

Court File No.

**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**

**REPORT OF DELOITTE & TOUCHE INC.**

**In its capacity as Proposed Monitor of the Applicant**

**SEPTEMBER 15, 2009**

**INTRODUCTION**

1. Deloitte & Touche Inc. ("**Deloitte**") has been advised that on September 15, 2009, Barzel Industries Canada Inc. ("**Barzel Canada**" or the "**Applicant**") will apply for protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**" and "**CCAA Proceedings**") in order to restructure the business and affairs of the Applicant. Deloitte has been requested to act as the Monitor of the Applicant and Deloitte has consented to act as the Monitor in respect of these CCAA Proceedings (the "**Proposed Monitor**").
  2. Concurrently, Barzel Industries Inc. ("**Barzel US**"), a Delaware corporation and ultimate parent of the Applicant, and certain of its US affiliates (collectively, the "**US Debtors**"), are filing voluntary petitions (collectively, the "**Chapter 11**
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**Proceedings**) in the United States for relief under title 11 of the United States Code, 11 U.S.C. § 101-1532 (the **"US Bankruptcy Code"**) in the United States Bankruptcy Court for the District of Delaware (the **"US Bankruptcy Court"**). The US Debtors intend to operate their businesses and manage their properties as debtors-in-possession pursuant to sections 1107(a) and 1108 of the US Bankruptcy Code. Barzel Canada and the US Debtors are collectively referred to herein as the **"Barzel Group"**.

3. This report (**"Report"**) is prepared by the Proposed Monitor to assist this Honourable Court in considering the Applicant's requests for relief in the CCAA Proceedings.
4. The purpose of this Report is to provide this Honourable Court with information on:
  - a. background, including the corporate and operational structure of the Applicant;
  - b. the causes of the Applicant's insolvency;
  - c. an overview of the Applicant's financial condition;
  - d. the Barzel Group's pre-filing marketing process and negotiations with a potential stalking horse bidder;
  - e. the proposed restructuring strategy and terms and uses of the DIP Credit Agreement;
  - f. an overview of the Applicant's 13-week cash flow forecast;
  - g. a summary of the cash management system and intercompany payables;
  - h. the proposed Administration and D&O Charges;
  - i. the proposed creditor notification process; and
  - j. the Proposed Monitor's conclusions.
5. In preparing this Report, the Proposed Monitor has relied upon unaudited financial information, the Applicant's books and records, the financial information prepared by the Applicant and its advisors, and discussions with management of the Applicant and management of the Barzel Group. The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and, accordingly the Proposed Monitor expresses no opinion or other form of assurance on the information contained in this Report.

6. Unless otherwise stated, all currency amounts contained in this Report are expressed in US dollars.
7. The Proposed Monitor's affiliated accounting firm, Deloitte & Touche LLP, is not the auditor of the Barzel Group or any of its affiliated companies.
8. Deloitte was retained by the Applicant on August 28, 2009 to act as the Proposed Monitor. Since that date, the Proposed Monitor has been reviewing the Applicant's available financial information to gain knowledge of the business and financial affairs of the Applicant and has been preparing for the Applicant's anticipated CCAA application.
9. Going forward, the Proposed Monitor will make copies of certain material documents pertaining to these CCAA Proceedings available on its website at [www.deloitte.com/ca/barzel](http://www.deloitte.com/ca/barzel).

## **BACKGROUND**

10. The Proposed Monitor has been provided with draft versions of the Affidavit of Karen Narwold sworn September 15, 2009, in support of the Applicants' CCAA filing (the latest such draft provided to the Proposed Monitor, "**Narwold Affidavit**").

### **Corporate History of the Barzel Group**

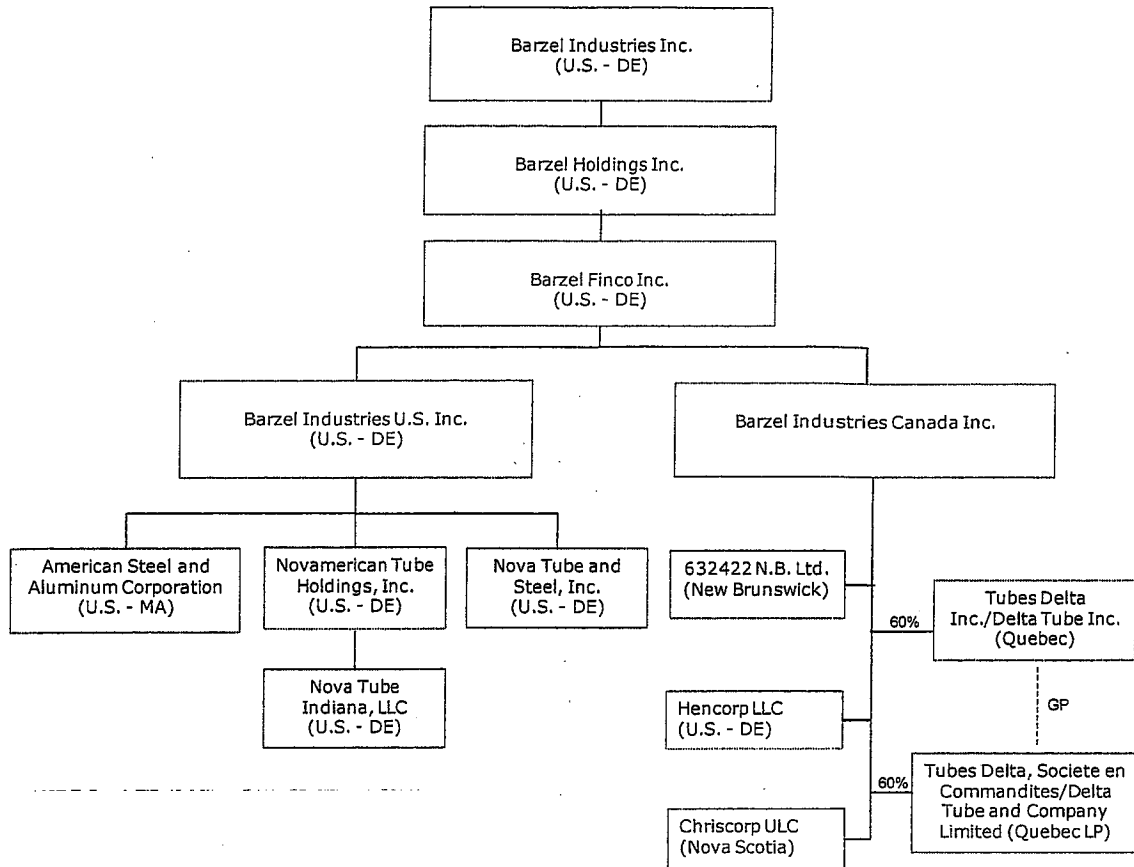
11. As per the Narwold Affidavit, on April 26, 2006, Symmetry Holdings Inc. ("**Symmetry**") was incorporated in Delaware as a development stage company formed for the purpose of acquiring one or more operating businesses raising gross proceeds of \$150 million in its initial public offering.
12. On November 15, 2007, Symmetry acquired Novamerican Steel Inc., a corporation incorporated under the laws of Canada, and its subsidiaries (collectively

“Novamerican”), for \$585.2 million by way of a leveraged buyout pursuant to an arrangement agreement in accordance with the terms of a court-approved statutory plan of arrangement under the *Canada Business Corporations Act* (the “**Leveraged Buyout Transaction**”). There was debt financing including \$315 million of senior secured notes and \$67 million of borrowings under an asset based lending facility, details of which are discussed below. \$112 million of the net proceeds from Symmetry’s initial public offering, \$15 million from a private placement sale of additional equity in Symmetry, and cash held by Novamerican were also used to fund the acquisition.

### **Corporate and Operational Structure**

13. The Barzel Group is a leading metal manufacturing and service provider headquartered in Norwood, Massachusetts, however; all of the Barzel Group’s operational decisions are made from its Canadian offices based in Mississauga, Ontario.
14. Barzel US’ common stock and warrants were traded publicly on the NASDAQ Global Market under the symbols “TPUT” and TPUTW”. It is anticipated that Barzel US will be delisted on the NASDAQ Global Market on or about September 14, 2009 as a result of failing to meet minimum listing compliance requirements.
15. The Barzel Group has over 3,500 customers located throughout North America. The Barzel Group’s customers include automotive parts manufacturers and stampers, other steel service centers, general fabricators and manufacturers of transportation equipment, material handling equipment, electrical components, appliances, storage tank, ship building material, construction, agricultural and heavy equipment manufacturers.

16. A complete corporate organizational chart for the Barzel Group is shown below.



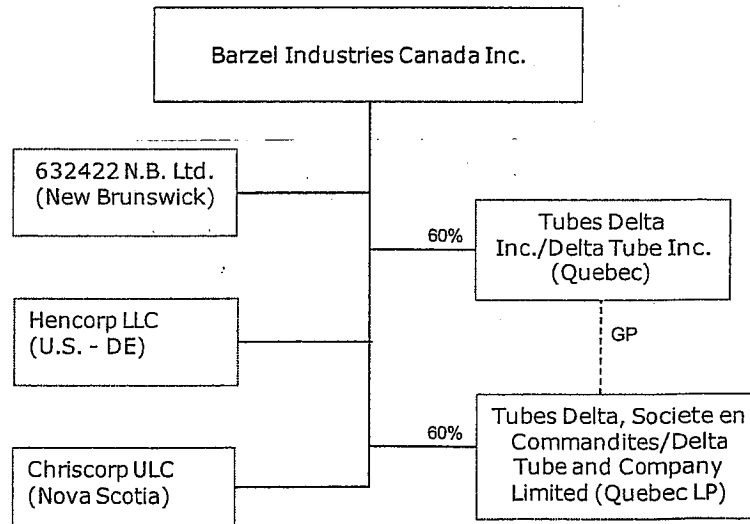
- a. The only entity that filed for protection in the CCAA Proceedings is Barzel Industries Canada Inc.;
- b. The entities that have filed for protection in the Chapter 11 Proceedings are:
  - i. Barzel Industries Inc.;
  - ii. Barzel Holdings Inc.;
  - iii. Barzel Finco Inc.;
  - iv. Barzel Industries U.S. Inc.;
  - v. American Steel and Aluminum Corporation;
  - vi. Novamerican Tube Holdings, Inc.;
  - vii. Nova Tube and Steel, Inc.; and

viii. Nova Tube Indiana, LLC.

c. The entities that have not initiated formal restructuring proceedings in any jurisdiction are the following;

- i. 632422 N.B. Ltd. (New Brunswick);
- ii. Hencorp LLC;
- iii. Chriscorp ULC;
- iv. Tubes Delta Inc. / Delta Tube Inc. (Quebec); and
- v. Tubes Delta, Societe en Commandites / Delta Tube and Company Limited (Quebec LP).

17. Set out below is an organizational chart setting out only those members of the Barzel Group that are subsidiaries of Barzel Industries Canada Inc.:



18. The two wholly-owned Canadian subsidiaries (632422 N.B. Ltd (“632422”) and Chriscorp ULC) and one wholly-owned US subsidiary (Hencorp LLC) are inactive entities with no assets and have not filed for protection in these CCAA Proceedings or Chapter 11 Proceedings.

19. The Applicant also has a 60% interest in a Canadian joint venture (Tubes Delta Inc./ Delta Tube Inc.) which is not a party to these CCAA Proceedings or the Chapter 11 Proceedings at this time.

20. The Barzel Group operates an integrated system of fifteen (15) strategically located metal processing, manufacturing and distribution facilities throughout Northeastern, Mid-Atlantic and Mid-Western United States and the Canadian provinces of Ontario and Quebec.

21. The Barzel Group has four primary business lines: (a) tube and pipe production; (b) manufacturing; (c) processing; and (d) distribution.

a. **Tube and Pipe Production:** The Barzel Group is a producer of hollow structural section tubes and electric resistance welded pipes. The Barzel Group operates five (5) state-of-the-art tube and pipe facilities that have total annual capacity of approximately 700,000 tons. In 2008, tube and pipe production accounted for approximately 16% of the Barzel Group's total consolidated revenue.

b. **Manufacturing:** The Barzel Group's manufacturing operations are located in Québec and consist primarily of the production of custom light and heavy fabricated components. Manufacturing services include roll-forming, welding, punching, cutting and assembly. In 2008, manufacturing generated approximately 5% of the Barzel Group's consolidated revenue.

c. **Distribution:** The Barzel Group is also a leading distributor of steel, aluminum and stainless products, including hot and rolled carbon, aluminum, stainless and alloys and coated products in sheet, coil, bar, shapes, tubular and plate forms. The Barzel Group operates five (5) distribution facilities that are strategically located in close proximity to major customers and transportation routes. Distribution services generated approximately 33% of the Barzel Group's total consolidated revenue in 2008.

- d. Processing: The Barzel Group operates the largest independent continuous process-pickling facility in Canada and offers a range of other metal processing services including slitting, cutting-to length, shearing, levelling and blanking. In 2008, processing generated approximately 46% of the Barzel Group's total consolidated revenue.

22. Barzel Canada has leased corporate offices in Mississauga, Ontario and operates from leased and owned manufacturing facilities in the following locations:

- a. 7070 Mississauga Road, Mississauga, Ontario (corporate office - leased);
- b. 830 South Service Road, Stoney Creek, Ontario (processing facility - owned);
- c. 2730 Meadowpine Boulevard, Mississauga, Ontario (tube and pipe facility - leased);
- d. 19460 Clark Graham Avenue, Baie d'Urfe, Quebec (tube and pipe facility - owned);
- e. 553 Leon Harmel, Granby, Quebec (manufacturing facility - owned);
- f. 424 St. Vallier, Granby, Quebec (manufacturing facility - owned);
- g. 5675 La Savane Place, St. Hubert, Quebec (manufacturing facility - leased); and
- h. 1463 Cloutier Road, Shawinigan, Quebec (manufacturing facility - leased).

23. Barzel Canada has five (5) additional leased residential premises for executive housing, four (4) located in Ontario and one (1) in Quebec. Notices of termination have been provided to each of the respective landlords for each of the Ontario leases and such leases will terminate between September 14, 2009 and October 31, 2009. The lease in Montreal expires on December 31, 2009.

24. As of September 4, 2009, the Applicant had 281 employees comprised of active salaried and hourly employees. Of these employees, 57 are Canadian head office personnel, and 224 are operational personnel, including 72 unionized employees as described below.
25. The United Steelworkers of America, Local 6136, is the union representing the hourly workers at the two facilities located in Granby, Quebec. The current collective bargaining agreement expires on February 21, 2011. None of the Applicant's other facilities are unionized.
26. The Applicant has two defined contribution plans ("DCP"), one which is a registered plan pursuant to the *Pensions Benefits Act* (Ontario) and the other which is a registered plan pursuant to the *Supplemental Pensions Plan Act* (Quebec). The Applicant's required contributions under the DCPs are approximately CDN\$87,000 per month. According to the Applicant, there are no contributions which have become due which have not been paid.
27. As noted in the Narwold Affidavit, the Applicant expects to continue to make all required statutory contributions to its registered DCP as they become due. The Applicant expects to continue making all other employment and post-employment benefit payments for its salaried and hourly employees in the ordinary course.

### **Operational Interdependencies**

28. Due in large part to the initiatives undertaken by management of the Barzel Group to streamline operations and reduce overhead costs, there is a high degree of operational interdependency between the Applicant and the other entities within the Barzel Group. Operational interdependencies between the Applicant and the other entities within the Barzel Group include the following:

- a. Barzel US provides all strategic and financial direction to the Barzel Group including matters relating to such things as; treasury, cash management and executive functions for the Applicant and the Barzel Group;
  - b. Barzel Canada is responsible for all day-to-day operational decisions such as production, research and development, marketing, and information technology for the Barzel Group;
  - c. Barzel US and Barzel Canada maintain their own separate customer service, marketing, human resources, accounts payable and accounts receivable functions as it relates to their customer and supplier base;
  - d. Barzel Canada sells certain product direct to end customers. Barzel Canada also sells certain product to some of its US affiliates that will finish such processing of this product and Barzel US will then sell it to end customers. In such circumstances, Barzel Canada invoices Barzel US, and such a transaction creates an intercompany accounts receivable owing to Barzel Canada. The manner in which intercompany accounts are settled is discussed below.
  - e. The manufacturing of some products are started by Barzel Canada, sold to a U.S. affiliate who provides additional processing, and then sold back to Barzel Canada for final processing and sale to the end customer. This also creates several intercompany receivables and payables which again are discussed below.
  - f. Given the foregoing, the Applicant has transfer pricing agreements in place with Nova Tube & Steel Inc., Nova Tube Indiana, LLC and American Steel and Aluminum Corporation (all U.S. affiliates of the Applicant).
29. There are many intercompany transactions that occur between the Applicant and Barzel US in the normal course of business, the most significant being:

- a. Purchase of Steel Inventory - A significant portion of the Barzel Group's steel purchases are made by the Applicant for the benefit of Canadian and US operating entities which are settled through intercompany accounting; and
- b. Movement of cash – There is movement of cash from Barzel US to the Applicant to fund corporate costs and ensure the Applicant has the required funds to purchase steel for the Barzel Group. The Proposed Monitor has not yet had an opportunity to explore in detail the related intercompany transactions. It intends to discuss with management the nature and quantum of the intercompany transactions and the expected forecasted weekly net balances and the reconciliation thereof. The Proposed Monitor will report to this Honourable Court on this issue once it has obtained the relevant information from management. In particular, creditors of the Applicant may be concerned if there is a net outflow of assets from the Applicant to Barzel US, and about the Applicant's ability to affect set-off given the Chapter 11 Proceedings. This concern, however, would presumably be mitigated by the fact that the Applicant's only material secured creditors will be suffering a significant shortfall on their secured debt.

### **CAUSES OF INSOLVENCY**

30. The primary reasons for the current financial situation of the Barzel Group are as outlined in the Narwold Affidavit and include:
  - a. Barzel Group has suffered significant operating losses and liquidity issues during 2008 and 2009;
  - b. The current global economic recession and credit crisis, and the significant downturn in the automotive, transportation, manufacturing and construction industries in the United States and Canada has resulted in a dramatic decrease in purchases from many of the Barzel Group's customers; and

- c. A significant decline in sales volume has negatively impacted operating performance and reduced liquidity and ability of the Barzel Group to borrow under the ABL Credit Agreement (as defined below) or obtain new financing to fund operations.

## FINANCIAL POSITION

31. Attached hereto as Exhibits "A", "B" and "C" respectively are (a) the unaudited unconsolidated financial statements (internal) of the Applicant for July 31, 2009 year-to-date, (b) the unaudited unconsolidated financial statements of the Applicant for the year ended November 30, 2008, and (c) the audited consolidated financial statements of the Barzel Group for the year ended November 30, 2008.
32. Set out below is a summary of the Applicant's income statement for; (i) the fiscal period ending November 2008; (ii) fiscal 2009 year to date ("YTD"), as at July 2009; and (iii) the income statement summary for the month of July 2009.

<b>Barzel Industries Inc. Canada - Income Statement</b>			
<b>Income Statement (CDNs)</b>	<b>2008</b>	<b>YTD-09 (July)</b>	<b>Jul-09</b>
Sales Revenue	\$ 443,800,299	\$ 63,561,168	\$ 5,852,265
Processing Revenue	12,268,383	4,447,453	361,587
Net Sales	456,068,682	68,008,620	6,213,852
Cost of Sales	400,303,130	69,375,906	4,596,284
Gross Margin	55,765,552	- 1,367,285	1,617,568
Gross Margin %	12%	-2%	26%
Plant Expenses	31,699,349	24,804,535	3,361,872
Delivery Expenses	13,859,662	4,801,079	478,378
Selling Expenses	4,671,513	3,562,587	470,980
Administration	25,130,375	11,748,463	880,500
Operating Income	-\$ 19,595,347	-\$ 46,283,950	-\$ 3,574,163
Operating Expenses	48,948,335	9,372,141	2,494,825
Earnings before taxes	- 68,543,682	- 55,656,091	- 1,079,338

Source: Information provided by the Applicant

33. Set out below is a summary of the Applicant's balance sheet for; (i) the fiscal period ending November 2008; and (ii) fiscal 2009 YTD, as at July 2009.

<b>Barzel Industries Inc. Canada - Balance Sheet</b>		
<b>BALANCE SHEET (CONS)</b>	<b>2008</b>	<b>YTD 09 (July)</b>
Cash and Cash Equivalents	17,542,465	2,384,177
Accounts Receivable	48,074,222	5,555,025
Intercompany Receivables	863,923	23,312,513
Inventory	28,226,676	11,123,378
Prepays	2,693,502	372,316
Deferred Taxes S/T	94,888	94,888
Income Tax Receivable	858,201	-
<b>Current assets</b>	<b>\$ 98,353,877</b>	<b>\$ 42,842,297</b>
Property, Plant and Equipment	60,281,544	39,324,589
Intercompany Advances	39,946,150	21,409,249
Investment Joint Venture	2,474,967	2,182,020
Intangible Assets	30,292,982	27,192,145
<b>Total Assets</b>	<b>\$ 231,349,520</b>	<b>\$ 132,950,300</b>
Trade Accounts Payable	15,661,627	9,567,392
Accrued Liabilities	9,033,132	5,971,554
Intercompany Liabilities	- 5,405,494	77,662,357
Restructuring Reserve S/T	4,319,995	974,249
<b>Current liabilities</b>	<b>23,609,260</b>	<b>94,175,552</b>
Long Term Debt	32,555,600	8,252,600
Intercompany Note	263,946,314	143,633,053
Deferred tax liability	6,570,978	- 12,914,818
L/T Restructuring Reserves	4,364,334	5,047,885
<b>Total Liabilities</b>	<b>\$ 331,046,486</b>	<b>\$ 238,194,272</b>
Shareholder's Equity	- 99,696,966	- 105,243,972
<b>Total Liab. and S/E</b>	<b>\$ 231,349,520</b>	<b>\$ 132,950,300</b>

Source: Information provided by the Applicant

### Senior Secured Notes

34. On or about November 15, 2007, Barzel Finco Inc. ("**Barzel Finco**") issued \$315 million of 11.5% senior secured notes due in 2015 (the "**Notes**") pursuant to an indenture dated November 15, 2007 (the "**Indenture**"). The Notes have a maturity date of November 15, 2015, and pay interest at an annual rate of 11.5% semi-annually in arrears on May 15 and November 15. The proceeds of the Notes were used to fund, in part, the acquisition of Novamerican pursuant to the Leveraged Buyout Transaction.

35. The Notes are guaranteed by each of the US Debtors other than Barzel Finco and secured pursuant to among other things, a collateral agreement dated as of November 15, 2007 among the US Debtors and the trustee for the Notes (the “**Indenture Trustee**”) as collateral agent for the benefit of the Holders (as defined below) and the other “Secured Parties” referred to in the Indenture (the “**Indenture Collateral Agreement**”). The actual collateral pledged to the Holders (as defined below) and other secured parties to secure the US Debtors obligations under the Notes is further detailed in the Narwold Affidavit.
36. Two-thirds of the Notes are held by JPMorgan Chase Bank, N.A. (“**JPM**”), and one-third of the Notes are held by CIBC World Markets Corp. (“**CIBC**” and together with JPM, the “**Holder**s”).
37. Of the gross proceeds from the issuance of the Notes, \$125 million was loaned by Barzel Finco to the Applicant in accordance with the terms of the acquisition of Novamerican and the Indenture, which loan was evidenced by two intercompany demand promissory notes from the Applicant totalling \$125 million (collectively, the “**Intercompany Notes**”). The obligations of the Applicant under the Intercompany Promissory Notes are secured by all present and after acquired property of the Applicant pursuant to a Canadian collateral agreement and a debenture, each dated November 15, 2007, and a charge/mortgage of land dated November 16, 2007, (collectively, the “**Intercompany Notes Collateral Documents**”). The Intercompany Notes and the Intercompany Notes Collateral Documents were in turn pledged (and a security interest was granted therein) by Barzel Finco to the Holders to secure the obligations under the Notes.
38. The Proposed Monitor understands that the Barzel Group was unable to make the interest payment due under the Notes on May 15, 2009. Accordingly, on May 14, 2009, the applicable members of the Barzel Group and the Holders entered into a deferral arrangement (as amended, the “**Deferral Agreement**”) with respect to the Notes. Pursuant to the Deferral Agreement, the interest payment due on May 15, 2009

was deferred until August 14, 2009. On July 17, 2009, the Barzel Group amended the Deferral Agreement and further deferred payment of outstanding interest until October 13, 2009.

39. Under the Deferral Agreement, the Debtors are required to pursue an expedited marketing and sale process of substantially all of their respective assets.

### **ABL Borrowings**

40. The Barzel Group obtained additional financing for the Novamerican acquisition and general operations pursuant to a credit agreement dated as of November 15, 2007 (as amended, the “**ABL Credit Agreement**”), by and among Barzel Finco and the Applicant (together with Barzel Finco, the “**ABL Borrowers**”), as borrowers, Barzel US, and JPM, CIBC and other lender parties thereto (collectively, the “**ABL Lenders**”), as lenders, and JPM, CIT Business Credit Canada Inc. and The CIT Group/Business Credit, Inc., as agents. JPM is the administrative agent under the ABL Credit Agreement (the “**ABL Administrative Agent**”).
41. Pursuant to the ABL Credit Agreement, the ABL Lenders extended to the ABL Borrowers a five (5) year secured revolving credit facility of up to \$175 million (the “**ABL Facility**”), subject to a borrowing base and including a Canadian borrower sublimit of US\$125 million. The ABL Facility is guaranteed by each of the US Debtors other than Barzel Finco and the Applicant’s borrowings under the ABL Facility are guaranteed by 632422 pursuant to a guarantee and collateral agreement dated as of November 15, 2007 (the “**Canadian Guarantee and Collateral Agreement**”).
42. The Canadian Guarantee and Collateral Agreement grants a security interest in the Applicant’s and 632422’s respective current assets to secure the obligations of the Applicant under the ABL Credit Agreement.

43. As of September 8, 2009, approximately \$18 million was outstanding under the ABL Facility (including letters of credit) of which approximately \$14 million was owed by the Applicant.
44. On June 1, 2009 and again on July 17, 2009, the ABL Credit Agreement was amended to provide the ABL Borrowers with limited liquidity to enable them to pursue and consummate the sales process contemplated under the Deferral Agreement. The ABL Credit Agreement was also amended to take out any of the ABL Lenders that were not Holders, leaving JPM and CIBC as the remaining ABL Lenders.
45. The ABL Lenders and the Holders are currently the same entities, being JPM and CIBC. Accordingly, all of the Applicant's assets have been pledged to the ABL Lenders and/or the Holders pursuant to the Intercompany Notes Collateral Documents (and the pledge of the Intercompany Notes Collateral Documents and the Intercompany Note by Barzel Finco to the Holders) and the Canadian Guarantee and Collateral Agreement.
46. It is the Proposed Monitor's understanding that the current economic environment has reduced demand for the Barzel Group's goods and services, driven down prices and lowered sales significantly. The Barzel Group's declining operating performance has reduced liquidity and limited the Barzel Group's ability to borrow under the ABL Credit Agreement or obtain new financing to fund continued operations.

#### **PRE-FILING MARKETING AND SALES PROCESS**

47. The Proposed Monitor has been advised that the financial advisor / investment banker for the Barzel Group, Houlihan Lokey Howard & Zukin Capital, Inc. ("**Houlihan**"), has conducted an extensive marketing and sales process in respect of the Barzel Group before the commencement of these CCAA Proceedings and the Chapter 11 Proceedings. The Proposed Monitor has also been advised that the Barzel Group has

been negotiating with an arms length third party, Metco Steel Inc. (“Metco”), to serve as a stalking horse bidder to purchase substantially all of the assets of the Barzel Group, with the consent and involvement of the Holders and the ABL Lenders. Metco was a participant in the Houlihan sales process. If a definitive agreement is reached with Metco, the Applicant intends to seek approval from this Honourable Court to enter into such agreement and to run a court supervised bidding process for its assets in the very near future. As noted in the Narwold Affidavit, Metco advised the Applicant that it was not prepared to purchase the assets of the Barzel Group outside formal insolvency proceedings.

48. Accordingly, the Barzel Group and Metco have been negotiating the terms of such a definitive agreement which would provide for the sale of substantially all of the Barzel Group’s assets to Metco for \$65 million, subject to certain adjustments and the assumption of certain liabilities. If consummated, this will create a significant shortfall for the ABL Lenders and the Holders.

49. The Proposed Monitor will obtain further information, and will provide further details on the pre-filing marketing and sales process conducted by Houlihan and the terms of any stalking horse offer and bidding process when these matters are next before this Honourable Court.

#### **RESTRUCTURING OF BARZEL CANADA AND TERMS AND USES OF THE PROPOSED DIP CREDIT AGREEMENT**

50. The Proposed Monitor has been advised that the principal strategy to be pursued is a sale of the Barzel Group’s assets as a going concern within the CCAA Proceedings and Chapter 11 Proceedings.

51. The Barzel Group’s liquidity position remains severe. In order to continue day-to-day operations and to facilitate the restructuring of the Barzel Group, the Applicant and Barzel US will require additional and immediate liquidity during formal insolvency proceedings if they are to successfully conduct a sale of its assets.

52. As described in the Narwold Affidavit and above, the pre-filing financing of the Applicant is intertwined with the financing of Barzel US. The Proposed Monitor has been advised by the Barzel Group that the Applicant is only able to obtain DIP financing in conjunction with the wider Barzel Group.
53. As described in the Narwold Affidavit, the ABL Lenders (hereinafter referred to in the context of the DIP Credit Agreement as the “**DIP Lenders**”) have agreed, pursuant to a proposed senior secured, super-priority, debtor-in-possession revolving credit agreement (the “**DIP Credit Agreement**”) to extend limited debtor-in-possession financing (the “**DIP Facility**”) to the ABL Borrowers (hereinafter referred to in the context of the DIP Credit Agreement as the “**DIP Borrowers**”) to support the operations of the Barzel Group during the sale process. The ABL Lenders also informed the Barzel Group that their willingness to provide such financing was predicated, in part, on the Applicant bringing an independent application for protection under the CCAA. JPM is the administrative agent under the DIP Credit Agreement (the “**DIP Administrative Agent**”).

#### **KEY ELEMENTS OF THE DIP CREDIT AGREEMENT**

54. Some of the principal terms of the DIP Credit Agreement include, without limitation, the following:
- a. The DIP Facility is a revolving credit facility in an aggregate amount not to exceed approximately \$30 million at any time outstanding, and will mature on the earlier of (i) December 11, 2009, (ii) the date that is 30 days after the date hereof if by such date either the final order has not been entered by the U.S Bankruptcy Court in connection with the Chapter 11 Proceedings or the CCAA stay of proceedings has not been extended, and (iii) the date of consummation of a sale of all or substantially all of the US Debtors’ assets pursuant to section 363 of the

U.S. Bankruptcy Code coordinated with the sale of substantially all of the Applicant's assets under the CCAA Proceedings.

- b. Pricing under the DIP Credit Agreement is at prime plus 7.0%. A commitment fee of 0.5% is payable by Barzel Finco on the average daily unused amount of the revolving commitments and on the maturity date (whether through acceleration or otherwise). Additional fees may be payable by Barzel Finco directly to the DIP Administrative Agent.
- c. Availability under the DIP Facility will reflect an operating budget approved by the DIP Agent, but will not be a function of any borrowing base or include any Canadian borrowing limit as under the ABL Credit Agreement. Availability is also limited as described immediately below.
- d. The DIP Facility is a rollover of the ABL Facility. To the extent approved by this Honourable Court and the U.S. Bankruptcy Court, respectively, (collectively, in the context of the Chapter 11 Proceedings and the CCAA Proceedings, the "Courts"), until the later of the of the expiry of the appeal period in respect of the CCAA Proceedings and the date upon which the final order is entered by the U.S Bankruptcy Court in connection with the Chapter 11 Proceedings, aggregate availability under the DIP Facility is restricted to the lesser of (i) \$17,500,000 and (ii) the sum of (1) \$7,000,000, (2) deemed daily (excluding days which are not business days) advances under the DIP Facility to fund repayments of outstanding obligations (including accrued interest) under the ABL Facility (each such repayment and advance to be effected by book entry only and to be in an amount equal to the available Cash Collateral (as defined in the interim order in respect of the Chapter 11 Proceedings) of the DIP Borrowers, less the initial \$2,000,000 referred to in (3) below), on each day not previously so applied to repay the outstanding obligations under the ABL Facility), and (3) a deemed advance to Barzel Finco on the date hereof in an amount equal to the aggregate amount of

funds on deposit in all bank accounts (other than certain payroll accounts) of the Barzel Group in excess of \$2,000,000.

- e. On the earlier of the expiry of the appeal period in respect of the CCAA Proceedings, and the date upon which the final order is entered by the U.S. Bankruptcy Court in connection with the Chapter 11 Proceedings, Barzel Finco or the Applicant, as applicable, shall be deemed to have requested an advance (to be effected by book entry) under the DIP Facility in an amount equal to all remaining outstanding obligations (including accrued interest) under the ABL Facility. The proceeds of such deemed advance under the DIP Facility shall be applied to repay (by book entry) in full the outstanding obligations under the ABL Facility (thus completing the rollover of the outstanding obligations under ABL Facility into the DIP Facility).
  - f. The obligations of Barzel Finco under the DIP Credit Agreement are guaranteed by each of the other US Debtors and by the Applicant. The obligations of the Applicant under the DIP Credit Agreement are guaranteed by Barzel Finco and each of the other US Debtors.
  - g. The DIP Credit Agreement contemplates that the obligations of the DIP Borrowers will be secured by a court-ordered super-priority (subject to customary and Court ordered exceptions) charge (supplemented pursuant to the security documentation relating to the DIP Credit Agreement) over substantially all of the present and after-acquired real and personal property of the Barzel Group.
55. The Proposed Monitor has not been party to the ongoing and complex negotiations between Barzel Group, the DIP Administrative Agent and the ABL Administrative Agent. However, the Proposed Monitor understands that Houlihan had previously solicited other prospective lenders to provide DIP financing for the Barzel Group. Houlihan advised that these lenders were not willing to provide DIP financing for the following reasons:

- a. The ABL Lenders would not agree to priming charges;
- b. The accounts receivable and inventory collateral did not provide the other lenders with sufficient collateral to support the DIP financing requirements; and
- c. There was likely not an opportunity to provide exit financing.

56. As it relates to the DIP Credit Agreement, the Applicant and/or its advisors have advised the Proposed Monitor that:

- a. the DIP Credit Agreement represents the best alternative available to the Barzel Group and, by extension, the Applicant;
- b. as the business of the Applicant is inextricably linked to that of the US Debtors, the Applicant would not be able to secure DIP financing without the involvement of the US Debtors;
- c. the DIP Credit Agreement should ensure the continuation of the Applicant's operations and employment of the majority of its employees during the CCAA Proceedings;
- d. the proposed sales process and stalking horse offer would be at risk if the DIP Credit Agreement were not approved by this Honourable Court; and
- e. substantially all of the assets of the Barzel Group are already pledged to the Holders and/or the ABL Lenders. As such, any other DIP financing would need to prime such entities (and, therefore, be subject to potential opposition) or be an alternate DIP in the same or greater amount in order to repay such entities.

57. Barzel Canada has advised the Proposed Monitor that the Barzel Group will use the funds advanced under the DIP Facility for working capital, general corporate purposes, transaction costs, post-filing expenses, and to pay interest on the DIP

Facility. The Proposed Monitor understands that the Barzel Group is in immediate need of the financing in order to ensure steel purchases are made to allow the Applicant and the US Debtors to continue operating and meeting customer order requirements.

## **OVERVIEW OF THE 13-WEEK CASH FLOW STATEMENT**

58. The Barzel Group has prepared a consolidated 13-week cash flow forecast (the **“Consolidated Cash Flow Statement”**) that estimates its financing requirements during the CCAA Proceedings and the Chapter 11 Proceedings. A copy of the Consolidated Cash Flow Statement is attached hereto as Part 1 of Exhibit **“D”** and projects that the Barzel Group has liquidity available to continue operating while under the protection contemplated pursuant to the CCAA Proceedings and the Chapter 11 Proceedings. The DIP Credit Agreement provides with respect to projected borrowings for a maximum cumulative variance of \$1,000,000 from the approved budget.
59. From a review of the Consolidated Cash Flow Statement, it is important to note that the Barzel Group’s liquidity over the 13-week period becomes increasingly tight with limited flexibility. The Barzel Group will need to execute a transaction on an expedited basis as there is the potential that by the end of the 13 week forecast the Barzel Group will not have sufficient liquidity to continue as a going-concern.
60. The Applicant has prepared a 13-week cash flow forecast (the **“Canadian Cash Flow Statement”**) that estimates its financing requirements during the CCAA Proceedings. A copy of the Canadian Cash Flow Statement is attached hereto as Part 2 of Exhibit **“D”**.
61. The Canadian Cash Flow Statement estimates that for the period September 11, 2009 to December 11, 2009, the Applicant will have total receipts of approximately total

receipts of approximately \$17.2 million and approximate total disbursements of \$26.6 million for net cash outflow of \$9.4 million.

62. As at September 11, 2009, the Applicant is forecast to have available liquidity, consisting of cash on hand and availability under the DIP Credit Agreement of approximately \$10 million.
63. It should be noted that to the extent that suppliers supply goods or services after the date of the Initial Order (if obtained) on credit, there is a risk that the Applicant will not have sufficient liquidity to satisfy its obligations (which could include payments owing to employees for services performed in the preceding pay period) unless the DIP Lenders provide additional credit or a purchase transaction is consummated in which the purchaser agrees to assume such obligations.
64. As at July 25, 2009 (the latest available financial reporting of the Applicant), the amount of pre-filing trade debt of the Applicant that will be stayed as a result of the CCAA Proceedings is approximately \$14.3 million.
65. The Cash Flow Statement of the Applicant as of September 13, 2009 has been prepared by the Applicant for the purpose of the CCAA Proceedings and Chapter 11 Proceedings using probable and hypothetical assumptions. The probable assumptions of the Cash Flow Statement are as follows:
  - a. accounts receivable collections have been estimated by the Applicant's collection group based on revenue forecasts and customer collection experience;
  - b. all disbursements are made assuming suppliers pre-filing amounts are stayed and post-filing amounts are paid on significantly reduced credit terms in light of the commencement of these CCAA Proceedings;
  - c. no significant changes in input prices (i.e., steel) or foreign exchange rates;
  - d. intercompany accounts payable and loans, as at the date of filing, are stayed;

- e. all interest payments relating to the Notes are stayed;
  - f. interest accruing on the direct indebtedness of the DIP Credit Agreement is paid monthly at the rates agreed in DIP Credit Agreement;
  - g. pension funding payments continue to be made in the normal course for the current service portion for the DCPs; and
  - h. professional fees associated with the planned Chapter 11 and CCAA proceedings have been included.
66. The Proposed Monitor believes that the forecast provided by the Applicant in relation to the total Canadian professional fees referred to above may potentially be too low. In the event the Applicant cannot support the payment of all those fees over the course of the CCAA Proceeding, some or all of the professionals covered under the "Administration Charge" described in the draft Initial Order (the "**Administration Charge**") will have to rely on the Administration Charge. The Proposed Monitor will monitor the disbursements and report to this Honourable Court any material concerns that may arise.

#### **CASH MANAGEMENT SYSTEM AND INTERCOMPANY PAYABLES**

67. As described above, there are significant intercompany dependencies between the Applicant and Barzel. As noted above, the Proposed Monitor understands that the Applicant and Barzel US will settle the net intercompany balances on at least a weekly basis. The Proposed Monitor has not had an opportunity to fully understand the nature of the intercompany balances and transactions at this point but will investigate further and report to this Honourable Court as more information is obtained.
68. As requested by the Applicant, the Proposed Monitor will monitor the Applicants' cash management system, particularly in regard to intercompany transfers among the Applicant and the Barzel Group.

## CHARGES IN THE DRAFT INITIAL ORDER

69. The Administration Charge provides for an amount of CDN\$1,000,000 for the Monitor, the Monitor's counsel, and the Applicant's Canadian counsel, as security for professional fees and disbursements incurred before and after the making of the Initial Order in respect of these CCAA Proceedings. The Administration Charge has been established based on respective professionals' previous history and experience with significant cross border restructurings of similar magnitude and complexity. The Proposed Monitor believes that the Administration Charge is required and reasonable under the circumstances.
70. The directors' and officers' charge (the "**D&O Charge**"), as described in the Narwold Affidavit and the draft Initial Order, provides for a charge in the amount of CDN\$2.3 million as security for various indemnities provided to the directors and officers by the Applicant in the draft Initial Order.
71. The Proposed Monitor has been advised that the D&O Charge is necessary for the continued service of the Applicant's directors and officers during the Company's restructuring and that the quantum has been calculated relative to certain employee-related obligations of the Applicants for which the directors and officers may be held liable, and the value of directors' and officers' liability insurance that Barzel US maintains for all its officers and directors.

72. Given that the Applicant will require the committed involvement of its directors and officers to successfully restructure, the Proposed Monitor believes the D&O Charge is required under the circumstances. The Proposed Monitor has not been provided with detailed information on a per employee basis in order to calculate the potential exposure. However, the Applicant has provided a summary overview of the potential liabilities for the directors and officers which supports the quantum requested.

### **CREDITOR NOTIFICATION**

73. The draft Initial Order requires the Proposed Monitor to send notice of the Initial Order, within ten days, to every known creditor, having a claim of more than CDN\$1,000. Approval to use a CDN\$1,000 threshold is being sought to reduce the administrative burden and the cost of such process, considering the large number of creditors with low outstanding balances. An analysis of a recent accounts payable sub-ledger indicates that approximately 41% in number of creditors have outstanding balances less than CDN\$1,000, representing less than 1% of the aggregate dollar value of the trade accounts payable. The Proposed Monitor will attempt to ensure that creditors owed less than CDN\$1,000 will receive notice of the Initial Order by posting the Initial Order on its website.

### **SECURITY**

74. The Proposed Monitor has received oral opinions (collectively, the “**Osler Opinions**”) from its counsel, Osler, Hoskin & Harcourt LLP (“**Osler**”), that (subject to certain assumptions and qualifications) the security granted by the Applicant in connection with its obligations in connection with the ABL Facility and the Intercompany Notes, respectively (collectively, the “**Senior Security**”), is validly perfected and registered or otherwise is opposable to third parties in the Provinces of Ontario and Quebec (those being the jurisdictions in which we understand the Applicant has tangible assets and/or is located). The Osler Opinion provide that the pledge by Barzel Finco of the Intercompany Notes and Intercompany Notes Security

Documents pursuant to the Indenture Collateral Agreement to the Indenture Trustee as collateral agent for the secured parties referred to in the Indenture, in the State of New York is valid (subject to certain assumptions and qualifications).

75. The Osler Opinion with respect to the Senior Security governed by the laws of the Province of Quebec (collectively, the "**Quebec Security Documents**") includes an assumption that the party identified as "Novamerican Steel Inc." in the Quebec Security Documents (the "**Quebec Security Document Grantor**") was the corporation ("**Amalco 2**") that resulted from the amalgamation under the Canada Business Corporations Act (Canada) (the "**CBCA**") on November 15, 2007 of Amalco 1 (as described below), Nova Steel Ltd., Cresswell Industries Inc., Nova Tube Ontario Inc. and Nova Steel Processing Centre Ltd., and not by Amalco 1 (being the result of the amalgamation under the CBCA on November 15, 2007 of Novamerican Steel Inc. and 632421 N.B. Ltd.). This assumption was made because the identity of the Quebec Security Document Grantor is unclear. Osler was advised by Quebec counsel to JPM, as *fondé de pouvoir* under the Quebec Security Documents, that the Quebec Security Documents were executed on November 15, 2007 at a time of the day which was after Amalco 1 had amalgamated to continue as Amalco 2. As a result, neither Amalco 1 nor any other predecessor of Amalco 2 could have been a party to the Quebec Security Documents at such time. Based on this advice, if Amalco 2 was not the "Grantor" under the Quebec Security Documents, the security thereunder could not have been validly created.

## CONCLUSIONS

76. The Proposed Monitor is of the view that the restructuring and continuation of the business of Barzel Canada as a going concern is the best option available for a variety of reasons, including, *inter alia*:
- a. A going concern restructuring or sale of assets would preserve the value of Barzel Canada whereas a liquidation and wind-down of Barzel Canada or the Barzel Group would likely result in a substantial diminution in value that could ultimately reduce creditors' recoveries against Barzel Canada; and

- b. The liquidation and wind-down of Barzel Canada could eliminate a significant number of jobs, many of which would be preserved if Barzel Canada is able to continue or sold as a going concern.
77. In these circumstances, the Proposed Monitor is supportive of Barzel Canada's efforts to obtain DIP financing so as to avoid a liquidation and facilitate a restructuring and sale of its assets through the Chapter 11 Proceedings and these CCAA Proceedings.
78. The Proposed Monitor understands that the DIP Lenders are only willing to extend credit to Barzel Canada under the conditions of the DIP Credit Agreement. The Proposed Monitor further understands that Barzel Canada and the Barzel Group do not have any satisfactory alternative financing arrangements available.
79. The Proposed Monitor understands that, without access to financing under the DIP Credit Agreement, Barzel Canada and the Barzel Group would face an imminent liquidity crisis, an inability to purchase steel and allow for ongoing operations and the prospect of a liquidation of its assets. Consequently, the Proposed Monitor recognizes the need for the Applicant to obtain this Honourable Court's approval of the DIP Credit Agreement as part of the Initial Order.
80. Given the state of the credit markets and under the present circumstances, the Proposed Monitor appreciates Barzel Canada and the Barzel Group's view that the proposed DIP Credit Agreement is the only viable financing available to the Barzel Group at the present time. The Proposed Monitor recognizes the Company's need for ongoing financing and is supportive of its efforts to maintain going concern value and to protect its employees and other stakeholders.

81. The Applicant has advised the Proposed Monitor that it intends to seek an order of this Honourable Court in the near future regarding the approval of a sales process and the Metco agreement;

82. Further to the Proposed Monitor's review of the proposed draft Initial Order, the Proposed Monitor supports the charges and financial thresholds proposed in the draft Initial Order, including:

- a. the Administration Charge of \$1,000,000;
- b. the D&O Charge of \$2.3 million; and
- c. notices to creditors with outstanding balances of CDN\$1,000 or more.

All of which is respectfully submitted at Toronto, Ontario, this 15<sup>th</sup> day of September, 2009.

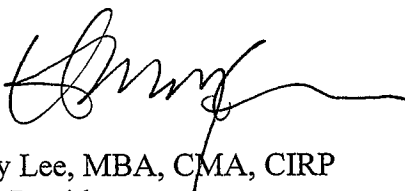
**DELOITTE & TOUCHE INC.**

In its capacity as Proposed Monitor of  
Barzel Industries Canada Inc.

Per:



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



Huey Lee, MBA, CMA, CIRP  
Vice President

Exhibit 'A'

<b>Income Statement</b>	
	<b>CAD</b>
Sales - calc	\$ 63,561,168
Processing revenues - calc	4,447,453
<b>Gross revenues</b>	<u>68,008,620</u>
<b>Cost of Goods Sold</b>	<u>69,375,906</u>
<b>Gross Profit</b>	<u>(1,367,285)</u>
Plants	24,804,535
Delivery	4,801,079
Selling	3,562,587
Administrative and general	11,748,463
Amortization of intangibles	3,011,795
<b>Total Expenses</b>	<u>47,928,460</u>
<b>Operating Income</b>	<u>(49,295,745)</u>
Interest expenses	3,232,151
Restructuring costs	(515,524)
Other revenue	3,350,773
Share in earnings of joint venture	292,947
<b>Other Expense (Income)</b>	<u>6,360,346</u>
<b>Earnings before taxes</b>	<u>(55,656,091)</u>
Income taxes - Current	50,000
Income taxes - Deferred	(19,485,796)
<b>Income Taxes</b>	<u>(19,435,796)</u>
<b>Net Income</b>	<u>\$ (36,220,295)</u>

**Balance Sheet**

	<b>CAD</b>
Cash and cash equivalents	\$ 2,384,177
Account receivable	28,867,538
Inventories	11,123,378
Prepaid expenses and other	351,778
Prepaid taxes	20,538
Deferred Income taxes S/T	94,888
<b>Total Current Assets</b>	<b><u>42,842,297</u></b>
Property, Plant and equipment	39,324,589
Advances Intercompany	21,409,249
Investment in a joint venture	2,182,020
Goodwill	5,905,123
Other intangibles assets	21,287,022
<b>Total assets</b>	<b><u>\$ 132,950,300</u></b>
Accounts payable and accrued liabilities	93,201,304
Restructuring charges reserve - ST	974,248
<b>Total Current Liabilities</b>	<b><u>94,175,552</u></b>
Long term debt	8,252,600
Loan - Intercompany	143,633,053
Deferred Income taxes	(12,914,818)
Restructuring charges reserve - LT	736,242
Fin 48 reserves	4,311,642
<b>Total Liabilities</b>	<b><u>238,194,272</u></b>
Share Capital	25,800,286
Cumulative translation adjustment	(26,832,084)
Retained earnings	(104,212,174)
<b>Total Equity</b>	<b><u>(105,243,972)</u></b>
<b>Total Liabilities and Equity</b>	<b><u>\$ 132,950,300</u></b>

Source: Unaudited unconsolidated financial statements (internal) of the Applicant for July 21, 2009 year to date

Exhibit 'B'

**Income Statement**

	CAD
Sales	\$ 443,800,299
Processing revenues	12,268,383
<b>Gross revenues</b>	<u>456,068,681</u>
<b>Cost of Goods Sold</b>	<u>400,303,130</u>
<b>Gross Profit</b>	<b>55,765,552</b>
Plants	31,699,349
Delivery	13,859,662
Selling	4,671,513
Administrative and general	25,130,375
Amortization of intangibles	5,334,287
<b>Total Expenses</b>	<u>80,695,186</u>
<b>Operating Income</b>	<u>(24,929,634)</u>
Interest expenses	8,757,847
Restructuring costs	35,223,835
Other revenue	(65,329)
Share in earnings of joint venture	(302,305)
<b>Other Items</b>	<u>43,614,048</u>
<b>Earnings before taxes</b>	<u>(68,543,683)</u>
Income taxes - Current	487,086
Income taxes - Deferred	(19,021,342)
<b>Income Taxes</b>	<u>(18,534,256)</u>
<b>Net Income</b>	<u>\$ (50,009,426)</u>

**Balance Sheet**

	CAD
Cash and cash equivalents	\$ 17,542,465
Account receivable	48,938,145
Inventories	28,226,676
Prepaid expenses and other	292,716
Prepaid taxes	2,400,786
Deferred Income taxes S/T	94,888
Income taxes receivable	858,202
<b>Total Current Assets</b>	<b>98,353,877</b>
Property, Plant and equipment	60,281,544
Advances Intercompany	39,946,150
Investment in Subsidiaries	(1)
Investment in a joint venture	2,474,967
Goodwill	5,905,123
Other intangibles assets	24,387,860
<b>Total assets</b>	<b>\$ 231,349,521</b>
Accounts payable and accrued liabilities	19,289,265
Restructuring charges reserve	4,319,995
<b>Total Current Liabilities</b>	<b>23,609,259</b>
Long term debt	32,555,600
Loan - Intercompany	263,946,314
Deferred Income taxes	6,570,978
Restructuring charges reserve - LT	102,692
Fin 48 reserves	4,261,642
<b>Total Liabilities</b>	<b>331,046,485</b>
Share Capital	25,800,286
Cumulative translation adjustment	(57,516,516)
Retained earnings	(67,980,734)
<b>Total Equity</b>	<b>(99,696,964)</b>
<b>Total Liabilities and Equity</b>	<b>\$ 231,349,521</b>

Source: Unaudited unconsolidated financial statements (internal) of the Applicant for year ended November 30, 2008

**Exhibit 'C'**

**Barzel Industries Inc. and Subsidiaries (Formerly Novamerican Steel Inc.)**

**Consolidated Balance Sheets**

(In thousands of U.S. dollars, except share and per share data)

	<u>November 29, 2008</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 25,298
Trade accounts receivable, net (Note 7)	53,940
Income taxes receivable	1,262
Inventories (Note 8)	53,171
Prepaid expenses and other assets	3,832
Deferred income taxes (Note 5)	2,234
Total current assets	<u>139,737</u>
Investment in a joint venture (Note 18)	2,288
Property, plant and equipment, net (Note 9)	124,922
Goodwill (Note 4)	133,511
Intangibles, net (Note 4)	63,625
Deferred financing charges	12,798
Other assets	59
Deferred income taxes (Note 5)	—
Total assets	<u>\$ 476,940</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable	\$ 20,173
Accounts payable to a joint venture (Note 18)	1,523
Accrued liabilities (Note 10)	13,172
Restructuring charges (Note 22)	7,207
Income taxes payable	299
Deferred income taxes (Note 5)	—
Total current liabilities	<u>42,374</u>
Long-term debt (Note 11)	348,814
Restructuring charges (Note 22)	358
Deferred income taxes (Note 5)	37,070
Other long term liabilities (Note 5)	3,127
Total liabilities	<u>431,743</u>
Contingencies and commitments (Notes 19 and 20)	
Stockholders' equity:	
Preferred stock: \$0.001 par value; authorized 10,000,000 shares; none issued	—
Common stock: \$0.001 par value; authorized 100,000,000 shares; issued and outstanding 26,564,607 at November 29, 2008 and 21,452,304 at November 24, 2007 (Note 14)	26
Additional paid-in capital	128,311
Accumulated deficit	(58,546)
Accumulated other comprehensive loss	(24,594)
Total stockholders' equity	<u>45,197</u>
Total liabilities and stockholder's equity	<u>\$ 476,940</u>

**Barzel Industries Inc. and Subsidiaries (Formerly Novamerican Steel Inc.)**

**Consolidated Statements of Operations and Comprehensive Loss**

(In thousands of U.S. dollars, except per share data)

	Year ended November 29, 2008
<b>Net sales</b>	\$ 801,058
Cost of sales	661,286
<b>Gross margin</b>	<u>139,772</u>
<b>Operating expenses</b>	
Plant	54,359
Delivery	26,544
Selling	11,827
Administrative and general	36,966
Amortization of intangibles	9,100
Trade name impairment (Note 4)	25,639
Goodwill impairment (Note 4)	414
Restructuring costs (Note 22)	13,348
Formation and operating costs	—
	<u>178,197</u>
<b>Operating loss</b>	<u>(38,425)</u>
Transaction expenses (Note 3)	—
Interest expense	42,226
Interest income	(892)
Share in income of a joint venture	(289)
	<u>41,045</u>
Loss before income taxes	(79,470)
Income tax benefits (Note 5)	(24,871)
<b>Net loss</b>	<u>\$ (54,599)</u>
<b>Net loss per share (Note 6)</b>	
Basic	\$ (2.59)
Diluted	<u>\$ (2.59)</u>
<b>Comprehensive loss</b>	
Net loss	\$ (54,599)
Changes in cumulative translation adjustment	(21,849)
	<u>\$ (76,448)</u>

Source: Form 10-K filing for the Barzel Group for year ended November 30, 2008



Banzel Industries, Inc.  
DIP FINANCING MODEL

Week of	DIP FINANCING PERIOD													Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	
Ending Revolver	17,556	20,877	21,915	23,278	23,667	23,983	25,110	23,181	24,870	24,870	26,032	26,814	27,670	28,956
Beginning Cash on Hand	3,318	1,418	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824
Net Cash Flow	(2,257)	(915)	(1,036)	(1,364)	(389)	(317)	(1,126)	1,929	(1,690)	0	(1,162)	(781)	(857)	(1,296)
Px Impact														
Borrowings	357	3,321	1,038	1,364	389	317	1,126	(1,929)	1,690	(0)	1,162	781	857	1,285
Ending Cash on Hand	1,418	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,824	3,813
Commitment	20,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Ending Revolver	17,556	20,877	21,915	23,278	23,667	23,983	25,110	23,181	24,870	24,870	26,032	26,814	27,670	28,956
Accrued Interest on ABL		161	161	161	161	161	161	161	161	161	161	161	161	161
LOCs	883	883	883	883	883	883	883	883	883	883	883	883	883	883
Total Debt		21,921	22,959	24,322	24,711	25,027	26,154	24,225	25,914	25,914	27,076	27,858	28,714	30,000
Net Availability	61	8,079	7,041	5,678	5,289	4,973	3,846	5,775	4,086	2,924	2,142	1,286	0	0
Total Liquidity (Ending Cash on Hand + Net Availability)	1,480	11,903	10,865	9,502	9,113	8,796	7,670	9,599	7,910	6,748	5,966	5,110	3,813	
Less: Outstanding Checks	375	500	500	500	500	500	500	500	500	500	500	500	500	500
Total Liquidity net of Outstanding Checks	1,105	11,403	10,365	9,002	8,613	8,296	7,170	9,099	7,410	6,248	5,466	4,610	3,313	





Barzel Industries, Inc.  
Barzel CDN Cash Flow Forecast for the 13 week period September 14 to December 11, 2009  
Notes and Summary of Assumptions Prepared by Management

- 1 Collection of trade accounts receivable are in connection with sales made to third parties. Collections have been estimated based on customers' historic average payment pattern. Sales invoiced are estimated to be collected within 6 weeks of sale. The sales split between the Barzel Canada and the related US companies have been forecasted based on historical trends, whereby 35% of total sales are attributed to the Barzel Canada's operations.
- 2 Intercompany receipts reflect collection of intercompany sales made between the Barzel Canada and related companies in the US. Sales from the Barzel Canada to related US companies are mainly composed of raw steel, it is estimated, based on the historic trends, that approximately 25% of the overall steel purchased by the Barzel Group is sold from Barzel Canada to the related US companies. Based on past practice this transaction is forecasted at a 5% mark-up.
- 3 Other receipts are composed of an anticipated tax refund from the province of Quebec and the cash flow forecast may be impacted if there is a change in the timing of the receipt of this tax refund.
- 4 Steel is the principal raw material used in the production of the Barzel Canadas products. Payment for purchases from steel suppliers is forecasted on a cash on delivery ("COD") basis.
- 5 Freight costs reflect payments for transportation of steel from the suppliers facility to the production facilities.
- 6 These disbursements represent operating costs associated with the production and sale of the products and administration of the business. The majority of purchases are assumed to be made on a COD basis, furthermore Barzel Canada has also forecasted the payment of certain security deposits.
- 7 Maintenance and capital expenditures are assumed to be made on a COD basis and are based on estimates of actual capital expenditures necessary in the post-filing period.
- 8 Employee related costs and benefits reflect salaries, wages, vacation pay, other benefit costs and employee travel expenses. Pension disbursements with respect to the employees in Canada are being made on account of current service; payments in respect of past service costs have been paid pre-filing.
- 9 Purchases by Barzel Canada from related US companies mainly represents tubing product. The forecast is based on the average intercompany purchases for the last three months and includes a mark-up of 5%.
- 10 Taxes relate to payments for property taxes on the various leased and owned facilities.
- 11 The restructuring professionals fees include all post-filing fees related to Barzel Canada's legal counsel, Bank's advisor, and the Monitor and its legal counsel.
- 12 Interest and commitment fees on the DIP Facility will be paid as contemplated under the agreements. A significant portion of the interest expense is forecasted for the Canadian operations due to the fact that based on the cash forecast the Barzel Canadas' will be required to borrow most of the DIP availability.
- 13 The company forecasts that lump sum payments will be made between the Canadian and US entities based on timing of disbursements.
- 14 The CDN\$/US\$ foreign exchange rate is assumed to be constant at 1.0812 throughout the period.