protocol Agreement pursuant to which it supplied billet inventories to Ivaco Rolling Mills ("IRM") on a consignment basis. Ivaco management decided that IRM would make a cash purchase of the $10,448,000 of consigned billet inventories from QIT for economic reasons. Heico indicated that it did not become aware of this transaction until after the IRM APA was executed on August 6, 2004.

The issue in dispute centers around whether or not Ivaco should have increased its September 30, 2004 estimate of Inventory as included in Exhibit B by $10,448,000 given that the purchase of the QIT consigned inventories was consummated in late July 2004, which is before the signing of the APA.

Heico Position:

Heico asserts that it did not become aware of the purchase of the QIT consigned inventories until after the signing of the APA and that this transaction increased the normal working capital requirements of IRM.

Further, Heico contends that the APA required the Seller to increase Inventory by $10,448,000 in Exhibit B as the increase to IRM's working capital position at September 30, 2004 was known to the Sellers prior to the execution of the APA.

Ivaco Position:

Ivaco contends that senior management made a good economic decision to purchase the QIT consigned billet inventory when QIT terminated the Consignment Protocol Agreement. Other benefits of the billet inventory purchase included an increase in the EBITDA of IRM since monthly administration fees were no longer payable to QIT.

Ivaco also contends that Heico should have been aware of the consignment agreement termination as it was outlined in the Monitor's Report dated August 9, 2004, and Heico could have objected to this transaction when the Ontario Court approved the APAs on August 16, 2004.

Finally, Ivaco contends that no adjustment is required to Exhibit B on account of the purchase of the QIT inventory as such an adjustment would represent a significant "windfall" to Heico.

KPMG Analysis and Conclusion:

IRM had a long-standing relationship and an agreement for the supply of billets, raw material for the production of rod, with QIT. David Goldsmith, Senior Vice-President and General Manager of IRM, was primarily responsible for overseeing these arrangements and the QIT Supply Agreement. He advised that the QIT billets were effectively a by-product of QIT's primary metal smelting operation and that QIT did not have storage capacity for such, preferring to ship directly to IRM.

At the time of the CCAA filing, QIT was a major creditor of IRM as it had extended credit terms of approximating 120 days for billets supplied to the Company. During the CCAA process and through late July 2004, David Goldsmith confirmed that QIT continued to supply billets to IRM on a consignment basis, for which IRM was paying a monthly fee of approximately $80,000. Documentation of Court proceedings prior to July 2004 indicated that QIT sought and was granted protection from disclosure of the details of its agreement with IRM for competitive secrecy reasons and the likely desire to negotiate a new agreement with the purchaser of IRM.

The data room, established to allow interested purchasers to conduct due diligence on IRM, included a QIT Contract outline which was very limited in its disclosure and a note that was italicized for emphasis and stated, *"The terms of an agreement between IRM and QIT going forward have not been determined. There is no guarantee that an acceptable agreement will be concluded."* No information was disclosed or could be disclosed regarding pricing or consignment arrangements then in place, although this outline did indicate 60 day credit terms, which David Goldsmith confirmed was the normal required terms for payment.

Based on a review of the marked-up May 14, 2004 draft APA provided to the Expert, Heico had, during negotiations for the purchase of IRM, initially requested the renegotiation of the QIT agreement as a condition precedent to closing. Then, in late June or early July 2004, Heico withdrew this condition. The Ivaco negotiators characterized the removal of the foregoing condition as a strategy employed by Heico to improve its offer relative to competing offers then on the table, and the minutes of the meetings of the Restructuring Committee of Ivaco corroborate this characterization.

On July 22, 2004, David Goldsmith advised Gordon Silverman, CEO, and Randy Benson, CRO, that QIT had given written notice that day that it was cancelling the consignment agreement effective August 7, 2004. On July 29, 2004, David Goldberg advised QIT by letter that IRM would purchase the entire inventory of billets immediately for $10,448,081 and that IRM would continue to order billets and "to pay for those billets as shipped in accordance with existing arrangements."

Hugh Blakely acknowledged that he was aware of the consignment termination notice and the subsequent decision to purchase the QIT billet inventory on July 29, 2004. He confirmed that the Exhibit B estimated working capital amounts, which totaled $292,974,000 for the three businesses, was not updated after the July 18 or 19, 2004 finalization of this exhibit by his finance group to reflect the foregoing purchase of billets from QIT "because the two ninety-two had already been cast in stone at that point. I mean the agreement had not been signed, I know, but we never adjusted it."

Randy Benson, CRO, acknowledged as well that the timing of the QIT consignment agreement cancellation did not give rise to a re-challenge of the Exhibit B estimates, because at that point in time the initial reaction was to focus on the operational priority of security of billet supply a possible legal challenge of QIT's right to cancel the agreement, and an analysis by David Goldsmith regarding the opportunity for cost savings by immediately purchasing the QIT billets then on hand on a consignment basis because underlying scrap prices, which were rising during that time, had a significant impact on purchase cost. IRM was operating in a buoyant environment and management was focused on operational priorities.

Cash management was no longer as pressing an issue nor was the recently-completed Exhibit B estimate re-challenged according to the CRO because, "Contracting for supply of billets from QIT is no different than contracting for major portions of supply from anybody else. The consignment portion of that contract is going to be up for renegotiation in any event and Heico's acknowledged that they're willing to take the risk associated with changes in that contract on a post-closing basis" and "As we looked at it, we said, 'you know what? This is an opportunity.' IRM now has cash."

From a working capital and cash management perspective, according to the CRO, "it's a business decision. It doesn't mean – yeah, it doesn't mean you let everybody off the hook. You still say, 'Okay, I've got to spend $10 million. I'm going to save $1 or $2 million short-term for it. Terrific. Okay, guys. Go find me $10 million in working capital. Go do your job. Find better ways. Find – order less. Turn it over faster. That's what we pay you to do.' Right? And then, ultimately, they're going to renegotiate a contract. If consignment's important to them, I'm sure that will be on their list. And to me, that was easy. If – this notion that I'd take $10 million of cash, buy billets, and hand it over to Heico for no charge is absurd. Would have never happened. It's absurd."

In our view, although the purchase of $10,448,000 of QIT billet inventories increased IRM's inventory levels and therefore its net investment in working capital, there were offsetting commercial benefits that also must be considered. These benefits included:

- the requirement for Heico to renegotiate a new billet supply agreement with QIT, which possibly could re-instate a new inventory consignment arrangement;
- the ability of Heico to acquire reasonable credit terms (e.g. 60-day payment terms) on all inventory purchases from QIT, including the previously consigned inventory balances. The resulting account payable balance would largely offset the increased investment in inventory; and,
- incremental cash savings of $960,000 per annum by choosing to forgo the consigned inventory arrangement and its monthly administration charge of $80,000 per month.

Accordingly, in our view, a one-sided adjustment to estimated IRM Inventory and Working Capital levels in Exhibit B without any consideration of the commercial benefits available to Heico would create a windfall to the Purchaser that would not be commercially justified given the facts.

Furthermore, there was no documentation indicating that Heico had identified the QIT consigned inventory purchase as a significant issue impacting upon the agreed-upon purchase price for IRM or the projected estimate of working capital at September 30, 2004 as presented in Exhibit B during the period from August 2004 through November 30, 2004.

The documentation demonstrates that the Exhibit B estimates were finalized on or about July 18 or 19, 2004 and that changes in circumstances and events beyond that date that might otherwise have been brought to bear in the measurement of the various working capital components were not factored into estimated balances in Exhibit B. The management decision subsequent to July 19, 2004 to purchase the QIT consignment inventory was based on operational considerations without revisiting the Exhibit B working capital estimates for this singular event. Management estimates based solely on operational considerations as such are not subject to specific guidance in the context of GAAP; accordingly, GAAP has not been identified as the basis for this disputed amount.

Further, as outlined in the main Report under, "What is Exhibit B", KPMG has determined that Exhibit B is an estimate, not a forecast or projection in accordance with Canadian GAAP guidance CICA 4250.

In conclusion, the Expert does not accept Heico's request for a $10,448,000 adjustment to Exhibit B in respect of IRM's purchase of QIT consigned billet inventories on the basis that: (i) this event factually occurred after the Exhibit B estimates were finalized on July 18 or 19, 2004; (ii) the commercial reality was that the purchase of such actually positively impacted the economic value of IRM on a going concern basis; and (iii) there is no basis in GAAP to challenge such because Exhibit B is an estimate and not a GAAP forecast.

In addition, under the Ivaco Approach, no adjustment to IRM Inventory is warranted.

Ivaco Rolling Mills L.P.
Reference B-2
Top-Level Adjustment to Estimate of Trade Payables
Amount in Dispute – $2,000,000

Issue:

A number of "top-level" adjustments were made by senior management to divisional management-prepared estimates, which had the effect of reducing the Estimated Working Capital per Exhibit B. One of these top-level adjustments related to a $2,000,000 increase to the Trade Payables of IRM.

Heico Position:

Heico claims that the top-level adjustments should be reversed on the basis that such adjustments are not consistent with GAAP. Heico contends that senior management should not have changed the original estimate of IRM trade payables, as there was no basis for the adjustment.

Ivaco Position:

Ivaco contends that the top-level adjustments were a normal business practice of Ivaco and that the adjustments were made by head office management in order to reflect their knowledge of the business and their history on the issues.

KPMG Analysis and Conclusion:

The testimony of Randy Benson, Chief Restructuring Office ("CRO"), and Hugh Blakely, Chief Financial Officer ("CFO"), indicated that IRM was getting better credit terms from its suppliers, notably scrap suppliers, by mid-2004 and that divisional management's estimate of Trade Payable balances at September 30, 2004 were increased by $2,000,000 to reflect those improving credit terms. The foregoing adjustment to the estimated Trade Payables appears to be operationally driven, based on actual circumstances confirmed by management at the time of preparation of Exhibit B in early July 2004. As such, this type of estimate is not subject to specific GAAP guidance.

Accordingly, it is the view of the Expert that there is no basis in GAAP to accept the $2,000,000 increase in estimated Trade Payables requested by Heico because Exhibit B is an estimate, not a GAAP forecast, and no specific GAAP guidance respecting this adjustment to the Trade Payables estimate can be established.

Accordingly, there is no basis for an adjustment to estimated Trade Payables in Exhibit B under either the Heico Approach or the Ivaco Approach.

Ivaco Rolling Mills L.P.
Reference B-3
Allowance for Doubtful Accounts
Amount in Dispute - $2,454,000

Issue:

This disputed item relates to the determination of the amount of the Allowance for Doubtful Accounts ("AFDA"), which is netted against Accounts Receivable for purposes of Exhibit B. The following AFDA balances are noted:

At December 31, 2003	$2,142,000	Actual
At September 30, 2004	$3,742,000	Estimated – Exhibit B
At November 30, 2004	$1,288,000	Actual – Exhibit C

Heico Position:

Heico's position is that the AFDA for purposes of Exhibit B was prepared using a methodology that was inconsistent with that used in the preparation of the AFDA for purposes of Exhibit C and that, further, the methodology used for Exhibit B was not in accordance with GAAP. Heico has requested a reduction in the AFDA at September 30, 2004 of $2,454,000.

Ivaco Position:

Ivaco's position is that management of IRM estimated the AFDA for purposes of Exhibit B consistent with the historical estimating process based on their experience with customers and their perception of the market at that point in time.

KPMG Analysis and Conclusion:

Historically, the methodology used by IRM to estimate the AFDA is best described as a "specific reserve" methodology, since the AFDA was estimated based on an individual appraisal of the circumstances of each account and the related expected or probable ultimate loss. This methodology is consistent with the guidance in CICA 3020, *Accounts and Notes Receivable*. The documentation provided and the interview of Philippe Dussault, IRM Controller, indicated that, in the period between December 31, 2003 and May 31, 2004 (the last month for which actual results were available to management preparing the September 30, 2004 estimates for Exhibit B), the AFDA was increased by $375,000 each month, representing a "general reserve" with the expectation that the AFDA would be reassessed using the past practice/methodology at year end.

In preparing the estimated AFDA at September 30, 2004 in early July 2004, the documentation indicates that IRM management simply added four additional amounts of $375,000 to the May 31, 2004 AFDA account balance to arrive at the $3,742,000 AFDA estimate, which was netted against Accounts Receivable in the preparation of the

September 30, 2004 estimate for Exhibit B. No information was presented indicating that a "specific reserve" methodology was attempted or performed in conjunction with the foregoing estimated AFDA at September 30, 2004; accordingly, the methodology was inconsistent with historical practice.

General accounting guidance, CICA 1751.18, requires that "an enterprise should apply the same accounting policies and methods of their application in its interim financial statements as it applied in its most recent annual financial statements." The method of estimating the AFDA at September 30, 2004 did not follow the method applied at December 31, 2003. Accordingly, the September 30, 2004 estimated AFDA was not determined in accordance with the foregoing GAAP guidance nor the requirement of CICA 3020.13 that "the amount of the allowance for doubtful accounts at the end of a financial period should be calculated by reference to the accounts outstanding at the end of the financial period after taking into consideration all circumstances known at the date of review".

While the facts and circumstances of July, 2004, such as general business conditions, class of customers or efficiency of the collection department were not factored into the determination of the estimated AFDA at September 30, 2004, there also was no information presented that would indicate a significant change in such factors and circumstances between then and December, 2004 when the AFDA at November 30, 2004 was reviewed, assessed and adjusted in accordance with past practices and consistent with GAAP.

Accordingly, the $2,454,000 adjustment to the AFDA in Exhibit B as requested by Heico should be accepted under the Heico Approach.

In contrast, under the Ivaco Approach, an adjustment to the AFDA for purposes of Exhibit B is not warranted as no similar adjustment was made to Exhibit C by the Expert.

Ivaco Rolling Mills L.P.
Reference B-4
Inventory Reserve on Rod Inventories
Amount in Dispute - $1,413,000

Issue:

This disputed item relates to the determination of the appropriate dollar value of the obsolescence / valuation provision for IRM rod inventories for purposes of Exhibit B. The following inventory and related provision balances are noted:

(in $000's)	Dec 31, 2003 (Actual)	Sept 30, 2004 (Exhibit B)	Nov 30, 2004 (Actual-Exhibit C)
Rod Inventory	$27,600	$27,700	$43,714
Less: Provision	(1,200)	(2,617)	(1,901)
Net value	$26,400	$25,083	$41,813
Provision as a % of gross value	4.35%	9.44%	4.35%

Heico Position:

Heico's position is that the Rod Inventory reserve for purposes of Exhibit B was prepared using a methodology that was inconsistent with that used in the preparation of the Rod Inventory reserve for purposes of Exhibit C. Heico contends that a reserve equal to 4.35% of the gross value of Rod Inventory is consistent with the approach used at both December 31, 2003 and November 30, 2004. Thus, Heico maintains that the estimated reserve on Rod Inventory at September 30, 2004 should have been $1,204,000 (i.e., 4.35% of $27,700,000), which would result in a difference of $1,413,000 from the estimated reserve on Rod Inventory used in Exhibit B.

Ivaco Position:

Ivaco's position is that the proposed change to the reserve on Rod Inventories in Exhibit B is not the result of Ivaco changing the historical accounting policies used in preparing Exhibit C or Ivaco using accounting policies that are not consistent with GAAP.

KPMG Analysis and Conclusion:

Philippe Dussault, Controller for IRM, advised that divisional management consistently determined the reserve on Rod Inventory at 4.348% of the gross value of Rod Inventory, including as at December 31, 2003 and at November 30, 2004.

Under IRM's past practice of assessing the net realizable value of finished goods, Rod Inventory was considered a homogeneous population of items and the methodology therefore was a "general reserve" methodology rather than a methodology based on an assessment of the net realizable value of each specific category of finished rod product. A general reserve methodology is appropriate under GAAP.

During the period between December 31, 2003 and April 30, 2004 (the last month for which actual IRM results were available to management preparing the September 30, 2004 estimates for Exhibit B), the information provided by Philippe Dussault as well as other documentation provided to the Expert indicated that this valuation reserve was increased to $3,000,000 due to concern about rising scrap costs.

In preparing the estimated Rod Inventory Reserve at September 30, 2004 in early July 2004, the documentation indicates that IRM management decreased the estimated reserve to $2,617,000 but the foregoing clearly was not determined based on the past practice of using the general reserve percentage. No documentation was presented that would indicate that the historical "general reserve" methodology was attempted or performed in conjunction with the preparation of Exhibit B at September 30, 2004. Accordingly, the methodology used for estimating the Rod Inventory reserve for Exhibit B purposes was inconsistent with past practice.

General accounting guidance, CICA 1000.23 *Financial Concepts,* addresses the qualitative characteristics of financial information and the objective of comparability. This concept is fundamental to other general and specific item guidance, including, for example, CICA 1751.18, which requires that "an enterprise should apply the same accounting policies and methods of their application in its interim financial statements as it applied in its most recent annual financial statements". However, CICA 1751 guidance also recognizes that changes in estimates to address changed circumstances are also a fundamental concept of GAAP. Factually, the method of application in estimating the Rod Inventory Reserve at September 30, 2004 did not follow the same method applied at December 31, 2003.

The facts and circumstances regarding underlying scrap costs and the impact on IRM's ability to realize on such by passing on cost increases to its customers does not appear to have been re-assessed by management after April 30, 2004 when the reserve was increased to $3,000,000 and, perhaps more importantly, in early July 2004 when Exhibit B was prepared. Published reports by American Metal Market indicate that scrap costs did dip slightly in April 2004 and would reasonably be expected to cause concern as to the ability of IRM to recover higher laid-down scrap costs from its customers in an environment of falling costs. Scrap costs remained at the April 2004 level through May, but through June and July a rising trend in scrap costs was clear and known to management. Also, IRM, like other steel industry participants at the time, was successfully passing on scrap cost increases to its customers.

The business environment in July 2004 was buoyant and IRM had just experienced a very profitable second quarter. Considering the change in circumstances between April 2004 and July 2004, together with the clear inconsistency in the methodology used by IRM in the measurement of its estimated Rod Inventory Reserve at September, 30, 2004, we have concluded that the Exhibit B adjustment requested by Heico should be accepted.

Accordingly, the $1,413,000 reduction to the Rod Inventory Reserve in Exhibit B as requested by Heico should be accepted under the Heico Approach.

In contrast, under the Ivaco Approach, an adjustment to the Rod Inventory Reserve for purposes of Exhibit B is not warranted as no similar adjustment was made to Exhibit C by the Expert. It is worth noting with reference to the foregoing decision under the Ivaco Approach that Ivaco conceded in its March 9, 2007 submission to the Expert that, under the Heico Approach, should a specific change have been made to exclude certain items from the final Exhibit C by the Seller prior to the delivery to the Purchaser, a similar change would be appropriate under the Heico Approach (but not under the Ivaco Approach) to the extent that it can be demonstrated that a specific general ledger account or amount was in fact included by the Sellers in Exhibit B. Therefore, in concluding under the Ivaco Approach the Expert is asked to ignore a demonstrated inconsistency.

Ivaco Rolling Mills L.P.
Reference B-5
Utilities – Substation Pre-Filing Liability
Amount in Dispute - $819,000

Issue:

The issue in dispute relates to the inclusion, in estimated Utilities Payable in Exhibit B, of an $819,000 amount representing a pre-CCAA filing liability owed to Hydro One in respect of the construction of an electrical substation. No similar accrual was included in Exhibit C.

Heico Position:

Heico asserts that the $819,000 payable to Hydro One included in Utilities Payable in Exhibit B was included in error as such amount represented a pre-filing liability. Further, Heico asserts that the lack of a similar accrual at November 30, 2004 (i.e., in Exhibit C) represents a clear inconsistency in accounting practice.

Ivaco Position:

Ivaco has conceded that the $819,000 balance payable to Hydro One represents a pre-filing liability and that this liability should not have been included in Exhibit B pursuant to the IRM APA. This is also consistent with the lack of a similar accrual in Exhibit C.

KPMG Analysis and Conclusion:

Documentation provided to the Expert indicated that, in the preparation of Exhibit C, an accrual of $739,000 was removed by Ivaco with respect to a pre-filing obligation resulting from an agreement with Hydro One that was entered into prior to September 16, 2003. Other documentation demonstrated that the estimated Utilities Payable in Exhibit B included an amount of $819,000 for this obligation to Hydro One. The APA for IRM clearly indicates that Working Capital excludes pre-filing liabilities.

Accordingly, the $819,000 adjustment to Exhibit B requested by Heico should be allowed under the Heico Approach on the basis that this balance represented a pre-filing liability and was included in estimated working capital for purposes of Exhibit B in error.

The $819,000 amount should also be adjusted in Exhibit B under the Ivaco Approach on the basis that the liability was required to be excluded from the determination of working capital in accordance with the IRM APA and should consistently be excluded for purposes of both Exhibits B and C.

Ivaco Rolling Mills L.P.
Reference B-6
Provision for Obsolescence in Spare Parts Inventories
Amount in Dispute - $857,000

Issue:

This disputed item relates to the determination of the appropriate dollar value of the provision for obsolescence in IRM spare parts inventories for purposes of Exhibit B. The following inventory and related provision balances are noted:

(in $000's)	Dec 31, 2003 (Actual)	Sept 30, 2004 (Exhibit B)	Nov 30, 2004 (Actual-Exhibit C)
Store supplies and spare parts	$16,677	$16,488	$13,375
Less: Provision	(1,600)	(2,440)	(1,291)
Net value	$15,077	$14,048	$12,084
Provision as a % of gross value	9.59%	14.80%	9.65%

Heico Position:

Heico asserts that the spare parts inventory obsolescence provision estimate used in the determination of Inventories for purposes of Exhibit B was overestimated by $857,000 on the basis that the method used in preparing such estimate was not consistent with historical practice and not determined in accordance with GAAP. Heico asserts that an inventory provision of $1,583,000 (i.e., 9.60% of $16,488,000) at September 30, 2004 is more consistent with historical practice; resulting in an $857,000 overstatement of the Inventory provision in Exhibit B.

Ivaco Position:

Ivaco's position is that management of IRM estimated the spare parts inventory provision for purposes of Exhibit B consistent with the historical estimating process and that no adjustment is necessary.

KPMG Analysis and Conclusion:

The documentation provided on this issue indicated that IRM's past practice and methodology at year-end involved the review for and write-off of specific obsolete inventory items and, in addition, the creation of a general reserve for obsolescence that was based on a percentage of approximately 9.6% to 10% of the remaining gross dollar value of spare parts inventories on hand. Documentation provided in support of the methodology utilized at November 30, 2004 for purposes of Exhibit C indicated that IRM followed a consistent methodology with a November 2004 write-off of specific obsolete inventory of approximately $2.427 million, followed by the establishment of a general inventory obsolescence provision of $1,291,000. IRM's historical practice was to treat the specific obsolescence write-offs as a deduction from gross inventory values prior to the application of the foregoing 10% formula to determine the general obsolescence provision.

For Exhibit B purposes, IRM added a fixed $140,000 per month to the December 31, 2003 balance of the general inventory provision (i.e., $1,600,000), thus increasing the provision by approximately $840,000 to $2,440,000, as reflected in the determination of IRM Inventories for purposes of Exhibit B. There was no indication that a formal determination of an estimated specific provision for the write-down and write-off of obsolete inventory, consistent with past year end practice, was attempted by management in preparing the estimated inventory provision for purposes of Exhibit B.

However, based on the actual level of specific obsolescence write-offs taken at December 31, 2003 (i.e., $1,428,000) and the actual specific obsolescence write-offs taken at November 30, 2004 (i.e., $2,427,000), had a "hard close" approach to the estimates used for Exhibit B been followed in July 2004, the estimate of the specific provision for the write-down or write-off of obsolete inventory could have been significant. In our view, the $2,440,000 inventory provision deducted from IRM Inventories for purposes of Exhibit B represented both a general inventory obsolescence reserve plus a reserve for specific inventory obsolescence and book-to-physical adjustments that would only be recorded at the time of the next hard close (i.e., November 30, 2004).

The Expert has concluded that the Heico request to reduce the spare parts inventory obsolescence provision estimate at September 30, 2004 (i.e., Exhibit B) is not supportable based on the documentation reviewed. In addition, the estimated provision likely represented a reasonable dollar value for the reduced value of spare parts inventory for obsolescence risk and other factors on a basis consistent with GAAP and the past practice of IRM.

Accordingly, the proposed $857,000 reduction to the Spare Parts Inventory provision as requested by Heico should not be accepted as an adjustment to Exhibit B under the Heico Approach.

Further, under the Ivaco Approach, no adjustment to the Spare Parts Inventory provision for purposes of Exhibit B is warranted.

Ivaco Rolling Mills L.P.
Reference B-7
Freight & Duties – General Freight Accrual
Amount in Dispute - $250,000 (Originally $200,000)

Issue:

The issue in dispute relates to the inclusion, in estimated Freight & Duties Payable in Exhibit B, of a $250,000 general accrual for freight expenses. There is no similar general freight accrual in Exhibit C (i.e., at November 30, 2004).

Heico Position:

Heico asserts that the Freight & Duties Payable estimate in Exhibit B at September 30, 2004 for IRM is overstated by $250,000 on account of a general freight accrual which was included on a basis that was not consistent with past practice and was not determined in accordance with GAAP.

Ivaco Position:

Ivaco's position is that the general freight accrual in Exhibit B was consistent with the historical estimating process of IRM and that no adjustment is required to Exhibit B.

KPMG Analysis and Conclusion:

Information from Philippe Dussault, Controller for IRM, regarding the determination of accruals for freight indicated that IRM's past practice involved the recording of freight accruals based on actual inbound and outbound freight invoices at year end, including as at December 31, 2003 and November 30, 2004. As such, the foregoing specific freight accruals represented bona fide liabilities in accordance with GAAP.

During the period subsequent to December 31, 2003, IRM recorded a general accrual of $50,000 per month over and above the specific system-generated accruals. The general accrual was tracked separately in the accounts of IRM. As such, the general freight accrual balance did not represent a bona fide liability in accordance with GAAP.

In the preparation of Exhibit C, the documentation indicates that Ivaco reduced Freight & Duties Payable by $498,000, which included the reversal of a $550,000 general freight accrual (i.e., $50,000 x 11 months) that was determined not to be a bona fide liability in accordance with GAAP.

In the preparation of Exhibit B, the documentation demonstrated that the estimated Freight & Duties Payable balance at September 30, 2004 included $250,000 for general freight accruals in addition to specific freight accrual balances. The general freight accrual was estimated using the May 31, 2004 balance of five months times $50,000. Management was aware of the inclusion of the general freight accrual amount in the interim period and that this general accrual amount would, to be consistent with past practice, have to be reversed at year end.

Accordingly, to ensure the consistency of accounting for freight accruals at both November 30 and September 30, 2004 and adherence to GAAP guidance respecting bona fide liabilities, Heico's request to decrease the Freight & Duties accrual by $250,000 in Exhibit B (i.e., at September 30, 2004) should be allowed under the Heico Approach.

In contrast, under the Ivaco Approach, no adjustment to the Freight & Duties accrual in Exhibit B is warranted as no similar adjustment was made to Exhibit C by the Expert.

Ivaco Rolling Mills L.P.
Reference B-8
Trade Payables – Legal and Audit Accrual
Amount in Dispute - $686,000
(Also Refer to IRM Item C-4)

Issue:

Trade Payables in Exhibit B included an accrual of $686,000 in respect of anti-dumping audit and legal fees. These accruals do not represent trade payables that are to be assumed by the Purchaser and should not have been included in the determination of Working Capital pursuant to the IRM APA.

Heico Position:

Heico asserts that $686,000 of accrued anti-dumping audit and legal fees included in estimated Trade Payables in Exhibit B do not represent trade payables and therefore should not have been included in the determination of Working Capital pursuant to the terms of the IRM APA. Similarly, no accrual for these anti-dumping expenses should have been included in Exhibit C.

Ivaco Position:

Ivaco has agreed to accept Heico's request to reduce Trade Payables in the amount of $686,000 with respect to legal and audit accruals included in the Exhibit B estimate at September 30, 2004.

KPMG Analysis and Conclusion:

Documentation provided to the Expert indicated that the estimate of Trade Payables in Exhibit B included $686,000 of accrued legal expenses relating to anti-dumping proceedings. The estimate of Trade Liabilities used in Exhibit B was based, in part, upon the actual balance of Other Payables as at May 31, 2004.

The Expert also confirmed that Section 2.5 (k) of IRM's APA states that "the Purchaser is not assuming any liability or obligation related to [anti-dumping duty deposit recovery] proceedings or other actions that arose, or relate to the period, prior to Closing".

Accordingly, under the Heico Approach, the Expert agrees with Heico's request for a $686,000 reduction to the estimate of Trade Payables included in Exhibit B as the APA specifically excludes these liabilities in the determination of Working Capital.

Further, under the Ivaco Approach, the Expert concludes that a $686,000 reduction to Trade Payables in Exhibit B is also warranted since this accrual is specifically excluded under the terms of the IRM APA and since a similar adjustment has also been made to Exhibit C in respect of the same issue (See IRM Issue C-4).

Ivaco Rolling Mills L.P.
Reference C-1
Accounts Receivable – Allowance for Doubtful Accounts
Amount in Dispute - $461,000

Issue:

For purposes of Exhibit C, Ivaco did not set up a specific AFDA in respect of a $461,000 account receivable that was due from Ispat Sidbec Inc. ("ISPAT"). The ISPAT receivable in question was invoiced in February 2004 but reportedly arose from a pre-CCAA filing transaction pursuant to which IRM sold a quantity of hot briquette iron (i.e., scrap) to ISPAT.

Heico Position:

Heico requested a reduction to Accounts Receivable in Exhibit C through the re-instatement of an allowance for doubtful accounts in the amount of $461,000 related to ISPAT, which claimed it was owed an offsetting pre-CCAA filing amount by affiliated companies of IRM.

Heico has requested that, in the alternative, Exhibit B should be adjusted for the same amount.

Ivaco Position:

Ivaco advised that ISPAT does not have a legal right of set-off against amounts owed to it by other Ivaco companies, and that the account receivable balance due from ISPAT is therefore fully collectible. Furthermore, Ivaco contends that ISPAT will receive dividend payments from valid proofs of claim against Sivaco Quebec and Infasco, and that these proceeds will allow ISPAT to pay the $461,000 balance due to IRM.

KPMG Analysis and Conclusion:

An interview with the Divisional Controller of IRM confirmed that ISPAT was considered to be a good credit risk and that it was capable of paying its bills. Heico asserts that the commercial reality is that the recovery of the ISPAT receivable is at risk even though it acknowledges the legal right of recovery. The benefit arising from any forgiveness of this receivable would, however, accrue to the future and should, in accordance with the general matching principles of GAAP, be considered a cost to the new owners of IRM should they choose not to pursue collection of accounts receivable to which IRM has a legal right of entitlement.

On the basis of the foregoing, the Expert has concluded that the requested adjustment to Accounts Receivable in Exhibit C should not be accepted under the Heico Approach. Furthermore, the Expert does not accept any requested adjustment in the alternative to the

Accounts Receivable balance in Exhibit B since the documentation provided does not demonstrate that the estimated AFDA at September 30, 2004 included a specific provision for the foregoing ISPAT balance.

Under the Ivaco Approach, the Expert has similarly concluded that no AFDA is required for the ISPAT receivable and that no adjustment is required to Accounts Receivable in Exhibit C. There is also no basis for any adjustment to Exhibit B under the Ivaco Approach.

Ivaco Rolling Mills L.P.
Reference C-2
Inventory – Scrap Pile Adjustments
Amount in Dispute - $374,000

Issue:

The November 30, 2004 value of scrap pile inventories included in Exhibit C was determined through a visual inventory observance process. However, due to the nature of scrap pile inventories, a full weighing of tonnages was not performed and estimates of scrap pile tonnages were necessary. When eleven of IRM's scrap piles were closed-out through transfers into the production process during the period December 1, 2004 to January 5, 2005, shortages in tonnages were uncovered in seven of the scrap piles. The total dollar value of these shortages, net of overages, was determined in early January 2005 and approximated $374,000.

Heico Position:

Heico requested a $374,000 reduction to the value of November 30, 2004 Inventory included in Exhibit C in respect of scrap pile volume shortages that were identified by management of IRM through close-outs undertaken during the period from December 1, 2004 through January 5, 2005. Since these book-to-physical scrap adjustments were discovered in a reasonable period after November 30, 2004, Heico maintains that GAAP requires this information be used to ensure that reasonable estimates were made in the determination of the value of November 30, 2004 scrap pile inventories. As the value of scrap inventories recovered was less than the value originally estimated and included in Exhibit C, Heico maintains that a reduction to Inventory value should be made.

Ivaco Position:

Ivaco's position is that the valuation of scrap pile inventories is by its nature an estimation process and that Ivaco made the best estimate of the value of these inventories in the limited time frame that was available under the APA for the preparation of the November 30, 2004 Working Capital balances of IRM. Scrap pile inventories were subject to a normal inventory attendance process by representatives of both Ivaco and Heico, and no issues were noted during this process. The valuation of scrap inventories at November 30, 2004 was based on the best information available as at December 23, 2004 (i.e., the required date of delivery of Exhibit C) and was based on a methodology that was consistent with that used at December 31, 2003. Ivaco maintains that no adjustment to the value of Inventory in Exhibit C is warranted.

KPMG Analysis and Conclusion:

GAAP recognizes the reality of measurement uncertainty associated with the use of estimates and the need to use the best available information affecting the measurement of accounting balances, such as inventory, at the measurement date and taking into account events subsequent to the measurement date to the date of the preparation of the related financial information. The APA specified that the measurement date for Exhibit C was the Closing Date (i.e., November 30, 2004) and that the period allowed for the determination of Working Capital amounts for purposes of Exhibit C was 23 days thereafter, being December 23, 2004.

Philippe Dussault, the divisional controller of IRM, advised that the process for verification of close-out adjustments required accounting department personnel to follow up on preliminary shortages and overages from scrap pile close-outs as reported by the yard superintendents. IRM's normal accounting process also called for the recording of scrap pile adjustments only when all verification processes by accounting department personnel had been completed.

IRM's accounting process did not, as a matter of past practice, record general provisions for scrap pile close-out losses or losses due to oxidization, an ongoing natural process that inevitably results in a low level (estimated at 1% by the divisional controller) of physical inventory loss. IRM's auditors, Deloitte & Touche LLP, attended the physical stocktaking of scrap pile inventories at November 30, 2004, and their specified procedures report did not identify any issues in respect of the physical stocktaking of scrap.

The dollar value of IRM scrap inventories at November 30, 2004 was estimated to be $9,331,000. Of the $374,000 of scrap pile shortages calculated by accounting department personnel on January 5, 2005, $93,000 related to five scrap pile close-outs that occurred during the period prior to December 23, 2004 when the November 30, 2004 balances for Exhibit C were delivered as required under the APA. Documentation indicated that $88,000 of this $93,000 net shortage was attributable to the close-out of one scrap pile on December 16, 2004 for which the initial yard superintendent report indicated a tonnage gain which, following an accounting department review performed on January 5, 2005, was determined to be a shortage. In fact, the accounting department adjusted the yard superintendent's initial shortage/overage calculations on 6 of the 11 scrap pile close-outs.

In the circumstances, Exhibit C reflected the best available information for the determination of the physical quantities of scrap inventories as at December 23, 2004, when Exhibit C was delivered.

On the basis of GAAP applied to the circumstances noted and the terms of the APA, the Expert does not accept Heico's requested reduction of $374,000 to the value of scrap pile inventories included in Inventory in Exhibit C under the Heico Approach.

Similarly, under the Ivaco Approach, no adjustment is required to the value of IRM scrap pile inventories included in the value of Inventory used in Exhibit C.

Ivaco Rolling Mills L.P.
Reference C-3
Inventory – Valuation Reserve for Non-QIT Billets
Amount in Dispute - $300,000

Issue:

This disputed item relates to the determination of the appropriate dollar value of a general valuation reserve against IRM billet inventories as at November 30, 2004 for purposes of Exhibit B. The following billet inventory reserve balances are noted:

(in $000's)	Dec 31, 2003 (Actual)	Sept 30, 2004 (Exhibit B)	Nov 30, 2004 (Actual-Exhibit C)
Billet Inventory	$7,517	$13,709	$20,883
Less: Provision	(300)	(300)	0
Net value	$7,217	$13,409	$20,883

It should be noted that the increased dollar value of billet inventories at November 30, 2004 largely results from the purchase of QIT's consigned inventories.

Heico Position:

Heico has requested the creation of a $300,000 billet inventory valuation reserve as at November 30, 2004 on the basis that such a provision is consistent with the general reserve that existed at December 31, 2003 and in the September 30, 2004 estimate of billet inventories for purposes of Exhibit B.

Alternatively, if no adjustment is made to Exhibit C, Heico contends that the estimated $300,000 billet inventory reserve included in Exhibit B should be reduced to $0 to be consistent with the billet inventory reserve at November 30, 2004.

Ivaco Position:

Ivaco contends that no billet inventory reserve was necessary as at November 30, 2004 (i.e., in Exhibit C) due to a robust steel industry environment and the lack of any inventory valuation concerns at that date.

KPMG Analysis and Conclusion:

The general reserve against IRM billet inventories was $300,000 at December 31, 2003 as well as at September 30, 2004 (i.e., in Exhibit B). This reserve was established for unusable (i.e., damaged, oxidized etc.) and obsolete stock. The general reserve on billet inventory was $60,000 at December 31, 2002.

Ivaco defended its reduction of the billet inventory reserve to zero at November 30, 2004 based on a change in circumstances - primarily the strong market conditions that existed at the time Inventory balances were determined for Exhibit C purposes. The circumstances impacting the assessment of the $300,000 valuation reserve at December 31, 2003 differed from the more buoyant steel market conditions that materialized during calendar 2004.

Heico does not necessarily disagree with Ivaco's assessment of the circumstances at November 30, 2004 that impacted on its assessment of the adequacy of IRM's billet inventory valuation reserve, but suggests that, if Ivaco's position is to stand, that the same or similarly favourable market conditions should have been factored into the estimated billet inventory valuation reserve for purposes of Exhibit B and that this latter exhibit should be adjusted in the alternative.

The Ivaco position is supportable under GAAP and the past practices of IRM and on that basis the request by Heico to adjust Exhibit C should not be accepted. Heico's position in the alternative is, however, supportable based on widely-reported strong market conditions in the steel industry (see separate discussion of this issue) that were acknowledged by divisional management to be known to them by early July 2004 when Exhibit B was prepared. Accordingly, a $300,000 decrease of the billet inventory reserve estimated and included in Exhibit B should be accepted under the Heico Approach.

The foregoing would result in consistency in the treatment of this reserve based on market conditions that likely existed at both July and December 2004, when such circumstances should have been assessed by management for purposes of their estimates using the best information that was then generally available.

Under the Ivaco Approach, no adjustment to Exhibit C is necessary and therefore, no deemed adjustment to Exhibit B would be required.

Ivaco Rolling Mills L.P.
Reference C-4
Trade Payables – Legal and Audit Accrual
Amount in Dispute - $100,000
(Also Refer to IRM Item B-8)

Issue:

Trade Payables in Exhibit C included a $100,000 accrual for anti dumping legal fees. Pursuant to the IRM APA, accruals related to anti dumping proceedings are specifically to be excluded in the determination of Working Capital.

Heico Position:

Heico asserts that the $100,000 accrual for anti-dumping legal fees included in the November 30, 2004 balance of Trade Payables should be removed from Exhibit C as this is a retained liability of the Seller. This adjustment would also ensure consistency with Heico's proposed removal of accrued anti-dumping legal fees included in Exhibit B (See IRM Item B-8).

Ivaco Position:

Ivaco has agreed to accept Heico's request to reduce Trade Payables in the amount of $100,000 with respect to legal and audit accruals included in the Exhibit C Trade Payables balance at November 30, 2004.

KPMG Analysis and Conclusion:

Documentation provided to the Expert indicated that Trade Payables in Exhibit C included $100,000 of accrued legal expenses relating to anti-dumping proceedings. This accrual was included within the Other Payables component of Trade Payables in error.

The Expert also confirmed that Section 2.5 (k) of IRM's APA states that "the Purchaser is not assuming any liability or obligation related to [anti-dumping duty deposit recovery] proceedings or other actions that arose, or relate to the period, prior to Closing".

Accordingly, under the Heico Approach, the Expert agrees with Heico's request for a $100,000 reduction to the value of Trade Payables included in Exhibit C, as the APA specifically excludes these liabilities in the determination of Working Capital.

Further, under the Ivaco Approach, the Expert concludes that a $100,000 reduction to Trade Payables in Exhibit C is also warranted, since this accrual is specifically excluded under the terms of the IRM APA and since this provides consistency with a similar adjustment that has also been made to Exhibit B in respect of the same issue (See IRM Issue B-8).

Ivaco Rolling Mills L.P.
Reference C-5
Trade Payables – Payable to QIT re: Anti-Dumping Duty Deposit Refunds
Amount in Dispute in Exhibit B - $3,427,000 (Reference C-5.1)
Amount in Dispute in Exhibit C - $6,270,000 (Reference C-5.2)

Issue:

This item of dispute relates to whether Exhibit B and Exhibit C should include an accrual for amounts payable to QIT in respect of its share of potential anti-dumping duty deposit ("ADDD") refunds that might be recovered by IRM subsequent to the Closing Date.

In finalizing the balance of Trade Payables as at November 30, 2004 for purposes of Exhibit C, the Seller removed $6,270,000 of amounts payable to QIT in respect of QIT's share of potential refunds of ADDDs paid to US authorities. The elimination of this accrual from Trade Payables in Exhibit C was made by Ivaco since the adjustment was deemed by them to be consistent with the terms of the APA.

Estimated Trade Payables in Exhibit B included an amount of $3,427,000 payable to QIT in respect of its share of estimated ADDD refunds. For purposes of ensuring consistency and compliance with the terms of the IRM APA, Ivaco has proposed to remove the $3,427,000 balance payable to QIT that was included in Exhibit B (i.e., at September 30, 2004) in error.

The following balances payable to QIT in respect of ADDDs were noted:

At September 30, 2004	$3,427,000	Estimated – Currently Included in Exhibit B
At November 30, 2004	6,270,000	Actual – Currently Excluded from Exhibit C
Net Difference	($2,843,000)	

Heico Position:

Heico asserts that the balances payable to QIT in respect of QIT's share of ADDD refunds should be included in IRM Trade Payables in both Exhibit B and Exhibit C. Since Exhibit B already includes $3,427,000 of QIT payables in estimated Trade Payables at September 30, 2004, Heico asserts that Trade Payables in Exhibit C should similarly include $6,270,000 for amounts payable to QIT on account of anticipated ADDD refunds.

Ivaco Position:

Ivaco's position is that the Section 2.1 (p) of the IRM APA excludes the ADDD payable to QIT from the determination of Working Capital because AADD refunds represent a separate class of Purchased Assets outside of defined Working Capital assets and since ADDD refunds are defined in the APA as being "net of the interests of any third parties in such deposits". Ivaco, in preparing Exhibit C, noted that it had erroneously included the $3,427,000 ADDD balance payable to QIT in Trade Payables when it prepared Exhibit B. Ivaco proposed a $3,427,000 reduction to estimated Trade Payables in Exhibit B to make the composition of Trade Payables in Exhibit B comparable with the composition of Trade Payables in Exhibit C, which excludes the $6,270,000 payable to QIT on account of anticipated ADDD refunds.

KPMG Analysis and Conclusion:

IRM had been in the practice of paying ADDDs to the U.S. Department of Commerce ("DOC") on sales of certain steel products sold into US markets for a specified period of time. These ADDDs were retained by the DOC until a formal study was conducted to determine whether IRM was deemed to be dumping into the US marketplace during the specified period and, if so, the final amount of penalty that should be assessed on IRM's sales to US-domiciled customers. Based on past experience, the DOC charged a preliminary ADDD rate that was higher than the final penalty rate likely to be assessed. Any excess ADDDs collected by the DOC for a specified period of time were then reimbursed to IRM.

Due to the significant cash flow impact of prepaying these ADDD refunds, QIT agreed to partially alleviate IRM's cash outflows by reducing the billet prices charged to IRM by 9.9%, the same preliminary ADDD rate that was charged by the DOC. IRM and QIT also entered into an agreement whereby, when IRM recovered a portion of the 9.9% preliminary ADDD rate, it would be required to pay the same refund rate to QIT on past purchases of billets that received the pricing discount.

Since IRM was remitting a preliminary ADDD rate of 9.9% on US sales and expected the final ADDD rate to be around 4.0% on US sales, it accrued an ADDD refund recoverable equal to the 5.9% differential. IRM also accrued a liability payable to QIT which represented 5.9% of billet purchases from QIT for which it had received the same 9.9% pricing discount. Both the ADDD refund recoverable and the QIT ADDD liability were estimates based on receiving a 5.9% ADDD refund rate. No amount was payable to QIT if no ADDD refund was ultimately recovered by IRM.

David Goldsmith, in his interview with the Expert, confirmed that he was directly involved in the negotiation of agreements with QIT for the supply of billets and that those arrangements clearly established QIT's interest in any refunds of ADDDs that might be recovered by IRM.

Furthermore, Section 2.1 (p) of the IRM APA clearly indicates that ADDD refunds (net of any third party interests therein) represent an asset category separate from Working Capital and, by definition, should be excluded from the determination of the Working Capital of IRM.

Accordingly, Heico's request to leave the $3,427,000 balance payable to QIT for its share of ADDD refunds in Exhibit B should be denied, therefore allowing Ivaco's request to remove the QIT payable from estimated Trade Payables in Exhibit B under the Heico

Approach. Furthermore, the Expert concludes that Heico's request to add $6,270,000 to Trade Payables in Exhibit C in respect of the QIT payable for ADDD refunds should also be denied. No adjustment is required to Exhibit C under the Heico Approach.

The provisions of the IRM APA related to the QIT payable require the exclusion of such payables in the determination of Working Capital for both Exhibit B and Exhibit C. The conclusions of the Expert allow for consistency in the treatment and comparability of Working Capital balances calculated at the respective dates of September 30, 2004 and November 30, 2004.

Under the Ivaco Approach, no adjustment is required to Exhibit C as the $6,270,000 accrued QIT payable (Dispute Item C-5.2) has already been excluded from November 30, 2004 Trade Payables. However, estimated Trade Payables in Exhibit B should be reduced by $3,427,000 (i.e., Dispute Item C-5.1) under the Ivaco Approach to reflect the removal of the estimated balance payable to QIT in respect of ADDD refunds, as this liability was included in Exhibit B in error.

IVACO INC.
Reference B-1
Inventory Absorption Costing Provision
Amount in Dispute - $1,671,000

Issue:

This disputed item relates to the accounting for inventory absorption costing provisions in the determination of the amount of Inventory for purposes of Exhibit B. The following balances are noted for the inventory absorption costing provision:

At December 31, 2003	$ 464,000	Actual
At September 30, 2004	$1,671,000	Estimated – Exhibit B
At November 30, 2004	$0	Actual – Exhibit C

Heico Position:

Heico's position is that the Inventory absorption costing provision for purposes of Exhibit B was determined using a methodology that was inconsistent with that used in the preparation of Exhibit C. Heico has requested an increase in the Inventory amount in Exhibit B at September 30, 2004 of $1,671,000 by way of a reduction in the inventory absorption costing provision of the same amount.

Ivaco Position:

Ivaco's position is that the methodology followed in the determination of the inventory absorption costing provision account was in line with past practice.

KPMG Analysis and Conclusion:

Ivaco's inventory costing process involved costing raw material at actual and work in process ("WIP") and finished goods ("FG") on a standard costing basis. The raw material component of WIP and FG needed to be updated monthly during 2004 according to the Controller, Normand Devine, because of rising raw material costs ranging from 10% to 15% per month. The company utilized a costing provision account (# 116761) to accumulate spending and timing differences within the fiscal period with planned full absorption of such provisions annually when the WIP and FG inventory would, consistent with past practice, be subjected to a physical stocktaking. That physical stocktaking took place on or around November 30 in both 2003 and 2004.

Documentation indicates that Ivaco was consistent in its methodology. In applying their costing methodology they were required to update the input costs on a more frequent basis in 2004 than in the past, but this is generally considered to be best practice to ensure that reported inventory costs, net of such costing provisions arising from changes in standards, approximates actual costs in aggregate. CICA 1751.18 addresses the requirement in GAAP for consistent accounting policies and methodologies at interim dates and provides an exception for interim reporting purposes in subparagraph (c) for the method used by Ivaco "to avoid the potentially misleading effects on reported interim period income of temporary inventory costing fluctuations from ...a planned purchase price, volume or capacity cost variance under a standard costing system." However, KPMG is of the view that the September 30 estimates should have been based on a "hard close" application of GAAP rather than the interim reporting guidance in CICA 1751 such that a proper estimate of the inventory absorption costing provision should have been $0, the same amount that existed at November 30, 2004. The hard close approach would have required management to also estimate the adjustments necessary to restate the standard costs of Inventory to estimated actual costs, paralleling the methodology used for hard close purposes each November 30 based on past practice.

The estimation process used by management started with the May 2004 ledger balances for WIP and FG (both ledger balances being maintained on a standard costing basis) and the related inventory absorption costing provision ledger balance as the basis for the aggregate estimated Inventory balance at September 30, 2004 for Exhibit B. The Controller confirmed, in response to a written question from KPMG, that "spending and timing differences which vary from month to month are very hard to forecast....the reserve was not forecasted to change in the updates." It would seem, therefore, that attempting to forecast WIP and FG balances on a hard close, actual laid down cost basis (with the inventory absorption costing provision being set at $0) would have involved a more complex estimation process than the approach followed which parallels the guidance in CICA 1751 for interim reporting purposes. There was no indication however that the account balances and methodology used to arrive at the estimated aggregate inventory balances for Exhibit B were inconsistent in themselves with historical practices.

Accordingly, KPMG does not accept Heico's position and the requested $1,671,000 adjustment should not be allowed.

Further, under the Ivaco Approach, an adjustment to Inventory for purposes of Exhibit B would not be warranted as no similar adjustment was made to Exhibit C.

IVACO INC.
Reference B-2
Top Level Adjustments to Inventories and Accounts Receivable
Amount in Dispute - $6,500,000

Issue:

In the preparation of the Exhibit B estimated working capital at September 30, 2004, estimated balances for Accounts Receivable and Inventory were reduced by $3,500,000 and $3,000,000, respectively, by senior management of Ivaco.

Heico Position:

Heico's position is that the foregoing top level adjustments made by senior management are not consistent with the basis for preparing Exhibit C and that such adjustments are not in accordance with Canadian GAAP. Accordingly, Heico has requested that the Estimated Working Capital per Exhibit B be increased by $3,000,000 on account of Inventory and $3,500,000 on account of Accounts Receivable.

Ivaco Position:

Ivaco's position is that Exhibit B estimated Inventories and Accounts Receivable balances were determined using accounting policies consistent with past practices and that Exhibit B is not a forecast or a projection as those terms are defined in CICA 4250.

KPMG Analysis and Conclusions:

Testimony of the CRO, Randy Benson, and the CFO, Hugh Blakeley, indicated that Ivaco management was forced to work within the constraints of Debtor in Position ("DIP") financing, requiring maintenance of lower inventory levels than what was being forecasted by divisional management. Information received indicated that this was an ongoing issue in management meetings prior to the preparation of Exhibit B being required by the APA. Divisional management was projecting higher purchases of raw material and inventory levels than what would have been accommodated within the requirements of the DIP financing arrangements according to the CRO. In an interview, the CFO agreed and stated that management "did not get it" with respect to their estimated inventory levels.

Similarly, the testimony of Randy Benson and Hugh Blakeley indicates concurrence that DSO (days sales outstanding) was an ongoing management meeting issue and documentation indicates that DSO reduction was being achieved into the second quarter of 2004. Exhibit B estimated Accounts Receivable amounts were prepared to reflect reductions in Accounts Receivable from divisional management's estimates based on continued adherence to DSO targets in the range of 40 days. These senior management estimates were based on operational considerations or strategies and as such are not subject to specific guidance in the context of Canadian GAAP.

Further, as outlined in the main Report under, "What is Exhibit B", KPMG has determined that Exhibit B is an estimate, not a forecast or projection in accordance with Canadian GAAP guidance CICA 4250.

Accordingly, it is the view of the Expert that there is no basis in GAAP for acceptance of this disputed item and the request by Heico under the Heico Approach to reduce the estimated Accounts Receivable and Inventory balances at September 30, 2004 in Exhibit B by $3,500,000 and $3,000,000, respectively.

Further, under the Ivaco Approach, adjustments to Inventory for purposes of Exhibit B would not be warranted as no similar adjustments for these items were made to Exhibit C by the Expert.

IVACO INC.
Reference B-3
Inventory Yield Reserve
Amount in Dispute - $1,017,000

Issue:

This disputed item relates to the accounting for an inventory yield reserve in the determination of the amount of Inventory estimated for purposes of Exhibit B at September 30, 2004. The following percentages are noted with respect to inventory yield:

Average for the year ended November 30, 2003	3.08%
Used in the determination of standard costs historically	4.00%
Used in estimating Inventories for Exhibit B	4.00%
Average for the 11 months ended November 30, 2004	3.02%

Heico Position:

Heico's position is that the yield loss percentage applied in determining Inventory for Exhibit B resulted in the determination of an Inventory balance that was not consistent with the basis of determination of the Inventory balance for purposes of Exhibit C and that was not determined in accordance with Canadian GAAP.

Ivaco Position:

Ivaco's position is that the Exhibit B estimated Inventories balance was determined using accounting policies consistent with past practices and that Exhibit B is not a forecast or a projection as those terms are defined in CICA 4250.

KPMG Analysis and Conclusions:

Ivaco accounted for inventories of finished goods and work in process using a standard costing system. The standard cost of WIP and FG historically included a yield loss factor of 4% to address physical losses of steel from the raw material to finished stage of processing. Actual yield losses were calculated throughout the year based on reported raw material usage, scrap recoveries and finished weight; but confirmed only at the time of the annual physical stocktaking on or around November 30 each year when the WIP and FG inventory balances were adjusted to actual tonnage and cost.

The November 2004 adjustment of approximately $1.5 million represented a write-up of inventory, and the divisional controller attributed this adjustment to be primarily on account of a lower actual yield loss factor than the 4% estimate that was factored into standard costs. Documentation indicated that the yield factor varied monthly throughout 2003 and 2004 between 1.55% and 5.07%, and averaged 3.62%, 3.45%, 3.08% and 3.02% in calendar years 2001, 2002, 2003 and 2004, respectively.

Heico has taken the position that the 4.0% yield loss factor was demonstrably overstated and that management ignored this in the preparation of September 30, 2004 estimated inventory balances in early July 2004. Heico has estimated that an understatement of WIP of $1,017,000 occurred due to Ivaco ignoring the facts and circumstances known to exist at the time of the preparation of Exhibit B. Heico based its calculation on the 2003 confirmed yield factor of 3.08% applied on an extrapolated basis to reported production between January and May 2004 and using the standard cost per ton for May 2004. The resulting calculation is driven by the theory that 3.08% was the best and most appropriate number that should have been used by management, presumably based on the demonstrated trending of the yield downward to this level by November 30, 2003. However, KPMG noted considerable fluctuation in the reported monthly yield loss factor, which ranged from 1.95% to 5.07% in the six months between December 2003 and May 2004, and averaged 3.37% in that six-month period. At the time of preparing the Exhibit B estimates therefore, it is unlikely that the foregoing six-month yield loss results would have given management sufficient comfort to adopt the 3.08% as the best yield loss factor. Conservatism would generally be warranted in such circumstances.

As noted in the main Report under, "What is Exhibit B", KPMG has determined that Exhibit B is not a forecast or projection in accordance with Canadian GAAP guidance CICA 4250. Further, in accordance with general standards of Canadian GAAP and for purposes of the APA, the estimates used in the preparation of Exhibit B should have been developed on the basis that September 30, 2004 would be equivalent to the normal fiscal year end "hard close" which was historically achieved by a full physical count the month prior to the historical year end of December 31st, similar to the accounting for Inventories that actually took place at November 30, 2004 for purposes of Exhibit C.

Accordingly, the expert accepts Heico's position that a change in estimate was warranted in accordance with the facts and circumstances known at the time of preparing Exhibit B, but does not accept their position that the resulting understatement of Inventory is best based upon the use of the 3.08% yield loss factor achieved in fiscal 2003 but rather, based on the six-month cumulative actual yield factor to May 31, 2004 of 3.37%.

On the basis that the foregoing yield factor is more likely to represent the facts and circumstances that management would have faced at the time of preparing Exhibit B estimates in early July 2004 and the need to base estimates on a hard close basis for measurement purposes for such estimates in accordance with general GAAP standards, the Expert is of the view that Heico's request for an adjustment respecting this matter should be accepted to the extent of $696,000 (.63/.92 x $1,017,000).

Under the Ivaco Approach, an adjustment to Inventory for purposes of Exhibit B would not be warranted as no similar adjustment for this matter was made to Exhibit C.

IVACO INC.
Reference B-4
Outstanding Cheques Included in Accounts Payable
Amount in Dispute - $410,000

Issue:

This matter relates to a $410,000 amount described as "Outstanding Cheques", and whether that amount is properly included in the estimated Trade Payables balance at September 30, 2004 for purposes of Exhibit B.

Heico Position:

Heico's position is that the outstanding cheques balance of $410,000 included in Accounts Payable at September 30, 2004 for purposes of Exhibit B is not a bona fide liability in accordance with Canadian GAAP and should therefore be excluded.

Ivaco Position:

Ivaco's position is that the aggregate amount in Exhibit B for Trade Payables properly and consistently reflected the estimated liabilities of Ivaco at September 30, 2004.

KPMG Analysis and Conclusions:

Under Canadian GAAP, outstanding cheques, representing the reduction of obligations to suppliers, are factored into the determination of cash or bank balances once the cheque is prepared and issued/tendered to the supplier. Trade Payable balances are reduced when a bona fide payment is made in satisfaction of the related obligation. Cash and bank balances are excluded assets under the APA. Outstanding cheques were not included in the November 30, 2004 determination of Trade Payables for purposes of Exhibit C.

Documentation and confirmation by management indicated that the $410,000 amount, described as Outstanding Cheques, was included in the September 30, 2004 estimated Accounts Payable and that this represented cheques that had been written and issued.

Therefore, in accordance with the Heico Approach, Heico's request to reduce Trade Payables for purposes of Exhibit B by $410,000 should be accepted on the basis of Canadian GAAP and on the basis of the definition of Working Capital in the APA.

Based upon details of this matter presented by Ivaco in its submissions, Heico, in its Third Submission of March 9, 2007, further disputed the exclusion from Accounts Payable at November 30, 2004 for purposes of Exhibit C an amount of $357,000 for Outstanding Cheques. This further dispute appears to be a misunderstanding by Heico as the Seller confirmed that this balance represented cheques that been issued and therefore should be excluded on the same basis as the foregoing Exhibit B adjustment request.

Accordingly, the further $357,000 amount disputed by Heico with respect to Exhibit C has not been accepted by KPMG.

With respect to the Ivaco Approach, an adjustment to Accounts Payable for purposes of Exhibit B would not be warranted as a similar adjustment for this Outstanding Cheque matter was not made by the Expert to Exhibit C. It is worth noting with reference to the foregoing decision under the Ivaco Approach that Ivaco conceded its March 9, 2007 submission to the Expert that, under the Heico Approach, should a specific change have been made to exclude certain items from the final Exhibit C by the Seller prior to the delivery to the Purchaser, a similar change would be appropriate under the Heico Approach (but not under the Ivaco Approach) to the extent that it can be demonstrated that a specific general ledger account or amount was in fact included by the Sellers in Exhibit B. Therefore, in concluding under the Ivaco Approach the Expert is asked to ignore a demonstrated inconsistency.

IVACO INC.
Reference B-5
Omission of Corporate Prepaid Expenses
Amount in Dispute - $124,000

Issue:

This matter relates to prepaid expense balances for rent and Canadian Steel Producer Association dues attributable to the Corporate head office operations of Ivaco.

Heico Position:

Heico's position is that an amount of $124,000 relating to prepaid expenses of the Corporate head office was omitted in the preparation of the Exhibit B Prepaid Expense estimate at September 30, 2004 and that this omission was inconsistent with the accounting for similar prepaid expense amounts at November 30, 2003 for purposes of Exhibit C.

Ivaco Position:

Ivaco's position is that the Exhibit B amount for prepaid expenses is simply an estimate at a point in time; however, the Seller acknowledges that under the alternative Heico Approach an adjustment for Corporate Prepaid Expenses should be included.

KPMG Analysis and Conclusions:

Prepaid expenses are a component of working capital and each of the Ivaco operating divisions and corporate head office had balances at November 30, 2004. Documentation indicated that Exhibit B included estimated prepaid expenses at September 30, 2004 for the Ivaco operating divisions in Quebec and Ontario, but excluded corporate prepaid amounts.

The corporate prepaid expense calculation at September 30 was documented by Heico and Ivaco accounting staff in January 2005 based on two specific routine transactions that Heico asserts should have been known to management when preparing Exhibit B - prepaid rent under the head office lease of $108,000 based on existing lease documentation, and prepaid Canadian Steel Producers Association ("CSPA") dues based on the first installment of the annual dues per an invoice from the CSPA for the period September 1, 2004 to August 31, 2005. Documentation indicated that the latter item with respect to the CSPA invoice was not actually paid until October 4, 2004; however, the late payment may be due to the fact that the invoice was dated September 21, 2004. This latter fact also suggests the possibility that Ivaco could have reasonably estimated that the timing of the CSPA dues would result in no impact on working capital, as was actually the case, based on hindsight at September 30, 2004.

Heico is requesting an adjustment of $124,000 to Exhibit B estimated prepaid expenses attributed to both matters noted above. KPMG has determined that this should be accepted for the $108,000 of prepaid rent on the basis that the corporate prepaid balance was excluded in error and constitutes an omission in the preparation of Exhibit B for Ivaco. However, it is not clear, based on the documentation presented, that the same would be applicable to the CSPA matter and therefore should not be accepted.

With respect to the Ivaco Approach, an adjustment to increase Prepaid Expenses by $108,000 for purposes of Exhibit B would be warranted based on the language of the APA as that relates to specific components of working capital, such as Prepaid Expenses, that are specified to be included by definition.

IVACO INC.
References B-6 and C-5
Intercompany Profits in Inventory
Amount in Dispute - $867,000

Issue:

This matter relates to the proper accounting for profits on sale of product to Ivaco by IRM and the elimination thereof from Inventory for purposes of Exhibits B and C.

Heico Position:

Heico initially requested an adjustment for intercompany profits in Inventory for both Exhibit B and C. Heico has subsequently withdrawn this matter as an item in dispute.

KPMG Analysis

The Confidential Information Memorandum ("CIM") indicated that the businesses were presented to potential investors on a "stand-alone" basis. The sale terms for billets sold by IRM to Ivaco and Ifast business units were outlined in the CIM. The data room also included stand-alone audited statements for Ivaco, including note disclosure therein of inventory accounting policies indicating that inventory was historically recorded at cost. The APA required working capital to be determined based on Canadian GAAP consistently applied and this appears to have been the case for purposes of Exhibit C.

Heico had accepted the fact that the Inventories in Exhibits B and C were recorded at cost consistently applied, but they requested an adjustment to both Exhibits B and C to eliminate intercompany profits. To do so would have meant that the Inventories would have been valued on a basis other than GAAP and would also have resulted in an inconsistency between the accounting basis used to determine carrying value for purposes of Exhibits B and C from that followed historically. The historical accounting policies were apparent from the documentation in the data room, examined by the purchasers, and the CIMS for each business.

As noted above, Heico has appropriately withdrawn this matter as an item in dispute.

IVACO INC.
Reference C-1
C-1.1 AFDA – CCAA Affected Accounts - $65,000
C-1.2 AFDA - Customer Credits for Wire Racks - $57,000
C-1.3 AFDA – Not Required - $10,000
C-1.4 AFDA – General Provision - $25,000
C-1.5 Miscellaneous Reserve - $9,000
Total Amount in Dispute - $166,000

Issue:

This matter relates to a series of adjustments (References C-1.1 to C-1.5 below) made by the Seller to reduce the AFDA, and thus increase Accounts Receivable, for purposes of Exhibit C at November 30, 2004. These adjustments related primarily to customers claiming offset against pre-petition amounts due to them from other Ivaco entities, other pre-filing amounts or general AFDA amounts.

Heico Position:

Heico's position is that the AFDA adjustments made by the Sellers in the determination of Accounts Receivable balances for purposes of Exhibit C were not made on a basis that is consistent with the requirements of Canadian GAAP.

Heico also requested, in the alternative, that if KPMG finds that the adjustments made by the Sellers are warranted, then similar adjustments should be made to the AFDA for the estimated Accounts Receivable balance at September 30, 2004 for purposes of Exhibit B.

Ivaco Position:

Ivaco's position is that customers who had pre-filing amounts owed to them have no legal right of set-off and any credits issued by Ivaco prior to the CCAA petition are retained liabilities and should therefore be excluded as pre-filing liabilities.

Further, with respect to the foregoing request in the alternative by Heico, Ivaco's position is that the aggregate amount in Exhibit B for Accounts Receivable properly and consistently reflected the estimated Accounts Receivable, net of AFDA, of Ivaco at September 30, 2004.

KPMG Analysis and Conclusions:

Item C-1.1

Heico requested re-instatement of the AFDA related to customers that had amounts owed to them pre-filing of CCAA with affiliated Ivaco Companies. KPMG confirmed with its Corporate Recovery Group that there would be no legal right of set-off by these customers, which is consistent with the position taken by the Sellers. Interviews with

Divisional Controllers confirmed that these customers were ongoing and were evaluated as good credit risks. Divisional Controllers, together with divisional credit managers, believed that all or partial forgiveness of these accounts receivable might be necessary to retain these customers. However, the benefit arising from the forgiveness will clearly accrue to the future and should, in accordance with the general matching principles of GAAP, be considered as a cost of the new owners should they choose to not pursue collection of accounts to which they have a legal entitlement. Accordingly, on the basis of the general matching principles of GAAP, KPMG does not accept the request to increase the AFDS by $65,000 for purposes of Exhibit C.

Further, Heico asserts that, if their requested adjustment to Exhibit C not be accepted for this matter, Exhibit B should be adjusted for consistency. However, no documentation was presented by Heico to confirm that a specific AFDA was estimated and included in the Exhibit B estimated AFDA for the customers in question. In fact, the AFDA at November 30 was significantly higher than the estimated AFDA at September 30. Accordingly, the Expert does not accept Heico's request in the alternative to adjust Exhibit B for this matter.

Under the Ivaco Approach, no adjustment to Exhibit B or C is warranted.

Item C-1.2

Heico requested a reinstatement of a $57,000 reduction in the AFDA attributable to unapplied customer credit notes for wire rack deposits. Normand Devine, Divisional Controller, advised that these credits related to racks returned in excess of racks for which the customer was charged a deposit. Such excess returns are recorded by Sivaco but a credit note is not issued for the excess. Routinely, unapplied credits built up in the ledgers of the company due to excess returns, because no communication or issuance of credit notes for such excess returns took place. Normand advised that such credits were not applied against other amounts receivable from the customer and were only being applied against deposits charged/invoiced to the customer. Normand acknowledged that these credits represented obligations to the customer. Documentation indicated that these obligations were incurred prior to the date of the CCAA filing and as such represented pre-filing liabilities. If the customer tracked their traffic in racks, they could substantiate a claim against Ivaco for its obligation to them even in the absence of a credit note being issue to them for such excess rack returns. Technically, these amounts are pre-filing liabilities and should be excluded liabilities in the preparation of Exhibit C in accordance with the definition of working capital in the APA. Accordingly, KPMG does not accept Heico's request to increase the AFDA by $57,000 for this matter.

However, the Expert finds, in the alternative proposed by Heico, that these amounts also existed and were included in accounts receivable at the interim date and, therefore, Exhibit B Accounts Receivable should be increased for the $57,000 of credits in accounts receivable on account of refundable wire rack deposits that pre-date the CCAA filing.

With respect to the Ivaco Approach, an adjustment to decrease the AFDA and thus increase Accounts Receivable at September 30, 2004 by $57,000 for purposes of Exhibit B would be warranted based on the language of the APA as it relates to specific components of working capital, such as pre-filing liabilities that are specified to be excluded by definition.

Item C-1.3

Heico requested re-instatement of a $10,000 reduction in the AFDA for SPS Tech for which the credit manager, together with the Divisional Controller, had recommended a 50% provision. The Sellers decreased the foregoing provision by $10,000 to bring the AFDA for SPS in line with a settlement offer received from SPS prior to the completion of the November 30, 2004 financial statements on December 23, 2004. The Divisional Controller, while defending the 50% provision because it was "close", acknowledged that the AFDA decrease of $10,000 was supportable and reasonable as well.

Further, Heico asserts that if their requested adjustment to Exhibit C is not accepted by KPMG for this matter, Exhibit B should be adjusted for consistency, however, no documentation was presented by Heico to confirm that a specific AFDA was estimated and included in the Exhibit B estimated AFDA for this customer. In fact, the AFDA at November 30, 2004 was significantly higher than the estimated AFDA at September 30, 2004. Accordingly, the Expert does not accept Heico's request in the alternative to adjust Exhibit B for this item.

Under the Ivaco Approach, no adjustment to Exhibit B or C is warranted.

Item C-1.4

Heico requested re-instatement of a $25,000 reduction in the AFDA at November 30, 2004. An email message from the Divisional Controller confirmed that this amount had been set up as a general provision during the reporting period and the evaluation of specific risk accounts at year end indicated no need for such general AFDA amount. Past practice at the divisional level was to book a general provision monthly based on prior years' AFDA experience and true up at year end based on an analysis of specific credit risks. Accordingly, on the basis that past practice had been consistently applied in the determination of the AFDA for purposes of the aggregate Accounts Receivable balance reported in Exhibit C, the Expert has concluded that Heico's request to adjust Exhibit C for this matter is not warranted.

Further, Heico's position is that if their requested adjustment to Exhibit C is not accepted for this matter, that Exhibit B should be adjusted for consistency, however, no documentation was presented by Heico to confirm that a specific AFDA was estimated and included in the Exhibit B estimated AFDA for this customer at September 30, 2004. In fact, the AFDA at November 30, 2004 was significantly higher than the estimated AFDA at September 30, 2004. Accordingly, the Expert does not accept Heico's request in the alternative to adjust Exhibit B for this item.

Under the Ivaco Approach, no adjustment to Exhibit B or C is warranted.

Item C-1.5

Ivaco has agreed to accept Heico's request for a $9,000 reduction to accounts receivable at November 30, 2004 for purposes of Exhibit C.

IVACO INC.
Reference C-2
Inventory Reserve – General Provision – Sivaco Ontario
Amount in Dispute - $26,000

Issue:

This matter relates to the determination of an appropriate inventory reserve against Inventory at November 30, 2004 for purposes of Exhibit C.

Heico Position:

Heico initially requested the reinstatement of an additional inventory reserve of $50,000 at Sivaco Ontario, effectively reducing the Inventory amount at November 30, 2004 for purposes of Exhibit C. The requested amount of adjustment has subsequently been reduced to $26,000.

Heico requested in the alternative that estimated Inventory at September 30, 2004 for purposes of Exhibit B be adjusted by this latter amount on the basis that the methodology used in the determination of this inventory reserve at that date was not consistent with past practice.

Ivaco Position:

With respect to the foregoing request in the alternative by Heico, Ivaco's position is that the aggregate amount in Exhibit B for Inventory properly and consistently reflected the estimated Inventory of Ivaco at September 30, 2004.

KPMG Analysis and Conclusions:

Email correspondence from David Sittlington states that this amount "is not matched to any particular inventory". Documentation indicated that no provision had been made at December 31, 2003 and past practice per Normand Devine, controller of the larger Sivaco Quebec division, involved recording inventory provisions during the interim and then adjusting at the end of reporting periods and specifically at year end to "true up" on the basis of specific risks. These interim provision estimates were described as "conservative". Documentation indicated that $26,000 had been provided as a general reserve to May, 2004 at the Ontario division and this amount was included in the determination of the Exhibit B Inventory amount. On the basis that the November 30, 2004 inventory provision had been determined in accordance with past practice and consistent with Canadian GAAP, KPMG concludes that Heico's request to reduce Inventory by $26,000 is not supportable.

Heico has requested in the alternative under the Heico Approach that Exhibit B be adjusted on the basis that the methodology used in the determination of this inventory reserve was not consistent with past practice. Documentation indicated that a general reserve practice was followed during the interim and in the preparation of the Exhibit B estimated Inventory but at year end the methodology was specific. Accordingly, the Expert accepts Heico's request under the Heico Approach to increase estimated Inventory in Exhibit B in the alternative by $26,000 at September 30, 2004.

With respect to the Ivaco Approach, an adjustment to estimated Inventory for purposes of Exhibit B would not be warranted as no similar adjustment for this inventory provision matter was made to Exhibit C.

IVACO INC.
Reference C-3
Reduction in Prepaid Insurance of Sivaco Ontario
Amount in Dispute - $58,000

Heico initially requested a reduction of $58,000 to the November 30, 2004 prepaid expense balance for purposes of Exhibit C in respect of prepaid insurance. This item is no longer being pursued by Heico and, accordingly, no adjustment is required to Exhibit C.

IVACO INC.
Reference C-4
Increase in Trade Payables
C-4.1 Accrued Shutdown Costs
C-4.2 IKON Capital Lease
C-4.3 Intercompany Freight Accrual
Amount in Dispute - $91,000

Heico initially requested three adjustments that collectively would have increased Sivaco's Trade Payables by $91,000 for purposes of Exhibit C. All three of these items are no longer being pursued by Heico and, accordingly, no adjustments are required to Exhibit C.

IVACO INC.
Reference C-5
Intercompany Profits in Inventory

See reference B-6 as this is a related matter.

IVACO INC.
Reference C-6
Source Deductions Included in Trade Payables
Amount in Dispute - $460,000

Ivaco confirmed that $460,000 in respect of employee source deductions was deleted twice in error in the determination of Trade Payables at November 30, 2004 and has conceded to Heico's request to increase Trade Payables in Exhibit C by $460,000.

IFASTGROUPE AND COMPANY, L.P.
Reference B-1
Intercompany Utilities Payable to IRM
Amount in Dispute - $750,000

Issue:

This matter relates to an amount payable for Utilities to IRM, a related company.

Heico Position:

Heico's position is that intercompany balances are to be excluded from Working Capital in accordance with the definitions in the APA and that with respect to this matter, Exhibit B was not prepared on a consistent basis with Exhibit C.

Ivaco Position

Ivaco's position is that the amount of Utilities for purposes of Exhibit B was simply an estimate at a point in time.

However, under the alternative Heico Approach, they agree that an adjustment to Utilities should be made to Exhibit B since the nature of the amount is, by definition, excluded based on the APA.

KPMG Analysis and Conclusions:

Documentation provided by Heico demonstrated that $750,000 for Utilities was included in estimated Working Capital in Exhibit B and that this amount was payable to IRM. The APA defines Working Capital and specifically excludes intercompany balances in the determination thereof. At November 30, 2004 the intercompany payable to IRM for shared utility liabilities was excluded in the preparation of Exhibit C.

Heico has disputed this balance on the basis of consistency and the terms of the APA and the Expert has accepted such $750,000 reduction in Utilities for purposes of Exhibit B under both the Heico Approach and the Ivaco Approach on the basis that the terms of the APA should govern what balances are to be included in or excluded from Working Capital.

IFASTGROUPE AND COMPANY, L.P.
Reference B-2
Shutdown Accrual
Amount in Dispute - $605,000

Issue:

This matter relates to the accrual during the year of a liability for costs to be incurred during the annual shutdown of Ifast.

Heico Position:

Heico had originally objected to an amount of $605,000 for accrued shutdown costs that it believed had been included in estimated Trade Payables at September 30, 2004 for the purposes of Exhibit B; however, Heico withdrew this objection in its February 2006 Initial Submission without explanation and in subsequent submissions in February and March 2007, referred to this matter as a matter no longer being pursued by Heico.

Ivaco Position:

Ivaco's position has consistently been that the aggregate amount of Trade Payables for purposes of Exhibit B was simply an estimate at a point in time. However, Ivaco conceded in its February 2007 Post-Interview Written Submission that under the alternative Heico Approach, they agree that an adjustment should be made to Trade Payables for purposes of Exhibit B since the nature of the amount is, by definition, excluded based on the APA.

KPMG Analysis and Conclusions:

Under past accounting practices of Ifast, shutdown cost accruals were recorded throughout the year and then brought to $0 by December 31. This accounting practice was designed to smooth earnings by spreading December shutdown costs, which appeared to be primarily payroll related, over the fiscal year. The accrual for shutdown costs was historically included as part of the vacation accrual balance. Documentation of the build up of the estimated Trade Payables amount at September 30, 2004 for purposes of Exhibit B demonstrated that no amount was included therein for an accrual for shutdown costs as these costs had been excluded in conjunction with the exclusion of aggregate vacation accruals.

Accordingly, KPMG has concluded that the withdrawal of this objection by Heico was appropriate and that no adjustment should, therefore, be made to estimated Trade Payables at September 30, 2004 for purposes of Exhibit B.

Further, on the basis that no amount was in fact included in estimated Trade Payables in Exhibit B, Ivaco's position noted above to concede $605,000 under the alternative Heico Approach does not seem logical. Accordingly, KPMG has concluded that no adjustment is warranted under either the Heico Approach or the Ivaco Approach for this matter.

IFASTGROUPE AND COMPANY, L.P.
Reference B-3
Legal and Audit Accrual
Amount in Dispute - $121,000

Issue:

This matter relates to the inclusion of accrued liabilities for legal and audit costs in Trade Payables for purposes of estimated Working Capital in Exhibit B at September 30, 2004.

Heico Position:

Heico's position is that legal and audit cost accrual balances are to be excluded from Trade Payables and Working Capital in accordance with the definitions in the APA and that with respect to this matter, Exhibit B was not prepared on a consistent basis with Exhibit C.

Ivaco Position:

Ivaco's position is that the amount of Trade Payables for purposes of Exhibit B was simply an estimate at a point in time.

However, under the alternative Heico Approach, Ivaco agrees that an adjustment to Trade Payables should be made to Exhibit B since the nature of the amount is, by definition, excluded based on the APA.

KPMG Analysis and Conclusions:

Documentation provided by Heico demonstrated that $121,000 for accrued legal and audit costs was included in estimated Working Capital in Exhibit B. The APA defines Working Capital and Trade Payables such that it would exclude legal and audit accruals in the determination of Working Capital for purposes of Exhibit B and C as such accruals constitute a Retained Liability in accordance with the APA. At November 30, 2004, the documentation demonstrated that the accrual for legal and audit costs was excluded in the determination of Trade Payables for purposes of Exhibit C.

Heico has disputed this balance on the basis of consistency and the terms of the APA and the Expert has accepted a reduction of $121,000 in Trade Payables for purposes of Exhibit B under both the Heico Approach and the Ivaco Approach on the basis that the terms of the APA should govern what balances are to be included in or excluded from Working Capital.

IFASTGROUPE AND COMPANY, L.P.
Reference B-4
Pre-Filing Payable for Tooling Equipment
Amount in Dispute - $48,000

Issue:

This matter relates to a liability of $48,000 for tooling equipment acquired prior to the CCAA filing.

Heico Position:

Heico's position is that pre-filing liabilities are to be excluded from Trade Payables and Working Capital in accordance with the definitions in the APA and that with respect to this matter, Exhibit B was not prepared on a consistent basis with Exhibit C.

Ivaco Position:

Under the alternative Heico Approach, Ivaco agrees that an adjustment to Trade Payables should be made for purposes of Exhibit B on the basis of consistency, because this liability was excluded from Trade Payables in the determination of Trade Payables for purposes of Exhibit C.

KPMG Analysis and Conclusions:

Documentation provided by Heico demonstrated that a $48,000 payable amount on account of tooling equipment acquired prior to the CCAA filing was included in estimated Working Capital in Exhibit B. The APA defines Working Capital and Trade Payables such that it would exclude pre-filing liabilities in the determination of Working Capital for purposes of Exhibit B and C. At November 30, 2004, the liability for this tooling equipment in the same amount was excluded in the preparation of Exhibit C.

Heico has disputed this balance on the basis of consistency and the terms of the APA and the Expert has accepted a reduction of $48,000 in Trade Payables for purposes of Exhibit B under both the Heico Approach and the Ivaco Approach on the basis that the terms of the APA should govern what balances are to be included in or excluded from Working Capital.

IFASTGROUPE AND COMPANY, L.P.
Reference B-5
Auto Slush Accrual
Amount in Dispute - $12,000

Issue:

This matter relates to an accrued liability entitled "auto slush" in the ledgers of Ifast.

Heico Position:

Heico's position is that with respect to the accrued liability provision for "auto slush", Exhibit B was not prepared on a consistent basis with Exhibit C.

Ivaco Position:

Ivaco's position is that the aggregate amount of Trade Payables for purposes of Exhibit B was simply an estimate at a point in time.

However, under the alternative Heico Approach, Ivaco agrees that an adjustment to Trade Payables should be made to Exhibit B because an accrual for "auto slush" was not included in Trade Payables for purposes of Exhibit C.

KPMG Analysis and Conclusions:

Documentation provided by Heico and responses to written questions of the controller of Ifast demonstrated that $12,000 for an accrued liability account described as "auto slush" was included in estimated Trade Payables for purposes of Exhibit B by virtue of the fact that this amount represented the balance in the accounts of Ifast at May 31, 2004 and that the May balances served as the basis for the estimated working capital balances for Exhibit B. This account represented over and under applied amounts to the accounts receivable subledger. At November 30 the balance in the "auto slush" accrual account was excluded in the preparation of Exhibit C. Information regarding this account indicates that the amounts recorded therein do not constitute a liability in accordance with Canadian GAAP.

Heico has disputed this balance on the basis of consistency and the Expert has accepted an adjustment under the Heico Approach to reduce estimated Trade Payables at September 30, 2004 for purposes of Exhibit B by $12,000. Ivaco has also accepted this dispute amount based on what they call the alternative Heico Approach.

With respect to the Ivaco Approach, an adjustment to estimated Trade Payables for purposes of Exhibit B would not be warranted as no similar adjustment for the "auto slush" matter.

IFASTGROUPE AND COMPANY, L.P.
Reference B-6
Top Level Adjustment – Inventory and Trade Payables
Amount in Dispute - $8,000,000

Issue:

In the preparation of Exhibit B estimated Working Capital at September 30, 2004, the balance estimated by divisional management for Trade Payables was increased by $5,000,000 by senior management of Ifast and the balance estimated for Inventory by divisional management was decreased by $3,000,000 by senior management. The effect of the two adjustments by senior management was a decrease in estimated Working Capital of $8,000,000 at September 30, 2004 for purposes of Exhibit B.

Heico Position:

Heico's position is that the foregoing top level adjustments made by senior management are not consistent with the basis for preparing Exhibit C and are not in accordance with Canadian GAAP. Accordingly, Heico has requested that the Ifast estimated Inventory balance in Exhibit B be increased by $3,000,000 and Trade Payables balance in Exhibit B be decreased by $5,000,000.

Ivaco Position:

Ivaco's position is that the Exhibit B estimated Inventory and Trade Payables balances were determined using accounting policies consistent with past practices and that Exhibit B is an estimate, and not a forecast or a projection as those terms are defined in CICA 4250.

KPMG Analysis and Conclusions:

The CRO and CFO concurred that there was an ongoing process to implement the recommendations of the Cap Gemini study that was expected to result in the reduction in finished goods inventory levels. The actual finished goods inventory levels at September 30, 2004 were about $6 million lower than the level estimated by Hugh Blakely and Randy Benson based on documentation presented.

With respect to the $5 million increase by senior management to divisional management's estimate of payables, the historical actual payables, which were available to management at the time of preparing the Exhibit B estimates, had been about $5 million higher than what was being estimated by divisional management. Both the CRO and the CFO agreed that management estimates of Trade Payables at September 30, 2004 did not reflect the reality of higher Trade Payables levels that were then being experienced. The actual September 30, 2004 Trade Payables balance was very close to the adjusted estimate of senior management used for purposes of Exhibit B.

These appear to be estimates based upon operational circumstances or strategies at the time of preparation of Exhibit B in early July 2004 and as such these estimates are not subject to specific guidance in the context of GAAP.

Further, as outlined in the main Report under, "What is Exhibit B", KPMG has determined that Exhibit B is an estimate, and not a forecast or projection in accordance with Canadian GAAP guidance CICA 4250.

Accordingly, it is the view of the Expert that there is no basis in GAAP for acceptance of this disputed item and the request by Heico under the Heico Approach to increase the estimated Inventory balance at September 30, 2004 in Exhibit B by $3,000,000 and to decrease the Trade Payables balance at September 30, 2004 in Exhibit B by $5,000,000.

Further, under the Ivaco Approach, an adjustment to estimated Inventory and Trade Payables for purposes of Exhibit B would not be warranted as no similar adjustment for these matters was made to Exhibit C.

IFASTGROUPE AND COMPANY, L.P.
Reference B-7
Accounts Receivable – Allowance for Doubtful Accounts
Amount in Dispute - $632,000

Issue:

This disputed item relates to the determination of the amount of the Allowance for Doubtful Accounts ("AFDA") netted against Accounts Receivable for purposes of Exhibit B. The following AFDA balances were noted:

At December 31, 2003:	$ 960,000	Actual
At September 30, 2004	$1,000,000	Estimated – Exhibit B
At November 30, 2004	$ 151,000	Actual – Exhibit C

Heico Position:

Heico's position is that the AFDA for purposes of Exhibit B was prepared using a methodology that was inconsistent with that used in the preparation of the AFDA for purposes of Exhibit C and that, further, the methodology used for Exhibit B was not GAAP. Heico has requested a reduction to the AFDA at September 30, 2004 of $632,000.

Ivaco Position:

Ivaco's position is that management of Ifast estimated the AFDA for purposes of Exhibit B consistent with the historical estimating process based on their experience with their customers and their perception of the market at the point in time.

KPMG Analysis and Conclusions:

Patrice Gervais, the divisional controller of Ifast, confirmed that Ifast's historical practice was to create an AFDA on a specific account basis through assessment of credit risk for each potentially doubtful account. This methodology was applied at December 31, 2003, although he did note that a general reserve of $10,000 was also included for the Ingersoll location at that time. Further, he advised that no further provisions of a general or specific basis were made to the AFDA from December 31, 2003 to November 30, 2004, although it was noted in documentation provided by Heico that Exhibit B reflected an AFDA of $1,000,000 which was $40,000 higher than the $960,000 AFDA at December 31, 2003.

Heico provided documentation in support of its suggested adjustment, of which $332,000 is attributed to a reduction of a specific allowance previously provided at December 31, 2003 for Integrated Logistics Solutions ("ILS") and $300,000 is related to a reduction of other amounts previously provided by management at December 31, 2003 based on general improvement in the aging of the remaining customer balances. At November 30, 2004, divisional management had assessed the AFDA on a specific account basis, consistent with past practices, and determined that an allowance of $331,000 was required. The reduction from the AFDA at December 31, 2003 of $960,000 appears to be attributable to the elimination of the ILS AFDA with the balance of the reduction of about $297,000 determined by management on a specific account basis related to general improvement in the aging of other accounts receivable.

In the preparation of Exhibit C, the Sellers further reduced the AFDA determined division management by $180,000 to $151,000 on the basis that these balances were being disputed by customers who were withholding payment because they were owed pre-filing balances by other Ivaco entities. Ivaco has supported the $180,000 on the basis that these customers did not have a legal right of set-off. Heico has pointed out that the $180,000 decrease is based on facts and circumstances that were known at both December 31, 2003 when these AFDA balances were apparently initially established and in early July when working capital estimates were prepared for purposes of Exhibit B and that Exhibit B AFDA should have reflected that change in estimate based on those same facts and circumstances.

The Expert concurs with the foregoing and therefore accepts the $180,000 reduction of the estimated AFDA in Exhibit B at September 30, 2004 under the Heico Approach.

No documentation was provided that would indicate that the AFDA for the interim date, September, 30, 2004 estimated working capital, was re-challenged by divisional management on a specific account basis applying management's judgment to the facts and circumstances, such as accounts receivable aging, general market conditions or credit ratings of specific accounts, known to exist at that time in early July, 2004 when Exhibit B was prepared. Heico documentation related to aging of accounts receivable confirms an improving trend during 2004. Also, general economic conditions and, in particular, steel market conditions, were demonstrably improving as 2004 unfolded. Heico's basic premise for the further $632,000 reduction in the estimated AFDA at September 30 is that management did not change its estimate of the AFDA using the same specific account methodology in the face of facts and circumstances that they assert are similar to those at November 30, 2004. A review of published financial information for the public company owner of ILS, Park-Ohio, demonstrates that considerable credit risk existed at December 31, 2003 and that this risk was mitigating throughout 2004 as published reports indicated improving financial results for this Consumer Cyclical categorized business. The trading range of Park-Ohio's shares improved approximately 70% during the first half of 2004 to late July 2004, close to the time when Exhibit B estimates were being made. Published Q2 results for Park-Ohio Q2 coincided with a further rise in excess of 70% in their publicly traded shares through to December 20, 2004.

Accordingly, KPMG is of the view that the Heico request for adjustment of Exhibit B to reduce the AFDA by $632,000 under the Heico Approach should be accepted to achieve consistency in the determination thereof with past practice and taking into account the best information available at the time of preparation of Exhibit B estimates in early July 2004 when the assessment of credit risks associated with specific accounts should have been made in accordance with a "hard close" approach to estimation.

In contrast, under the Ivaco Approach, an adjustment to the AFDA for purposes of Exhibit B would not be warranted as no similar adjustment was made to Exhibit C.

IFASTGROUPE AND COMPANY, L.P.
Reference B-8 and C-3
Intercompany Profit Elimination
Amount in Dispute - $860,000

Issue:

This matter relates to the proper accounting for profits on the sale of product to Ifast by IRM and the elimination thereof from Inventory for purposes of Exhibits B and C.

Heico Position:

Heico initially requested adjustment for intercompany profits in inventory for both Exhibit B and C. Heico has subsequently withdrawn this matter as an item in dispute.

KPMG Analysis and Conclusions:

The Confidential Information Memorandum ("CIM") indicated that the businesses were presented for potential investors on a "stand-alone" basis. The sale terms for billets sold by IRM to Ivaco and Ifast business units were outlined in the CIM. The data room also included stand-alone audited statements for Ivaco, including note disclosure therein of inventory accounting policies indicating that inventory was historically recorded at cost. The APA required Working Capital to be determined based on Canadian GAAP consistently applied and this appears to have been the case for purposes of Exhibit C.

Heico had accepted the fact that the Inventories in Exhibits B and C were recorded at cost consistently applied, but they requested an adjustment to both Exhibits B and C to eliminate intercompany profits. To do so would have meant that the Inventories would have been valued on a basis other than GAAP and would also result in an inconsistency between the accounting basis used to determine carrying value for purposes of Exhibits B and C from that followed historically. The historical accounting policies were apparent from the documentation in the data room, examined by the purchasers, and the CIMs for each business.

As noted above, Heico has appropriately withdrawn this matter as an item in dispute.

IFASTGROUPE AND COMPANY, L.P.
Reference C-1
Accounts Receivable – Allowance for Doubtful Accounts
Amount in Dispute - $180,000
(See also Reference B-7)

Issue:

This matter relates to adjustments of $180,000 made by the Seller to reduce the AFDA, and thus increase Accounts Receivable, for purposes of Exhibit C at November 30, 2004. These adjustments were primarily with respect to customers claiming offset against pre-petition amounts due to them from other Ivaco entities.

Heico Position:

Heico's position is that the AFDA adjustments made by the Sellers in the determination of Accounts Receivable balances for purposes of Exhibit C were not made on a basis that is consistent with the requirements of Canadian GAAP.

Heico also requested, in the alternative, that if KPMG finds that the adjustments made by the Sellers are warranted, then similar adjustments should be made to the AFDA for the estimated Accounts Receivable balance at September 30, 2004 for purposes of Exhibit B.

Ivaco Position:

Ivaco's position is that customers who had pre-filing amounts owed to them have no legal right of set-off.

Further, with respect to the foregoing request in the alternative by Heico, Ivaco's position is that the aggregate amount in Exhibit B for Accounts Receivable properly and consistently reflected the estimated Accounts Receivable, net of AFDA, of Ifast at September 30, 2004.

KPMG Analysis and Conclusions:

Heico requested re-instatement of allowances for doubtful accounts related to customers that had amounts owed to them pre-filing of CCAA with affiliated Ivaco Companies. The Seller has taken the position that there would be no legal right of set-off by these customers, which is consistent with the Expert's understanding based on our consultations with KPMG Corporate Recovery.

Interviews with Divisional Controllers confirmed that these specific customers were ongoing and evaluated as good credit risks. The divisional controller, together with divisional credit managers, believed that all or partial forgiveness of these accounts receivable might be necessary in order to retain these customers. However, the benefit arising from the forgiveness would accrue to the future and should, in accordance with the general matching principles of Canadian GAAP, be considered a cost of the new owners should they choose to not pursue collection of accounts to which they have a legal entitlement.

Accordingly and on the basis of the general matching principles of Canadian GAAP, the Expert does not accept Heico's request to reduce the AFDA and thus increase Accounts Receivable by $180,000 at November 30, 2004 for purposes of Exhibit C.

Documentation that was presented confirmed that a specific AFDA in the amount of approximately $241,000 related to customers with pre-filing concerns was estimated and included in the December 31, 2003 AFDA. The historical practice for assessing the AFDA involved the assessment on a specific account basis of the facts and circumstances bearing on collection risk. The historical practice is in accordance with GAAP. Documentation indicated that the AFDA remained relatively static post December 31, 2006 and to the time in early July, 2004 when the Exhibit B estimates were prepared, indicating that management did not re-challenge the AFDA on a specific account basis for purposes of the preparation of Exhibit B.

It is the view of the Expert that the Seller did not apply a consistent methodology in the determination of the estimated AFDA at September 30 and that, had it done so, the facts and circumstances would likely have been found to be similar to those later in the year (i.e., at November 30, 2004) when the allowance for AFDA was re-challenged appropriately on a specific account basis.

In the alternative requested under the Heico Approach, reduction of the AFDA at September 30 in the amount of $180,000 is accepted by the Expert on the basis that the facts and circumstances related to these specific accounts had not changed post CCAA filing and through September 30, 2004 such that if the AFDA had been assessed on a consistent and specific account basis, no allowance for AFDA would likely be required.

Under the Ivaco Approach, no adjustment to the AFDA for purposes of Exhibit C is warranted. Similarly, no adjustment to the AFDA for purposes of Exhibit B would be warranted as no similar adjustment was made to Exhibit C.

IFASTGROUPE AND COMPANY, L.P.
Reference C-2
C-2.1 Removal of Spare Parts Inventory - $287,000
C-2.2 Increase to Tooling Reserve - $133,000
C-2.3 Inventory – Spare Parts Reserve - $312,000
Amount in Dispute - $732,000

Issue:

This matter relates to the determination of reserves that are deducted from gross estimated Inventory balances for purposes of Exhibit C.

Heico Position:

Heico's position is that inventory reserves at November 30, 2004 for purposes of Exhibit C were not prepared using an accounting methodology that was consistent with past practice for the fiscal year ended December 31, 2003 and the methodology used in estimation of similar reserves at September 30, 2004 for purposes of Exhibit B.

Further, Heico requested that Exhibit B be amended in the alternative Heico Approach for this matter, on the basis that the obsolescence provision methodology should be consistent between Exhibit B and C.

Ivaco Position:

Ivaco's position is that Inventory reserves were determined on a consistent basis in accordance with Canadian GAAP.

KPMG Analysis and Conclusions:

Item C-2.1

Heico requested the reduction of Inventories for purposes of Exhibit C by way of the removal of $287,000 of spare parts inventory. Ivaco conceded this adjustment.

Item C-2.2

Heico requested the reduction of Inventories for purposes of Exhibit C by way of a reserve of $133,000 on tooling inventories. Ivaco conceded this adjustment.

Item C-2.3

Heico requested that the provision for obsolete spare parts at November 30, 2004 be increased by $312,000 for consistency reasons. The information provided indicated that the Company had followed a consistent practice of identification of slow moving spare parts; however, the detailed application of the methodology changed from a formula involving aged-based categories at December 31, 2003 to a methodology at November 30, 2004 that involved a follow-up by knowledgeable maintenance personnel of identified slow moving parts and their recommendation to provide for specific parts that were no longer usable. In other words, the obsolescence risk associated with slow moving spare parts is, in a generic sense, consistently identified but the evaluation of the financial exposure related thereto changed between the two dates. The change in the methodology involved a shift to a more specific basis of determination of financial impact of obsolescence and therefore represented a more accurate methodology.

The controller advised that the previous formula approach to quantification of obsolescence did not make sense to him and, further, he stated that the higher the turnover of parts, the lower the provision with the formula. He advised that spare parts were turning over at a greater rate in 2004, likely due to cash flow constraints on expenditures during the CCAA. Presumably, therefore, the formula method if applied could have reduced the inventory provision even further. Also, he confirmed that the methodology used prior to 2003 was likely different than either the December 31, 2003 or November 30, 2004 methodologies. No attempt was made to apply the formula method in the estimation of the spare parts inventory obsolescence provision at September 30, 2004 as the December 31, 2003 year end provision was simply carried forward in the preparation of Exhibit B. Also, the controller confirmed that the specific methodology approach was not addressed until September 2004. In the circumstances, it is clear that consistency of methodology was not a virtue of Ifast in terms of the determination of spare parts obsolescence provisions although in the final analysis of November 30, 2004 it is apparent that management had finally found a best practice approach to this matter.

Heico has requested that Exhibit B be amended in the alternative to its initially requested amendment of Exhibit C on the basis that the obsolescence provision methodology should be consistent between Exhibit B and C and that the facts and circumstances of spare parts turnover and obsolescence that was confirmed in the fall of 2004 likely also existed at the time of preparation of Exhibit B in early July 2004.

The Expert concludes that there was little if any consistency of methodology, and although both methods would be supportable in GAAP as valuation provisions, the specific identification methodology utilized at November 30. 2004 is superior. Also, it is clear that no attempt was made to re-challenge this valuation provision under either methodology in the preparation of Exhibit B, but there should have been to comply with general GAAP guidance, viewing September 30, 2004 on a "hard close" basis. The issue comes down to the quantum of valuation that would have been determined if the superior specific methodology had been utilized in the preparation of Exhibit B, and on the basis of the circumstances described and outlined by management it seems more likely that the provision would have been closer to the $1,688,000 balance than the formulaic $2,000,000 balance.

Accordingly, the Expert has concluded that the requested adjustment of Exhibit C should not be allowed; however, in the alternative, under the Heico Approach, Exhibit B should be adjusted for the $312,000 amount that was subsequently determined to achieve consistency in methodology and because the methodology finally adopted was clearly superior to the formulaic approach.

In contrast, under the Ivaco Approach, an adjustment to the spare parts inventory reserve for purposes of Exhibit B would not be warranted as no similar adjustment was made to Exhibit C.

IFASTGROUPE AND COMPANY, L.P.
Reference C-3
Intercompany Profit Elimination

See reference B-7 as this is a related matter.

IFASTGROUPE AND COMPANY, L.P.
Reference C-4
Retained Liabilities for Payroll Matters
Amount in Dispute - $128,000

Issue:

This issue relates to liabilities determined to be on account of payroll matters that are excluded by the definitions used in the determination of Working Capital for purposes of the APA.

Heico Position:

Heico's position is that Seller inappropriately reduced Trade Payables by $128,000 at November 30, 2004 for purposes of Exhibit C as no substantiation was provided for the exclusion of such liability amounts that had initially been determined by divisional management.

Ivaco Position:

Ivaco's position is that the Trade Payables were appropriately reduced by $128,000 for purposes of Exhibit C because this amount represented a Retained Liability which was required by the APA to be excluded in the determination of Working Capital.

KPMG Analysis and Conclusions:

Heico had initially requested that Trade Payables in the IFAST Exhibit C be increased by $344,000 for items that they assert should not have been excluded by the Sellers as excluded liabilities for payroll-related liabilities. Basically, Heico had not seen documentation to satisfy themselves that the excluded amounts represented payroll-related liabilities. Considerable documentation was presented by both parties and reviewed with Patrice Gervais, the controller, who confirmed that approximately $216,000 of this balance was indeed properly excluded by the Sellers because it represented payroll-related liabilities. However, the Sellers had further excluded the full $144,000 balance of account 2111106, "miscellaneous accrual" in Galvano, when it was apparent from the account analysis presented by Mr. Gervais that only $16,000 of that balance was payroll-related. The balance of $128,000 represented bona fide Trade Payable balances. Mr. Gervais had initially been unable to explain the latter account analysis but between other interviews later in the day of his interview, he was able to clarify the completeness of this account analysis to the satisfaction of the Expert.

The balance of $128,000 should therefore be accepted under both the Heico and Ivaco Approaches as an appropriate increase in Trade Payables for the purposes of the IFAST Exhibit C as the details of such amounts were confirmed by the controller as being for normal trade accrued liabilities which are defined as Trade Payables under the APA.

IFASTGROUPE AND COMPANY, L.P.
Reference C-5
Transaction Agreement – Payroll
Amount in Dispute - $111,000

Issue:

This matter relates to payroll amounts included in Accounts Receivable at November 30, 2004 for purposes of Exhibit C.

Heico Position:

Heico's position is that the APA excludes payroll amounts by definition in the determination of Working Capital.

Ivaco Position:

Ivaco's position is that this matter was to be settled outside of the Working Capital matter and under the terms of the Transitional Matters Agreement.

KPMG Analysis and Conclusions:

The parties had entered into a Transitional Agreement which covered certain matters over the closing date of November 30, 2004, including payroll for hourly and salary employees that straddled the closing date. Also, the APA specifically excluded payroll balances from the determination of Working Capital. Heico provided documentation that the amount in dispute, $111,000, was included in the Accounts Receivable balance for purposes of Exhibit C at November 30, 2004. The controller, Patrice Gervais, in his interview confirmed that the various divisions of Ifast had recorded amounts receivable for payroll costs associated with pay periods that straddled November 30, 2004. These receivable balances were on account of payroll, which the parties had agreed to exclude from the working capital determination.

Accordingly, this disputed amount should be accepted under both the Ivaco Approach and the Heico Approach on the basis that the APA specifically excluded payroll amounts in the determination of Working Capital.

The Expert was advised that the parties subsequently exchanged cheques to settle the payroll amounts under the Transitional Agreement.

IFASTGROUPE AND COMPANY, L.P.
Reference C-6
Expired Letter of Credit Included in Prepaid Expenses
Amount in Dispute - $124,000

Heico requested that prepaid expenses in Exhibit C be reduced by $124,000 in respect of an expired letter of credit. Ivaco conceded this adjustment.

IFASTGROUPE AND COMPANY, L.P.
Reference C-7
Trade Payables on Account of Statutory Liabilities
Amount in Dispute - $42,000

Heico requested a $42,000 increase to trade payables in Exhibit C for amounts owing for statutory liabilities that had been removed from Trade Payables by the Seller at November 30, 2004 for purposes of Exhibit C. These statutory liabilities were determined to have been excluded liabilities in accordance with the APA. Heico subsequently agreed to remove this item as a matter in dispute.