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Your reference

Our reference
 01028478-0001

October 1st, 2015**Sent By E-mail**

Mtre. Gary Rivard
 BCF Attorneys LLP
 25th floor
 1100, René-Lévesque Blvd. West
 Montreal, Quebec H3B 5C9

Dear Confrere,

In the matter of the Plan of Compromise or Arrangement of Wabush Iron Co. Limited, Wabush Resources Inc., Wabush Mines, Arnauld Railway Company and Wabush Lake Railway Company, Limited (collectively the "Wabush CCAA Parties") – Amended and Consolidation of Mining Leases made between Canadian Javelin Limited (now MFC Industrial Ltd.) and Wabush Iron dated as of September 2, 1959 (as amended, restated, supplemented or modified from time to time (the "Sub-Lease"))

We have been instructed to respond to your September 18, 2015, letter as follows.

We are surprised that despite the numerous exchanges to date referenced below, MFC Industrial Ltd. ("MFC") is taking for the first time the position that royalty payments made subsequent to the end of mining activities in February of 2014 are insufficient.

As evidenced by the wire confirmation submitted in support of the September 11, 2015 letter by Wabush CCAA Parties' counsel, the Wabush CCAA Parties made two payments on August 24, 2015, in the aggregate amount of \$ 750,250 in favour of MFC and the Newfoundland government. Payment of the Minimum Payment (as defined in Clause 1A of the Sub-Lease) was made within the applicable 30-day cure period following the second quarterly Payment Date (as defined in the Sub-Lease) for the current year.

We note that MFC never alleged in the past that the Wabush CCAA Parties had underpaid the Minimum Payments. We refer you to MFC's co-counsel letter dated April 16, 2015, MFC's letter dated May 8, 2015 addressed to the Chairman, President and CEO of Cliff Natural Resources Inc. and to your June 5, 2015 comprehensive Notice of objection filed on behalf of MFC.

As a matter of fact, the first reference to an alleged underpayment of the Minimum Payments is to be found in MFC's September 3, 2015, notice of alleged default, which reads in part as follows:

This letter serves as notice pursuant to Clause C(4) of the Sub-Lease that the full amount of such Minimum Payment has not been paid to date and has been in arrears for more than

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Mtre. Gary Rivard
October 1st, 2015

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30 days as of the date hereof. Pursuant to Clause C(4) of the Sub-Lease, MFC hereby demands full payment of the prescribed Minimum Payment. If such default is not cured, we reserve our rights to pursuant all such remedies as may be available to us, including the termination of the Sub-Lease, which may be subject to the prior lifting of the stay of proceedings...

Upon receipt of MFC's notice of alleged default, we wrote you a letter on September 11, 2015, asking you to clarify your client's position in light of the payments made on August 24, 2015.

It was only on September 18, 2015, that you finally alleged a \$ 62,500 [sic] underpayment¹ of the Minimum Payment on the basis of an amendment to the Sub-Lease dated August 8, 1961.

As you are aware, the Wabush CCAA Parties became subject to the *Companies' Creditors Arrangement Act* by way of an initial order rendered on May 28, 2015 (as amended, restated and extended from time to time the "Wabush Initial Order"). The Wabush Initial Order provides a stay of proceedings against the Wabush CCAA Parties and allows only for the payment of reasonable expenses incurred by them in carrying on their business and operations after the Wabush Initial Order. We are of the view that only the prorated post-filing portion of the Minimum Payment for the 2015 second quarter (from April 26 to July 25) in the amount of \$ 588,265 (on the basis of a \$ 812,260 Minimum Payment) or \$ 541,847 (on the basis of a \$ 750,250 Minimum Payment) was payable on July 25, such that as a matter of fact the Minimum Payment owing in relation to the post-filing period was fully paid.

In view of your client's termination rights under the Sub-Lease and the critical importance of preserving the Wabush CCAA Parties' tenancy rights for the general benefits of all its stakeholders, we understand that the Wabush CCAA Parties would be prepared to pay the alleged underpayment of \$ 62,000 and the Monitor would agree to said payment in consideration of a confirmation by MFC that there is no continuing or post-filing default pursuant to the Sub-Lease, the whole without any admission that MFC is entitled to claim that the Minimum Payment for the second quarter of 2015 was underpaid or prejudice to the Wabush CCAA Parties' legal arguments, including those based on estoppel by conduct or similar doctrines.

This proposal remains open for acceptance in writing up until October 9, 2015.

Yours very truly,


Sylvain Rivard
Partner

SAR/jrl

¹ The amount of the alleged underpayment should be \$ 62,000 not \$ 62,500.