



**Third Report of
KSV Kofman Inc. as CCAA Monitor of
Labrador Iron Mines Holdings Limited,
Labrador Iron Mines Limited and
Schefferville Mines Inc.**

August 26, 2015

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COURT FILE NO: CV-15-10926-00CL

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
LABRADOR IRON MINES HOLDINGS LIMITED, LABRADOR IRON MINES LIMITED AND
SCHEFFERVILLE MINES INC.

THIRD REPORT OF
KSV KOFMAN INC.
AS CCAA MONITOR

AUGUST 26, 2015

1.0 Introduction

1. Pursuant to an order (“Initial Order”) of the Ontario Superior Court of Justice (Commercial List) (“Court”) made on April 2, 2015, Labrador Iron Mines Holdings Limited (“LIMH”), Labrador Iron Mines Limited (“LIM”) and Schefferville Mines Inc. (“SMI”) (together, the “Company”) were granted protection under the *Companies’ Creditors Arrangement Act* (the “CCAA”) and Duff & Phelps Canada Restructuring Inc. (“D&P”) was appointed the monitor (“Monitor”).
2. On June 30, 2015, D&P was acquired by KSV Kofman Inc. (“KSV”). Pursuant to an Order of the Ontario Superior Court of Justice made on July 10, 2015, D&P’s ongoing mandates were transferred to KSV, including acting as Monitor in these proceedings. The licensed trustees/restructuring professionals overseeing this mandate prior to June 30, 2015 remain unchanged.
3. On July 27, 2015, the Court made an Order extending the stay of proceedings to December 18, 2015.
4. The Affidavit of John Kearney, the Company’s Chairman and Chief Executive Officer, sworn March 31, 2015 (the “Kearney Affidavit”) and filed in support of the Company’s application for CCAA protection, describes, *inter alia*, the Company’s background, including the reasons for the commencement of these proceedings. The Kearney Affidavit together with all other materials filed in these proceedings can be found on the Monitor’s website at www.ksvadvisory.com.

5. The principal purpose of these restructuring proceedings is to create a stabilized environment in order to allow the Company the opportunity to restructure its key contracts and refinance its business such that it will be in a position to resume its mining activities when iron ore prices recover from their current multi-year low.

1.1 Purposes of this Report

1. The purposes of this report (“Report”) are to:
 - a) Provide background information about the Company and these proceedings;
 - b) Summarize the terms of an offer (the “Offer”) by Toromont CAT, a division of Toromont Industries Ltd. (the “Purchaser”), to purchase surplus equipment (three generators) (the “Equipment”) owned by the Company (the “Transaction”);
 - c) Recommend that this Court make an order:
 - Approving the Transaction;
 - Vesting in the Purchaser, as of closing, title to the Equipment free and clear of all claims, liens and encumbrances; and
 - Sealing the Confidential Appendices to this Report until the Transaction is completed.

1.2 Currency

1. Unless otherwise noted, all currency references in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, the Monitor has relied upon unaudited financial information prepared by the Company’s representatives, the Company’s books and records, discussions with management and discussions with the Company’s legal counsel. The Monitor has not performed an audit or other verification of such information.

2.0 Background

1. The Company develops and mines iron ore projects in the central part of the Labrador Trough iron ore region, between the Province of Newfoundland and Labrador and the Province of Quebec. The Labrador Trough is one of the major iron producing regions in the world and has a history of mining dating to the early 1950s.

2. The Company's mine sites are located in Labrador near Schefferville, Quebec, located approximately 600 kilometres north of the Port of Sept-Îles, from which the Company's iron ore is sold and shipped to China.
3. The Company typically operates from approximately the beginning of April to the end of November. Given the market conditions since 2013, including the current price of iron ore and the Company's cost to transport and ship under its contracts, the Company decided not to commence production in April, 2014 or 2015. The Company's mining operations have been suspended and maintained on a standby basis since the end of 2013.
4. Until February 23, 2015, the shares of LIMH were listed on the Toronto Stock Exchange ("TSX") under the symbol "LIM". Due to LIMH's low market capitalization and in contemplation of its potential CCAA proceedings, LIMH submitted a voluntary delisting application to the TSX, which became effective at the close of markets on February 23, 2015.
5. As at the date of the Initial Order, the price of iron ore was approximately US\$48/tonne. Since then, the price has fluctuated between US\$45/tonne and US\$65/tonne. The Company cannot operate profitably at these price levels.
6. The Company believes that if: a) its major operating contracts are renegotiated on terms more favourable to the Company; and b) the price of iron ore recovers, it will be able to generate profits and therefore be in a position to refinance its operations.

3.0 Sale of Equipment

1. The Equipment is comprised of three 1.8 megawatt diesel generators; two are located at the Company's mine near Schefferville and one is located in Labrador City, NL. Two of the generators are functional; one requires repairs. The Equipment is not being utilized and is surplus to the Company's current and future requirements as the site now has access to hydro power, making the Equipment redundant.
2. In early 2015, LIM contacted equipment dealers, mining companies and end users active in Eastern Canada. Two parties made preliminary offers for the Equipment.
3. On July 10, 2015, LIM sought and received a proposal ("Proposal") from the party that had submitted the higher of the two preliminary offers. The Proposal was conditional upon, among other things, the Equipment passing certain tests. Due to these conditions, LIM continued discussions with both parties with the objective of receiving an unconditional offer from at least one party.
4. On August 17 and 20, 2015, LIM received revised offers on substantially the same terms, other than price, from the two parties.

5. The Purchaser's offer, being the higher of the two offers, provides for:
 - a) a purchase price that exceeds the net liquidation value and payment in cash upfront;
 - b) representations and warranties consistent with an insolvency transaction, i.e. the assets are being sold on an "as is, where is" basis;
 - c) the costs of dismantling and removing the Equipment to be borne by the Purchaser; and
 - d) a closing date no later than September 19, 2015.
6. A redacted copy of the Offer is appended to the affidavit of Mr. Kearney sworn August 24, 2015 in support of the Company's motion seeking approval of the Transaction. As noted in Mr. Kearney's affidavit, an unredacted copy of the Offer will be made available to the Court at the hearing of this motion.
7. A summary of the unsuccessful offer is provided in Confidential Appendix "1".
8. As the sale price exceeds the \$250,000 threshold in the Initial Order for sales out of the ordinary course in any one transaction, the Offer is subject to Court approval. The offer is also conditional upon the Court granting an order vesting clean title in and to the Equipment in the Purchaser on closing.

3.1 Recommendation

1. The Monitor considered the factors set out in Section 36 of the CCAA related to the disposition of assets outside of the ordinary course. Based on those factors, the Monitor recommends that the Court issue an order approving the Transaction for the following reasons:
 - a) the Company marketed the Equipment for sale to logical buyers - the Purchaser's offer was the highest received;
 - b) the Equipment is surplus to the Company's current and future needs - it has not been used for over a year and will likely decline in value over time;
 - c) the Monitor obtained an appraisal from Hilco Asset Sales Canada ("Hilco"). A copy of the appraisal and Hilco's indication of its net minimum guarantee (together, the "Appraisal") is attached as Confidential Appendix "2". Based on the Appraisal, the purchase price appears to be reasonable; and
 - d) the Transaction will provide liquidity to the Company, which it will require to continue its restructuring efforts.

3.2 Sealing

1. The Monitor recommends that the summary of the unsuccessful offer and the Appraisal be filed with the Court on a confidential basis and be sealed until such time that the Transaction closes, as the availability of this information to other parties may negatively impact any future offers for the Equipment if the Transaction does not close. The Monitor believes that no stakeholder will be prejudiced if the information is sealed until the Transaction is completed.

4.0 Conclusion

1. Based on the foregoing, the Monitor respectfully recommends that this Court make an Order granting the relief detailed in Section 1.1 of this Report.

* * *

All of which is respectfully submitted,

A handwritten signature in black ink that reads "KSV Kofman Inc". The signature is written in a cursive, flowing style.

**KSV KOFMAN INC.
IN ITS CAPACITY AS CCAA MONITOR OF
LABRADOR IRON MINES HOLDINGS LIMITED,
LABRADOR IRON MINES LIMITED AND SCHEFFERVILLE MINES INC.
AND NOT IN ITS PERSONAL CAPACITY**

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

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**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

MONITOR'S THIRD REPORT

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