

**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
BARZEL INDUSTRIES CANADA INC.**

Applicant

**FIRST REPORT OF THE MONITOR
DATED SEPTEMBER 18, 2009**

INTRODUCTION

1. On September 15, 2009, Barzel Industries Canada Inc. ("Barzel Canada") filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "CCAA"). Pursuant to the Order of this Honourable Court dated September 15, 2009, Deloitte & Touche Inc. ("Deloitte") was appointed as the Monitor of the Applicant (the "Monitor") in the CCAA proceeding. A copy of the Initial Order is attached as Exhibit "A" to the Affidavit of G. Wayne Day sworn September 18, 2009 (the "Day Affidavit").
2. On the same day, Barzel Canada's parent, Barzel Industries Inc. ("BII") and certain affiliated U.S. entities including Barzel Holdings Inc., Barzel Finco Inc., Barzel Industries U.S. Inc., American Steel and Aluminum Corporation, Nova Tube and Steel Inc., Novamerican Tube Holdings, Inc. and Nova Tube Indiana, LLC (collectively, the "U.S. Debtors") filed voluntary petitions under chapter 11 of title 11 of the *United States Code*, 11 U.S.C. §101-1532 (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "U.S. Court").
3. The U.S. bankruptcy proceedings were recognized by this Honourable Court as a "foreign proceeding" under s. 18.6 of the CCAA in a companion order entered on September 15, 2009.

4. Collectively, Barzel Canada and the U.S. Debtors are known as the “Barzel Group”.
5. Deloitte filed a pre-filing report dated September 15, 2009 (the “Pre-Filing Report”) in its capacity as proposed monitor and in connection with the Barzel Canada application for protection under the CCAA.

PURPOSE

6. The purpose of this First Report of the Monitor (the “First Report”) is to provide the Court with additional information regarding the supply of material by ArcelorMittal Dofasco Inc. (“Dofasco”) to the Barzel Group in connection with the motion brought by the Applicant.

TERMS OF REFERENCE

7. In preparing this First Report, the Proposed Monitor has relied upon unaudited financial information, Barzel Canada’s books and records, the financial information prepared by the Barzel Canada and its advisors, and discussions with management of Barzel Canada and management of the Barzel Group. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this report.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in US dollars.
9. Capitalized terms not defined in this First Report are as defined in the Affidavit of Karen Narwold, sworn on September 15, 2009 (the “Narwold Affidavit”), the Pre-Filing Report or the APA (as defined below).

DOFASCO HAS REFUSED TO SUPPLY TO THE BARZEL GROUP

10. The Barzel Group is a metal manufacturing, processing and distributing enterprise with operations throughout Ontario and Quebec and the eastern and mid-western United States.

11. Dofasco is a Canadian steel producer and is a major supplier of raw materials to the Barzel Group.
12. Dofasco currently supplies steel coils (the "Dofasco Steel") to the Barzel Group pursuant to a supply contract by and between Dofasco and Novamerican Steel Inc.¹ that is dated as of November, 2008, as amended (the "Replenishment Agreement"). Under the terms of the Replenishment Agreement, the Barzel Group pays Dofasco the current published CRU price for the Dofasco Steel. Pursuant to s.4(a) of the Replenishment Agreement:

Supplier agrees to deliver the purchased Coils on the Delivery Date and that such delivery time will be reliable.

13. A copy of the Replenishment Agreement is attached as Exhibit "D" to the Day Affidavit.
14. The Monitor has been advised by Wayne Day, who is the Chief Restructuring Officer of the Barzel Group, that Dofasco may be taking the position that it will not or is not required to continue to supply the Dofasco Steel to the Barzel Group during the pendency of the CCAA proceedings unless its pre-filing claim in the amount of approximately \$2,000,000 is paid immediately.
15. Pursuant to the terms of the Initial Order, all persons, including Dofasco, are prohibited from ceasing or refusing to perform any contractual obligations, provided that such person, including Dofasco, cannot be required to extend credit to the Barzel Group and is permitted to insist that any deliveries be made on cash-on-delivery terms.
16. We are advised by the Barzel Group that the consequences to the Barzel Group will be serious if Dofasco does not continue to supply Dofasco Steel pursuant to the terms of the Replenishment Agreement:
 - Dofasco is currently the supplier of 95% of a specific steel used in the manufacture of tubes at the plant in Baie d'Urfe, QC (the "Baie d'Urfe Plant") and is also currently the supplier of 95% of a specific steel used in the manufacture of hollow structural sections and electric resistance weld pipes at the Delta Tubes Inc. plant (the "Delta Tubes Plant")

¹ Novamerican Steel Inc. changed its name to Barzel Industries Inc. on February 13, 2009.

in LaSalle, QC. In turn, the Baie D'Urfe Plant and the Delta Tubes Plant are dependent upon the supply of Dofasco Steel for 95% of their total production;

- The Monitor is advised by the Barzel Group that without immediate and continued supply of the Dofasco Steel, the Baie d'Urfe Plant and the Delta Tubes Plant will run out of raw materials and be unable to continue production in four days;
- Production shutdowns will cause the Barzel Group to suffer loss of revenue and will cause the Barzel Group to breach supply contracts with its customers, thereby exposing the Barzel Group to significant claims for resulting damages;
- A shut-down of the Baie d'Urfe Plant will result in layoffs of approximately 38 employees and a shutdown of the Delta Tubes Plant will result in layoffs of approximately 37 employees;
- The Monitor is advised that it will take no less than 6-8 weeks to obtain the specific steel supplied by Dofasco from another supplier.

17. In turn, the failure of Dofasco to supply the Dofasco Steel will be seriously disruptive to the Barzel Group restructuring and may undermine ongoing efforts to market and sell all of the Barzel Group assets.

18. The terms of the DIP Credit Agreement do not provide for or permit payment of Dofasco's pre-filing claim. Any such payment would result in a material adverse change to the cash flows and the budget under the DIP Credit Agreement and the Cash Flows as presented to this Honourable Court by the Applicant at Exhibits F and G to the Narwold Affidavit and filed by the Applicant on the application for the Initial Order.

CONCLUSION AND RECOMMENDATIONS

19. In the view of the Monitor, it is in the best interests of:

- (a) the Applicant and its stakeholders, including employees, creditors, customers, suppliers;

- (b) the Applicant's ability to continue to operate as a going concern during the CCAA proceedings; and
- (c) the Applicant's ability to effectuate a sale of its assets;

that Dofasco be compelled to abide by the terms of the Initial Order and to continue to supply the Dofasco Steel in accordance with the terms of the Replenishment Agreement, albeit not on a credit basis.

All of which is respectfully submitted this 18th day of September 2009.

DELOITTE & TOUCHE INC.
In its capacity as Monitor of Barzel Industries Canada Inc.

Per:



Paul van Eyk, CA CIRP, CA IFA
Senior Vice President



Huey Lee, MBA, CMA, CIRP
Vice President

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FIRST REPORT OF DELOITTE & TOUCHE INC.

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