

CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

SUPERIOR COURT
Commercial Division

File: No: 500-11-●

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

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

Petitioners

- and -

**THE BLOOM LAKE IRON ORE MINE
LIMITED PARTNERSHIP**

Mise-en-cause

- and -

FTI CONSULTING CANADA INC.

Monitor (Proposed)

**PRE-FILING REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS PROPOSED MONITOR**

INTRODUCTION

1. FTI Consulting Canada Inc. (“**FTI Consulting**” or the “**Proposed Monitor**”) has been informed that on January 27, 2015, Bloom Lake General Partner Limited, Bloom Lake Railway Company Limited, Quinto Mining Corporation, 8568391 Canada Limited and Cliffs Québec Iron Mining ULC (“**CQIM**”) (collectively, the “**Petitioners**”) will make an application under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) seeking an initial order (the “**Initial Order**”) from the Superior Court of Quebec (the “**Court**”), providing for, *inter alia*, a stay of proceedings against the Petitioners and The Bloom Lake Iron Ore Mine Limited Partnership (the “**Mise-en-Cause**” and together with the Petitioners, the “**CCAA Parties**”) until February 26, 2015, (the “**Stay Period**”) and appointing FTI Consulting Canada Inc. as monitor (the “**Monitor**”). The proceedings to be commenced under the CCAA by the CCAA Parties will be referred to herein as the “**CCAA Proceedings**”.
2. FTI Consulting has been acting as financial advisor to the CQIM and its affiliates since November 2014, and is therefore familiar with the business and operations of the CCAA Parties, their personnel, the key issues and the key stakeholders in these CCAA Proceedings. FTI Consulting is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended. FTI Consulting is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI Consulting has provided its consent to act as Monitor.
3. The purpose of this Report is to inform the Court on the following:

- (a) The state of the business and affairs of the CCAA Parties and the causes of their financial difficulty and insolvency;
- (b) The CCAA Parties' weekly cash flow forecast to April 24, 2015 (the "**January 23 Forecast**");
- (c) Employee retention agreements entered into by the CCAA Parties prior to the commencement of the CCAA Proceedings;
- (d) The CCAA Parties' request for approval of a charge in the amount of \$3.5 million securing 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 (the "**Directors' Charge**") and the Proposed Monitor's recommendation thereon;
- (e) The CCAA Parties' request for approval of a charge securing any inter-company funding consistent with the CCAA Parties cash flow forecasts and approved by the Monitor that may be required between the CCAA Parties during the CCAA Proceedings (the "**Inter-Company Charge**"); and
- (f) The CCAA Parties' request for approval of a charge in the amount of \$2.5 million securing the fees and expenses of the Monitor, its counsel, counsel to the CCAA Parties and independent counsel to the Directors (the "**Administration Charge**") and the Proposed Monitor's recommendation thereon.

TERMS OF REFERENCE

4. In preparing this report, the Proposed 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**").
5. Except as described in this Report:
 - (a) The Proposed 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 Proposed 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.
6. 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.
7. The Proposed Monitor has prepared this Report in connection the CCAA Parties' Motion for an Initial Order under the CCAA dated January 26, 2015 (the "**Initial Motion**"). The Report should not be relied on for other purposes.
8. 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 Motion.

EXECUTIVE SUMMARY

9. The Proposed Monitor is of the view that the relief requested by the CCAA Parties is necessary, reasonable and justified. The Proposed Monitor is also of the view that granting the relief requested will provide the CCAA Parties with the best opportunity to explore alternatives to preserve value and maximize recoveries for stakeholders.
10. Accordingly, the Proposed Monitor respectfully recommends that the CCAA Parties' request for the Initial Order and the ancillary relief described in this Report be granted by this Court.

THE CCAA PARTIES' BUSINESS, AFFAIRS AND CAUSES OF INSOLVENCY

11. The business and affairs of the CCAA Parties and the causes of their insolvency are described in the Initial Motion. The Proposed Monitor has reviewed the Initial Motion and discussed the business and affairs of the CCAA Parties and the causes of their insolvency with senior management personnel of the CCAA Parties and is of the view that the Initial Motion provides a fair summary thereof.
12. The Initial Motion includes a brief description of the 2014 Reorganization, as defined therein. As described in the Initial Motion, the 2014 Reorganization included the transfer of the shares of the Australian Affiliates from CQIM to CQIM's parent company, the consideration for which was a reduction of unsecured inter-company debt.
13. Subject to any Order that may be issued by the Court, the Proposed Monitor intends to review the 2014 Reorganization and its impact and to provide a report thereon to the Court in due course. The Proposed Monitor has been informed that the CCAA Parties will provide their full co-operation to the Monitor in that regard.

THE JANUARY 23 FORECAST

14. The January 23 Forecast, together with management’s report on the cash-flow statement as required by section 10(2)(b) of the CCAA, is attached hereto as Appendix A. The January 23 Forecast shows a net cash outflow of approximately \$20.8 million in the period to April 24, 2015, and is summarized below:

	\$000
Receipts	2,380
Disbursements:	
Payroll & Employee Benefits	(7,672)
Termination & Severance	(1,936)
Utilities	(2,402)
Other Operating Disbursements	(6,441)
Operating Cash Flows	(16,071)
Restructuring Professional Fees	(4,769)
Projected Net Cash Flow	(20,840)
Beginning Cash Balance	30,000
DIP Financing	0
Projected Net Cash Flow	(20,840)
Ending Cash Balance	9,160

15. Section 23(1)(b) of the CCAA states that the Monitor shall:
- “review the company’s cash-flow statement as to its reasonableness and file a report with the court on the monitor’s findings;”
16. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports as follows:
- (a) The January 23 Forecast has been prepared by the management of the CCAA Parties for the purpose described in Note 1, using the Probable Assumptions and the Hypothetical Assumptions set out in Notes 2 to 8 thereof;

- (b) The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the management and employees of the CCAA Parties. Since Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the January 23 Forecast. The Proposed Monitor has also reviewed the support provided by management of the CCAA Parties for the Probable Assumptions, and the preparation and presentation of the January 23 Forecast;
- (c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
 - (i) The Hypothetical Assumptions are not consistent with the purpose of the January 23 Forecast;
 - (ii) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the CCAA Parties or do not provide a reasonable basis for the January 23 Forecast, given the Hypothetical Assumptions; or
 - (iii) The January 23 Forecast does not reflect the Probable and Hypothetical Assumptions;

- (d) Since the January 23 Forecast 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, the Proposed Monitor expresses no assurance as to whether the January 23 Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Proposed Monitor in preparing this Report; and
- (e) The January 23 Forecast has been prepared solely for the purpose described in Note 1 on the face of the January 23 Forecast and readers are cautioned that it may not be appropriate for other purposes.

EMPLOYEE RETENTION AGREEMENTS

- 17. As described in the Initial Motion, the CCAA Parties recently entered into retention agreements with three employees. Pursuant to the terms of the retention agreements, bonus payments are payable provided that the employee does not resign prior to June 30, 2015, their job performance is satisfactory and they are not terminated for cause.
- 18. The Proposed Monitor was not involved in the preparation of the retention agreements, but has reviewed the retention agreements and is satisfied that the amounts payable are reasonable in the circumstances and are not material in the CCAA Proceedings.
- 19. To protect confidentiality, the retention agreements have not been attached to this report, but can be made available to the Court under appropriate confidentiality arrangements if the Court so desires.

THE PROPOSED DIRECTORS' CHARGE

20. The CCAA Parties are seeking the Directors' Charge in the amount of \$3.5 million with priority over all claims against the property of the CCAA Parties except for claims of any person that is a "secured creditor" as defined in the CCAA and who has not received notice of the Initial Motion.
21. The Proposed Monitor understands that the CCAA Parties intend to subsequently seek priority for the Directors' Charge ahead of all claims of "secured creditors" other than the Administration Charge. Any such request would be subject of a future motion on notice to affected parties.
22. The beneficiaries of the Directors' Charge, if granted, would be the directors and officers the CCAA Parties. It is the Proposed 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 Proposed Monitor has been informed that current directors and officers will not continue to serve unless the Directors' Charge is granted.
23. The Proposed Monitor has reviewed the underlying calculations upon which the CCAA Parties have based the estimate of the potential liability in respect of directors' statutory obligations and is of the view that the Directors' Charge is reasonable in relation to the quantum of the estimated potential liability.
24. As described in the Initial Motion, certain insurance coverage is provided for the directors and officers under the group policy of the ultimate parent of the CCAA Parties, but that the policy may not cover the potential statutory liabilities of the directors and officers of the CCAA Parties. The Proposed Monitor has been informed that the CCAA Parties attempted to obtain additional insurance coverage for the directors and officers of the CCAA Parties, but that such coverage was not available.

25. The Proposed Monitor notes that the Directors shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts for which the Directors are entitled to be indemnified pursuant to the provisions of the Initial Order.
26. Accordingly, the Proposed Monitor respectfully recommends that the CCAA Parties request for the Directors' Charge be granted by this Court.

THE PROPOSED INTER-COMPANY CHARGE

27. As described in the Initial Motion, historically inter-company funding has taken place between the CCAA parties as required and it is anticipated that inter-company funding between the CCAA Parties will be required during the CCAA Proceedings. It is intended that such inter-company funding would occur only with the approval of the Monitor and consistent with the CCAA Parties' cash flow projections.
28. In order to protect the interests of the separate stakeholder constituencies of the individual CCAA Parties, the CCAA Parties seek the granting of a charge to secure such funding. Such charge would only apply to funding provided after the commencement of the CCAA Proceedings.
29. The Proposed Monitor is of the view that such a charge is reasonable and justified in the context of the CCAA Proceedings and the Proposed Monitor respectfully recommends that the CCAA Parties request for the Inter-Company Charge be granted by this Court.

THE PROPOSED ADMINISTRATION CHARGE

30. The CCAA Parties are seeking an Administration Charge in the amount of \$2.5 million with priority over all claims against the property of the CCAA Parties except for claims of any person that is a “secured creditor” as defined in the CCAA and who has not received notice of the Initial Motion.
31. The Proposed Monitor understands that the CCAA Parties intend to subsequently seek priority for the Administration Charge ahead of all claims of “secured creditors”. Any such request would be subject of a future motion on notice to affected parties.
32. The beneficiaries of the Administration Charge, if granted, would be the Monitor, the Monitor’s counsel, counsel to the CCAA Parties and independent counsel to the Directors. The Proposed Monitor believes that it is appropriate that the proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceedings.
33. The Proposed Monitor has reviewed the underlying assumptions upon which the CCAA Parties have based the quantum of the proposed Administration Charge, the complexities of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge and believes that limit of \$2.5 million is reasonable in the circumstances.
34. Accordingly, the Proposed Monitor respectfully recommends that the CCAA Parties’ request for the Administration Charge be granted by this Court.

The Proposed Monitor respectfully submits to the Court this, its Pre-Filing Report.

Dated this 26th day of January, 2015.

FTI Consulting Canada Inc.

In its capacity as Proposed Monitor of

Bloom Lake General Partner Limited, Bloom Lake Railway Company Limited, Quinto Mining Corporation, 8568391 Canada Limited, Cliffs Québec Iron Mining ULC and The Bloom Lake Iron Ore Mine Limited Partnership



Nigel D. Meakin
Senior Managing Director



Steven Bissell
Managing Director

Appendix A

The January 23 Forecast

CCAA Parties Cash Flow Projection

Amounts in CAD in thousands

Week Ending Friday Forecast Week	30-Jan-15	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	13-Week Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	
Cash Flow from Operations														
Receipts	-	220	-	-	-	220	-	-	-	-	1,121	819	-	2,380
Payroll & Employee Benefits	(870)	(301)	(377)	(606)	(1,487)	(636)	(385)	(578)	(369)	(590)	(347)	(622)	(504)	(7,672)
Termination & Severance	(572)	-	-	-	(256)	(153)	-	(39)	(42)	(117)	-	(287)	(470)	(1,936)
Utilities	(416)	(416)	(437)	(416)	(75)	(75)	(96)	(75)	(75)	(75)	(96)	(75)	(75)	(2,402)
Other Operating Disbursements	(175)	(414)	(131)	(558)	(990)	(682)	(459)	(382)	(809)	(511)	(266)	(317)	(747)	(6,441)
Operating Cash Flows	(2,033)	(911)	(945)	(1,580)	(2,808)	(1,326)	(940)	(1,074)	(1,295)	(1,293)	412	(482)	(1,796)	(16,071)
Restructuring Professional Fees	(768)	(457)	(457)	(335)	(360)	(311)	(311)	(287)	(311)	(287)	(287)	(287)	(311)	(4,769)
Projected Net Cash Flow	(2,801)	(1,368)	(1,402)	(1,915)	(3,168)	(1,637)	(1,251)	(1,361)	(1,606)	(1,580)	125	(769)	(2,107)	(20,840)
Beginning Cash Balance	30,000	27,199	25,831	24,429	22,514	19,346	17,709	16,458	15,097	13,491	11,911	12,036	11,267	30,000
DIP Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Projected Net Cash Flow	(2,801)	(1,368)	(1,402)	(1,915)	(3,168)	(1,637)	(1,251)	(1,361)	(1,606)	(1,580)	125	(769)	(2,107)	(20,840)
Ending Cash Balance	27,199	25,831	24,429	22,514	19,346	17,709	16,458	15,097	13,491	11,911	12,036	11,267	9,160	9,160

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.
- [8] The cash flow projection includes net draws/(repayments) on a proposed DIP facility to be provided by an affiliated company of CCAA Parties that is not a participant in the CCAA proceedings. DIP financing is subject to Court approval.