



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

July 22, 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.

SECOND REPORT OF
KSV KOFMAN INC.
AS CCAA MONITOR

JULY 22, 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 April 30, 2015, the Court made an Order extending the stay of proceedings to July 31, 2015 ("Stay Extension Order").
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.
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 ten-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) Report on the Company’s weekly cash flow projection for the period July 11, 2015 to December 18, 2015 (“Projection”);
 - c) Provide an overview of the Company’s activities since April 24, 2015, the date of the Monitor’s First Report to Court (“First Report”);
 - d) Provide an overview of the Monitor’s activities since the First Report; and
 - e) Recommend that this Court make an order:
 - granting the Company’s request for an extension of its stay of proceedings from July 31, 2015 to December 18, 2015; 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 the Projection and/or the financial forecasts for financial or investment purposes is encouraged to perform its own diligence review.

2.0 Background

1. 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.
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 business has been largely inactive 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 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. These are the lowest price levels in approximately ten years. The Company cannot be profitable 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 spot price of iron ore recovers, it will be able to generate profits and therefore be in a position to refinance its operations.
7. Additional information concerning the Company and these proceedings is provided in the Kearney Affidavit, the report of D&P as proposed monitor dated April 1, 2015, the First Report, and the Affidavit of Richard Pinkerton, the Company's Chief Financial Officer, sworn July 20, 2015 (the "Pinkerton Affidavit"), filed in support of this stay extension motion. A copy of these and other materials filed in the CCAA proceedings can be found on the Monitor's website at: www.ksvadvisory.com.

3.0 Cash Flow

3.1 Actual Results for the Period April 18, 2015 to July 10, 2015

- The Company's actual results for the period April 18, 2015 to July 10, 2015 compared to the projection included with the First Report, are provided in the table below.

	(Unaudited; \$000s)		
	Actual	Projected	Variance
<i>Receipts</i>			
GST/HST Rebates/Remittances	85	77	8
Total Receipts	85	77	8
<i>Disbursements</i>			
Payroll and Payroll Related Remittances	534	529	(5)
Office Lease	30	30	-
Camp Lease	190	290	100
GST/HST/Sales Taxes	35	142	107
Legal and Professional Fees	211	294	83
Audit fees	15	25	10
Other (Site Operations)	(350)	167	517
Other (Corporate)	107	290	183
Total Disbursements	772	1,767	995
Net Cash Flow	(687)	(1,690)	1,003
Opening Cash Position	5,348	5,348	-
Net Cash Flow	(687)	(1,690)	1,003
Closing Cash Position	4,661	3,658	1,003

- As reflected in the table, the Company reported a positive cash flow variance of approximately \$1 million. The Company advises that the larger variances include:
 - Receipt of funds that were not projected, including interest and an HST refund released by Canada Revenue Agency (permanent positive variance of \$79,000);
 - Increase in rental income in respect of the Company's mine camp and the rental of its facility in Centre Ferro, which is included in the "Other (Site Operations)" line item (permanent positive variance of \$165,000);
 - Timing differences related to corporate, site operations, and legal and professional fees (temporary positive variance of \$306,000);

- d. A timing difference in respect of the Company exercising a purchase option of one of its mine camp leases (temporary positive variance of \$113,000);
- e. Reductions in respect of corporate costs, site operations, audit fees and corresponding sales taxes as well as payroll expenses (permanent positive variance of \$429,000); and
- f. Sundry other variances (negative variance of \$89,000).

3.2 Projected Cash Flow for the Period Ending December 18, 2015

1. The Projection is provided in Appendix "A".
2. The Company prepared the Projection using assumptions similar to the projection included with the First 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.
3. The Company is projected to have sufficient liquidity to fund its business activities and these proceedings through the projection period.
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 First Report are set out in the Pinkerton Affidavit.
2. A summary of the Company's activities include:
 - a. Maintaining the mine sites, which includes carrying out required environmental monitoring, conducting water quality sampling and dealing with reporting and other regulatory requirements;
 - b. Carrying out further reviews of the "Houston" project development plans;
 - c. Completing the relocation of the Company's head office in Toronto to a lower-cost leased location;
 - d. Arranging for an audit of LIMH's financial statements for the year ended March 31, 2015;
 - e. Marketing for sale three diesel generators (the "Equipment") that are surplus to the Company's current operations;

- f. Reporting receipts and disbursements;
- g. Making payments for goods and services received following the date of the Initial Order;
- h. Meeting with and keeping stakeholders apprised of developments in these proceedings, including employees, key vendors and government agencies; and
- i. Considering a strategic transaction.

5.0 Overview of the Monitor's Activities

1. Since the First 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. Corresponding with an appraiser regarding the Equipment and reviewing the appraisal;
 - c. Corresponding with the Company regarding the sale of the Equipment;
 - d. Monitoring the Company's receipts and disbursements;
 - e. Reviewing the Company's variance analyses;
 - f. Reviewing the Projection and corresponding with the Company regarding same;
 - g. Convening meetings with the Company's management, including meetings with Mr. Kearney and Mr. Pinkerton;
 - h. Dealing with matters related to the Company's potential strategic transaction;
 - i. Corresponding with Goodmans LLP, the Monitor's counsel;
 - 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 July 31, 2015 to December 18, 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. Given the current market conditions and the trend of iron ore prices, the Company will likely require a significant period of time to do so.
2. The Monitor believes that an extension of the stay of proceedings until December 18, 2015 is appropriate given that the Company's restructuring is largely dependent on the price of iron ore, which is not expected to materially improve in the near to medium term, and to minimize professional fees in these proceedings by avoiding an intervening 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 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 July 11, 2015 to December 18, 2015

(\$C, unaudited)

	Note	Weekly Projection																				Total - \$ July 11 - Dec 18			
		11-Jul-15	18-Jul-15	25-Jul-15	01-Aug-15	08-Aug-15	15-Aug-15	22-Aug-15	29-Aug-15	05-Sep-15	12-Sep-15	19-Sep-15	26-Sep-15	03-Oct-15	10-Oct-15	17-Oct-15	24-Oct-15	31-Oct-15	07-Nov-15	14-Nov-15	21-Nov-15		28-Nov-15	05-Dec-15	12-Dec-15
Receipts																									
GST/HST Rebates/Remittances		51,820				47,772				43,741					39,236				37,544				42,130	262,241	
Release of Restricted Cash	2			-				320,000																320,000	320,000
		51,820	-	-	-	47,772	-	-	320,000	-	43,741	-	-	-	39,236	-	-	-	37,544	-	-	-	42,130	582,241	
Disbursements																									
Payroll and Payroll Related Remittances		(2,786)		(155,824)		(5,174)		(155,952)		(5,162)		(162,580)		-	(145,661)		-		(145,434)		-		-	(778,573)	
Office Lease	3				(10,000)				(10,000)			(46,758)												(20,000)	
Camp Lease	4	(100,000)			(46,758)				(46,758)			(46,758)					(46,758)					(46,758)		(333,790)	
GST / HST / Sales Taxes		(44,497)	(13,257)	(6,213)	(7,149)	(7,181)	(6,562)	(18,782)	(4,223)	(6,960)	(6,341)	(16,351)	(12,123)	(5,919)	(5,300)	(5,300)	(17,260)	(10,870)	(5,326)	(4,707)	(16,862)	(9,882)	(3,744)	(3,126)	(237,937)
Legal and Professional Fees			(56,000)					(94,000)				(77,000)					(92,000)				(93,500)			(412,500)	
Audit fees				(20,400)																				(20,400)	
Other (Site Operations) including camp rental	5	(156,298)	(36,897)	(18,313)	12,482	(44,520)	(39,759)	(39,759)	40,962	(32,376)	(27,615)	(27,615)	(28,915)	(36,924)	(32,163)	(32,163)	(32,163)	(28,090)	(32,172)	(27,411)	(27,411)	(20,567)	(20,195)	(15,434)	(703,315)
Other (Corporate)	6	(85,985)	(9,079)	(9,079)	(10,716)	(10,716)	(10,716)	(10,716)	(16,687)	(21,165)	(21,165)	(21,165)	(17,578)	(8,609)	(8,609)	(8,609)	(8,609)	(8,772)	(8,799)	(8,799)	(8,799)	(8,690)	(8,609)	(8,609)	(340,281)
		(389,566)	(115,233)	(209,829)	(62,141)	(67,591)	(57,038)	(319,209)	(36,706)	(65,664)	(55,122)	(304,712)	(105,373)	(51,452)	(46,072)	(191,733)	(150,032)	(94,490)	(46,296)	(186,351)	(146,572)	(85,897)	(32,548)	(27,168)	(2,846,795)
Net cash inflow / (outflow) in period		(337,747)	(115,233)	(209,829)	(62,141)	(19,820)	(57,038)	(319,209)	283,294	(65,664)	(11,381)	(304,712)	(105,373)	(51,452)	(46,072)	(152,498)	(150,032)	(94,490)	(46,296)	(148,807)	(146,572)	(85,897)	(32,548)	14,962	(2,264,553)
Opening cash balance		4,660,933	4,323,187	4,207,954	3,998,125	3,935,984	3,916,164	3,859,126	3,539,917	3,823,211	3,757,547	3,746,166	3,441,454	3,336,081	3,284,630	3,238,558	3,086,060	2,936,028	2,841,538	2,795,242	2,646,435	2,499,863	2,413,966	2,381,418	4,660,933
Net cash flow		(337,747)	(115,233)	(209,829)	(62,141)	(19,820)	(57,038)	(319,209)	283,294	(65,664)	(11,381)	(304,712)	(105,373)	(51,452)	(46,072)	(152,498)	(150,032)	(94,490)	(46,296)	(148,807)	(146,572)	(85,897)	(32,548)	14,962	(2,264,553)
Ending cash balance		4,323,187	4,207,954	3,998,125	3,935,984	3,916,164	3,859,126	3,539,917	3,823,211	3,757,547	3,746,166	3,441,454	3,336,081	3,284,630	3,238,558	3,086,060	2,936,028	2,841,538	2,795,242	2,646,435	2,499,863	2,413,966	2,381,418	2,396,380	2,396,380

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 December 18, 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.

2. Represents the release 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 monthly lease payments for LIM's corporate office in Toronto, Ontario. Commencing October, 2015 rent will be applied from the prepayment issued in February, 2015.

4. Includes monthly lease payments for the camp near the mine in Schefferville, Quebec. A payment of \$100,000 is also included representing a purchase option LIM wishes to exercise.

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

6. 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 20th day of July, 2015 for the period July 11, 2015 to December 18, 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 21st day of July, 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 20th day July, 2015, consisting of a weekly projected cash flow statement for the period July 11, 2015 to December 18, 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 21st day of July, 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**

