

CANADA

PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL

SUPERIOR COURT  
Commercial Division

File: No: 500-11-048114-157

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**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, CLIFFS QUÉBEC IRON  
MINING ULC, WABUSH IRON CO.  
LIMITED AND WABUSH RESOURCES  
INC.**

Petitioners

- and -

**THE BLOOM LAKE IRON ORE MINE  
LIMITED PARTNERSHIP, BLOOM LAKE  
RAILWAY COMPANY LIMITED,  
WABUSH MINES, ARNAUD RAILWAY  
COMPANY AND WABUSH LAKE  
RAILWAY COMPANY LIMITED**

Mises-en-cause

- and -

**FTI CONSULTING CANADA INC.**

Monitor

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

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## INTRODUCTION

1. On January 27, 2015, Bloom Lake General Partner Limited (“**Bloom Lake GP**”), Quinto Mining Corporation (“**Quinto**”), 8568391 Canada Limited and Cliffs Québec Iron Mining ULC (“**CQIM**”) (collectively, the “**Bloom Lake Petitioners**”) sought and obtained an initial order (as amended, restated or rectified from time to time, the “**Bloom Lake 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 Bloom Lake Petitioners until February 26, 2015, (the “**Bloom Lake Stay Period**”) and appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”). The relief granted in the Bloom Lake Initial Order was also extended to The Bloom Lake Iron Ore Mine Limited Partnership (“**Bloom Lake LP**”) and Bloom Lake Railway Company Limited (together with Bloom Lake LP, the “**Bloom Lake Mises-en-Cause**” and together with the Bloom Lake Petitioners, the “**Bloom Lake CCAA Parties**”). The proceedings commenced under the CCAA by the Bloom Lake CCAA Parties will be referred to herein as the “**CCAA Proceedings**”.

2. On May 20, 2015, the CCAA Proceedings were extended to include Wabush Iron Co. Limited (“**WICL**”), Wabush Resources Inc. (“**WRI**” and together with WICL, the “**Wabush Petitioners**”), Wabush Mines, Arnaud Railway Company and Wabush Lake Railway Company Limited (collectively the “**Wabush Mises-en-Cause**” and together with the Wabush Petitioners, the “**Wabush CCAA Parties**”) pursuant to an initial order (as amended, restated or rectified from time to time, the “**Wabush Initial Order**”) providing for, *inter alia*, a stay of proceedings against the Wabush CCAA Parties until June 19, 2015, (the “**Wabush Stay Period**”) and approving an interim financing term sheet dated May 19, 2015 (as amended, the “**Interim Financing Term Sheet**”), providing an interim facility of up to US\$10 million (the “**Interim Financing**”). The Bloom Lake CCAA Parties and the Wabush CCAA Parties will be referred to collectively herein as the “**CCAA Parties**”.
3. The Bloom Lake Stay Period and the Wabush Stay Period (together, the “**Stay Period**”) have been extended from time to time and currently expires on January 31, 2016.
4. To date, the Monitor has filed twenty-eight reports in respect of various aspects of the CCAA Proceedings. The purpose of this, the Monitor’s Twenty-Ninth Report (this “**Report**”), is to provide information to the Court with respect to:
  - (a) The motion of Mason Graphite Inc. (formerly, Mason Graphite Corp., “**Mason Graphite**”) dated October 4, 2016, (the “**Mason Graphite Homologation Motion**”), seeking an Order, *inter alia*:
    - (i) Lifting the stay of proceedings for the purposes of the Mason Graphite Homologation Motion;
    - (ii) Homologating the transaction set out in the draft settlement agreement described above; and

- (iii) Approving a transaction wherein Mason Graphite would pay US\$4 million in full and final settlement of US\$5 million owing to Quinto, as described later in this Report;

and the Monitor's comments thereon.

## **TERMS OF REFERENCE**

5. 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**").
6. 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 Chartered Professional Accountants of Canada Handbook; and
  - (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 Chartered Professional Accountants of Canada Handbook.
7. The Monitor has prepared this Report in connection with the Mason Graphite Homologation Motion scheduled to be heard December 8, 2016. The Report should not be relied on for other purposes.
8. 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.

9. 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 Bloom Lake Initial Order, the Wabush Initial Order, previous reports of the Monitor, the Restructuring Agreement or the Plan.

## **THE MASON GRAPHITE MOTION**

### **BACKGROUND**

10. Details of events that led to the filing of the Mason Graphite Homologation Motion were provided at paragraphs 43 to 55 of the Monitor's Twenty-Fourth Report and are included herein for ease of reference.
11. Quinto is party to an agreement of purchase and sale dated April 5, 2012 (the "**Mason Graphite Agreement**"), pursuant to which Quinto agreed to sell certain mining claims to Mason Graphite Corp. ("**Mason Graphite**"). Pursuant to the Mason Graphite Agreement, US\$7.5 million of the purchase price was deferred and was payable at various future dates subsequent to the commencement of the CCAA Proceedings.
12. The first two payments due after the commencement of the CCAA Proceedings, totalling US\$2.5 million in the aggregate, were paid by Mason Graphite. Prior to the preparation of the Monitor's Twenty-Fourth Report, two additional payments of US\$2.5 million each remained outstanding, with payment dates of October 5, 2016, and April 5, 2017 respectively (the "**Remaining Mason Graphite Proceeds**").
13. In January 2016, Mason Graphite made a proposal for the early repayment of the Remaining Mason Graphite Proceeds at a significant discount. Quinto, following consultation with the Monitor, rejected that proposal.

14. On July 28, 2016, Mason Graphite made a revised early payment offer stating that Mason Graphite had “found some financial partners and are now in a position to have access to an amount of \$3M to be used as a complete and final payment to fully reimburse the last deferred payment”. Following consultation with the Monitor, Quinto made a counter-proposal (the “**Quinto Settlement Offer**”) at US\$4 million, subject to the following conditions:
  - (a) Acceptance of the offer by no later than 5:00 p.m. Eastern Time on Monday August 22, 2016;
  - (b) Execution of a definitive settlement agreement by no later than September 2, 2016; and
  - (c) Payment in full by no later than September 30, 2016, or three business days after Court approval is granted if such approval is determined by Quinto to be required.
15. Mason Graphite accepted the Quinto Settlement Offer on August 22, 2016.
16. A draft settlement agreement was provided to counsel to Mason Graphite on August 26, 2016, subject to further review by Quinto and the Monitor. The draft settlement agreement included a provision that the agreement was subject to Court approval.
17. Mason Graphite provided a mark-up of the draft settlement agreement on September 1, 2016, which mark-up was unacceptable to Quinto. Quinto provided a revised draft at 11:46 a.m. on September 6, 2016.

18. At 11:57 a.m. on the same day, Mason Graphite issued a press release announcing a \$25.0 million bought deal private placement offering and stating that up to approximately \$6 million of the proceeds of the offering would be used “for the payment of amounts owing to Quinto Mining Corporation”<sup>1</sup> (the “**Mason Graphite Press Release**”).
19. Given the new material information on the financial capacity of Mason Graphite to pay the full amount of the Remaining Mason Graphite Proceeds, Quinto, in consultation with the Monitor, determined that the proposed settlement was no longer in the best interests of Quinto’s stakeholders. Accordingly, at 1:53 p.m. on September 6, 2016, counsel to Quinto informed counsel to Mason Graphite that Quinto could no longer proceed with the proposed settlement as the proposed settlement was no longer in the best interests of Quinto’s stakeholders and that deferred payments under the Mason Graphite Agreement should continue to be paid in accordance with the terms of the Mason Graphite Agreement.
20. On September 14, 2016, counsel to Quinto received a letter from counsel to Mason Graphite (the “**Mason Graphite September 14 Letter**”) asserting the position that Quinto and Mason Graphite had entered into a binding contract for the settlement of the Remaining Mason Graphite Proceeds notwithstanding that no definitive agreement had been executed. Mason Graphite requested that Quinto execute of the draft settlement agreement within five days and present a motion for Court approval of the settlement by no later than September 23, 2016.

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<sup>1</sup> Mason Graphite issued a subsequent press release on September 27, 2016, announcing that the bought deal private placement offering had closed with gross proceeds of \$28,778,750.

21. Quinto disputes the assertion by Mason Graphite that the parties had reached a binding contract. Furthermore, the Monitor informed Quinto that it could not recommend that the Court approve an early payment settlement at a discount given the Mason Graphite press release that confirmed that Mason Graphite has the financial capacity to pay the full US\$5 million of the Remaining Mason Graphite Proceeds. Accordingly, Quinto informed the Monitor that it would not execute the draft settlement agreement or seek Court approval thereof.
22. On October 4, 2016, Mason Graphite filed the Mason Graphite Homologation Motion.
23. As noted above, a payment of US\$2.5 million was due on October 5, 2016. That payment was made by Mason Graphite on October 4, 2016, following the delivery of a letter from Mason Graphite's counsel to Quinto and the Monitor in which Mason Graphite's counsel advised that the payment would be made and that the payment was considered by Mason as a partial payment of the amount of US\$4 million stated in the Quinto Settlement Offer.

#### **THE MONITOR'S COMMENTS**

24. As noted above, the Monitor was consulted by the CCAA Parties on the Quinto Settlement Offer and supported the Quinto Settlement Offer being made at the time that it was made.
25. The basis for that support was that, in light of the information available at that time, it was believed that there was a somewhat significant degree of collection risk associated with the Remaining Mason Graphite Proceeds due to the financial circumstances of Mason Graphite.
26. The Monitor notes however that the Quinto Settlement Offer was explicitly conditional upon, *inter alia*:



- (a) Execution of a definitive settlement agreement by no later than September 2, 2016;
  - (b) Court approval, if such approval was determined by Quinto to be necessary; and
  - (c) Payment in full by no later than September 30, 2016, or three business days after Court approval is granted if such approval is determined by Quinto to be required.
27. The draft settlement agreement provided to Mason Graphite included a provision that the settlement agreement was subject to Court approval.
28. As counsel to Quinto had informed counsel to Mason Graphite that Quinto could no longer proceed with the proposed settlement as the proposed settlement was no longer in the best interests of Quinto's stakeholders, no settlement agreement was executed and no motion for Court approval of such agreement was filed by Quinto.
29. Accordingly, the Monitor never made any recommendation to the Court with respect to the Quinto Settlement Offer. Furthermore, the Monitor had made no statement to Mason Graphite that it would recommend that the Court approve the Quinto Settlement Offer.

30. While it is fair to say that, based on the information available to the Monitor prior to the Quinto Settlement Offer being advanced, the Monitor would originally have recommended that the Court approve the Quinto Settlement Offer had a definitive agreement been executed and presented to the Court for approval, new and relevant information became available to the Monitor before it was necessary to make any such recommendation. That new information, in the form of the Mason Graphite Press Release, made it clear that the collection risks related to the Remaining Mason Graphite Proceeds were now materially lower than they had previously been believed to be, to the point that the Monitor no longer considered that the Quinto Settlement Offer was in the best interests of the estate. Accordingly, the Monitor could not recommend its approval by the Court and would not have done so even if Quinto had sought such approval.
31. In the Monitor's view, in making a recommendation to the Court, the Monitor can and should consider all relevant information available to it at the time that the Monitor makes actually makes its recommendation.
32. Based on the information available to the Monitor, the Monitor cannot, and does not, recommend that the Quinto Settlement Offer be approved by the Court.

The Monitor respectfully submits to the Court this, its Twenty-Ninth Report.

Dated this 25<sup>th</sup> day of November, 2016.

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,

Wabush Iron Co. Limited, Wabush Resources Inc.,

The Bloom Lake Iron Ore Mine Limited Partnership,

Bloom Lake Railway Company Limited, Wabush Mines,

Arnaud Railway Company and Wabush Lake Railway Company Limited



Nigel D. Meakin  
Senior Managing Director



Steven Bissell  
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