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

April 24, 2015

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Court File No.: CV-15-10926-00CL

**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.**

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

**April 24, 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. Pursuant to the Initial Order, the Company's stay of proceedings expires on May 1, 2015.
3. 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.

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4. 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 ten-year low. The price of iron ore has fallen by over 60% since the beginning of 2014.

## **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 April 18, 2015 to July 31, 2015 (“Projection”);
  - c) Provide an overview of the Company’s activities since the commencement of these proceedings;
  - d) Provide an overview of the Monitor’s activities since its appointment; and
  - e) Recommend that this Court make an order:
    - i. Granting the Company’s request for an extension of its stay of proceedings from May 1, 2015 to July 31, 2015;
    - ii. Approving the priority ranking of two Court-ordered charges, being the Administration Charge and the Directors’ Charge (each as defined in the Initial Order) (together, the “Charges”), over creditors listed on Schedule “A” to the draft Order (the “Creditors”); and
    - iii. 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 Defined Terms**

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

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## 1.4 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 advisors. 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 the Projection and/or the financial forecasts for financial or investment purposes is encouraged to perform its own diligence.

## 2.0 Background

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 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.
3. 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.
4. 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.
5. 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.

6. Additional information concerning the Company and these proceedings is provided in the Kearney Affidavit and the report of D&P as proposed monitor dated April 1, 2015 ("Pre-Filing Report"). A copy of these and other materials filed in the CCAA proceedings can be found on the Monitor's website at: <http://www.duffandphelps.com/intl/en-ca/Pages/RestructuringCases.aspx>.

### 3.0 Cash Flow

#### 3.1 Actual Results for the Period March 28 to April 17, 2015

1. The Company's actual results for the period March 28 to April 17, 2015 compared to the projection included with the Pre-Filing Report are provided in the table below.

	(Unaudited; \$000s)		
	Actual	Projected	Variance
<i>Receipts</i>			
GST/HST Rebates/Remittances	11	-	11
Sale of Assets – Howse	5,000	5,000	-
<b>Total Receipts</b>	<b>5,011</b>	<b>5,000</b>	<b>11</b>
<i>Disbursements</i>			
Payroll and Payroll Related Remittances	70	86	16
Office Lease	42	57	15
Camp Lease	97	97	-
GST/HST/Sales Taxes	123	127	4
Legal and Professional Fees	81	217	136
Other (Site Operations)	719	583	(136)
Other (Corporate)	10	26	16
<b>Total Disbursements</b>	<b>1,142</b>	<b>1,193</b>	<b>51</b>
<b>Net Cash Flow</b>	<b>3,869</b>	<b>3,807</b>	<b>62</b>
Opening Cash Position	1,479	1,485	(6)
Net Cash Flow	3,869	3,807	62
<b>Closing Cash Position</b>	<b>5,348</b>	<b>5,292</b>	<b>56</b>

2. As reflected in the table, the Company reported a positive cash flow variance of approximately \$56,000. Variances include:
- Timing differences related to receipt of a sales tax refund and payment of certain expenses, including payroll, corporate, mine camp, legal and professional fees (temporary positive variance of \$94,000);

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- b. Rental income from subtenants located at the Company's corporate office (permanent positive variance of \$16,000);
  - c. Lower than projected payroll costs (permanent positive variance of \$12,000);
  - d. Lower than projected rental income in respect of one of the Company's surface leases in Schefferville included in the Other (Site Operations) line item (permanent negative variance of \$62,000); and
  - e. Sundry other variances (negative variance of \$4,000).

### **3.2 Projected Cash Flow for the Period Ending July 31, 2015**

- 1. The Projection is provided in Appendix "A".
- 3. The Company prepared the Projection using assumptions similar to the projection included with the Pre-Filing 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 associated with the CCAA proceedings.
- 2. The Company is projected to have sufficient liquidity to fund its business activities and these proceedings through the projection period.
- 3. 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 commencement of the CCAA proceedings are set out in the affidavit of Richard Pinkerton, the Company's Chief Financial Officer, sworn April 23, 2015, filed in support of the stay extension motion.
- 2. A summary of the Company's activities include:
  - a. Meeting with representatives of RBRG Trading (UK) Limited, an affiliate of Gerald Metals SA and a significant creditor of the Company, to discuss at a high level their restructuring plans;
  - b. Disclaiming the corporate office lease in Toronto and a regional office lease in St. John's;

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- c. Disclaiming office equipment leases;
  - d. Relocating the Company's head office in Toronto to a lower-cost location;
  - e. Meeting with the Monitor to review restructuring issues and structures;
  - f. Reporting receipts and disbursements;
  - g. Making payments for goods and services received following the date of the Initial Order; and
  - h. Updating stakeholders, including employees, vendors and government agencies, on the Company's restructuring efforts.

## 5.0 Overview of the Monitor's Activities

1. Since the date of the Initial Order, the Monitor's activities have included:
  - a. Arranging for notices to be published twice in each of *The Globe and Mail* (National Edition), *The Telegram* (St. John's, Nfld.), and *Le Journal Nord-Côtier* (Sept-Iles, Quebec), as required pursuant to the Initial Order;
  - b. Sending a notice of the CCAA proceedings on April 8, 2015 to known creditors and posting the notice on the Monitor's website;
  - c. Completing the statutory filings pursuant to Section 23 of the CCAA and filing those forms with the Office of the Superintendent of Bankruptcy (Canada);
  - d. Working with the Company to prepare the Service List in these proceedings, posting the Service List on the Monitor's website and advising the Service List regarding the Monitor's role as "E-Service List Keeper" and of the E-Service Protocol;
  - e. Monitoring the Company's receipts and disbursements;
  - f. Reviewing the Projection and corresponding with the Company regarding same;
  - g. Corresponding with the Company regarding its lease disclaimers;
  - h. Corresponding with Goodmans LLP, the Monitor's counsel;



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- i. Posting Court materials filed in these proceedings on the Monitor's website; and
  - j. Preparing this Report.

## 6.0 Company's Request for an Extension

1. The Company is seeking an extension of the stay of proceedings from May 1, 2015 to July 31, 2015. 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; and
  - c. An extension will provide the Company time to continue its restructuring efforts, including time to meet with stakeholders, evaluate key contracts and search for capital to refinance its business.

## 7.0 Court-ordered Charges

1. The Initial Order provides that the Administration Charge, Directors' Charge and Intercompany Charge<sup>1</sup> rank subordinate to the interests of secured creditors. The Company is seeking that the Administration Charge and the Directors' Charge rank in priority above the interests of the Creditors, being all creditors with a registered security interest against LIMH, LIM or SMI (with two exceptions<sup>2</sup>) and a party asserting a claim for lien. The Company advised the Monitor that it served its materials regarding the within motion on, among others, all creditors with a registered security interest and the construction lien claimant and the Monitor will also serve such parties with this Report.
2. The Charges granted pursuant to the Initial Order are described below. The Monitor supports the relief sought by the Company in this regard.

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<sup>1</sup> The Court approved 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 one another for the CCAA period. The Intercompany Charge is subordinate to the Administration Charge and the Directors' Charge.

<sup>2</sup> Xerox Canada Ltd., whose equipment is being returned, and The Toronto-Dominion Bank, whose security is in respect of a segregated cash collateral account.

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## 7.1 Administration Charge

1. The Court approved the Administration Charge in the amount of \$500,000. The beneficiaries of the Administration Charge are the Company's legal counsel, the Monitor and its legal counsel (the "Professionals"). The Administration Charge allows the Company to grant security to the Professionals for their fees and services. The Professionals have expertise that will be beneficial to the Company during these proceedings, including negotiating with stakeholders and structuring a CCAA exit solution.

## 7.2 Directors' Charge

1. The Court approved 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. The Company advises it requires the continued participation of its directors and officers, who have specialized expertise and relationships with the Company's stakeholders, to provide strategic advice and guidance in order to complete a successful restructuring.
2. The Company maintains a director and officer insurance policy providing coverage with a limit of \$10 million ("Policy"). The 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.
3. The Directors' Charge ranks subordinate to the Administration Charge.

## 8.0 Conclusion

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

\* \* \*

All of which is respectfully submitted,

*Duff + Phelps Canada Restructuring Inc.*

**DUFF & PHELPS CANADA RESTRUCTURING 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**

## **Appendix “A”**

**Projected Statement of Cash Flow**

For the period April 18, 2015 to July 31, 2015

(\$C, unaudited)

	Note	Weekly Projection														Total		
		18-Apr-15	25-Apr-15	2-May-15	9-May-15	16-May-15	23-May-15	30-May-15	6-Jun-15	13-Jun-15	20-Jun-15	27-Jun-15	4-Jul-15	11-Jul-15	18-Jul-15		25-Jul-15	
		24-Apr-15	1-May-15	8-May-15	15-May-15	22-May-15	29-May-15	5-Jun-15	12-Jun-15	19-Jun-15	26-Jun-15	3-Jul-15	10-Jul-15	17-Jul-15	24-Jul-15	31-Jul-15		
<b>Receipts</b>																		
GST/HST Rebates/Remittances		22,716	(69,856)						124,527					32,240			109,627	
		22,716	(69,856)	-	-	-	-	-	124,527	-	-	-	-	32,240	-	-	109,627	
<b>Disbursements</b>																		
Payroll and Payroll Related Remittances		(187,435)		(5,174)		(5,174)	(158,221)	(5,174)		(5,174)	(157,105)	(5,174)		(5,174)		(174,535)	(708,340)	
Office Lease	2		(10,000)						(10,000)				(10,000)					(30,000)
Camp Lease	3		(196,758)						(46,758)				(46,758)					(290,274)
GST / HST / Sales Taxes		(6,910)	(52,796)	2,035	(6,036)	(22,204)	(6,036)	(4,607)	(5,253)	(15,003)	(5,253)	(13,824)	(6,591)	(16,341)	(6,591)	(9,841)	(175,250)	
Legal and Professional Fees			(124,542)			(94,612)				(75,000)				(75,000)			(369,154)	
Audit Fees						(25,000)				-						(25,000)	(50,000)	
Other (Site Operations) including camp rental	4	(31,440)	(59,690)	106,842	(25,002)	(29,763)	(25,002)	44,608	(23,345)	(23,345)	(23,345)	(35,939)	(41,622)	(41,622)	(41,622)	(41,622)	(291,908)	
Other (Corporate)	5	(21,710)	(15,130)	(91,186)	(21,426)	(21,426)	(21,426)	(23,292)	(17,063)	(17,063)	(17,063)	(13,641)	(9,079)	(9,079)	(9,079)	(9,079)	(316,742)	
		(247,495)	(458,916)	12,517	(52,464)	(198,179)	(210,685)	(45,223)	(45,660)	(135,584)	(202,766)	(125,336)	(57,292)	(147,216)	(57,292)	(260,078)	(2,231,670)	
<b>Net cash inflow / (outflow) in period</b>		(224,779)	(528,772)	12,517	(52,464)	(198,179)	(210,685)	(45,223)	78,866	(135,584)	(202,766)	(125,336)	(57,292)	(114,976)	(57,292)	(260,078)	(2,122,043)	
Opening cash balance		5,347,875	5,123,096	4,594,324	4,606,841	4,554,377	4,356,198	4,145,513	4,100,290	4,179,156	4,043,572	3,840,806	3,715,470	3,658,178	3,543,202	3,485,910	5,347,875	
Net cash flow		(224,779)	(528,772)	12,517	(52,464)	(198,179)	(210,685)	(45,223)	78,866	(135,584)	(202,766)	(125,336)	(57,292)	(114,976)	(57,292)	(260,078)	(2,122,043)	
Ending cash balance		5,123,096	4,594,324	4,606,841	4,554,377	4,356,198	4,145,513	4,100,290	4,179,156	4,043,572	3,840,806	3,715,470	3,658,178	3,543,202	3,485,910	3,225,832	3,225,832	

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 31, 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 monthly lease payments for LIM's corporate office in Toronto, Ontario.

3. 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.

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

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

## **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**

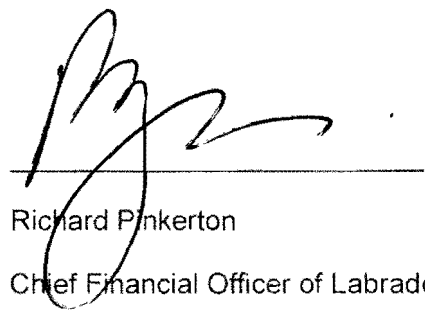
The management of Labrador Iron Mines Holdings Limited, Labrador Iron Mines Limited and Schefferville Mines Inc. (collectively the "Company") has developed the assumptions and prepared the attached statement of projected cash flow as of the 24<sup>th</sup> day of April, 2015 for the period April 18, 2015 to July 31, 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 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 24<sup>th</sup> day of April, 2015.



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 24<sup>th</sup> day April, 2015, consisting of a weekly projected cash flow statement for the period April 18, 2015 to July 31, 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 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 24<sup>th</sup> day of April, 2015.

*Duff + Phelps Canada Restructuring Inc.*

**DUFF & PHELPS CANADA RESTRUCTURING 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**