

CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

SUPERIOR COURT
Commercial Division

File: No: 500-11-048114-157

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

**BLOOM LAKE GENERAL PARTNER
LIMITED, QUINTO MINING
CORPORATION, 8568391 CANADA
LIMITED AND CLIFFS QUÉBEC IRON
MINING ULC**

Petitioners

- and -

**THE BLOOM LAKE IRON ORE MINE
LIMITED PARTNERSHIP AND BLOOM
LAKE RAILWAY COMPANY LIMITED**

Mises-en-cause

- and -

FTI CONSULTING CANADA INC.

Monitor

**FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On January 27, 2015, Bloom Lake General Partner Limited, Quinto Mining Corporation, 8568391 Canada Limited and Cliffs Québec Iron Mining ULC (“**CQIM**”) (collectively, the “**Petitioners**”) sought and obtained an initial order (the “**Initial Order**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) from the Superior Court of Quebec (the “**Court**”), providing for, *inter alia*, a stay of proceedings against the Petitioners until February 26, 2015, (the “**Stay Period**”) and appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”). The relief granted in the Initial Order was also extended to The Bloom Lake Iron Ore Mine Limited Partnership (“**Bloom Lake LP**”) and Bloom Lake Railway Company Limited (the “**Mises-en-Cause**” and together with the Petitioners, the “**CCAA Parties**”). The proceedings commenced under the CCAA by the CCAA Parties will be referred to herein as the “**CCAA Proceedings**”.

2. The purpose of this, the Monitor’s First Report, is to inform the Court on the following:
 - (a) The activities of the CCAA Parties and the Monitor since the commencement of the CCAA Proceedings;

 - (b) The receipts and disbursements of the CCAA Parties for the period from the start of the CCAA Proceedings to January 30, 2015;

- (c) The CCAA Parties' revised and extended cash flow forecast for the period January 31 to May 1, 2015 (the "**February 4 Forecast**");
- (d) The CCAA Parties' request for an Order providing priority for the Administration Charge and the Directors' Charge (collectively, the "**CCAA Charges**") over any and all other existing hypothecs, mortgages, liens, security interests, priorities, charges, encumbrances or security of whatever nature or kind (collectively, the "**Encumbrances**") affecting the Property whether or not charged by such Encumbrances and the Proposed Monitor's recommendation thereon; and
- (e) The CCAA Parties' request for an extension of the Stay Period to April 30, 2015 and the Monitor's recommendation thereon.

TERMS OF REFERENCE

- 3. In preparing this Report, the Monitor has relied upon unaudited financial information of the CCAA Parties, the CCAA Parties' books and records, certain financial information prepared by the CCAA Parties and discussions with various parties (the "**Information**").
- 4. Except as described in this Report:
 - (a) The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook;

- (b) The Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
- 5. Future oriented financial information reported or relied on in preparing this Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
- 6. The Monitor has prepared this Report in connection with the CCAA Parties' Motion presentable February 19, 2015 (the "**February 19 Motion**"). The Report should not be relied on for other purposes.
- 7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meanings defined in the Initial Order or the Pre-filing Report of the Proposed Monitor.

EXECUTIVE SUMMARY

- 8. The Monitor is of the view that the CCAA Parties' request for an Order providing priority for the CCAA Charges over the Encumbrances is reasonable, appropriate and justified in the circumstances. The Monitor respectfully recommends that such Order be granted.
- 9. The Monitor is of the view that the CCAA Parties have acted, and are acting, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate. Furthermore, the Monitor is of the view that creditors would not be materially prejudiced by an extension of the Stay Period to April 30, 2015.
- 10. Accordingly, the Monitor respectfully recommends that the CCAA Parties' request for an extension of the Stay Period to April 30, 2015 be granted.

THE ACTIVITIES OF THE CCAA PARTIES AND THE MONITOR

11. To date, the CCAA Parties and their management and staff have provided the Monitor with their full co-operation and unrestricted access to the CCAA Parties' premises, books and records. The Monitor has implemented procedures for the monitoring of operations, receipts and disbursements and is assisting the CCAA Parties in their dealings with employees, suppliers, creditors and other interested parties.

NOTICES AND COMMUNICATIONS

12. The Monitor has established a website at <http://cfcanada.fticonsulting.com/bloomlake> (the "**Monitor's Website**") on which updates on the CCAA Proceedings will be posted periodically, together with all Court materials filed in the CCAA Proceedings. In addition, the Monitor has established contact numbers (416-649-8126 or toll free 1 844-669-6338) and an email address (bloomlake@fticonsulting.com) to allow stakeholders to communicate directly with the Monitor in order to address any questions or concerns in respect of the CCAA Proceedings.
13. Pursuant to paragraph 39(a) of the Initial Order the Monitor:
 - (a) Published the initial notice containing the information prescribed under the CCAA in La Presse on January 29 and February 5, 2015 and in the Globe and Mail (National Edition) on February 2, 2015. Further publication is scheduled for February 9, 2015 in the Globe and Mail;
 - (b) On January 27, 2015 made the Initial Order publicly available by posting it on the Monitor's Website;
 - (c) On January 29, 2012 sent a notice in the prescribed manner to every known creditor with a claim against the CCAA Parties of more than \$1,000; and

- (d) Posted a list of known creditors on the Monitor's Website on January 29, 2015
14. Since the commencement of the CCAA Proceedings, the CCAA Parties and the Monitor have had numerous meetings and discussions with suppliers, creditors, other parties with an interest in the CCAA Proceedings and parties potentially interested in acquiring some or all of the CCAA Parties' business or assets. To date, there has been little disruption to the CCAA Parties' operations.
15. In addition to communications with suppliers and other stakeholders, the CCAA Parties and the Monitor have endeavoured to ensure that there is open and ongoing communication with employees. Following the granting of the Initial Order, a meeting was held with staff in Montreal. A "Frequently Asked Questions" document in English and French addressing common questions arising in respect of a CCAA proceeding was made available to employees and posted on the Monitor's Website. Employees were also informed of the Monitor's Website, hotline and mailbox in order that they could obtain additional information on the CCAA Proceedings and contact the Monitor directly with any questions or concerns.

SALE AND INVESTOR SOLICITATION PROCESS

16. The CCAA Parties are in the process of finalizing, subject to Court approval, the terms of engagement for their investment banker, Moelis & Company ("**Moelis**"), and intend to seek approval of the Moelis engagement terms in due course.
17. The CCAA Parties, Moelis and the Monitor have started preparations to enable the CCAA Parties to shortly commence a sales and investor solicitation process designed to obtain offers for either the purchase of the business and assets or the sponsorship of a plan of arrangement (the "**SISP**"), the specific procedures and deadlines for which will be subject to a motion to be brought by the CCAA Parties in due course.

18. Assets of certain non-filing Canadian affiliates of the CCAA Parties (the “**Wabush Group**”), including the Wabush Mine, the Pointe-Noir Port and the Arnaud Railway, will be included in the SISP. It is believed that the inclusion of the assets of the Wabush Group will enhance the ability of the CCAA Parties to undertake a successful SISP and maximize realizations for the benefit of stakeholders.

DISCLAIMER OR RESILIATION OF AGREEMENTS

19. Pursuant to section 32(1) of the CCAA and paragraph 33(e) of the Initial Order, the CCAA Parties are entitled to disclaim or resiliate agreements by issuance of notices of disclaimer or resiliation of agreement (each such notice, a “**Disclaimer Notice**”).
20. On January 28, 2015, the CCAA Parties, with the consent of the Monitor, issued 5 Disclaimer Notices. Pursuant to section 32(2) of the CCAA, the counter-party to each agreement has until February 12, 2015 to apply to court for an order that the agreement is not to be disclaimed or resiliated, failing which the disclaimer or resiliation will be effective on February 27, 2015. The agreements for which Disclaimer Notices were issued on January 28, 2015 are as follows:
 - (a) Time Charter Agreement dated October 13, 2011 between Canada Steamship Lines, a division of The CSL Group Inc., and CQIM (as may be amended, restated, supplemented or modified);
 - (b) Railway Transportation Services Agreement dated February 3, 2010 between Consolidated Thompson Iron Mines Limited (now CQIM) and Arnaud Railway Company (as amended by Rail Transportation Services First Amending Agreement dated August 12, 2010 and Rail Transportation Services Second Amending Agreement dated March 8, 2011, as may be further amended, restated, supplemented or modified);

- (c) Railroad Operation and Maintenance Services Agreement dated February 12, 2010 between Western Labrador Rail Services Inc. and Bloom Lake Railway Company Limited, and guaranteed by Genesee & Wyoming Inc. and Consolidated Thompson Iron Mines Limited (now CQIM) (as amended by Railroad Operation and Maintenance Services Amendment Agreement dated December 7, 2010, and as may be further amended, restated, supplemented or modified);
 - (d) Construction Contract No. CC001 dated April 1, 2014 between Bloom Lake LP and Groupe UNNU-EBC s.e.n.c. (as may be amended, restated, supplemented or modified); and
 - (e) Rail transportation agreement which includes a provision to the effect that its terms shall be kept confidential (the “**Rail Contract**”).
21. An additional Disclaimer Notice was issued on February 2, 2014 in respect of the Rail Contract was issued by CQIM with the consent of the Monitor. As noted above, a Disclaimer Notice was issued by Bloom Lake LP in respect of the Rail Contract on January 28, 2015. However, CQIM may also have obligations under the Rail Contract notwithstanding that it was assigned to Bloom Lake LP on January 1, 2010 and CQIM therefore also issued a Disclaimer Notice out of an abundance of caution. The deadline to apply to court for an order that the Rail Contract is not to be disclaimed or resiliated is February 17, 2015, failing which the disclaimer or resiliation will be effective on the March 4, 2015.

RECEIPTS & DISBURSEMENTS FOR THE PERIOD TO JANUARY 30, 2015

22. The CCAA Parties’ actual cash flow on a consolidated basis for the period from the start of the CCAA Proceedings to January 30, 2015, was approximately \$6.1 million better than the January 23 Forecast, as summarized below:

	Forecast	Actual	Variance
	\$000	\$000	\$000
Receipts	0	4,411	4,411
Disbursements:			
Payroll & Employee Benefits	(870)	(666)	204
Termination & Severance	(572)	(371)	201
Utilities	(416)	0	416
Other Operating Disbursements	(175)	(120)	55
Operating Cash Flows	(2,033)	3,254	5,287
Restructuring Professional Fees	(768)	0	768
Projected Net Cash Flow	(2,801)	3,254	6,055
Beginning Cash Balance	30,000	49,808	19,808
Projected Net Cash Flow	(2,801)	3,254	6,055
Ending Cash Balance	27,199	53,062	25,863

23. Explanations for the key variances in actual receipts and disbursements as compared to the January 23 Forecast are as follows:

- (a) The favourable variance of approximately \$4.4 million in receipts is a permanent variance of which approximately \$3.2 million results from the collection of sales tax refunds and approximately \$1.2 million results from the settlement and collection of disputed amounts owing in respect of the ArcelorMittal Mining Camp. Neither of these amounts had been included in the January 23 Forecast due to uncertainty on collectability and timing of payment;
- (b) The favourable variance of approximately \$0.2 million in payroll and benefits is a timing variance that is expected to reverse in future periods;
- (c) The favourable variance of approximately \$0.2 million in termination and severance is a timing variance that is expected to reverse in future periods;

- (d) The favourable variance of approximately \$0.4 million in utilities is a combination of timing variances that are expected to reverse in future periods and a permanent variance arising from lower than forecast consumption;
 - (e) The favourable variance of approximately \$0.8 million in professional fees is primarily timing variances that are expected to reverse in future periods; and
 - (f) The favourable variance of approximately \$19.8 million in beginning cash balance arises primarily of collections of accounts receivable and sales tax refunds in the period between the preparation of the January 23 Forecast and the commencement of the CCAA Proceedings, which amounts had not been included in the January 23 Forecast due to uncertainty on collectability and timing of payment.
24. The Initial Order permits inter-company funding between the CCAA Parties. To date inter-company funding in the amount of approximately \$240,000 has been advanced from Bloom Lake LP to CQIM.

THE FEBRUARY 4 FORECAST

25. The February 4 Forecast is attached hereto as Appendix A. The February 4 Forecast shows a net cash outflow of approximately \$17.9 million in the period January 31 to May 1, 2015, and is summarized below:

	\$000
Receipts	2,273
Disbursements:	
Payroll & Employee Benefits	(6,056)
Termination & Severance	(1,343)
Utilities	(796)
Other Operating Disbursements	(7,594)
Operating Cash Flows	(13,516)
Restructuring Professional Fees	(4,355)
Projected Net Cash Flow	(17,871)
Beginning Cash Balance	53,062
Projected Net Cash Flow	(17,871)
Ending Cash Balance	35,191

26. There are no significant changes in the underlying assumptions in the February 4 Forecast as compared to the January 23 Forecast.

REQUEST FOR PRIORITY FOR THE ADMINISTRATION CHARGE

27. The Initial Order created the CCAA Charges with priority over all claims against the property of the CCAA Parties except for the claims of any person that is a “secured creditor” as defined in the CCAA and who has not received notice of the Initial Motion. The Administration Charge is in the amount of \$2.5 million and the Directors’ Charge is in the amount of \$3.5 million.
28. The CCAA Parties now seek priority for the CCAA Charges ahead of all Encumbrances on notice to affected parties. For greater certainty, the CCAA Charges only extend to assets or rights against assets over which the CCAA Parties hold or acquire title.
29. The beneficiaries of the Administration Charge are the Monitor, the Monitor’s counsel, counsel to the CCAA Parties and independent counsel to the Directors. The Monitor believes that the beneficiaries of the Administration Charge are, and will be, undertaking a necessary and integral role in the CCAA Proceedings, which CCAA Proceedings will benefit all stakeholders.

30. The Directors' Charge secures an indemnity in favour of the directors and officers of the CCAA Parties against obligations and liabilities that they may incur as directors or officers of the CCAA Parties after the commencement of the CCAA Proceedings, except to the extent that, with respect to any individual, the obligation or liability was incurred as a result of the individual's gross negligence or wilful misconduct.
31. It is the Monitor's view that the continued support and service of the directors and officers during the CCAA Proceedings would be beneficial to the CCAA Parties efforts to explore alternatives to preserve value and maximize recoveries for stakeholders. The Monitor has been informed that current directors and officers will not continue to serve unless the requested priority for the Directors' Charge is granted.
32. The known potential secured creditors whose claims, subject to having such claims verified and proven, will be subordinated to the CCAA Charges if the CCAA Parties' request for priority for the CCAA Charges is granted are parties with registered construction liens (the "**Construction Lien Creditors**").
33. While the claims of Construction Lien Creditors have not been verified or proven, construction lien claims totalling approximately \$60.9 million have been registered against the real property assets.
34. The Monitor believes that the Construction Lien Creditors will benefit from the CCAA Proceedings as the CCAA Proceedings will facilitate the maximization of realizations from real estate assets subject to construction lien claims.
35. The Monitor also notes that claims would only be made on the Administration Charge in the event that the CCAA Parties fail to pay the accounts of the beneficiaries and that payment of such accounts is provided for in the February 4 Forecast.

36. The Monitor further notes that claims would only be made on the Directors' Charge in the event that:
- (a) the CCAA Parties fail to pay liabilities that fall due after the commencement of the CCAA Proceedings and that could give rise to potential liability for directors; and
 - (b) any such amounts are not covered by insurance.
37. Accordingly, the Monitor respectfully recommends that the CCAA Parties' request for priority for the CCAA Charges be granted by the Court.

REQUEST FOR AN EXTENSION OF THE STAY PERIOD

38. The Stay Period currently expires on February 26, 2015. Additional time is required for the CCAA Parties to formulate, to seek approval of, and if approved, implement the SISP. The continuation of the stay of proceedings is necessary to provide the stability needed during that time. Accordingly, the CCAA Parties now seek an extension of the Stay Period to April 30, 2015.
39. While the CCAA Parties have not yet brought a motion for approval of the SISP, it is expected that such a motion will be brought within the next few weeks and that the proposed deadline for non-binding expressions of interest would be before April 30, 2015. It is expected that a motion for approval of the terms of engagement of Moelis would be brought concurrent with the motion for approval of the SISP.
40. The February 4 Forecast demonstrates that, subject to the underlying assumptions, the CCAA Parties have sufficient liquidity to fund the CCAA Proceedings to April 30, 2015. Consistent with the January 23 Forecast and as disclosed to the Court, the February 4 Forecast does not include payment of equipment financing and leases or Take or Pay Amounts.

41. Based on the information currently available, the Monitor believes that creditors would not be materially prejudiced by an extension of the Stay Period to April 30, 2015.
42. The Monitor also believes that the CCAA Parties have acted, and are acting, in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.
43. The Monitor therefore respectfully recommends that this Honourable Court grant the CCAA Parties' request for an extension of the Stay period to April 30, 2015.

The Monitor respectfully submits to the Court this, its First Report.

Dated this 5th day of February, 2015.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Bloom Lake General Partner Limited, Quinto Mining Corporation,
8568391 Canada Limited, Cliffs Québec Iron Mining ULC,
The Bloom Lake Iron Ore Mine Limited Partnership and
Bloom Lake Railway Company Limited



Nigel D. Meakin
Senior Managing Director



Steven Bissell
Managing Director

Appendix A

The February 4 Forecast

CCAA Parties Cash Flow Projection

Amounts in CAD in thousands

Week Ending Friday	6-Feb-15	13-Feb-15	20-Feb-15	27-Feb-15	6-Mar-15	13-Mar-15	20-Mar-15	27-Mar-15	3-Apr-15	10-Apr-15	17-Apr-15	24-Apr-15	1-May-15	13-Week
Forecast Week	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Cash Flow from Operations														
Receipts	-	-	-	-	100	-	-	-	100	1,144	829	-	100	2,273
Payroll & Employee Benefits	(481)	(809)	(225)	(354)	(490)	(543)	(469)	(342)	(474)	(538)	(487)	(342)	(502)	(6,056)
Termination & Severance	(200)	-	(36)	-	(84)	-	-	-	(160)	-	(245)	-	(618)	(1,343)
Utilities	(47)	(47)	(47)	(72)	(101)	(47)	(47)	(72)	(47)	(103)	(47)	(72)	(47)	(796)
Other Operating Disbursements	(1,169)	(364)	(160)	(1,207)	(428)	(430)	(308)	(912)	(730)	(421)	(249)	(811)	(405)	(7,594)
Operating Cash Flows	(1,897)	(1,220)	(468)	(1,633)	(1,003)	(1,020)	(824)	(1,326)	(1,311)	82	(199)	(1,225)	(1,472)	(13,516)
Restructuring Professional Fees	(457)	(524)	(335)	(360)	(311)	(311)	(287)	(311)	(287)	(287)	(287)	(311)	(287)	(4,355)
Projected Net Cash Flow	(2,354)	(1,744)	(803)	(1,993)	(1,314)	(1,331)	(1,111)	(1,637)	(1,598)	(205)	(486)	(1,536)	(1,759)	(17,871)
Beginning Cash Balance	53,062	50,708	48,964	48,161	46,168	44,854	43,523	42,412	40,775	39,177	38,972	38,486	36,950	53,062
DIP Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Projected Net Cash Flow	(2,354)	(1,744)	(803)	(1,993)	(1,314)	(1,331)	(1,111)	(1,637)	(1,598)	(205)	(486)	(1,536)	(1,759)	(17,871)
Ending Cash Balance	50,708	48,964	48,161	46,168	44,854	43,523	42,412	40,775	39,177	38,972	38,486	36,950	35,191	35,191

Notes:

- [1] The purpose of this cash flow projection is to determine the liquidity requirements of CCAA Parties during the forecast period.
- [2] Receipts from operations have been forecast based on current payment terms, historical trends in collections, and pre-filing shipments. As the mining operations have idled, no additional sales are forecast.
- [3] Forecast Payroll & Employee Benefits disbursements are based on actual payroll funding in the period leading up to the forecast period combined with scheduled reductions in staffing.
- [4] Termination & Severance disbursements are based on estimated amounts payable for past and future planned headcount reductions.
- [5] Forecast Utilities disbursements consist primarily of hydro costs to maintain the Bloom Lake operations on care and maintenance mode, and reflect current payment terms, rates and estimated consumption over the forecast period.
- [6] Forecast Other Operating Disbursements reflect the wind-down, and placement on care and maintenance of Bloom Lake. The timing of Other Operating Disbursements are assumed to be cash on delivery.
- [7] Forecast Restructuring Professional Fees consist of legal and financial advisor fees associated with the CCAA proceedings based on estimates obtained from legal and professional advisors.