KOSKIE MINSKY

JUSTICE MATTERS

December 17, 2015

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WITHOUT PREJUDICE

Via E-Mail

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Dear Sirs:

**Re: Wabush Mines (CCAA), Québec Superior Court File No. 500-11-048114-157
Calculation of OPEB claims for employees and retirees
Our File No. 15/1359**

We are writing further to the conference call of November 27, 2015 with the actuary for the company (Towers Watson; "TW"), Segal Company ("Segal"), the actuary for Representative Counsel and the United SteelWorkers, and the Monitor.

The purpose of the conference call was an effort to work towards an agreement on the actuarial methodology and assumptions for the calculation of the employee and retiree claims in respect of terminated health, life, and other benefits ("OPEB") for the claims process of the Wabush Mines CCAA entities.

After the conference call, we received a report from Segal who have the following issues with the methodology proposed by TW, which are summarized below:

1. The proposed claim values calculated by TW purport to reflect the prospective accounting cost to the company of continuing to provide the OPEBs. That differs significantly from the projected cost to the employees and retirees of replacing their lost benefits on an individual basis. We believe that each participant is entitled to a claim such that he or she would be in the same position as if the contract to provide the OPEBs

that they earned during their employment years with the company had been fully honored. The proposed TW claim values do not do this.

2. The sex-distinct mortality tables used by TW are acceptable for the purposes of calculating these claims, however, Segal has indicated that they need to see adjustments made to reflect the longer expected lifetimes of individuals with higher pension benefit amounts. TW advised they had done this by using different mortality assumptions for the salaried and bargaining unit group consistent with the pension plan valuations. The method used to determine the discount rate is acceptable to Segal. TW is to send Segal the determination of this rate for Segal's review.

3. Segal has a concern with the prescription drug trend assumption. TW is using a trend assumption of 4% for 2014, trending up to 5% over four years (at 25 basis points per year). Segal advises that they believe a higher initial trend is appropriate, trending down to the ultimate rate of 5% over a 10-year period. TW advised they have a study indicating that recent increases with Wabush experience and, apparently, in the Canadian drug market, were almost 0%, and will provide this backup to Segal for review.

4. TW said they have claims experience for 2012 to 2014 and will also provide that to Segal, as well as TW's determination of starting claims costs.

5. Segal is concerned that the TW methodology of rolling forward from an earlier calculation that had been used for the company's financial accounting purposes (i.e., not for the purpose of claim calculations reflecting losses to individual employee and retiree creditors in an insolvency proceeding), and adjusted to a current discount rate will not accurately quantify the loss of OPEB benefits as of the CCAA determination date. Moreover, the roll forward apparently reflects benefits paid to a different employee and retiree population than the population for which claims are now being prepared. Segal recommends the preparation of a fresh valuation as of May 2015 for the current intended purpose, i.e., determining individual retiree creditor claims in the CCAA claims process.

6. While health benefits provided by employers to employees are generally exempt from income tax, distributions from a CCAA proceeding in respect of claims filed for terminated health benefits may be considered taxable. We believe that the affected claims should be increased for a tax gross-up to reflect that the claim amounts represent the after-tax amount of the present value of the projected future benefits. The proposed TW claims do not reflect this adjustment.

7. We are not sure if there are any Wabush employees on long-term disability. Our position is that anyone receiving LTD benefits before retiring should also have an OPEB claim, given that if they had known of the pending shutdown of the business, they would have retired and been in receipt of post-retirement benefits. This same reasoning applies to those individuals who were eligible to retire on the filing date but, not knowing of the pending closure, continued to work.

8. We require a list of the Wabush retirees who earned an entitlement to supplemental pension benefits which were also suspended by the company, so that an actuarial claim calculation can be prepared for these individuals.

Next Steps

We propose further discussions with Segal, TW, and the monitor in an effort to reach an agreement on the actuarial methodology and assumptions used to value the OPEB claim amounts for employees and retirees. In the alternative, if agreement cannot be reached, Segal is recommending that they determine the claim amounts for each individual for the purposes of the claims process. In respect of the latter approach, Segal has requested the following information to be provided as set out in Schedule "A" attached hereto.

Once you have had the opportunity to review this letter, please contact the undersigned to discuss next steps.

Yours truly,

KOSKIE MINSKY LLP

Andrew J. Hatnay
AJH:vdl
encl.

cc. Daniel Boudreault, *Philion Leblanc Beaudry Avocats s.a.*
Nicholas Scheib, *Scheib Legal*
Tom Levy and Nevio Tenuta, *Segal Company*
Client Committee

Schedule "A"

We ask that information as outlined below be provided for the following groups as of May 31, 2015:

a) All participants (retirees and survivors) of the post-retirement benefits program
b) Participants on LTD
c) Participants that had not retired but had satisfied one of the following at May 31, 2015:
   i. at least 30 years of service; or
   ii. age 55 with at least 15 years of service; or
   iii. was an Executive at least age 62 and at least 10 years of service

We request the following information for all groups indicated above:

1. The governing documents and a summary of plan changes if a plan was amended in the last three years for:

   a) the Medical benefits plan
   b) the Life Insurance benefit plan
   c) the SERP arrangement

2. We note that we have received some information in a PDF document and some in an Excel file. We ask that all relevant data needed to determine the claim for each participant be sent in a single Excel file containing the following, but not limited to:

   a) Unique identifier (Employee number or SIN)
   b) Name
   c) Gender
   d) Province
   e) Status
   f) Indicator if Executive
   g) Date of birth
   h) Date of hire
   i) Date of entry into plan
   j) Spouse date of birth (if applicable)
   k) Pre-retirement salary
   l) Life insurance coverage (and future changes, if applicable)
   m) Survivor coverage (Y or N)
   n) Medical coverage — Single or Family
   o) Number of dependents
   p) Date of SERP commencement
   q) SERP amount
   r) Form of payment of SERP benefit

3. Information to determine the average per capita claim costs:

   a) Paid claims history for the last three years (2012, 2013 and 2014) separately for life insurance, medical, dental, vision and prescription drugs paid claims (split between pre and post age 65 for Quebec members) for each group described above (separately for out-of-country)
   b) Exposure history for the last three years (2012, 2013 and 2014) based on the number of enrollments on a monthly basis
   c) Average administrative expenses and taxes paid for the last three years (2012, 2013 and 2014) for life insurance and health care by province
   d) Pooling point, costs and credits related to any high health insurance claims or out-of-country claims.

4. The study prepared to determine the trend rates

5. The cash flow analysis that led to the selection of the discount rate