

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

**TENTH REPORT OF THE MONITOR
ON THE STATE OF PETITIONER'S FINANCIAL AFFAIRS
May 8, 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"). Following several postponements, the Claims Motion was heard on March 28, 2014 ("March 28, 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") was filed and was originally scheduled to be heard on December 19, 2013, but after several postponements, was heard at the March 28, 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 has been withdrawn as set out below.
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 and was heard on March 21, 2014. On March 28, 2014, a judgment was issued denying the Orford Motion.
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. On March 12, 2014, the Court extended the stay of proceedings to April 30, 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. On March 14, 2014, the Court granted an increase in the Administration Charge.
23. On March 24, 2014, Orford filed a "Requête Pour l'émission d'une ordonnance de sauvegarde" ("Safeguard Motion") which was to be presented at the March 28, 2014 Hearing. In light of the judgment on the Orford Motion, the Safeguard Motion is no longer applicable and will not be heard.
24. On March 25, 2014, the Petitioner filed an amended Claims Procedure Order in respect of the Claims Motion as well as an amended Representation Order in respect of the Class Representative Motion.
25. On March 26, 2014, the Petitioner and the Monitor jointly filed a Motion to Request a Supplemental Administration Charge ("Supplemental Administration Charge"). The Supplemental Administration Charge was postponed and will be heard at a later date.
26. The Claims Motion and the Class Representatives Motion were heard at the March 28, 2014 Hearing. On March 31, 2014, the Honourable Gaétan Dumas, J.S.C., issued his judgment granting the Claims Motion and the Class Representative Motion as amended. The orders granting these motions were signed on April 4, 2014.

27. On April 25, 2014, the Petitioner filed a Motion for a Seventh Order Extending the Stay Period to June 30, 2014 (“Seventh Extension Motion”). On April 29, 2014, the Court extended the stay of proceedings to June 30, 2014.
28. On May 8, 2014, the Petitioner filed a Motion for an Order Approving the Distribution of the Proceeds of Settlement with Travelers Property Casualty Company of America (“Distribution Motion”).
29. On May 8, 2014, the Petitioner filed a Motion for an Order Approving the Third Amendment to the Asset Purchase Agreement and the Sale of Certain Receivables (“Third Amendment Motion”).
30. The Third Amendment Motion will be heard on May 9, 2014. In light of notification from Wheeling Lake & Erie Railway Co (“Wheeling”) that they intend to contest the Distribution Motion, this motion will be heard at a later date.
31. All amounts reflected in this report are stated in Canadian currency unless otherwise noted.
32. The purpose of this Tenth Report of the Monitor is to inform the Court on the following subjects:
 - General Corporate Information and Purpose of CCAA filing;
 - Sale of Assets;
 - Conclusion.
33. 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 and the Chapter 11 Trustee’s Financial Advisor as well as discussions with the Petitioner’s management and employees, the Chapter 11 Trustee and the Chapter 11 Trustee’s Financial Advisor.

GENERAL CORPORATE INFORMATION AND PURPOSE OF CCAA FILING

34. 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.

35. We refer to the Monitor's prior reports for a description of the purpose of the CCAA proceedings.

SALE OF ASSETS

36. We refer to the updates provided in our recent Reports (Sixth, Seventh and Eighth) in respect of the closing of the Asset Purchase Agreement ("APA") with Railroad Acquisition Holdings, Inc ("RAH") for US\$14.25 million for the majority of the assets of the Companies.

37. On May 5, 2014, the Chapter 11 Trustee filed the Third Amendment to Asset Purchase Agreement ("Third Amendment"), a copy of which is annexed to the Third Amendment Motion. The Third Amendment includes the following modifications:

- Allocation by RAH of the US\$14.25 million purchase price as follows:
 - US\$11.05 million to the MM&AR assets;
 - US\$3.2 million to the Petitioner's assets.
- Sale of specified accounts receivable of the Petitioner generated after May 9, 2014, which funds will be used to support the ongoing operations of the Petitioner pending a closing;
- Closing in respect of the sale of Petitioner's assets will be within 5 business days of satisfaction of any remaining conditions precedent, with a closing to occur no later than May 31, 2014 (unless the parties mutually agree in writing to a later date). At this stage, the primary open issues are obtaining the Canadian regulatory approval required under the APA and finalizing an agreement with the City of Lac-Mégantic;
- Allow for a bifurcated closing process in which the sale of the assets of MM&AR may be closed prior to the sale of the assets of MM&A which may be delayed due to regulatory issues noted above;
- Exclusion of certain assets to be purchased from MM&AR and which will have no impact on the purchase price.

38. Based on the allocation by RAH, after payment of closing costs (final payroll, vacation pay, real estate taxes, post-petition accounts payable, etc.), this will leave an estimated US\$1.9 million for distribution in the CCAA. It is anticipated that all or most of the proceeds will be used to pay the accrued and unpaid professional fees which are secured by the Administration Charge.

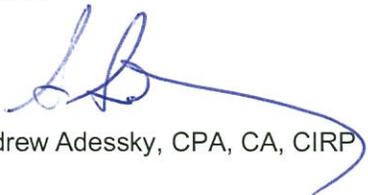
39. In respect of the purchase price allocation, we note that as reported in the Monitor's Fourth Report to Court dated December 17, 2013, the APA did not contain an allocation of the purchase price between MM&A and MM&AR. As a result, the Monitor, the Chapter 11 Trustee and the Petitioner agreed at that time that one-third of the purchase price would be allocated to the assets of MM&A and two-thirds to the assets of MM&AR. This allocation increases the amount paid for MM&A's assets by approximately US\$1.5 million. The Chapter 11 Trustee has taken the view that the one-third, two-thirds allocation was solely for bidding purposes and that as set out in the order from the US Bankruptcy Court approving the sale to RAH, all parties reserved their rights as to the purchase price allocation.
40. As time is of the essence to close the sale transaction due to limited financing as well as the expiry of the Petitioner's insurance and operating Certificate of Fitness, the Monitor and the Province of Quebec (which claims a priority charge on the proceeds of sale) are supporting the Third Amendment and are expressly reserving their rights to contest that the allocation as established by RAH should govern for the purpose of dividing the US\$14.25 million purchase price between the MM&A and MM&AR estates.
41. The Third Amendment is being presented for approval in the US Bankruptcy Court on May 8, 2014.

CONCLUSION

42. The Court should approve the Third Amendment as it contains important clarifications to the APA which are required in order to permit the sale of the assets and the continued operations of the railroad on an uninterrupted basis and as this approval is without prejudice to the Monitor's and the Province of Quebec's position that the distribution of the purchase price must be as described in the Monitor's Fourth Report as this is the basis on which the Court approved the sale.

Respectfully submitted at Montreal, this 8th day of May, 2014.

Richter Advisory Group Inc.
Monitor



Andrew Adessky, CPA, CA, CIRP