

CANADA
PROVINCE OF QUEBEC
DISTRICT OF SAINT-FRANÇOIS
No.: 450-11-000167-134

SUPERIOR COURT
(Commercial Division)
The Companies' Creditors Arrangement Act

**IN THE MATTER OF THE PLAN OF
ARRANGEMENT WITH RESPECT TO:**

**MONTREAL, MAINE & ATLANTIC CANADA CO.
(MONTREAL, MAINE & ATLANTIQUE CANADA
CIE)**, a legal person duly incorporated under the
laws of the province of Nova Scotia, having a place
of business at 1, Place Ville Marie, 37th Floor,
Montreal, Quebec H3B 3P4 (at the offices of its
attorney ("fondé de pouvoir"))

Petitioner

-and-

**RICHTER ADVISORY GROUP INC. (RICHTER
GROUPE CONSEIL INC.)** a duly incorporated legal
person having its principal place of business at
1981 McGill College, 12th Floor, in the city and
district of Montreal, Quebec, H3A 0G6

Monitor

**SEVENTH REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
March 11, 2014**

INTRODUCTION

1. On August 6, 2013, Montreal, Maine & Atlantic Canada Co. (hereafter in this Report "MM&A" or "Petitioner") filed with the Quebec Superior Court a Motion for the Issuance of an Initial Order ("Motion") pursuant to Section 11 of the Companies' Creditors Arrangement Act, R.S.C. 1985, C-36, as amended (the "CCAA"). On August 8, 2013, the Honourable Martin Castonguay, J.S.C., issued an initial order (the "Initial Order"), which inter alia appointed Richter Advisory Group Inc. ("Richter") as Monitor (the "Monitor").

2. On August 21, 2013, the Petitioner filed a Motion to Amend the Initial Order and Seek a Charge and Security on the Property of Petitioner to Secure Funds for Self-Insured Obligations ("Charge and Security Motion"). The Monitor filed its First Report in respect of the Charge and Security Motion. On August 23, 2013, the Court granted an order amending the Initial Order to include the Self-Insured Obligation Charge.
3. On September 3, 2013, the Petitioner filed a Motion for an Order Extending the Stay Period and to Approve a Cross-Border Insolvency Protocol ("First Extension Motion"). The Monitor filed its Second Report on September 3, 2013 in support of the First Extension Motion. On September 4, 2013, the Court extended the stay of proceedings until October 9, 2013 and approved the cross-border insolvency protocol.
4. On October 4, 2013, the Petitioner filed a Motion for a Second Order Extending the Stay Period ("Second Extension Motion") requesting an extension of the stay of proceedings to January 28, 2014. The Monitor filed its Third Report on October 4, 2013 in support of the Second Extension Motion. On October 9, 2013, the Court extended the stay of proceedings until January 28, 2014.
5. On October 4, 2013, the Petitioner also filed a Motion to Increase the Amount of the Administration Charge, which increase was approved by the Court on October 9, 2013.
6. On December 13, 2013, the Petitioner filed a Motion for an Order Approving a Compromise and Settlement with Travelers Property Casualty Company of America ("Travelers Motion"), which compromise and settlement was approved by the Court on December 19, 2013.
7. On December 13, 2013, the Petitioner filed a Motion for an Order Approving a Process to Solicit Claims and for the Establishment of a Claims Bar Date ("Claims Motion"). At the request of the Petitioner and other interested parties, the Claims Motion was postponed and was scheduled to be heard on February 11, 2014 ("February 11, 2014 Hearing"). At the February 11, 2014 Hearing the Claims Motion was further postponed and is now scheduled to be heard on March 12, 2014 ("March 12, 2014 Hearing").
8. On December 13, 2013, the Petitioner and the Monitor jointly filed a Motion to Increase the Amount of the Administration Charge. On December 19, 2013, the Court granted an increase in the Administration Charge.
9. On December 16, 2013, the Petitioner filed a Motion for an order (a) Approving Bid Procedures for the Sale of the Debtor's Assets, (b) Approving a Stalking Horse Bid, (c) Approving a Break-Up Fee and Expense Reimbursement, (d) Scheduling an Auction, (e) Approving Procedures for the Assignment and Assumption of Certain Executory Contracts and Unexpired Leases and (f)

Approving a Form of Notice of Sale ("Sale Motion"). The Sale Motion was approved by the Court on December 19, 2013.

10. On November 1, 2013, the Motion for an Order Appointing Yannick Gagné, Guy Ouellet, Serge Jacques and Louis-Serges Parent as the Representatives of the Class Described in Appendix "A" hereto ("Class Representatives Motion"), which was scheduled to be heard on December 19, 2013, was postponed and is now scheduled to be heard at the March 12, 2014 Hearing.
11. On December 17, 2013, the Chapter 11 Trustee filed a Contestation of the Class Representatives Motion.
12. On January 17, 2014, the Petitioner filed a Motion for an Order Approving and Authorizing the Assignment of Contracts ("Contract Assignment Motion"). The Contract Assignment Motion was approved by the Court on January 23, 2014.
13. On January 19, 2014, the Petitioner filed a Motion for the Issuance of (i) An Order Authorizing the Sale of the Assets of the Petitioner and of (ii) a Vesting Order ("Sale and Vesting Motion"). The Sale and Vesting Motion was approved by the Court on January 23, 2014.
14. On January 20, 2014, the Petitioner filed a Motion for a Third Order Extending the Stay Period ("Third Extension Motion"). The Monitor filed its Fifth Report on January 22, 2014 in support of the Third Extension Motion. On January 23, 2014, the Court extended the stay of proceedings until February 11, 2014.
15. On February 4, 2014, the Class Action Plaintiffs filed a Claims Cross-Motion of the Class Action Plaintiffs for an Order Approving a Process to Solicit Claims and for the Establishment of a Claims Bar Date followed by the filing on February 5, 2014 of the Class Action Plaintiffs Plan of Argument ("Claims Cross-Motion"). The Claims Cross-Motion which was scheduled to be heard at the February 11, 2014 Hearing was postponed and is now scheduled to be heard at the March 12, 2014 Hearing.
16. On February 5, 2014, Orford Express Inc. filed a Motion to Modify a Prior Order and to Obtain Various Declaratory Orders ("Orford Motion"). The Orford Motion which was scheduled to be heard on February 26, 2014, was postponed by the Court to March 21, 2014.
17. On February 7, 2014, the Petitioner filed a Motion for a Fourth Order Extending the Stay Period to February 26, 2014 ("Fourth Extension Motion"). The Monitor filed its Sixth Report on February 10, 2014 in support of the Fourth Extension Motion. On February 11, 2014, the Court extended the stay of proceedings until February 26, 2014.

18. On February 7, 2014, the Monitor filed a Motion for Directions in respect of a Motion for Joint Status Conference filed on February 7, 2014 by the Official Committee of Victims in the Chapter 11 proceedings (“Directions Motion”). On February 12, 2014, the Court issued a letter notifying the service list of its intention to grant the Directions Motion and further issued an order on February 17, 2014 in support of a Joint Status Conference to be held in Bangor, Maine on February 26, 2014.
19. On February 7, 2014, the Chapter 11 Trustee filed two separate affidavits in connection with the Claims Motion and the Claims Cross-Motion.
20. On February 19, 2014, the Petitioner filed a Motion for a Fifth Order Extending the Stay Period to March 12, 2014 (“Fifth Extension Motion”). Pursuant to instructions from the Court, in the absence of any contestation and with the confirmed support of the largest creditor, the Province of Quebec (“Province”) as well as the largest secured creditor, the Federal Railroad Administration (“FRA”), no hearing was held. On February 25, 2014, the Court extended the stay of proceedings until March 12, 2014.
21. On March 10, 2014, the Petitioner filed a Motion for a Sixth Order Extending the Stay Period to April 15, 2014 (“Sixth Extension Motion”).
22. On March 10, 2014, the Petitioner and the Monitor jointly filed a Motion to Increase the Amount of the Administration Charge (“Administration Charge Motion”).
23. The Sixth Extension Motion, the Administration Charge Motion, the Claims Motion, the Class Representatives Motion, the Claims Cross-Motion are all scheduled to be heard at the March 12, 2014 Hearing. At the request of the Petitioner and as agreed to by the proposed Class Representatives, the Claims Motion, the Class Representatives Motion and the Claims Cross-Motion will be postponed and will be scheduled to be heard at a later date.
24. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
25. The purpose of this Sixth Report of the Monitor is to inform the Court on the following subjects:
 - General Corporate Information and Purpose of CCAA filing;
 - Canadian Transportation Agency;
 - Service of the Railway Line in Lac-Mégantic;
 - Financial Position;
 - Cash Flow Projections and Interim Financing;

- Insurance;
 - Joint Status Conference;
 - Compromise and Settlement with Travelers Property Casualty Company of America;
 - Sale of Assets;
 - Claims Process, Class Representatives Motion and Claims Cross-Motion;
 - Increase in the Administration Charge;
 - Chapter 11 Proceedings;
 - Activities of the Monitor;
 - Recommendations of the Monitor;
 - Conclusion.
26. We inform the Court that the Monitor has not conducted an audit or investigation of the information which has been provided to it by the Petitioner and that accordingly, no opinion is expressed regarding the accuracy, reliability or completeness of the information contained within this Report. The information contained herein is based on a review of unaudited financial information provided to the Monitor by the Petitioner's management as well as discussions with the Petitioner's management and employees.

GENERAL CORPORATE INFORMATION AND PURPOSE OF CCAA FILING

27. As noted in the Monitor's prior reports, the Petitioner operates a shortline freight railroad company in the Province of Quebec. It is a wholly owned subsidiary of Montreal, Maine & Atlantic Railway Ltd. ("MM&AR") which operates a shortline railroad in the States of Vermont and Maine (MM&A and MM&AR are hereinafter collectively referred to as the "Companies"). Together, the Companies operate approximately 500 route miles and service customers in Canada and the United States. An affiliated company, LMS Acquisition Corp. ("LMS") located in Hermon, Maine, operates a 130,000 square foot warehouse offering warehousing and lumber distribution.
28. As also noted in the Monitor's prior reports, the purpose of the CCAA proceedings is to:
- Continue the operations of the railway to the fullest extent possible in order to service the many customers and municipalities located along its route who are dependent on the railway for the operations of their business and this has been the case to date although as noted below, east – west service through the City of Lac-Mégantic ("City") has not yet resumed;

- Set up a sale process, in order to achieve a going-concern sale of the assets of MM&A and MM&AR. Railroad Acquisitions Holdings LLC (“RAH”) was the successful bidder for virtually all the assets of the Companies and a Sale and Vesting Motion was approved by the Court on January 23, 2014. The Companies continue to work with RAH to complete the transaction as expeditiously as possible;
- Provide continued employment for the experienced work force still employed by the Petitioner which will also serve to enhance the going-concern value of the Petitioner’s business and hopefully ensure continued employment for that work force after a sale. As appears from the Asset Purchase Agreement (“APA”), the majority of the current employees of MM&A should be retained by RAH;
- Set up a claims process, to avoid a multiplicity of individual legal recourses and deal efficiently with the claims of all stakeholders including the families of the victims and all holders of claims resulting from the derailment (“Derailment Victims”). As noted above, a Claims Motion was filed on December 13, 2013. The Claims Motion has not yet been heard pending resolution of various matters as more fully described below;
- Facilitate the negotiation with its various insurers and other third parties in order to maximize proceeds available for distribution and ensure the proper distribution of such indemnities and other proceeds pursuant to the Claims Process.

CANADIAN TRANSPORTATION AGENCY (“CTA”)

29. As noted in the Monitor’s Sixth report, the CTA amended the date of effect of the suspension of MMA’s Certificate of Fitness to April 1, 2014. On the assumption that the sale transaction with RAH is completed by March 31, 2014, no further extensions will be required. Nonetheless, it is possible that a further extension of the effective date of suspension will be requested in the event that the closing with RAH is delayed beyond March 31, 2014.

SERVICE OF THE RAILWAY LINE IN LAC-MÉGANTIC

30. As discussed in Monitor’s Fourth, Fifth and Sixth Reports, MM&A and the City reached an agreement covering Phase I of MM&A’s operating plan consisting of service, which started on December 18, 2013, to the City’s industrial park to allow clients such as Tafisa Canada Inc. and Logi-Bel Entrepotage Inc. to resume train service to their customers. A regular weekly operating schedule is now in effect enabling MM&A to continue to service the industrial park.
31. The City, the Chapter 11 Trustee and MM&A, with the assistance of the Monitor, continue to have discussions regarding the implementation of Phase II of MM&A’s operating plan which would entail

the resumption of east-west traffic between Quebec and Maine. MM&A has agreed that in addition to the existing self-embargo regarding the transport of crude oil, it will not transport any dangerous goods through the City and will observe various maximum speed limits and other security measures and operating conditions.

32. As of the date of this report, no agreement has been reached regarding the implementation of Phase II. Any interim agreements between MM&A and the City do not bind RAH.

FINANCIAL POSITION

33. In conjunction with the filing of the Fifth Extension Motion on February 19, 2014, the Petitioner submitted weekly cash flow projections covering the period from February 3, 2014 to March 14, 2014, a copy of which was attached as Exhibit "R-1" to the Fifth Extension Motion.
34. Wheeling & Lake Erie Railway Company ("Wheeling") provided the Companies with a US\$6 million line of credit, which had been utilized in full as of the commencement of the restructuring proceedings. The accounts receivable and inventory of MM&AR as of the filing date, secured the line of credit. Subsequent to the Camden DIP financing, as defined below, MM&AR has set aside the proceeds of all U.S. accounts receivable collected for pre-petition sales and for post-petition sales through October 18, 2013. MM&AR has been remitting these deposits to Wheeling on a regular basis.
35. As at February 28, 2014 the total amount remitted to Wheeling was approximately US\$1.2 million. A further US\$0.7 million is being held in escrow and US\$0.5 million thereof relates to the proceeds of the sale of tax credits earned by MM&AR. As mentioned in the Monitor's Fifth Report, Wheeling claims that it has a security interest over the tax credits but that position is contested by the Chapter 11 Trustee. The validity, priority and extent of Wheeling's security interest in the proceeds of these tax credits was heard in the United States Bankruptcy Court for the District of Maine ("US Court") on January 23, 2014. The US Court took the pleading under advisement and to date, has not issued a ruling in this matter. The remaining US\$0.2 million held in escrow, may be remitted to Wheeling if the realization of assets subject to Wheeling's security does not generate sufficient proceeds to pay the amounts owed to Wheeling.
36. As of February 28, 2014, the consolidated cash balance of the Companies amounted to US\$0.2 million as compared to the projected consolidated balance of US\$0.1 million. In addition, the Companies used US\$3.3 million of the DIP financing as compared to a projected use of US\$3.7 million. The overall positive variance of US\$0.5 million is primarily attributable to the following:

- US\$0.3 million positive cash receipts variance resulting from the better than forecasted collection of accounts receivable, which may be timing related and may reverse in future periods;
 - US\$0.2 million lower than projected payroll and material and supplies which also may be timing related and also may reverse in future periods;
37. For additional details, we refer you to Exhibit “1” attached hereto, entitled Comparative Cash Flow for the period February 3, 2014 to February 28, 2014.

CASH FLOW PROJECTIONS AND INTERIM FINANCING

38. Included hereto as Exhibit “2” are the combined projections for MM&A with MM&AR (“Combined Projections”) for the period March 3, 2014 to April 15, 2014 (“Period”).
39. The Combined Projections are an extract of the short-term cash flow projections last updated by management and the Chapter 11 Trustee based on information and assumptions as of the week ended January 31, 2014. The Combined Projections have been submitted to the Chapter 11 Trustee and the Chapter 11 Trustee’s Financial Advisor who have not indicated any disagreement with the Combined Projections nor that they are not suitable for the Period. The Combined Projections have been prepared using probable assumptions supported by and consistent with the plans of the Companies for the Period, considering the economic conditions that are considered the most probable by management. Since the Combined Projections are 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.
40. The underlying assumption of the Combined Projections are that the Companies will continue with their current level of railway operations, pending the eventual closing of the sale of assets to RAH, projected to take place by the end of March 2014. While the Combined Projections included the assumption that east-west service would commence in February 2014, which is not the case, the delay in resumption of this service is not expected to have a material impact on the cash flow.

41. The Combined Projections reflect the following:

Montreal, Maine & Atlantic Railway Ltd and Montreal Maine & Atlantic Canada Co.			
Cash Flow Projections - Summary			
For the period Mar 3, 2014 to Apr 15, 2014			
(in USD) (in thousands)	Mar 3/14 to Mar 31/14 ⁽¹⁾	Post closing ⁽²⁾	Mar 3 - Apr 15/14 Total
<u>Cash Receipts</u>			
Transportation revenue	\$ 828	\$ 675	\$ 1,503
Other operating revenue	164	-	164
Sale proceeds - Railroad Acquisition	14,250	-	14,250
Insurance proceeds - Travelers	-	3,800	3,800
45G - Tax credits	-	491	491
DIP financing	1,064	-	1,064
Total Cash Receipts	16,307	4,966	21,272
<u>Cash Disbursements</u>			
Transport revenue offsets	200	200	400
Payroll and related expenses	998	1,335	2,333
Material and supplies	604	-	604
Freight car & locomotive	116	35	151
Other operating costs	227	-	227
Closing costs	-	150	150
Real estate taxes	-	650	650
Post filing accounts payable	-	300	300
Repayment of DIP financing	-	4,390	4,390
Total Cash Disbursements	\$ 2,145	\$ 7,060	\$ 9,205
Net Cash Flow	14,161	(2,095)	12,067
Cash, beginning of period	189	-	189
Ending cash ⁽³⁾	\$ 14,350	\$ (2,095)	\$ 12,255
⁽¹⁾ Cash flow was prepared on the assumption that the sale of assets will be completed by March 31, 2014.			
⁽²⁾ Post-closing, the Companies will collect the remaining accounts receivable and settle its post-filing obligations. Certain of the post-closing receipts and disbursements may only be realized after April 15, 2014.			
⁽³⁾ Ending cash is subject to various priority charges/carveouts in favour of professionals in both Canada and the United States in addition to various charges of secured lenders.			

- US\$21.3 million of cash receipts include the following:
 - US\$1.6 million of receipts which include the collection of freight, switching, storage, car hire and equipment rental revenue. As the majority of billings are issued by MM&AR on behalf of the Companies, the MM&A projections reflect that funding to cover projected disbursements of MM&A during the Period will be provided by MM&AR, which is consistent with historical practices. The projected revenues include services relating to both Phase I and Phase II of MM&A's operating plan. As noted above, Phase II has not yet commenced

pending ongoing discussions with the City. Delays in the implementation of Phase II are not expected to be material to the cash flow.

- US\$14.3 million represents the gross sale proceeds to be received upon closing of the transaction with RAH, prior to payment of any closing adjustments (including real estate taxes and payroll) which are shown in the disbursements for cash flow purposes.
 - US\$3.8 million of business interruption insurance is further detailed below. The total amount of the insurance proceeds is not being contested.
 - US\$0.5 million of tax credits to be collected is the gross amount prior to any security rights that Wheeling may have as noted above.
 - US\$1.1 million of additional DIP financing that is projected to be subsequently repaid in full following the closing of the sale transaction.
- US\$9.2 million of cash disbursements consisting of both operating expenses pre-closing (US\$2.1 million) and post-closing disbursements (US\$7.1 million) summarized as follows:

March 3-31, 2014 Disbursements

- US\$0.2 million Interline Settlement System (“ISS”) payment is the estimated net amount owing from the use of other railway’s tracks.
- US\$1.0 million of payroll and benefits is based on forecasted staffing levels in both Canada and the US as well as overtime and temporary employment required for certain track repairs and winter maintenance during the operating period.
- US\$0.6 million of materials and supplies consists primarily of estimated costs related to the maintenance and servicing of the railroad tracks as well as fuel purchases, consistent with current run rates.
- US\$0.3 million of other operating costs including freight and locomotive costs, provision for rent, utilities, insurance, interest and other bank charges, track testing and employee expenses during the operating period.

Post-Closing Disbursements

- US\$0.2 million ISS payment outstanding relating to March 2014 activity.
- US\$1.3 million of payroll expenses relate to the final pay periods and vacation pay for Canadian and US employees (owing as of the closing date) as well as severance for Canadian employees who are not projected to continue with RAH.
- US\$0.2 million provision for other potential closing costs resulting from the sale transaction with RAH.

- US\$0.7 million in respect of outstanding real estate taxes on the land and buildings owned by the Companies.
 - US\$0.3 million payment of all remaining post filing obligations.
 - US\$4.4 million repayment of the Camden DIP financing.
 - No provision for professional fees in either Canada or the US has been included during the Period.
42. As discussed in previous Monitor's reports, the Chapter 11 Trustee was able to obtain US\$3 million of Debtor In Possession financing ("DIP Financing") in the form of a line of credit from Camden National Bank ("Camden"). The DIP Financing has been used to support the operations of both MM&AR and the Petitioner, but is not sufficient to permit any additional capital expenditures for necessary track repairs nor for payments of the fees owed to the Petitioner's Counsel, the Monitor and its Counsel ("Professionals").
43. The US\$3 million of DIP Financing was intended to finance the operations of the Companies through January 31, 2014. As a result of the current timeline to close the sale with RAH (end of March 2014), additional financing was required to continue the operations. On February 5, 2014, the Chapter 11 Trustee filed a motion to increase the maximum DIP Financing provided by Camden to US\$4.8 million, which should provide sufficient financing through the projected closing of the sale March 31, 2014, after which, the DIP Financing will be repaid from the proceeds of sale allocated to MM&AR.
44. Due to noticing requirements, the Chapter 11 Trustee sought and received on February 19, 2014 an amended interim order approving a US\$1.35 million increase with approval of the full US\$1.8 million increase expected to occur at a final hearing to be held on March 12, 2014. The US\$1.8 million increase in the DIP Financing will be secured by a charge on the assets of MM&AR only. Other than a limited objection filed in respect of the increased charge, all relevant parties have agreed to or are not contesting the US\$1.8 million increase. In respect of the objection filed, the Chapter 11 Trustee has filed a contestation of this objection, noting among other issues that the interim approval of US\$1.35 million has already occurred (and this therefore cannot be objected to). This matter will be decided at the hearing on March 12, 2014.
45. As of the date of this report, the Companies have drawn upon US\$3.3 million of the current US\$4.35 million DIP Financing.

INSURANCE

46. As discussed in the Monitor's Fifth Report, the Petitioners were advised by XL Insurance Company Limited ("XL") that the existing civil liability policy which provides aggregate coverage of \$25 million per event will not be renewed and will expire on April 1, 2014. There are ongoing discussions between the Chapter 11 Trustee and XL to determine whether an extension of the policy for an interim period is possible in the event that the sale of the Petitioner's assets is not completed by March 31, 2014.
47. The Monitor, its counsel, counsel for MM&A as well as the Chapter 11 Trustee have been in communication with counsel for XL as well as other interested parties to understand and discuss potential terms and conditions under which XL will remit the \$25 million insurance policy. This issue was further discussed in the context of the Joint Status Conference discussed below.

JOINT STATUS CONFERENCE

48. A Joint Status Conference was held on February 26, 2014 ("Conference") under the terms of the Cross-Border Insolvency Protocol approved in both the CCAA and Chapter 11 proceedings.
49. The Conference was held in Bangor, Maine and was presided over jointly by Honourable Gaetan Dumas, J.S.C. and the Honourable Louis Kornreich, Chief Judge of the Bankruptcy Court of Maine. The Conference was attended by numerous interested parties including the Chapter 11 Trustee, counsel for MM&A, the Monitor and its counsel, the Official Victims Committee ("Committee") in the Chapter 11 proceedings, representatives of the proposed Class Action representatives in Canada, counsel for the Unofficial Wrongful Death Committee in the Chapter 11 proceedings as well as counsel for XL.
50. A general overview of the purpose of the Conference was provided by both judges, counsel for the Committee, the Monitor's counsel and the Chapter 11 Trustee. Various interested parties also provided input as to the status of both the CCAA and the Chapter 11 proceedings.
51. At the instructions of the judges, discussions were held among various interested parties to attempt to move forward both proceedings in particular to determine terms and conditions under which the XL can disburse the \$25 million of insurance proceeds as expeditiously as possible to permit the payment of these funds to Derailment Victims pursuant to a claims process. The Monitor is of the view that the discussions were productive and discussions have been continuing following the Conference.
52. The Monitor will provide a further update as required in subsequent reports.

COMPROMISE AND SETTLEMENT WITH TRAVELERS PROPERTY CASUALTY COMPANY OF AMERICA

53. As mentioned in the Monitor's Fifth Report, a settlement in the amount of US\$3.8 million was reached with Travelers Property Casualty Company of America ("Travelers") and was approved by this Court and the US Court, on December 19, 2013 and December 24, 2013, respectively ("Settlement Payment"). On or about January 23, 2014, the Settlement Payment was remitted to the Monitor and the Chapter 11 Trustee as follows:

- US\$2,470,000 or 65% has been paid to the Monitor in respect of amounts due to MM&A;
- US\$1,330,000 or 35% has been paid to the Chapter 11 Trustee in respect of amounts due to MM&AR.

54. As a result of a contestation filed by Wheeling in respect of the allocation of the Settlement Payment between MM&A and MM&AR, no amounts can be disbursed until further order of the Courts.

55. As the Chapter 11 Trustee is contesting Wheeling's claims that it has a security interest over the Settlement Payment, the Monitor, the Chapter 11 Trustee and Wheeling have agreed that rather than hold a joint evidentiary hearing on the allocation on March 12, 2014, on March 13, 2014, the US Bankruptcy Court will first be asked to rule on whether or not Wheeling has a security interest over the Settlement Payment. If the US Bankruptcy Court rules against Wheeling, then there will be no need to have a hearing on the allocation. If Wheeling is determined to have an interest in the Settlement Payment, a joint hearing will be scheduled for another date. The Monitor and its counsel will continue to work with the Chapter 11 Trustee and its professionals in the event that such a joint hearing is necessary.

56. The Monitor is holding the funds paid to it in trust pending the resolution of the Wheeling contestation and a further order of this Court permitting it to pay accrued professional fees owing to the Professionals that are secured by the Administration Charge.

SALE OF ASSETS

57. As noted in our Sixth Report, on January 23, 2014, the Court approved the Sale and Vesting Motion authorizing MM&A to sell substantially all of its assets to RAH, who was the successful bidder at the auction held on January 21, 2014.

58. Based on the Monitor's discussions with the Chapter 11 Trustee and counsel for RAH, efforts continue to complete the sale transaction on or before March 31, 2014. The Monitor understands that:

- RAH continues to work with the regulatory authorities in Canada and the US to obtain the appropriate operating licenses;
- RAH is in regular attendance at MM&AR's office in Bangor, Maine to prepare for a transition of operations following a closing;
- Work continues to finalize the schedules to the asset purchase agreement;
- RAH has held meetings with representatives of the Province and the City regarding various operational matters including the track in Lac-Mégantic and an on-site visit to Lac-Mégantic is scheduled for March 13, 2014.

59. On February 5, 2014, Orford Express Inc. ("Orford") filed the Orford Motion in which they seek an order modifying the Approval and Vesting Order to compel RAH to assume a contract between Orford and MM&A under which Orford operated a tourist train on MM&A's tracks. The Monitor has been informed that RAH and Orford were unable to resolve this matter consensually and as such, a hearing will take place on March 21, 2014.

CLAIMS PROCESS, CLASS REPRESENTATIVES MOTION AND CLAIMS CROSS-MOTION

60. As noted elsewhere in this report, the issue of funding to enable the Professionals to commence the claims process in the CCAA needs to be resolved, most likely by way of funding from various interested parties including XL. By agreement with the proposed Class Representatives, the Claims Motion, Class Representatives Motion and the Claims Cross-Motion will be postponed to a later date.

INCREASE IN THE ADMINISTRATION CHARGE

61. As noted in previous Monitor's reports, the Petitioner originally requested a \$1.5 million Administration Charge to secure the fees and expenses of the Professionals. The Initial Order limited the Administration Charge to \$0.5 million but with the right to apply for an increase of the Administration Charge, at a later date.
62. On October 4, 2013 the Petitioner and the Monitor jointly submitted a request to the Court requesting an increase in the Administration Charge to \$2.5 million in respect of the Professionals. The reasons thereof are detailed in the Monitor's Third Report. On October 9, 2013, the Court approved the increase in the Administration Charge.
63. On December 13, 2013, the Petitioner and the Monitor jointly submitted a request to the court for a further increase of the Administration Charge to \$5.0 million in respect of the Professionals. The

reasons for the increase are detailed in the Monitor's Fourth Report. Following discussions between the Professionals, the FRA and the Province, the increase was limited to \$750,000.

64. On December 19, 2013, the Court approved the increase in the Administration Charge to \$3.25 million for the Professionals.
65. As of February 28, 2014, the total unpaid fees and disbursements of the various Professionals, net of pre-filing retainers and prior to sales taxes, approximates \$3.2 million. However, as discussed in the Monitor's Sixth Report, the Professionals were advised that the Petitioner may not be able to claim input tax credits on the sales taxes charged by the Professionals and the unpaid fees and disbursements net of pre-filing retainers should therefore be considered on a tax included basis and therefore total approximately \$3.6 million as of February 28, 2014 (which is slightly in excess of the existing Administration Charge), summarized as follows:

	Pre-Tax	Tax Included
• Gowling Lafleur Henderson LLP (counsel to MM&A)	\$1,531,000	\$1,760,000
• Richter Advisory Group Inc. (Monitor)	\$986,000	\$1,134,000
• Woods LLP (counsel to Monitor)	\$639,000	\$735,000

66. The Professionals seek a \$750,000 increase in the Administration Charge to \$4 million which will be sufficient to cover: i) the fees incurred through the end of February 2014 and ii) a further provision of \$0.4 million (taxes included) for the estimated fees to the end of the requested extension period of April 15, 2014, during which period, the Professionals have worked and will continue to work on:

- All matters related to the closing of the sale transaction to RAH by the end of March 2014;
- Ensuring the proper distribution of the sale proceeds;
- Multiple extensions of the stay period under the CCAA initial order;
- Participation in the Conference;
- Working with the Chapter 11 Trustee with regard to the contestation by Wheeling of the allocation of the Settlement Payment;
- Continued monitoring of the operations of the Petitioner;
- Negotiating with XL regarding the remittance of the \$25 million of insurance proceeds and an additional amount for defense costs.

67. The FRA has communicated to the Monitor that they are not supporting the \$750,000 increase in the Administration Charge.
68. Apart from the closing of the sale transaction there are further important steps which would be required in these CCAA proceedings. The Professionals require funding to enable the continuation of the CCAA proceedings for the benefit of all stakeholders. Certain of the steps to complete the CCAA proceedings are summarized as follows:
- Launching the Claims Process;
 - Assisting creditors with the filing of the claims;
 - Reviewing the proof of claims filed through the Claims Process;
 - Determining which creditors are entitled to the XL insurance policy proceeds;
 - Determining the scheme of distribution of the \$25 million insurance proceeds and the third party contributions;
 - Negotiating with potentially liable third parties for contributions to a distribution fund in exchange for full and final releases;
 - Filing a Plan of Arrangement, holding a creditors' meeting to vote on the Plan of Arrangement and submitting the plan of arrangement for Court approval.
69. Since the Initial Order, as a result of the ongoing tight liquidity facing the Petitioner and MM&AR, the Professionals have not requested nor has it been possible for the Petitioner to make any payments to the Professionals, thereby preserving cash flow to enable the continued operations to service the Petitioner's many clients and enable the continued payment of the Petitioner's employees.

CHAPTER 11 PROCEEDINGS

70. As previously reported, on August 7, 2013, MM&AR commenced proceedings under Chapter 11 of the U.S. Bankruptcy Code in the US Court.
71. On August 21, 2013, the U.S. Trustee appointed Robert J. Keach, attorney, to be the Chapter 11 Trustee of MM&AR and he has assumed day to day control of the operations of MM&AR.
72. The Monitor and its counsel continue to be in frequent contact with the Chapter 11 Trustee and his professionals to coordinate the efficient administration of both estates as well as the completions of the sale transaction, and the Claims Process that are more fully described elsewhere in this report and in prior Monitor reports.

73. The Monitor reviews daily and weekly information reports from the Companies as well as variance reports prepared by Development Specialists Inc. (“DSI”), the financial advisor to the Chapter 11 Trustee.
74. As noted in the Monitor’s Fourth Report, the United States Trustee appointed four creditors (who all allege to have claims arising from the Derailment) to a Committee of Derailment Victims (“Official Committee of Victims”) to assist the Chapter 11 Trustee. In addition, the Province and the City have been added as ex-officio members to the Official Committee of Victims. The Official Committee of Victims has also engaged legal counsel.
75. As discussed in the Monitor’s Sixth Report, the Unofficial Committee of Wrongful Death Claimants (“WDC Committee”) filed a Chapter 11 Plan and a Disclosure Statement for Chapter 11 Plan (“WDC Chapter 11 Plan”). The US Bankruptcy Court will hold a hearing on the WDC Chapter 11 Plan on March 12, 2014. The WDC Chapter 11 Plan has been contested by the Chapter 11 Trustee, the Committee along with numerous other parties as unconfirmable and premature given the cross border efforts to resolve the distribution of the XL insurance proceeds. We refer to our Sixth Report for more details regarding the WDC Chapter 11 Plan.
76. The Monitor is continuing to post the various relevant motions and orders in respect of MM&AR’s Chapter 11 proceedings to its website to permit all stakeholders to follow these proceedings. Recent motions and orders filed with or issued to date by the US Court include the following:
- Chapter 11 Trustee’s motion for an order (I) determining that the unofficial committee of wrongful death claimants failed to comply with bankruptcy rule 2019 and (II) imposing sanctions for such failure;
 - Trustee’s (A) proposed agenda for status conference and (B) in the alternative, motion and cross-border insolvency protocol to establish (I) a moratorium on plan proceedings; (II) a settlement process; and (III) a plan process in the event of multiple plans;
 - Order granting Trustee’s motion for entry of an order authorizing payment of pre-petition use taxes and other trust-fund taxes owed to the state of Maine;
 - Interim order granting Chapter 11 Trustee’s motion for an order (a) authorizing Debtor to obtain post-petition financing and (b) granting to Camden National Bank post-petition priority liens;
 - Order granting motion of Official Committee of Victims pursuant to cross-border insolvency protocol requesting joint status conference before US and Canadian Court;
 - Amendment to interim order granting Chapter 11 Trustee’s motion for an order (A) authorizing Debtor to obtain post-petition financing and (B) granting to Camden National Bank post-petition priority liens;

- Various pleadings filed in connection with the WDC Chapter 11 Plan and Disclosure Statement.

ACTIVITIES OF THE MONITOR

77. The Monitor's activities have included the following:

- Continued monitoring of the Petitioner's operations which has included frequent contact with the Chapter 11 Trustee and his professionals, Petitioner's management and legal counsel all with a view to keeping apprised of material developments and to seek input with respect to the restructuring process. In addition, The Monitor has kept apprised of the restructuring proceedings of MM&AR through the review of Chapter 11 motions and orders;
- Maintaining regular contact with representatives of the Province, the City and other stakeholders in this restructuring process to seek their input and provide assistance in various areas;
- The Monitor is working with the Chapter 11 Trustee and the various professionals in respect of the completion of the sale of the Companies' assets to RAH;
- The Monitor through its counsel has been in communication with the legal counsel of the proposed Class Representatives;
- The Monitor continues to respond to queries from suppliers, creditors and other interested parties;
- The Monitor through its counsel has been in contact with the legal counsel of XL to discuss the framework to expedite the remittance of the insurance proceeds;
- The Monitor attended the Joint Status Conference on February 26, 2014 in Bangor, Maine;
- The Monitor reviewed the Petitioner's financial affairs and results for the period February 3, 2014 to February 28, 2014;
- The Monitor continues to post copies of all Court materials filed in the CCAA and Chapter 11 Proceedings on its website;
- The Monitor has prepared and filed this Seventh Report;
- Other administrative and statutory matters relating to the Monitor's appointment.

RECOMMENDATIONS OF THE MONITOR

78. At the present time, it is premature for the Petitioner to devise a Plan of Arrangement and present same to its creditors. The Petitioner is seeking an extension in order to enable the CCAA

proceedings to continue and therefore allow the Petitioner to continue its operations and provide additional time in order to complete the closing of the sale of its assets and subsequently proceed with the Claims Process and the filing of a Plan of Arrangement.

79. The Petitioner has been paying for goods and services received subsequent to the date of filing the CCAA as they become due, except for professional fees.
80. The Petitioner is acting in good faith, with due diligence and has been cooperating with all stakeholders involved in this process, including but not limited to, the Monitor, the various governmental agencies including the CTA, the City, the Chapter 11 Trustee and its creditors.
81. The Monitor agrees with the Petitioner's request to postpone the hearing on the Claims Motion as well as the Class Representative Motion and the Claims Cross-Motion to a subsequent date as these matters are all related and funding to continue the CCAA process needs to be confirmed.
82. As of February 28, 2014, the unpaid Professional fees approximate \$3.6 million (tax included) which are in excess of the current \$3.25 million Administration Charge.
83. There remains significant work to be done by the Professionals in the CCAA process including, but not limited to, completing the sale of the Petitioner's assets which is expected to occur by March 31, 2014 and the implementation of the first phase of the claim process which will include conducting information sessions in the City as well as responding to the large number of inquiries that are expected to accompany the thousands of claims to be filed.
84. Absent an increase in the Administration Charge to \$4 million, the Petitioner lacks the means to secure the payment of the fees of the Professionals who are essential to the CCAA process. The increase in the Administration Charge will permit the Professionals to ensure the conditions of the sale of the Petitioner's assets are satisfied and that the sale closes. A failure to continue the CCAA will have serious and negative consequences on the efforts to maximize value for all creditors and for the eventual implementation of an orderly and efficient claims process, conditional on funding from interested parties.
85. The Administration Charge will be reduced by the amount of any payments received by the Professionals.

CONCLUSION

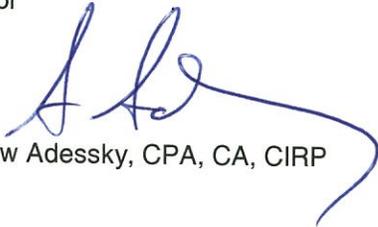
86. The Court should grant the increase in the amount of the Administration Charge of \$750,000.
87. The Court should grant the extension request for the following reasons:

- Since the commencement of the CCAA proceedings, the Petitioner has and continues to act in good faith and with diligence;
- The Petitioner still requires additional time to complete the sale with RAH to maximize the value of its assets and sell the company on a going concern basis which is in the best interests of all of its stakeholders, employees and customers;
- The Petitioner has not prejudiced its creditors as it is paying post-filing liabilities incurred since the date of filing as they become due, except for the fees of the Professionals, and the Cash Flow Projections indicate that it will continue to do so;
- Richter will continue to monitor the financial affairs of the Petitioner and inform the Court and all stakeholders of material adverse changes in the Petitioner's cash flow or financial circumstances as required;
- The extension will not cause any prejudice to the various stakeholders.

Respectfully submitted at Montreal, this 11th day of March, 2014.

Richter Advisory Group Inc.

Monitor

A handwritten signature in blue ink, appearing to read 'A Adessky', with a long, sweeping underline that extends to the right.

Andrew Adessky, CPA, CA, CIRP

Exhibit 1

Montréal, Maine & Atlantic Railway Ltd./Montreal Maine & Atlantic Canada Co.

Comparative Cash Flow

For the period February 3, 2014 to February 28, 2014

(in USD)	Forecast Feb 3 - Feb 28	Actual Feb 3 - Feb 28	Variance Feb 3 - Feb 28
MMA Cash Receipts:			
Deposits & Wire Transfers	744,100	1,070,257	326,157
ISS ¹	-	19,117	19,117
Other items ²	68,500	12,535	(55,965)
DIP financing - Camden National Bank	1,015,242	634,180	(381,062)
Total	1,827,842	1,736,089	(91,753)
MMA Disbursements:			
Payroll & Related Taxes	959,405	916,612	42,793
Materials and supplies	501,487	320,921	180,566
Freight car and locomotive	73,000	45,259	27,741
Other costs	418,156	488,921	(70,765)
Total	1,952,048	1,771,713	180,335
Net Cash Flow	(124,206)	(35,624)	88,582
Opening Cash Balance - MMA	224,206	224,206	-
Closing Cash Balance - MMA	100,000	188,582	88,582
Camden National Bank - DIP Lender			
Opening line of credit	2,692,159	2,692,159	-
Funds advanced	1,015,242	634,180	381,062
Ending Line of credit	3,707,401	3,326,339	381,062
Total authorized line of credit	3,750,000	4,350,000	(600,000)
Total available line of credit	42,599	1,023,661	(981,062)
Loan balance - net of cash	\$ 3,607,401	\$ 3,137,757	\$ 469,644

¹ - The Interline Settlement System ("ISS") is the centralized process for the rail industry used to negotiate and agree upon for the sharing of revenue generated for a movement when two or more tracks are involved in a shipment route.

² - Other items includes switching revenue, car hire revenue and equipment rentals.

Exhibit 2

Montreal, Maine & Atlantic Railway Ltd. & Montreal Maine & Atlantic Canada Co. Budget thru 4/15/14 (in USD)		FORECAST					
	W/E 09/03/2014	W/E 16/03/2014	W/E 23/03/2014	W/E 30/03/2014	Post March 31/14	Total	
Receipts:							
Transportation Revenue							
Freight Revenue and Zone Switching	\$ 107,211	\$ 185,058	\$ 185,058	\$ 185,058	\$ -	\$ 662,383	
MCC Pre 10/18 Collections	40,000	40,000	40,000	40,000	-	160,000	
ISS Settlement	5,883	-	-	-	-	5,883	
Sub Total - Transportation Revenue	153,094	225,058	225,058	225,058	-	828,266	
Other Operating Revenue							
Switching & Miscellaneous	-	67,983	-	-	-	67,983	
Railcar Storage	-	-	-	10,000	-	10,000	
Equipment Rental	-	8,500	-	-	-	8,500	
Car Hire Revenue (Payable)	-	-	-	77,983	-	77,983	
Sub Total - Other Operating Revenue	-	76,483	-	87,983	-	164,465	
Non-Operating Revenue							
Fortress sale proceeds	-	-	-	14,250,000	-	14,250,000	
Business interruption insurance proceeds	-	-	-	-	3,800,000	3,800,000	
45G Proceeds	-	-	-	-	490,514	490,514	
Final collection of Post 10/18 A/R	-	-	-	-	675,000	675,000	
Sub Total - Non-Operating Revenue	-	-	-	14,250,000	4,965,514	19,215,514	
Total Cash Receipts	153,094	301,540	225,058	14,563,040	4,965,514	20,208,245	
Disbursements:							
Transportation Revenue Offsets							
ISS payout	200,000	-	-	-	200,000	400,000	
NBSR, MNR, SLQ, CN	-	-	-	-	-	-	
Sub Total - Transportation Revenue Offsets	200,000	-	-	-	200,000	400,000	
Payroll & Related							
Salaries, Wages & Commissions US	-	236,748	-	236,748	356,400	829,895	
Employee Benefits & Claims - US	48,150	48,150	48,150	48,150	300,000	492,600	
US Railroad UC	-	-	-	-	35,406	35,406	
Salaries, Wages & Commissions CDN	137,392	-	137,392	-	643,195	917,979	
Group Health, pension and union dues- CDN	40,188	788	15,188	788	-	56,950	
Sub Total - Payroll & Related	225,730	285,685	200,730	285,685	1,335,001	2,332,831	
Materials & Supplies							
Diesel Fuel	124,804	124,804	124,804	124,804	-	499,216	
Inventory Payments	5,000	5,000	5,000	5,000	-	20,000	
Material/Repair Costs US	12,500	10,000	10,000	10,000	-	42,500	
Material/Repair Costs CDN	12,500	10,000	10,000	10,000	-	42,500	
Sub Total - Material & Supplies	154,804	149,804	149,804	149,804	-	604,216	
Freight Car & Locomotive Expense							
Leases - Car	-	48,871	-	48,871	35,000	132,741	
Leases - Locomotive	18,200	-	-	-	-	18,200	
Sub Total - Freight Car & Locomotive	18,200	48,871	-	48,871	35,000	150,941	
Other Operating Costs							
Rent	16,000	-	-	-	-	16,000	
Electricity	9,000	-	-	-	-	9,000	
Heat at Derby maintenance facility	5,400	5,400	5,400	5,400	-	21,600	
Bank Chges /Interest Exp/Points	15,363	1,000	1,000	1,000	-	18,363	
Other Closing Costs	-	-	-	-	150,000	150,000	
Pre-Petition sales tax	60,000	-	-	-	-	60,000	
Real Estate taxes	-	-	-	-	650,000	650,000	
Post-filing A/P	-	-	-	-	300,000	300,000	
Phone, Internet, Radio, Other expenses	25,559	25,559	25,559	25,559	-	102,235	
Sub Total - Rent, Heat & Utilities	131,322	31,959	31,959	31,959	1,100,000	1,327,198	
Total Operating Disbursements	730,056	516,318	382,492	516,318	2,670,001	4,815,186	
Payoff of DIP loan	-	-	-	-	4,390,210	4,390,210	
Net Cash Inc(Dec) From Ops	(576,962)	(214,778)	(157,435)	14,046,722	(2,094,697)	11,002,849	
SUMMARY							
Cash Beginning	188,582	100,000	100,000	100,000	14,350,000	188,582	
Net Weekly Cash Flow	(576,962)	(214,778)	(157,435)	14,046,722	(2,094,697)	11,002,849	
Financing Advance(Paydowns)	488,380	214,778	157,435	203,278	-	1,063,871	
Cash Ending ⁽¹⁾	\$ 100,000	\$ 100,000	\$ 100,000	\$ 14,350,000	\$ 12,255,303	\$ 12,255,303	
Principal Bal New Financing	3,326,339	3,814,719	4,029,497	4,186,932	4,390,210	3,326,339	
Net Weekly Cash Advance(Paydown)	488,380	214,778	157,435	203,278	(4,390,210)	(3,326,339)	
End of Period Principal Balance	3,814,719	4,029,497	4,186,932	4,390,210	-	-	

⁽¹⁾ Ending cash is subject to various priority charges/carveouts in favour of professionals in both Canada and the United States in addition to various charges of secured lenders.