Court File No. 03-CL-5145

ONTARIO
SUPERIOR COURT OF JUSTICE
Commercial List

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

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

TENTH REPORT OF THE MONITOR
JUNE 3, 2004

INTRODUCTION

1. On September 16, 2003 Ivaco Inc. ("Ivaco") and certain of its affiliates (collectively the "Applicants" or the "Companies") filed for and obtained protection from their creditors pursuant to the *Companies' Creditors Arrangement Act* R.S.C. 1985 c. C-36, *as amended ("CCAA")*. The terms of these proceedings are governed by an order of this Honourable Court dated September 16, 2003, as amended and restated (the "Initial Order"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed as monitor (the "Monitor").

2. The Applicants included in the Initial Order consist of, amongst others, Ivaco, Ivaco Rolling Mills Inc., Ifastgroupe Inc., Docap (1985) Corporation ("Docap") and the related limited partnerships, Ivaco Rolling Mills Limited Partnership ("IRM") and Ifastgroupe and Applicants Limited Partnership ("Ifastgroupe").

3. The purpose of this Tenth Report of the Monitor (the "Report") is to provide information with respect to the Applicants' motion as to the sales process approved by this Honourable Court on March 22, 2004 as it relates to QIT.

TERMS OF REFERENCE

4. In preparing this Report, the Monitor has relied upon discussions with management of the Applicants and their advisors. The Monitor has not performed an audit or other verification of such information.

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

BACKGROUND – QIT AS SUPPLIER

6. QIT has been a significant supplier of billets to IRM since 1986. The evolution of the business relationship reflects the symbiotic nature of the supply chain. Before developing its capabilities to produce steel, QIT's primary production outputs were pig iron and titanium dioxide slag, both derived from iron ore.

7. In response to volatility in the pig iron market, QIT decided to develop the ability to produce steel as well as pig iron, the intention being to develop flexibility to adjust production between pig iron and steel as market conditions changed. In 1985, IRM and QIT negotiated their first supply agreement, which provided for approximately half of the steel capacity of the new QIT steel plant to go to IRM. The agreement calibrated pricing monthly based on scrap indices, wire rod selling prices and cost extras for alloy grades. The formula remains largely intact at present and has provided economic stability and reasonable pricing from both parties' perspectives throughout the business relationship.

8. In 1999, at around the time that IRM completed the modernization of its rod mill, QIT and IRM entered into the latest agreement that provided for almost all of QIT's steel billet capacity to be provided to IRM. This agreement had an indefinite term, requiring sixty months' notice of termination by either party. In the two years prior to the CCAA filing, IRM purchased approximately $170,000,000 in steel billets from QIT annually.

9. Immediately prior to the Applicants' applying for CCAA protection, QIT purported to terminate the existing supply agreement. IRM has disputed the validity of this termination. The position of IRM is, *inter alia*, that it is entitled to 60 months' notice. The matter has not been resolved. Instead, the parties agreed to park the issue for the time being, subject to negotiation of temporary supply arrangements during the pendancy of these CCAA proceedings. With the involvement of the Monitor, IRM and QIT agreed to such arrangements and the day-to-day supply of steel billets (and cash on delivery payment) has continued relatively smoothly since.

QIT AS CREDITOR

10. At September 16, 2003, QIT was shown on the books of IRM as being owed approximately $62 million (subject to the issue of termination) for the supply

of steel billets prior to the CCAA filing. In accordance with the Initial Order, the Applicants have not made any payments in respect of this amount.

QIT AS POTENTIAL BIDDER

11. Since the commencement of the sales process, the Applicants have repeatedly asked QIT to confirm whether it intended to participate in the Sales Process as a bidder. QIT declined to provide a position one way or the other. As a result, the Applicants did not provide QIT with the confidential bid information that they shared with the other major creditors, who form the Informal Advisory Committee. QIT expressed concern about its exclusion on numerous occasions, demanding that it be treated the same as the other large creditors. After the May 14, 2004 bid deadline and the determination that QIT had not submitted a bid, at QIT's request the Applicants provided QIT with the same information on the bids received as they provided to the Informal Advisory Committee.

QIT AND THE SALES PROCESS

12. Without disclosing details, the Monitor considers that at this stage there are potentially viable proposals on both tracks of the dual-track process. To expand upon that, it is not yet clear whether sale or restructuring or some combination thereof will be the optimal method of proceeding. The balance of the sale process will be concerned, amongst other things, to identify the various options available to the stakeholders and for the Monitor to present the facts in a balanced and objective way for their consideration.

13. Subject to the contract issues discussed above, QIT is potentially owed approximately $62,000,000 by IRM as a pre-filing unsecured claim. QIT has asserted its position as an unsecured creditor to position itself as a stakeholder and obtain meetings and information in the sales process that it would not have received in its capacity as a supplier. QIT is also an important potential on-going source of supply for the IRM business post sale or restructuring.

14. QIT may consider and indeed may have commercial "cards" to play or attempt to play in negotiations with bidders and the Applicants. Different considerations apply to the "cards" that QIT may seek to play for the sale as opposed to restructuring bidders. Put shortly, by way of example only, QIT may seek to recover some or all of its pre-filing claim by conditions it attaches to post-filing supply and the bidders may seek to address that in whole or in part by modification to the price or other terms that they are prepared to put forward.

15. As part of the sales process and as QIT demanded, the Applicants have provided QIT with confidential information as to the bids in the sales process similar to that received by the Informal Advisory Committee.

16. As part of the approval of the sales-process and the denial of the sales' monitor motion (at which QIT was present) this Honourable Court said:

> "The role of the Monitor has evolved and in my view those who are appointed as Monitors have done a good job in fulfilling the role of independence and objectivity sought by the court for the benefit of all stakeholders. While it is true that there could be potential conflicts which will have to be dealt with on their merits and true that there is what one may call an inherent conflict, I view the situations as one of managed conflict. The Monitor has the duty and responsibility to deal with actual and perceived conflicts and to report objectively and fairly as to same so that the parties involved here and the court will be able to appreciate the objective pros and cons and concerns. The sales process in question was devised with this conflict question in mind – and I am of the view that it addresses those concerns.
>
> I would point out that the Monitor's role is not restricted to reporting in formal reports but rather that there be a liaison as is reasonably necessary and as often as reasonably necessary. Parties are entitled to rely upon the Monitor for objective information."

17. In order to fulfill its mandate of providing objective information the Monitor considers that it needs to observe the material negotiations between QIT and the potential bidders. The other stakeholders would rightly object and the Monitor would not be in a position to make any recommendation if there are unexplained material variations to the existing proposals by bidders arising from separate arrangements between the bidders and QIT. The Monitor needs to be in a position to report that any ultimate arrangement so far as it is aware represents the totality of the arrangements as between QIT and the selected bidder and that the Monitor observed a commercially reasonable negotiating process that arrived at the end result.

18. It may well be legitimate for QIT to play the commercial "cards" that it considers it has. However, the Monitor considers that the other stakeholders are entitled to know the material elements of the playing of those "cards" as it impacts not only the choice between sale alternatives but also the choice between sale and restructuring alternatives. The dual-track process remains

that of the Applicants and while the Monitor does not seek to participate in the commercial negotiations that QIT wishes to have it must be in a position to observe and report on those negotiations as part of managing the "inherent conflicts" referred to earlier.

19. The Monitor has been advised by the Applicants and has also heard QIT state the position that its contract with IRM may not be disclosed to the potential bidders as, QIT asserts, to do so would breach confidentiality obligations owed by IRM to QIT. The Monitor understands that IRM disputes the existence of any such confidentiality obligations as alleged by QIT and that part of the purpose of the motion brought by the Applicants is to address this issue.

20. It is the Monitor's view that QIT's position – that the potential bidders should have a commercial negotiation with it without access to either the existing contractual situation or information from management of the Applicants in this important area – will certainly have a very detrimental impact on the sales process. While the Monitor understands that QIT wishes to have as much leverage as it can in its own self-interest, it is the interests of all the stakeholders that the potential bidders have sufficient information and access to be in a position to have a meaningful and informed commercial negotiation.

All of which is respectfully submitted this 3rd day of June, 2004.

ERNST & YOUNG INC.

In its capacity as Court-Appointed Monitor of
Ivaco Inc. and certain of its affiliates

Per:

Brian M. Denega
Senior Vice-President

SCHEDULE "A"

Applicants Filing for CCAA

1. Ivaco Inc.
2. Ivaco Rolling Mills Inc.
3. Ifastgroupe Inc.
4. IFC (Fasteners) Inc.
5. Ifastgroupe Realty Inc.
6. Docap (1985) Corporation
7. Florida Sub One Holdings, Inc.
8. 3632610 Canada Inc.