
**Report of
Duff & Phelps Canada Restructuring
Inc. as Proposed CCAA Monitor of
Labrador Iron Mines Holdings Limited,
Labrador Iron Mines Limited and
Schefferville Mines Inc.**

April 1, 2015

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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.**

**REPORT OF
DUFF & PHELPS CANADA RESTRUCTURING INC.
AS PROPOSED MONITOR**

April 1, 2015

1.0 Introduction

1. On April 1, 2015, Labrador Iron Mines Holdings Limited (“LIMH”), Labrador Iron Mines Limited (“LIM”) and Schefferville Mines Inc. (“SMI”) (together, the “Company”) filed application materials with the Ontario Superior Court of Justice (“Court”) seeking, *inter alia*, protection under the *Companies' Creditors Arrangement Act* (the “CCAA”) and the appointment of Duff & Phelps Canada Restructuring Inc. (“D&P”) as the Monitor.
2. D&P has consented to act as Monitor, if appointed by the Court.
3. D&P is filing this report (“Report”) in its capacity as proposed Monitor.
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 provides, *inter alia*, the Company’s background, including the reasons for the commencement of these proceedings.

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5. As more fully described in Section 2 of this Report, 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 six-year low. The price of iron ore has fallen by almost 60% since the beginning of 2014.

1.1 Purposes of this Report

1. The purposes of this Report are to:
 - a) Provide background information about the Company, including the Company's restructuring action plan;
 - b) Provide D&P's qualifications to act as Monitor;
 - c) Provide D&P's comments and observations regarding the Company's weekly cash flow projection for the period March 28, 2015 to May 29, 2015 ("Projection");
 - d) Provide D&P's views on certain of the relief sought by the Company in the initial order ("Initial Order"), including:
 - The proposed Court-ordered charges, being the Administration Charge, the Directors' Charge and the Intercompany Charge (each as defined in the Kearney Affidavit); and
 - Creditor notification of the Initial Order and CCAA proceedings; and
 - e) Recommend that this Court grant the relief sought by the Company in the application materials.

1.2 Currency

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

1.3 Defined Terms

1. Capitalized terms not defined in this Report have the meanings provided to them in the Kearney Affidavit.

1.4 Restrictions

1. In preparing this Report, D&P 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 advisors. D&P 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 the Projection and/or the financial forecasts for financial or investment purposes is encouraged to perform its own diligence.
3. The Kearney Affidavit provides information regarding the Company's assets, liabilities, business and operations which has not been repeated in this Report. This Report should be read in conjunction with the Kearney Affidavit.

1.5 D&P's Qualification to Act as Monitor

1. D&P was retained by the Company's counsel on March 4, 2014 to provide strategic financial advisory services.
2. D&P is qualified to act as Monitor of the Company. D&P's qualifications include the following:
 - a) D&P is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). D&P is not subject to any of the restrictions to act as Monitor set out in Section 11.7(2) of the CCAA; and
 - b) D&P has extensive experience acting as Monitor under the CCAA in a wide variety of industries, including the mining industry. Current or recent mining mandates include Tamerlane Ventures Inc., Colossus Minerals Inc. and United Silver Corp.
3. D&P has consented to act as Monitor in these proceedings should the Court grant the Initial Order.

2.0 Background and Objectives of CCAA Proceedings

1. 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 potential CCAA proceedings, LIMH submitted a voluntary delisting application to the TSX, which became effective at the close of markets on February 23, 2015.
2. The Company’s corporate chart is provided in Appendix “A”.
3. The Company develops and mines direct shipping 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.
4. The Company’s mine sites are located in Labrador near Schefferville, Quebec (“Schefferville Projects”), located approximately 600 kilometres north of the Port of Sept-Îles, from which the Company’s iron ore is sold and shipped to China.
5. As at March 31, 2014, the Company had measured and indicated direct shipping (DSO) mineral resources¹ totaling approximately 54.8 million tonnes at an average grade of 56.8% iron and inferred taconite mineral resources totalling approximately 620 million tonnes at an average grade of 31.8% at the Schefferville Projects.²
6. At present, the Company’s operations are suffering a liquidity crisis due to:
 - a) the current spot price of iron ore, which has declined from US\$180/tonne in April, 2010 to a price of US\$52/tonne in late March, 2015;
 - b) high operating costs, principally related to the Company’s transportation, railway and port-handling contracts; and

¹ As defined in National Instrument NI 43-101 – Standard of Disclosure for Mineral Projects of the Canadian Securities Administrators.

² During 2013, the Company mined approximately 1.95 million tonnes of iron ore.

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- c) funding losses since it commenced operations – the Company reported an accumulated deficit of \$459 million as at December 31, 2014³.
 7. The Company typically operates from approximately the beginning of April to the end of November. Given market conditions, 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. The Company's business has largely been inactive since the end of 2013.
 8. The Company believes that if: a) its major operating contracts are renegotiated on terms more favourable to the Company; and b) the spot price of iron ore recovers, it will be able to generate profits and therefore be in a position to refinance its operations.

2.1 Search for Financing and Dealings with Gerald

1. As set out in the Kearney Affidavit, the Company commenced a process early in 2014 seeking a lender or investor. The Company retained Cannacord Genuity Corp. ("Cannacord") to lead this effort. Cannacord led all of LIMH's equity financings since its initial public offering in 2007.
2. D&P understands that, given the market conditions affecting iron ore and the Company's high operating costs, the Cannacord refinancing process was unsuccessful.
3. While the process was ongoing, the Company communicated regularly with RBRG Trading (UK) Limited ("RBRG"), an affiliate of Gerald Metals SA ("Gerald"). RBRG is a significant creditor of the Company. It advanced US \$35 million to LIM ("Advance Payment") in 2013 in exchange for future delivery of iron ore over the Company's 2013 and 2014 operating seasons. LIMH and SMI guaranteed the Advance Payment.
4. In 2013, the Company delivered 1.7 million tonnes of iron ore to RBRG, and US \$14.4 million was credited against the Advance Payment, leaving a remaining balance owing by the Company to RBRG of US \$20.6 million. As the Company did not operate in 2014, the remaining product delivery commitment was not met.

³ As at September 30, 2014, LIMH determined that, based on the iron ore prices at that time and existing contract terms, the carrying value of certain assets exceeded their recoverable amount. Accordingly, a non-cash impairment totaling \$198 million was recognized as at September 30, 2014.

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5. RBRG has a security interest in a stockpile of iron ore. The security has minimal value in today's market.
 6. Commencing March, 2014, the Company, RBRG and Gerald discussed the issues the Company must resolve in order to resume operating. Over the same period, the Company and Gerald, along with their advisors, attempted to negotiate financing terms to provide the Company with:
 - a) short-term liquidity in order to maintain its properties on a "stand-by" basis, pending recovery of iron ore pricing and restructuring of the Company's operating costs and major contracts; and
 - b) longer-term financing to be used to develop the Company's significant mining projects, known as "Houston" and "Malcolm", and to allow the Company the opportunity to resume production.
 7. As set out in the Kearney Affidavit, these support and financing agreements have not been concluded.

2.2 Sale of JV Interest

1. The Company has also been considering other avenues to generate liquidity in order to have a prospect of restructuring its business.
2. As set out in the Kearney Affidavit, LIM held a 30% interest in a project known as "Howse". The Company's interest is subject to a joint venture ("JV") agreement with Tata Steel Minerals Canada Ltd. ("TSMC").
3. Under the JV agreement, TSMC has the right to purchase LIM's interest for fair market value in certain circumstances, including the taking of any proceedings with respect to a compromise or arrangement, or a change in control of LIM or LIMH.
4. In early March, 2015, the Company approached TSMC to discuss the terms of a sale of the Company's interest to TSMC.
5. On March 31, 2015, the Company completed a transaction with TSMC for the sale of LIM's remaining interest in the Howse project for a purchase price of \$5 million.
6. Further discussion of this transaction is provided in the Kearney Affidavit.

3.0 Cash Flow

1. The Projection is provided in Appendix “B”, together with the Company’s statutory report on its cash flow pursuant to Section 10(2)(b) of the CCAA.
2. The Projection reflects that the Company is on “care and maintenance” at its mine sites during the proceedings. 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, including payroll, product testing, mine camp lease, utilities, travel and accommodation;
 - General and administrative expenses, such as accounting and permitting;
 - Management and overhead expenses; and
 - Professional fees associated with the CCAA proceedings, including for services rendered prior to the contemplated commencement date of the proceedings.
3. The Projection assumes that vendor obligations for goods and services provided after the date of the Initial Order will be paid on near cash-on-delivery terms.
4. The Company is projected to have sufficient liquidity to fund its business activities and these proceedings through the projection period.
5. D&P is of the view that the material assumptions seem reasonable in the circumstances. D&P’s statutory report on the cash flow is attached as Appendix “C”.

4.0 Relief Sought

1. The following sections summarize D&P’s views on the relief being sought by the Company.

4.1 Administration Charge

1. The Company is seeking an Administration Charge in the amount of \$500,000. The Administration Charge is to have priority over all claims against the Company, provided that the Initial Order will not operate to subordinate the interests of a secured creditor until they have been given notice of the CCAA proceedings and have had an opportunity to respond. The beneficiaries of the Administration Charge are the Company’s legal counsel, the Monitor and its legal counsel (the “Professionals”).

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2. An administration charge is a customary provision in an Initial Order in a CCAA proceeding, required by the professionals engaged to assist the debtor company. The Administration Charge will allow the Company to grant security to the Professionals for their fees and services.
 3. D&P is of the view that the Administration Charge is reasonable.

4.2 Directors' Charge

1. The Initial Order contemplates a Directors' Charge in the amount of \$300,000 for any liabilities the Company's directors and officers may incur from and after the commencement of the CCAA proceedings, except to the extent that such obligation or liability is incurred as a result of directors' or officers' gross negligence or wilful misconduct. D&P understands that the Company is current, and intends to remain current, on all payments for which directors may be personally liable; however, the proposed charge provides a contingency in the event that certain obligations arise during the CCAA proceedings for which the Company does not have sufficient liquidity to pay.
2. The Directors' Charge is also a standard provision of orders made in CCAA proceedings in order to maintain the involvement of the directors and officers. The involvement of the Company's directors and officers assists to facilitate the Company's continued and orderly operations during these restructuring proceedings, as well as its restructuring efforts.
3. D&P reviewed the calculation of the Directors' Charge that was prepared by the Company. The Company maintains a director and officer insurance policy providing coverage with a limit of \$10 million ("Policy"). The proposed Initial Order provides that the beneficiaries of the Directors' Charge shall only be entitled to coverage thereunder to the extent that coverage under the Policy is not available or is insufficient.
4. It is contemplated that the Directors' Charge will be subordinate to the Administration Charge.
5. D&P is of the view that the Directors' Charge is reasonable given the potential exposure of the directors and officers in this situation.

4.3 Intercompany Charge

1. The Initial Order contemplates an Intercompany Charge in favour of LIMH, LIM or SMI if they provide funding, goods or services to one another for the net amount owing between them for the period subsequent to the date of the Initial Order.
2. It is contemplated that the Intercompany Charge will be subordinate to the Administration Charge and the Directors' Charge.

4.4 Creditor Notification

1. The Initial Order requires the Monitor to:
 - a) publish a notice in *The Globe and Mail* (National Edition), *The Telegram* (St. John's, Nfld.), and *Le Journal Nord-Côtier* (Sept-Îles, Quebec) containing the information prescribed under the CCAA forthwith; and
 - b) within five days of the issuance of the Initial Order to:
 - i. make the Initial Order publicly available in the manner prescribed under the CCAA;
 - ii. send, in the prescribed manner, a notice to every known creditor who has a claim against the Company of more than \$1,000 advising them that the order is publicly available; and
 - iii. prepare a list, showing the names and addresses of those creditors, and the estimated amounts of those claims, and make it publicly available in the prescribed manner.
2. If appointed as Monitor, D&P, as Monitor, will also post the Initial Order and other public Court materials on its website at:

<http://www.duffandphelps.com/services/restructuring/Pages/RestructuringCases.aspx>.
3. D&P is of the view that the notice provisions contained in the Initial Order are reasonable.

5.0 Conclusion

1. Based on the foregoing, D&P respectfully recommends that this Court make the Order granting the relief requested by the Company.

* * *

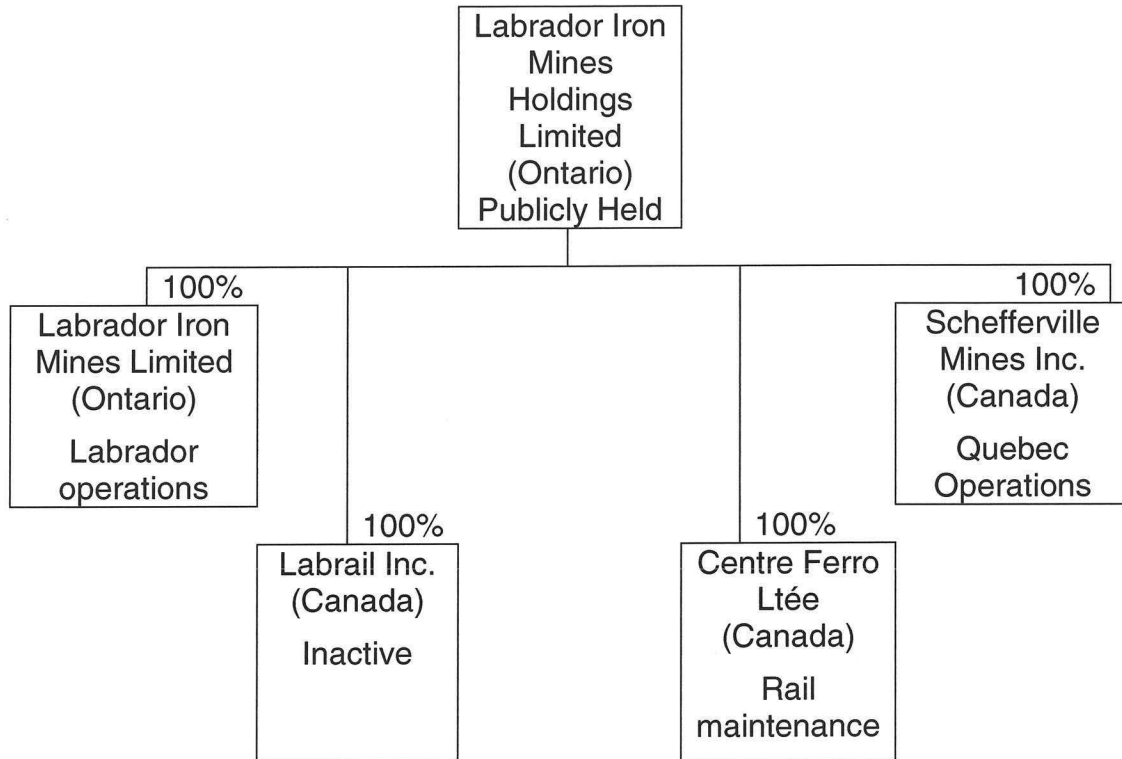
All of which is respectfully submitted,



**DUFF & PHELPS CANADA RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED CCAA MONITOR OF
LABRADOR IRON MINES HOLDINGS LIMITED, LABRADOR IRON MINES LIMITED
AND SCHEFFERVILLE MINES INC.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

The Applicants carry on its business through several related corporations incorporated under the laws of Ontario or Canada as follows:



Appendix “B”

Labrador Iron Mines Holdings Limited and its Subsidiaries

Projected Statement of Cash Flow

For the period March 28, 2015 to May 29, 2015

(\$C, unaudited)

	Note	Weekly Projection									
	1	28-Mar-15	4-Apr-15	11-Apr-15	18-Apr-15	25-Apr-15	2-May-15	9-May-15	16-May-15	23-May-15	Total - \$
		3-Apr-15	10-Apr-15	17-Apr-15	24-Apr-15	1-May-15	8-May-15	15-May-15	22-May-15	29-May-15	
Receipts											
GST/HST Rebates/Remittances					33,518	(69,856)					(36,338)
Sale of Assets - Howse	2	5,000,000									5,000,000
		5,000,000	-	-	33,518	(69,856)	-	-	-	-	4,963,662
Disbursements											
Payroll and Payroll Related Remittances		(73,956)	(12,056)		(235,919)		(5,174)		(5,174)	(161,824)	(494,104)
Office Lease	3	(56,500)				(10,000)					(66,500)
Camp Lease	4	(96,758)				(196,758)					(293,516)
GST / HST / Sales Taxes		(65,966)	(16,554)	(44,821)	(17,173)	(42,398)	4,498	(60,652)	(9,929)	(9,311)	(262,306)
Legal and Professional Fees				(217,434)				(394,934)			(612,367)
Other (Site Operations) including camp rental	5	(346,100)	(118,444)	(118,444)	(123,205)	(106,203)	73,464	(32,753)	(37,514)	(32,753)	(841,953)
Other (Corporate)	6	(8,071)	(8,896)	(8,896)	(8,896)	(13,177)	(38,866)	(38,866)	(38,866)	(38,866)	(203,400)
		(647,350)	(155,951)	(389,594)	(385,193)	(368,536)	33,921	(527,205)	(91,484)	(242,754)	(2,774,145)
Net cash inflow / (outflow) in period		4,352,650	(155,951)	(389,594)	(351,675)	(438,392)	33,921	(527,205)	(91,484)	(242,754)	2,189,517
Opening cash balance		1,484,539	5,837,189	5,681,238	5,291,644	4,939,969	4,501,577	4,535,498	4,008,293	3,916,810	1,484,539
Net cash flow		4,352,650	(155,951)	(389,594)	(351,675)	(438,392)	33,921	(527,205)	(91,484)	(242,754)	2,189,517
Ending cash balance		5,837,189	5,681,238	5,291,644	4,939,969	4,501,577	4,535,498	4,008,293	3,916,810	3,674,056	3,674,056

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 May 29, 2015 ("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. The Projection assumes that only standby activities and committed capital expenditures of LIM will occur.

2. Represents the proceeds from the sale of LIM's interest in its Howse project to Tata Steel Minerals Canada Ltd.

3. Represents monthly lease payments on April 1, 2015 for LIM's office in St. John's, Newfoundland and Labrador and its corporate office in Toronto, Ontario. The projected disbursement on May 1, 2015 is in respect of LIM's re-located corporate office in Toronto, Ontario.

4. Includes monthly lease payments for the camp near the mine in Schefferville, Quebec. The week ending May 1, 2015 includes a payment of \$100,000 as LIM intends to exercise a purchase option on one of the two camp leases.

5. Includes site operation expenses, costs associated with environmental permits and mine camp rental revenue.

6. Includes general corporate and overhead costs including travel, software licences, office supplies and photocopies usage as well as mineral claim permits.

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
(paragraph 10(2)(b) of the CCAA)

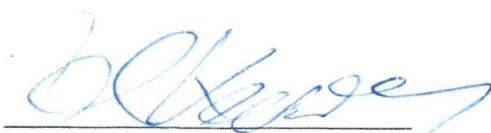
The management of Labrador Iron Mines Holdings Limited, Labrador Iron Mines Limited and Schefferville Mines Inc. (collectively the "Company") has developed the assumptions and prepared the attached statement of projected cash flow as of the 1st day of April, 2015 for the period March 28, 2015 to May 29, 2015 ("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 6.

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 6. Consequently, readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

Dated at Toronto, Ontario this 1st day of April, 2015.



John Kearney

Chairman, Chief Executive Officer and a Director of Labrador Iron Mines Holdings Limited

Appendix “C”

**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

(paragraph 23(1)(b) of the CCAA)

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 1st day April, 2015, consisting of a weekly projected cash flow statement for the period March 28, 2015 to May 29, 2015 ("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 6.

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 1st day of April, 2015.

Duff + Phelps Canada Restructuring Inc.

**DUFF & PHELPS CANADA RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED CCAA MONITOR OF
LABRADOR IRON MINES HOLDINGS LIMITED, LABRADOR IRON MINES LIMITED
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