



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

December 11, 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.

FOURTH REPORT OF  
KSV KOFMAN INC.  
AS CCAA MONITOR

DECEMBER 11, 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. (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 Court made on July 10, 2015, the name of the firm handling D&P's mandates was changed from D&P 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 Period (as defined in the Initial Order) to December 18, 2015 ("Extension Order").
4. The Affidavit of John Kearney, the Company's Chairman and Chief Executive Officer, sworn March 31, 2015, 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. Materials filed in these proceedings can be found on the Monitor's website at [www.ksvadvisory.com](http://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.

6. The Company was hopeful that by now the price of iron ore would have started to rise. However, the price of iron ore has continued to stagnate throughout these proceedings. In recent weeks, it is reaching record lows.

## **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) Report on the Company’s weekly cash flow projection for the period November 28, 2015 to July 1, 2016 (the “Projection”);
  - c) Provide an overview of the Company’s activities since July 22, 2015, the date of the Monitor’s Second Report to Court (“Second Report”);
  - d) Provide an overview of the Monitor’s activities since the Second Report; and
  - e) Recommend that this Court make an order:
    - granting the Company’s request for an extension of its stay of proceedings from December 18, 2015 to June 30, 2016; and
    - approving this Report and the Monitor’s conduct and activities, as described in this Report.

## **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. An examination of the Company’s cash flows and/or financial forecasts as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future oriented financial information relied upon in this Report is based on the Company’s assumptions regarding future events; actual results achieved may vary from this information and these variations may be material.
2. Any party that wishes to use or rely on the Projection and/or the financial forecasts is encouraged to perform its own diligence review.

## 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 world's major iron ore producing regions 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 historically operated from approximately the beginning of April to the end of November. As a result of market conditions since 2013, including the price of iron ore and the Company's cost to transport and ship under its contracts, the Company did not 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. The shares of LIMH were listed on the Toronto Stock Exchange ("TSX") under the symbol "LIM" until February 23, 2015. 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 July 27, 2015, the date of the Extension Order, the price has fluctuated between approximately US\$39/tonne (December 7, 2015) and US\$56/tonne. The Company cannot operate profitably at these price levels.
6. The Company believes that, in time, it will be able to generate profits and refinance its operations if its major operating contracts are renegotiated on terms more favourable to the Company and the price of iron ore recovers.

### 3.0 Cash Flow

#### 3.1 Actual Results for the Period July 11, 2015 to November 27, 2015

- The Company's actual results for the period July 11, 2015 to November 27, 2015 compared to the projection included with the Second Report are provided in the table below. Overall, the Company reported a positive cash flow variance of approximately \$1.5 million.

	(Unaudited; \$000s)			Variance P or T *
	Actual	Projected	Variance	
<i>Receipts</i>				
Net GST/HST rebates/remittances	43	(1)	44	P
Sale of assets <sup>1</sup>	611	-	611	P
Release of restricted cash	-	320	(320)	T
<b>Total Receipts</b>	<b>654</b>	<b>319</b>	<b>335</b>	
<i>Disbursements</i>				
Payroll and payroll-related remittances	885	779	(106)	P/T
Office lease	20	20	-	
Camp lease	140	287	147	T
Legal and professional fees	133	413	280	P/T
Audit fees	20	20	-	
Other (site operations)	(4)	647	651	P/T
Other (corporate)	166	314	148	P/T
<b>Total Disbursements</b>	<b>1,360</b>	<b>2,480</b>	<b>1,120</b>	
<b>Net Cash Flow</b>	<b>(706)</b>	<b>(2,161)</b>	<b>1,455</b>	
Opening Cash Position	4,661	4,661	-	
Net Cash Flow	(706)	(2,161)	1,455	
<b>Closing Cash Position</b>	<b>3,955</b>	<b>2,500</b>	<b>1,455</b>	

\* P = permanent; T = temporary; P/T = permanent and temporary

<sup>1</sup> Includes the sale of the three surplus generators ("Equipment") completed pursuant to a transaction approved by Court Order on September 1, 2015 and sundry assets.

### **3.2 Projected Cash Flow for the Period Ending July 1, 2016**

1. The Projection is provided in Appendix "A".
2. The Company prepared the Projection using assumptions similar to the projection included with the Second Report. The Company is not projected to generate any revenue from operations during the projection period. The Company's principal projected costs include care and maintenance activities, general and administrative expenses, management and overhead expenses and professional fees.
3. The Company is projected to have sufficient liquidity to fund its business activities and these proceedings through the projection period. As at July 1, 2016, the Company is projecting that it will have approximately \$2 million of cash on hand.
4. The Monitor is of the view that the material assumptions seem reasonable in the circumstances. The Company's and Monitor's reports on the cash flow are provided in Appendix "B".

### **4.0 Company's Activities**

1. Details of the Company's activities since the Second Report are set out in the Affidavit of Mr. Kearney, sworn December 8, 2015 ("Kearney Affidavit").
2. A summary of the Company's activities include:
  - a. Maintaining the Company's business and assets on a care and maintenance basis, which includes carrying out required environmental monitoring, conducting water quality sampling and dealing with reporting and other regulatory requirements;
  - b. Conducting, during the summer and fall of 2015, a minimum field exploration program required to maintain its mineral claims in good standing. (A number of non-core mineral claims were dropped or surrendered. Planning for the future development of the Houston Project continued, although such planning was limited to the use of internal resources.);
  - c. Identifying surplus assets and considering processes to market them for sale;
  - d. Considering a claims process;
  - e. Preparing a five-year business plan to both maximize the revenue from an orderly sale of non-core assets and to preserve the value of the business following an exit from the CCAA process ("Preliminary Plan");

- f. Keeping employees, key vendors, significant creditors (including RBRG Trading (UK) Limited (formerly RB Metalloyd Ltd.) and Grey Rock Services Inc.), local community leaders, government agencies and other stakeholders apprised of developments in these proceedings;
- g. Completing the sale of the Equipment;
- h. Taking steps to close down the mine camp, such as closing access to the camp, draining pipes, removing consumables, winterizing the kitchen, draining and winterizing the sewer treatment plant, storing electronics and servicing the generators;
- i. Providing rail car repair and maintenance services at the facility of the Company's subsidiary in Sept Îles as well as rail car rental arrangements;
- j. Filing on SEDAR LIMH's audited Financial Statements and Management's Discussion and Analysis for its fiscal year ended March 31, 2015 and its unaudited interim Financial Statements and Management's Discussion and Analysis for the three and six month periods ending June 30, 2015 and September 30, 2015, respectively;
- k. Dealing with matters pertaining to a summons ("Summons") received from Environment Canada alleging three counts of violations of the Metal Mining Effluent Regulations, S.O.R /2002 – 222 ("MMER")<sup>2</sup>. (The Summons alleges that LIM failed to perform some of the multiple effluent sampling and testing requirements of the MMER between September and December, 2014. LIM disputes these allegations and has requested evidence to support the allegations. Additional details are provided in paragraphs 16-18 of the Kearney Affidavit.);
- l. Reporting receipts and disbursements; and
- m. Making payments for goods and services received following the date of the Initial Order.

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<sup>2</sup> Registered under subsections 34(2), 36(5) and 38(9) of the *Fisheries Act*.



## 5.0 Overview of the Monitor's Activities

1. Since the Second Report, the Monitor's activities have included:
  - a. Meeting with the Company from time-to-time to discuss the Company's cash flow and operations;
  - b. Reviewing a draft of the Preliminary Plan and discussing it with the Company's management team;
  - c. Corresponding with the Company regarding the sale of the Equipment;
  - d. Preparing the Third Report to Court dated August 26, 2015, reviewing motion materials, and attending at Court on September 1, 2015 in relation to the sale of the Equipment;
  - e. Monitoring the Company's receipts and disbursements;
  - f. Reviewing the Company's variance analyses;
  - g. Reviewing the Projection and corresponding with the Company regarding same;
  - h. Keeping apprised of industry developments;
  - i. Corresponding with Goodmans LLP, the Monitor's counsel, regarding the sale of the Equipment, the Preliminary Plan and this stay extension motion;
  - j. Posting Court materials filed in these proceedings on the Monitor's website; and
  - k. Preparing this Report.

## 6.0 Company's Request for an Extension

1. The Company is seeking an extension of the stay of proceedings from December 18, 2015 to June 30, 2016. The Monitor supports the Company's request for an extension of the stay of proceedings for the following reasons:
  - a. The Company is acting in good faith and with due diligence;
  - b. The extension should not prejudice any employee or creditor, as the Company is projected to have sufficient funds to pay post-filing services and supplies as contemplated in the Projection;

- c. An extension will allow the Company time to:
  - develop and seek Court approval of a claims process;
  - complete the Preliminary Plan; and
  - engage further with major stakeholders with a view to discussing and obtaining their support for a restructuring, renegotiating material contracts and pursuing financing arrangements.
2. The Monitor believes that an extension of the stay of proceedings until June 30, 2016 is appropriate as the Company's ability to advance its restructuring is largely dependent on the price of iron ore, which is not expected to materially increase in the near term, and to minimize professional fees in these proceedings by postponing as much as reasonable a motion brought for the sole purpose of extending the stay of proceedings.

## 7.0 Conclusion

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

\* \* \*

All of which is respectfully submitted,



**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**

## **Appendix “A”**

**Projected Statement of Cash Flow**

For the period November 28, 2015 to July 1, 2016

(\$C, unaudited)

	Note	Weekly Projection																									Total - \$							
		28-Nov-15	05-Dec-15	12-Dec-15	19-Dec-15	26-Dec-15	02-Jan-16	09-Jan-16	16-Jan-16	23-Jan-16	30-Jan-16	06-Feb-16	13-Feb-16	20-Feb-16	27-Feb-16	05-Mar-16	12-Mar-16	19-Mar-16	26-Mar-16	02-Apr-16	09-Apr-16	16-Apr-16	23-Apr-16	30-Apr-16	07-May-16	14-May-16		21-May-16	28-May-16	04-Jun-16	11-Jun-16	18-Jun-16	25-Jun-16	Nov 28 - July 1
		04-Dec-15	11-Dec-15	18-Dec-15	25-Dec-15	01-Jan-16	08-Jan-16	15-Jan-16	22-Jan-16	29-Jan-16	05-Feb-16	12-Feb-16	19-Feb-16	26-Feb-16	04-Mar-16	11-Mar-16	18-Mar-16	25-Mar-16	01-Apr-16	08-Apr-16	15-Apr-16	22-Apr-16	29-Apr-16	06-May-16	13-May-16	20-May-16	27-May-16	03-Jun-16	10-Jun-16	17-Jun-16	24-Jun-16	01-Jul-16		
<b>Receipts</b>																																		
GST/HST Rebates/Remittances		(11,190)						16,822						28,717												12,656								
Release of Restricted Cash	2				380,000																													
Interest Income													648																					24,986
<b>Disbursements</b>		(11,190)	-	-	380,000	-	-	16,822	-	-	-	-	28,717	-	648	-	-	16,098	-	-	-	-	-	-	-	12,656	-	24,986	-	32,274	-	-	-	-
Payroll and Payroll Related Remittances		(85,519)			(140,560)									(154,404)																				(147,844)
Camp Lease	3	(100,000)																																(152,561)
GST / HST / Sales Taxes		(18,321)	(1,380)	(1,380)	(7,636)	(974)	(1,994)	(4,594)	(1,994)	(6,544)	(2,047)	(2,047)	(2,047)	(2,047)	(1,539)	(1,539)	(1,539)	(8,039)	(1,539)	(8,887)	(2,083)	(2,083)	(2,083)	(17,683)	(3,215)	(1,827)	(1,827)	(10,927)	(2,935)	(2,935)	(2,935)	(19,185)	(2,935)	(150,837)
Legal and Professional Fees		(30,312)			(50,000)					(6,544)	(2,047)	(2,047)	(2,047)	(40,000)				(50,000)							(50,000)									(152,561)
Audit fees																																		(152,561)
Other (Site Operations)	4	(7,491)	(7,491)	(7,491)	(5,612)	(4,810)	(9,354)	(9,354)	(9,354)	(9,354)	(9,262)	(9,262)	(9,262)	(9,262)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(6,853)	(152,561)
Other (Corporate)	5	(3,126)	(3,126)	(3,126)	(3,126)	(2,679)	(5,981)	(25,981)	(5,981)	(5,981)	(6,481)	(6,481)	(6,481)	(6,481)	(4,985)	(4,985)	(4,985)	(4,985)	(4,985)	(4,985)	(6,161)	(6,161)	(6,161)	(6,161)	(76,161)	(6,481)	(6,481)	(6,481)	(6,481)	(5,705)	(5,705)	(5,705)	(5,705)	(152,561)
		(244,768)	(11,997)	(11,997)	(206,933)	(8,463)	(17,328)	(39,928)	(17,328)	(211,282)	(17,790)	(17,790)	(17,790)	(217,312)	(13,377)	(13,377)	(13,377)	(222,437)	(13,377)	(77,245)	(18,105)	(18,105)	(18,105)	(304,542)	(27,945)	(15,883)	(15,883)	(242,827)	(25,508)	(25,508)	(25,508)	(314,315)	(25,508)	(2,453,534)
<b>Net cash inflow / (outflow) in period</b>		<b>(255,958)</b>	<b>(11,997)</b>	<b>(11,997)</b>	<b>173,067</b>	<b>(8,463)</b>	<b>(17,328)</b>	<b>(23,107)</b>	<b>(17,328)</b>	<b>(211,282)</b>	<b>(17,790)</b>	<b>10,927</b>	<b>(17,790)</b>	<b>(216,664)</b>	<b>(13,377)</b>	<b>(13,377)</b>	<b>2,721</b>	<b>(222,437)</b>	<b>(13,377)</b>	<b>(77,245)</b>	<b>(4,718)</b>	<b>(18,105)</b>	<b>(304,542)</b>	<b>(27,945)</b>	<b>(3,228)</b>	<b>(15,883)</b>	<b>(217,841)</b>	<b>(25,508)</b>	<b>6,766</b>	<b>(25,508)</b>	<b>(314,315)</b>	<b>(25,508)</b>	<b>(1,939,138)</b>	
Opening cash balance		3,955,715	3,699,756	3,687,760	3,675,763	3,848,830	3,840,367	3,823,039	3,799,932	3,782,604	3,571,322	3,553,531	3,564,458	3,546,668	3,330,004	3,316,627	3,303,251	3,305,972	3,083,535	3,070,158	2,992,912	2,988,194	2,970,090	2,665,548	2,637,603	2,634,375	2,618,492	2,400,650	2,375,142	2,381,909	2,356,401	2,042,085	3,955,715	
Net cash flow		(255,958)	(11,997)	(11,997)	173,067	(8,463)	(17,328)	(23,107)	(17,328)	(211,282)	(17,790)	10,927	(17,790)	(216,664)	(13,377)	(13,377)	2,721	(222,437)	(13,377)	(77,245)	(4,718)	(18,105)	(304,542)	(27,945)	(3,228)	(15,883)	(217,841)	(25,508)	6,766	(25,508)	(314,315)	(25,508)	(1,939,138)	
Ending cash balance		3,699,756	3,687,760	3,675,763	3,848,830	3,840,367	3,823,039	3,799,932	3,782,604	3,571,322	3,553,531	3,564,458	3,546,668	3,330,004	3,316,627	3,303,251	3,305,972	3,083,535	3,070,158	2,992,912	2,988,194	2,970,090	2,665,548	2,637,603	2,634,375	2,618,492	2,400,650	2,375,142	2,381,909	2,356,401	2,042,085	2,016,577	2,016,577	

1. The purpose of the projection is to present a forecast of the cash flow of Labrador Iron Mines Holdings Limited, Labrador Iron Mines Limited and Schefferville Mines Inc. (together, "LIM") for the period ending July 1, 2016 ("Projection") in respect of LIM's proceedings under the Companies' Creditors Arrangement Act. The Projection has been prepared based on hypothetical and most probable assumptions developed and prepared by LIM's management.

2. Represents the release to LIM of restricted cash held in favour of the Newfoundland and Labrador government ("Government") following the completion of capital projects and the Government's acceptance of LIM's application supporting the release of funds.

3. Represents a purchase option exercised by LIM.

4. Includes operational expenses, environmental permits, environmental monitoring, mining leases and permits.

5. Includes general corporate and overhead costs including insurance, travel, software licences, office supplies and photocopies usage.

## **Appendix “B”**

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

**MANAGEMENT'S REPORT ON CASH FLOW STATEMENT**

The management of Labrador Iron Mines Holdings Limited, Labrador Iron Mines Limited and Schefferville Mines Inc. (collectively the "Company") has developed the assumptions and prepared the attached statement of projected cash flow as of the 8<sup>th</sup> day of December, 2015 for the period November 28, 2015 to July 1, 2016 ("Cash Flow Statement").

The hypothetical assumptions are reasonable and consistent with the purpose of the Cash Flow Statement as described in Note 1 to the Cash Flow Statement, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the Cash Flow Statement. All such assumptions are disclosed in Notes 2 to 5.

Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The Cash Flow Statement has been prepared solely for the purpose outlined in Note 1, using a set of hypothetical and probable assumptions set out in Notes 2 to 5. Consequently, readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

Dated at Toronto, Ontario this 8th day of December, 2015.



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Richard Pinkerton  
Chief Financial Officer of Labrador Iron Mines Holdings Limited



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

**MONITOR'S REPORT ON CASH FLOW STATEMENT**

The attached statement of projected cash-flow of Labrador Iron Mines Holdings Limited, Labrador Iron Mines Limited and Schefferville Mines Inc. (collectively the "Company"), as of the 8<sup>th</sup> day December, 2015, consisting of a weekly projected cash flow statement for the period November 28, 2015 to July 1, 2016 ("Cash Flow Statement") has been prepared by the management of the Company for the purpose described in Note 1, using the probable and hypothetical assumptions set out in Notes 2 to 5.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied by the management and employees of the Company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;
- b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or
- c) the Cash Flow Statement does not reflect the probable and hypothetical assumptions.

Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report.

The Cash Flow Statement has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, Ontario this 10<sup>th</sup> day of December, 2015.

*KSV Kofman Inc*

**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 OR CORPORATE CAPACITY**