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C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.:
OFFICE No.:

S U P E R I O R C O U R T
Commercial Division

IN THE MATTER OF A PLAN OF ARRANGEMENT OR COMPROMISE OF:

STORNOWAY DIAMOND CORPORATION, a duly incorporated company having its principal place of business at 400-1111 St-Charles Street West, in the city and district of Longueuil, province of Québec, J4K 5G4.

-&-

STORNOWAY DIAMONDS (CANADA) INC., a duly incorporated company having its principal place of business at 400-1111 St-Charles Street West, in the city and district of Longueuil, province of Québec, J4K 5G4

-&-

ASHTON MINING OF CANADA INC., a duly incorporated company having its principal place of business at 3800-200 ST Bay, in the city of Toronto, province of Ontario, M5J 2Z4

-&-

FCDC SALES AND MARKETING INC., a duly incorporated company having its principal place of business at 400-1111 St-Charles Street West, in the city and district of Longueuil, province of Québec, J4K 5G4

Petitioners

-&-

COMPUTERSHARE TRUST COMPANY OF CANADA, a duly incorporated company having its principal place of business at 100 University Ave., 9th Floor, North Tower, in the city of Toronto, Province of Ontario, H5J 2Y1

-&-

DIAQUEM INC., a duly incorporated company having its elected domicile at 1500-600 de la Gauchetière Street West, in the city and district of Montréal, province of Québec, H3B 4L8

-&-

INVESTISSEMENT QUÉBEC, a corporation duly constituted under the *Act respecting Investissement Québec and La Financière du Québec* (CQLR c I-16.0.1), having its head office at 600, de la Gauchetière West, Suite 1500, in the city and district of Montréal, province of Québec, H3B 4L8

-&-

FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC, a duly incorporated company having its head office at 200-545 Crémazie East Blvd., in the city and district of Montréal, province of Québec, H2M 2W4

-&-

FONDS RÉGIONAL DE SOLIDARITÉ F.T.Q. NORD-DU- QUÉBEC, SOCIÉTÉ EN COMMANDITE, acting through its general partner, **FONDS RÉGIONAUX DE SOLIDARITÉ FTQ**, a legal person existing under the Business Corporations Act (Québec) having its head office at 545 Crémazie Blvd. East, Suite 620, Montréal, Québec, H2M 2W4

-&-

CREE NATION OF MISTISSINI, 187, Main street, Mistissini (Québec), G0W 1C0

-&-

GRAND COUNSIL OF THE CREE (EEYOU ISTCHEE), 2 Lakeshore Road, Nemaska (Québec), J0Y 3B0

-&-

CREE NATION GOVERNMENT, 2 Lakeshore Road, Nemaska (Québec), J0M 1C0

-&-

CATERPILLAR FINANCIAL SERVICES LIMITED, a duly incorporated company having its head office at 2-3457 Superior Court, in the city of Oakville, province of Ontario, L6L 04C

-&-

CHUBB LIFE INSURANCE COMPANY OF CANADA, a duly incorporated company having its elected domicile at 2700-1250, René-Lévesque West Blvd., in the city and district of Montréal, province of Québec, H3B 4W8

-&-

THE BANK OF NOVA SCOTIA, chartered bank having its elected domicile at 900-500, Grande Allée East, in the city and district of Québec, province of Québec, G1R 2J7

-&-

XEROX CANADA LTD., a duly incorporated company having its head office at 500-20 York Mills Road, in the city of Toronto, province of Ontario, M2P 2C2

-&-

ATLAS COPCO CANADA INC., a duly incorporated company having its elected domicile at 5060, Levy Street, in the city and district of Montréal, province of Québec, H4R 2P1

-&-

CWB NATIONAL LEASING INC., duly incorporated company having its head office at 3000-10303 Jasper Avenue, in the city of Edmonton, province of Alberta, T5J 3X6

-&-

OSISKO GOLD ROYALTIES LTD., duly incorporated company having a place of business at 300-1100, des Canadiens-de-Montréal Ave. in the city and district of Montréal, province of Québec, H3B 2S2

-&-

CDPQ RESSOURCES INC., a duly incorporated company. having its registered office at 1000 Place Jean-Paul -Riopelle, Bloc A- 12th Floor, in the city and district of Montréal, province of Québec, H2Z 2B3

-&-

1078243 CANADA LIMITED, a duly incorporated company having its head office at 1700-1055 West Hastings Street, in the city of Vancouver, province of British Columbia, V6E 2E9

-&-

ALBION EXPLORATION FUND LLC, a duly incorporated company having a place of business at c/o Albion River LLC, 10122 River Road, Suite 205, in Potomac, in the State of Maryland, United States of America, 20854

-&-

WASHINGTON STATE INVESTMENT BOARD,
2100 Evergreen Park Drive S.W., Suite 100, Olympia, State of Washington, United States of America, 98502

-&-

TSX INC., a duly incorporated company having its head office at 300-100 Adelaide Street West, in the city of Toronto, province of Ontario, M5H 1S3

Mises-en-cause

-&-

DELOITTE RESTRUCTURING INC., a duly incorporated company having a place of business at 500-1190 ave des Canadiens-de-Montréal, in the city and district of Montréal, province of Québec, H3B 0M7

Proposed Monitor

FIRST REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED MONITOR (THE "PROPOSED MONITOR")
(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the *Motion for (i) the Issuance of an Initial Order, (ii) the Granting of an Administration Charge, (iii) the Granting of a Directors and Officers Charge & (iv) Leave to Enter into an Interim Facility with Corresponding Interim Lenders' Charge (DIP)* (**"**Motion**"**) under the Companies' Creditors Arrangement Act (**"**CCAA**"**).

2. Unless otherwise stated, the Petitioners are also collectively referred to as **"**Stornoway**"** or the **"**Company**"**.

3. This report (the **"**First Report**"**) has been prepared by the Proposed Monitor prior to its appointment as Monitor in these CCAA proceedings to provide information to this Court for its consideration in respect of Petitioners' Motion.

4. The purpose of the First Report of the Proposed Monitor is to provide information to the Court with respect to:

    (i) Deloitte's qualification to act as monitor;

(ii) The business, financial affairs and financial results of the Company;

(iii) The Company's main creditors;

(iv) The sale and investment solicitation process (**"**SISP**"**);

(v) The Streamers/Diaquem Contemplated Transaction;

(vi) Charges sought in the Proposed Initial Order;

(vii) The Company's cash flow forecast; and

(viii) The Proposed Monitor's conclusions and recommendations.

5. In preparing the First Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, the Company's books and records and financial information prepared by the Company and discussions with management ("Management") of the Company (collectively, the "Information"). Except as described in this First Report in respect of the Petitioners' Cash Flow Statement (as defined below):

   (i) The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("GAAS") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

   (ii) Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.

6. Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

7. Unless otherwise indicated, the Proposed Monitor's understanding of factual matters expressed in this First Report concerning the Company and their business is based on the Information, and not independent factual determinations made by the Proposed Monitor.

DELOITTE'S QUALIFICATION TO ACT AS MONITOR

8. Deloitte Restructuring Inc. ("Deloitte") is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) and 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.

9. On April 1, 2019, the Proposed Monitor was retained by the Company to provide support to the Company's Management on the following matters:

   (i) Assist Management with the compilation of a financial projections model for internal cash flow management purposes;

(ii) Advise Management with respect to potential enhancements to the cash flow and financial forecasts to enhance their utility and to facilitate the identification of potential alternative financial sources;

(iii) Working with Management and the Company's legal advisors to develop different working scenarios and options that could be implemented in view of improving its capital structure.

10. In the context of the foregoing, the senior Deloitte professional personnel involved in this matter have acquired material knowledge of the Company and its business. Deloitte has spent time with Management understanding the operations and financial structure as more fully described in this First Report for the assistance of the Court. Deloitte is, therefore, in a position to act as court-appointed monitor of the Company in an efficient and diligent manner in the CCAA proceedings.

11. The Proposed Monitor has retained Osler, Hoskin & Harcourt LLP ("Osler") to act as its independent counsel in these CCAA proceedings.

THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF THE COMPANY

Historical overview

12. Stornoway is a group of diamond mining companies whose focus is the operation of their wholly-owned Renard mine, Québec's first and only diamond mine, located approximately 250 km north of the Cree community of Mistissini and 350 km north of Chibougamau in the James Bay region of north-central Québec, approximately 800 km north of Montréal (hereinafter the "Renard Mine").

13. The Renard Mine is one of only four diamond mines in Canada, employing approximately 540 people.

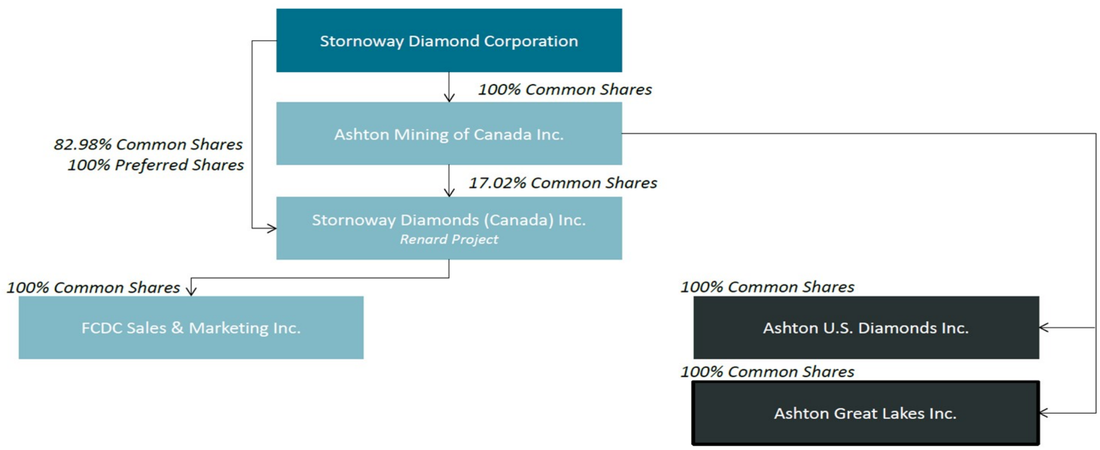
14. Mine construction at the Renard Mine commenced on July 10, 2014, following the successful completion of a comprehensive $946 million financing package designed to fully fund the project to completion. The Renard Mine financing was the largest single project financing transaction for a publicly listed diamond company in Canada, and included equity, senior and convertible debt, equipment financing and the world's first ever diamond stream, as further detailed in the Motion and in this First Report.

15. Year-round access to the Renard Mine was made possible by the extension of Route 167, which became accessible in September 2013, allowing the Company to operate the Renard Mine with significantly reduced costs and operating risk.

16. Feasibility studies obtained by the Company indicated that the Renard Mine is expected to produce an average of 1.6 million carats per year and assumed a certain diamond grade and price. The initial business plan of the Company contemplated an initial fourteen (14) year mine life, representing approximately 1% of global supply. First processing was achieved in July 2016, and commercial production was formally achieved and declared on January 1, 2017.

Corporate structure and mining statutory requirements

17. The Company, which is operated on a consolidated basis, has the following corporate structure:



18. The Renard Mine is operated, *inter alia*, in accordance with the following:

    (i) Mining Lease: A mining lease issued by the Québec Ministère des Ressources naturelles in October 2012 (hereinafter the "Mining Lease"); and

    (ii) Certificate of Authorization: The Québec Certificate of Authorization issued by the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs in December 2012.

Financial analysis

19. The following table sets out selected financial information for the periods indicated. The selected financial information below has been derived from the corresponding financial statements of the Company:

Income Statement ($'000 000) (Unaudited) For the 12-month period ended on	Dec-17	Dec-2018	Jun-2019 (6 months)
Revenue	196.5	165.5	242.8
Cost of Goods Sold	91.6	131.7	155.1
Gross Profit	104.9	33.8	87.7
Other Operating Expenses	249.0	200.4	451.8
Operating Income	(144.0)	(166.6)	(364.1)
Non-Operating Expenses	(1.1)	91.4	40.4
Income before Tax	(142.9)	(258.0)	(404.5)
Income Tax	(28.7)	71.3	(9.7)
Net Income	(114.2)	(329.4)	(394.8)

20. As described in the table above, the Company has sustained significant losses over the last three years. According to the Management of the Company, these losses are largely attributable to:

    (i) Ramp-up issues;

    (ii) Lower production, carat recovery and diamond grade than expected; and

    (iii) Unanticipated significant reduction of the global sale prices of rough diamonds.

21. Our review of the latest audited financial statements, for the period ending on December 31, 2018 (hereinafter the "F/S 2018"), shows that:

    (i) The Company, on a consolidated basis, is currently unprofitable;

    (ii) The operating losses for the 2018 fiscal year totaled $167 million;

    (iii) For the first 6 months of the 2019 fiscal year, operating losses have totaled $364 million; and

    (iv) The Company's ability to maintain operations on a going concern basis and fund its planned activities is dependent on its ability to secure additional financing.

22. As of the date of this First Report, and as explained in further detail below, Management estimates that the Company's liquidity is not sufficient to allow it to meet its financial obligations, commitments and budgeted expenditures through December 31, 2019, in the current environment.

23. The table below demonstrates the Company's historical tightening liquidity position, increasing current liabilities and decreasing equity position:

Balance Sheet ($'000 000) (Unaudited) As at	**Dec-17**	**Dec-2018**	**Jun-2019**
Cash And Equivalents	65.5	35.8	21.3
Other Current Assets	74.3	83.6	66.0
Long-Term Assets	1,116.5	1,013.7	498.4
Total Assets	1,256.3	1,133.1	585.8
Current Liabilities	89.8	112.8	124.8
Long-Term Liabilities	583.3	735.0	565.5
Equity	583.2	285.4	(104.5)
Total Liabilities & Equity	1,256.3	1,133.1	585.8

Ramp-up issues, lower production and lower carat recovery

24. During the first two years of production following commencement of commercial production (2017), carat production fell significantly short of projections as a result of delays in the ramp-up of the underground mine, lower grade ore in the initial panels of underground mining activity and higher than anticipated levels of diamond breakage.

25. As appears from the Motion, the Renard Mine's diamond recovery profile has also been characterized by the liberation and recovery of a higher proportion of small diamonds (less than 1 carat), and by the lower recovery of coarse diamonds than expected when compared to the size distribution frequency of the Renard Mine feasibility study. According to the

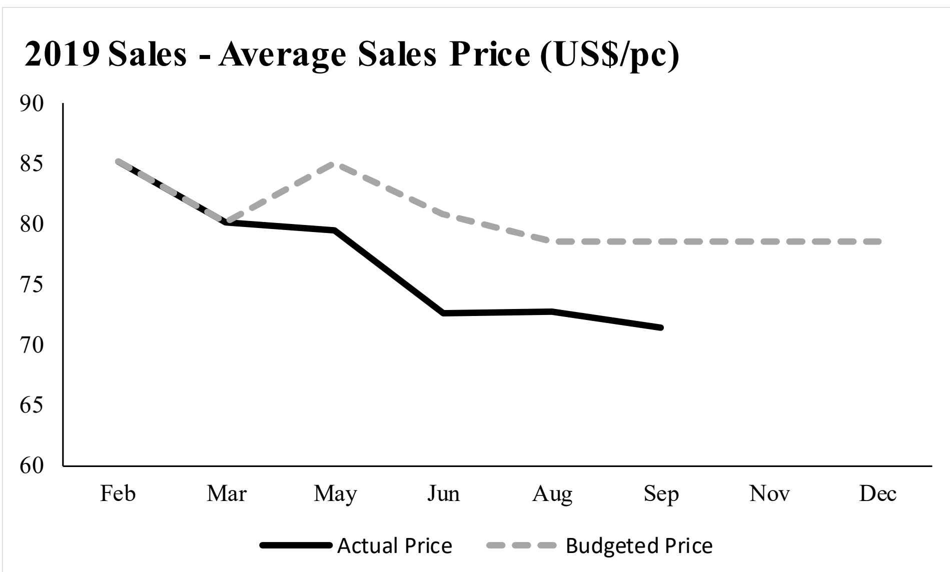
Company, the lower production and carat recoveries in 2018 were primarily a result of delays in the ramp-up of the Renard underground mine.

<u>Market variation in the rough diamond price</u>

26. The Company sells its diamond production in an open market by tender in Antwerp, Belgium, in accordance with a marketing and sales agreement entered into with Bonas-Couzyn (the **"**Approved Commissionaire Bonas**"** or **"**Bonas**"**).

27. Since the commencement of its commercial production in 2017, sales of the Renard Mine's diamonds have generated an average price return of approximately US$83.82/pc (hereinafter the "Renard Diamond Average Price"). In addition, the second half of 2018 saw a rough market price correction. This market decline was partly attributed to the further weakening Indian Rupee, the lack of available credit available to Indian diamantaires, excess of polished inventory in India and lowering margins in manufacturing.

28. With respect to the sales which have taken place to date in 2019 (a total of five), the average price for each of them has been respectively US$85.15/pc, US$80.14/pc, US$79.50/pc, US$72.53/pc and US$72.70/pc.



<u>Overall situation</u>

29. The combined effect of the ramp-up issues, lower than expected liberation and recovery ratios, lower diamond grade and downward pressure on pricing severely affected the Company's ability to generate positive cash flows. The Company did attempt to remediate liberation and recovery ratio issues by investing additional funds with a goal of improving these ratios, but it is difficult to conclude at this time whether these investments will allow the Company to successfully increase its revenues through an increase in carat recoveries in the coming years.

<u>TSX notice</u>

30. On August 22, 2019, Stornoway Diamond Corporation announced that the Toronto Stock Exchange ("TSX") had notified it of a review of the eligibility of its securities for continued listing on the TSX.

THE COMPANY'S MAIN CREDITORS

<u>_Secured creditors_</u>

31. The Company has advised the Proposed Monitor that its principal secured creditors are as follows:
    (i) Osisko Gold Royalties Ltd. (**"**Osisko**"**);
    (ii) CDPQ Ressources Inc. (**"**CDPQ**"**);
    (iii) 1078243 Canada Inc. (**"**1078243**"**);
    (iv) Albion Exploration Fund LLC (**"**Albion**"**);
    (v) Washington State Investment Board (**"**Washington**"**);
    (vi) Diaquem Inc. (**"**Diaquem**"**); and
    (vii) Caterpillar Financial Services Limited;
    (viii) The Cree Nation Government;
    (ix) Nova Scotia Bank; and
    (x) Chubb Insurance (successor to ACE INA Insurance).

32. By way of a high-level summary, the secured indebtedness may be described as follows:

    (i) The obligations of Stornoway to Osisko, CDPQ, 1078243, Albion and Washington (collectively referred to herein as the "Streamers") are secured by a hypothec on the universality of all of SDCI property, movable and immovable, personal and real, corporeal and incorporeal, tangible and intangible, present and future, of whatever nature and wherever situated.

    (ii) The Diaquem indebtedness is secured by a charge over the universality of all present and future mining titles of SDCI.

    (iii) The CAT indebtedness is secured by a charge over all financed equipment of SDCI.

33. The indebtedness and related security are more fully described in the Motion.

34. The Proposed Monitor has asked Osler to conduct an independent review of the security held by the Streamers as well as Diaquem. This review is currently underway. Once completed, the Proposed Monitor will report to the Court on its findings. For the purposes hereof, the Proposed Monitor has based its report on the assumption that the security granted in favour of the above-noted secured creditors is valid and enforceable.

<u>_Unsecured creditors_</u>

35. The Company has advised the Proposed Monitor that its principal unsecured creditors are as follows, as further detailed in the tables below:
    (i) Investissements PSP;
    (ii) Orion Mine Finance;
    (iii) Holders of publicly traded bonds;
    (iv) Le Ministère des Finances du Québec;
    (v) Le Fonds de solidarité des travailleurs du Québec; and
    (vi) Investissement Québec.

36. According to Management, payroll obligations are current, other than accrued vacation totaling approximately $3.7 million in the aggregate. Payments are made on a bi-weekly basis. Payroll management is outsourced to a third party, Employeur-D. As per Management, all source deductions are current.

37. According to the Company's books and records, the following table summarizes the approximate amounts of obligations owing to the secured and unsecured creditors as of June 30, 2019 for each of the Petitioners:

FCDC Sales and Marketing Inc. ($'000)	Secured	Unsecured
Osisko	157,559	
CDPQ	65,650	
Tripe Flag Mining	65,650	
Albion	19,695	
Washington	19,695	
	328,249	-

Stornoway Diamonds (Canada) Inc. ($'000)	Secured	Unsecured
Diaquem (IQ)	122,431	
Caterpillar	41,597	
Ministère des finances		71,380
Cree Nation		10,724
Accrued salaries and vacation pay		7,630
Accounts payables and accruals		15,948
	164,028	105,682

Stornoway Diamond Corporation ($'000)	Secured	Unsecured
Diaquem (IQ)		3,399
PSP		60,086
Orion Mine Finance		27,677
Public Bondholders		21,941
FTQ		10,196
Accounts payables and accruals		1,517
	-	124,816

38. Management has advised the Proposed Monitor that Ashton Mining of Canada Inc. does not have any known creditors.

39. The amounts outlined above exclude intercompany claims of approximately $620 million that are owed by Stornoway Diamonds (Canada) Inc. to Stornoway Diamond Corporation.

40. On June 10, 2019, the Company obtained additional funding from certain of its secured creditors (hereinafter the "Bridge Financing") to allow the Company to continue its operations and initiate and pursue the sale process which is more fully described below.

41. The Bridge Financing, more fully described in the Motion, was provided by the Streamers and Diaquem as a first ranking secured revolving credit facility. The Bridge Financing is bearing interest at a rate of 8.25% per annum.

THE SALE AND INVESTMENT SOLICITATION PROCESS

42. Following an extensive review of its business and affairs, and in consultation with its senior secured creditors, the Company determined that without a comprehensive restructuring of its debt and equity structure, it would not be able to successfully continue to operate the Renard Mine.

43. In April 2019, the Company had initiated a limited solicitation process focused on targeted potential strategic parties that may have been interested in pursuing an opportunity with the Company. In the context of the Bridge Financing, the Company concluded that the solicitation process would need to be more comprehensive and include a broader range of potential bidders.

44. The SISP was developed by the Company in consultation with its senior secured lenders and on the advice and direction of the investment bankers retained by the Company for these purposes, TD Securities Inc. and Scotia Capital Inc. (collectively hereinafter the "SISP Managers").

45. The SISP was launched on June 10, 2019, following the closing of the Bridge Financing.

46. The SISP Managers were selected given their experience in implementing and conducting solicitation processes in the mining industry and their extensive knowledge of the Company.

47. In accordance with the terms of their engagement, the SISP Managers' duties and obligations included:
    - (i) the management of all SISP related documents (including the elaboration of the target list, teasers, NDAs, etc.) and all information to be provided to the potential bidders, reporting to the Company on progress and advising the Company in respect of any indications of interest that may be received.
    - (ii) the SISP Managers were entitled to get a fee based as follows (hereinafter the **"**SISP Manager Fee**"**):
        - i. a flat fee if no transaction with a third party materializes (in the case of TD Securities Inc.); and
        - ii. a % of gross proceeds resulting from any transaction (other than a transaction involving the current secured creditors).
    - (iii) As provided in the SISP Managers Agreements, the Company acknowledged and agreed that the SISP Managers and the Proposed Monitor were entitled to communicate and share information in connection with the SISP, in order to allow the Proposed Monitor to report on same as may be necessary.

48. The SISP procedures are more fully detailed in the Motion.

49. The Proposed Monitor was kept fully informed in connection with the SISP by the SISP Managers and the Company in order to allow the Proposed Monitor to report on same as may be necessary. The SISP Managers shared all presentations, and documentation and information relating to the SISP as requested by the Proposed Monitor.

50. Based and relying upon the information provided by the SISP Managers and the Company, the Proposed Monitor has been advised of the following:

    - (i) A teaser letter was sent to 51 identified parties;
    - (ii) 46 of those parties declined the opportunity; and

(iii) Three of those parties entered into a confidentiality agreement and were provided access to the virtual data room to conduct their due diligence process.

The Interested Party Bid

51. On July 15, 2019, before the expiry of the phase 1 bid deadline, a non-binding indication of interest to acquire the business / assets of SDCI was submitted by an interested third party (hereinafter the "Interested Party" and the "Interested Party Bid").

52. As more fully detailed in the Motion, the transaction contemplated by the Interested Party Bid provided as follows:

    (i) The aggregate consideration payable in exchange for the business / assets of SDCI would be for an aggregate amount significantly inferior to the face value of the aggregate of the secured obligations of the Company to the Streamers and Diaquem; and
    (ii) No consideration would be payable to the unsecured creditors (other than in respect of any outstanding statutory obligations to the retained employees).

53. The Proposed Monitor was advised that there were numerous exchanges, discussions and negotiations between the Streamers, Diaquem, the Company and the Interested Party in connection with the Interested Party Bid. However, the Proposed Monitor understands that the parties were unable to reach a consensus which would allow the transaction contemplated by the Interested Party Bid to proceed.

54. The Proposed Monitor attended the Company's board meetings relating to the SISP and the Interested Party Bid.

55. Based and relying upon the information provided by the Company and the SISP Managers, the Proposed Monitor is of the view that the SISP was diligently conducted by the Company and the SISP Managers.

THE STREAMERS/DIAQUEM CONTEMPLATED TRANSACTION

56. The SISP provided that the Streamers and Diaquem were deemed to be qualified bidders even if they did not submit a non-binding indication of interest, but only to the extent of the amount of their respective secured claims;

57. To safeguard the integrity of the SISP, its procedures, which were provided to all potential bidders and redacted versions of which were made public online through SEDAR, specifically indicated that:

    (i) The Streamers and Diaquem would be entitled to submit a bid at any time during the SISP;
    (ii) The Streamers and Diaquem undertook not to submit a bid for a price exceeding their respective secured claims; and
    (iii) The Streamers and Diaquem would be authorized to have discussions and exchanges with potential bidders with proper prior notice being given.

58. As indicated in the Motion, on September 8, 2019, certain Streamers, namely Osisko, CDPQ and 1078243 (hereinafter collectively the "Participating Streamers") and Diaquem submitted a non-binding letter of intent to the Company (hereinafter the "Streamers/Diaquem LOI").

59. As more fully detailed in the Motion, the Streamers/Diaquem LOI contemplates the acquisition by the Participating Streamers and Diaquem (collectively referred to as the "Purchasers" or "Interim Lenders"), of substantially all of the property, assets and

undertakings of the CCAA Parties, through the acquisition of 100% of the equity interest in SDCI by an entity to be formed by the Purchasers. The Streamers/Diaquem LOI contemplates the continued payment by the Purchasers of mine-level trade suppliers in the normal course of business, regardless whether such services or supplies were rendered/supplied before or after the commencement of these CCAA proceedings. Additional details in respect of the Streamers/Diaquem LOI are set out in the Motion.

60. The Proposed Monitor will provide its views and recommendations on the Streamers/Diaquem Contemplated Transaction in a subsequent report to the Court.

CHARGES IN THE DRAFT INITIAL ORDER

61. As appears from the Interim Facility (as defined below), the Interim Lenders consent to the issuance of the charges outlined below.

Administration Charge

62. The Proposed Initial Order provides for a priority charge on all the Company's assets, except for the Stream Collateral, in the amount of up to $500,000 in favor of the Petitioners' counsel, the Proposed Monitor and its counsel as security for their professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these CCAA proceedings (the "Administration Charge"). The Administration Charge has been established based on the respective professionals' previous experience with restructurings of similar magnitude and complexity.

63. The Proposed Monitor believes that the Administration Charge is required and is reasonable under the circumstances.

SISP Managers Charge

64. In the event of the closing of the Contemplated Streamers/Diaquem Transaction, the SISP Managers will be entitled to a fee of approximately $750,000, calculated in accordance with the SISP Managers Agreements (the "SISP Managers Fees").

65. The SISP Managers have requested that the SISP Manager Fee be guaranteed by a charge over the assets of the Company, except for the Stream Collateral (hereinafter the "SISP Managers Charge").

66. The Proposed Monitor believes that the SISP Managers Charge is appropriate and reasonable in the circumstances.

D&O Charge

67. The Proposed Initial Order provides for a charge on all the Company's assets, except for the Stream Collateral, in an amount not to exceed $**5.2** million (the "D&O Charge") to indemnify the directors and officers against obligations and liabilities that they may incur in such capacity after the commencement of these CCAA proceedings, except to the extent that the obligation or liability is incurred as a result of the director's or officer's gross negligence or willful misconduct.

68. The Petitioners' directors and officers shall only be entitled to the benefit of the D&O Charge to the extent that coverage is unavailable under any existing directors and officers insurance policy.

69. The Proposed Monitor has been advised that the D&O Charge is necessary for the continued service of the Petitioners' directors and officers during the Company's restructuring. The

amount of D&O Charge has been calculated by the Petitioners taking into consideration the monthly payroll costs of existing employees, the accrued vacation pay (owing both prior-to and following the commencement of these CCAA proceedings) and average sales tax payments having considered the analysis prepared by the Petitioners, the Proposed Monitor is of the view that the D&O Charge is required and reasonable in the circumstances.

Interim Facility and Interim Lender's Charge

70. The Company does not generate sufficient revenue to continue to operate and must obtain financing in addition to the financing available to it under the Bridge Financing to continue operations during these CCAA proceedings.

71. As appears from the Motion, the Company has negotiated the Working Cap Facility Agreement (the "Interim Facility") with the Interim Lenders. There was no competitive process initiated by the Company to find an alternative interim lender. The Interim Lenders are existing secured creditors of the Company and the Purchasers under the Streamers/Diaquem Contemplated Transaction. Given the nature of the Company's assets and the urgent need for financing, the Interim Lenders were the only practical option for sourcing interim financing.

72. The Interim Facility will initially be used to provide interim financing to the Petitioners during the pendency of these CCAA proceedings. To the extent that the Streamers/Diaquem Contemplated Transaction is implemented, it is contemplated that the Interim Facility will be converted into an exit financing facility.

73. The Interim Facility contemplates, *inter alia*, that the approval order in respect of the Streamers/Diaquem Contemplated Transaction must be obtained by 31st day following the commencement of these CCAA proceedings, and the closing of the Streamers/Diaquem Contemplated Transaction must occur by November 16, 2019.

74. The Interim Facility further contemplates that all amounts to be advanced thereunder are to be secured by a Court-ordered super-priority charge on all the Company's assets in priority to all other charges except for the Administration Charge, the SISP Managers Charge and the D&O Charge (the "Interim Lenders' Charge").

75. As appears from the Motion, the Company is currently seeking approval of the Interim Lenders' Charge in the amount of $25 million (initial $20 million + 25%).

76. All amounts owing under the Interim Facility are due and payable at the end of the 6th quarter following closing of the Streamers/Diaquem Contemplated Transaction (hereinafter the "Maturity Date"). The Maturity Date can be extended with the unanimous consent of the Interim Lenders.

77. The Interim Facility is to bear interest at a rate of 12.5% per annum. Additional details in connection with the Interim Facility are provided in the Motion.

78. The Proposed Monitor supports the Company's request for interim financing. In reaching its conclusions, the Proposed Monitor considered a number of factors, including those outlined in section 11.2 of the CCAA. The Proposed Monitor has the following observations:

    (i) In the Proposed Monitor's view, no creditor will be materially prejudiced as a result of the Interim Lenders' Charge, as the funding is expected to allow the Company to continue to operate with the view to completing the Streamers/Diaquem Contemplated Transaction, which will enhance the recoveries of the Company's secured creditors, suppliers and employees, as opposed to a piecemeal liquidation, which would occur in the absence of funding;

(ii) The Proposed Monitor considered the terms of the Interim Facility and its costs to the Company. The Interim Facility contemplates an interest rate of 12.5% per annum, with no other fees or charges required (other than the reimbursement of legal fees);

(iii) Given the unique nature of the collateral, the Proposed Monitor considers the costs of the Interim Facility to be very reasonable and it is unlikely that alternative financing could be arranged with a third party at this cost.

OVERVIEW OF THE 8 WEEK CASH FLOW PROJECTIONS

79. The Company, with the assistance of the Proposed Monitor, has prepared the statement of projected cash flow (the "Cash Flow Statement") for the 8-week period from September 9 to November 3, 2019 (the "Cash Flow Period") for the purpose of projecting the Company's estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is attached as Appendix A to this report.

80. The Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

81. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the 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 Cash Flow Statement. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

82. Based on the Proposed Monitor's review and the foregoing qualifications and limitations, nothing has come to its attention that causes it to believe that, in all material respects:

    (i) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;

    (ii) As at the date of this First Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or

    (iii) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.

83. Since the Cash Flow Statement 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 opinion as to whether the projections in the Cash Flow Statement 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 in preparing this report. Neither does the Proposed Monitor express any opinion as to the performance of the Company's statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia* the payment of wages, the government remittances and the payroll deductions to be made by the Company.

84. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

85. The key assumptions used in the Cash Flow Statement are based on the revised 2019 fiscal year operating plan. The Company's consolidated cash balance as at September 9, 2019 is estimated to be approximately $3.8 million. The Cash Flow Statement demonstrates that this liquidity level will not be sufficient to fund the operations during the initial 30-day stay period (until October 9, 2019) without the Interim Facility.

86. The Management anticipates more restrictive payment terms for purchases from suppliers following the announcement of the CCAA proceedings. As such, Management has anticipated certain "cash on delivery" purchases and payment of deposits to certain utility providers.

87. As appears from the Cash Flow Statement and the Motion, in order to preserve the going concern value of its operations with the view to completing the Streamers/Diaquem Contemplated Transaction, SDCI intends to continue to pay its trade creditors for services rendered and goods supplied in the normal course of business, both prior to and during these CCAA proceedings.

88. Management has advised the Proposed Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

THE PROPOSED MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

89. The Proposed Monitor believes that the Petitioners qualify for and should be granted the benefit of protection under the CCAA in the form of the Proposed Initial Order, including granting the charges provided for therein, to allow the Petitioners the opportunity to continue to operate while pursuing the completion of the Streamers/Diaquem Contemplated Transaction.

90. The Proposed Monitor respectfully recommends that the Petitioners' request for the Proposed Initial Order and the ancillary relief described in this First Report be granted by this Court.

91. The Proposed Monitor respectfully submits to the Court this, its First Report.

DATED AT MONTREAL, this 8th day of
September 2019.

DELOITTE RESTRUCTURING INC.
In its capacity as Proposed Court-Appointed Monitor of the Company

Jean-François Nadon

Jean-François Nadon, CPA, CA, CIRP, LIT
President

APPENDIX A

CASH FLOW STATEMENT

SDC/SWY **APPENDIX A**

Cash Flow Projection - (CCAA September 9, 2019)

(in $000 CAD)

Week beginning:	2-Sep-19	9-Sep-19	16-Sep-19	23-Sep-19	30-Sep-19	7-Oct-19	14-Oct-19	21-Oct-19	28-Oct-19	2-Sep-19
Week ending:	8-Sep-19	15-Sep-19	22-Sep-19	29-Sep-19	6-Oct-19	13-Oct-19	20-Oct-19	27-Oct-19	3-Nov-19	3-Nov-19
Receipts										
Gross Sales	-	-	20,910	-	-	-	-	-	22,398	43,308
Payment to Streamers	-	-	(2,509)	-	-	-	-	-	(2,688)	(5,197)
Sales Tax Receivable	-	-	-	-	-	-	-	-	-	-
Cree Subvention	-	-	-	-	372	-	-	-	-	372
Interim Facility	-	7,000	-	-	-	-	13,000	-	-	20,000
Fuel Tax	-	-	-	-	385	-	-	-	-	385
	-	7,000	18,401	-	757	-	13,000	-	19,710	58,868
Disbursements										
Payroll	1,485	877	1,582	810	1,408	824	1,501	917	1,408	10,812
Severance	-	-	-	-	-	-	-	-	-	-
Retention Incentives	100	-	-	100	-	-	-	-	-	200
Rent	60	-	-	-	60	-	-	-	60	180
Pension	113	67	113	67	113	67	113	67	113	833
Group Insurance	235	-	-	-	235	-	-	-	235	705
AP Payment	4,200	4,000	2,279	1,650	2,453	2,177	2,654	2,084	1,408	22,905
Gaz Metro Payment	-	-	-	1,176	-	-	-	-	1,045	2,221
Bond Renewal Fees	-	-	-	-	-	-	-	-	-	-
Royalty to IQ	-	-	-	-	-	-	-	-	-	-
Mining Duty	-	-	-	-	-	-	-	-	-	-
Consultant Fees	-	300	400	300	150	150	-	150	-	1,450
Bridge Lenders Professional Fees	-	300	400	300	150	150	-	150	-	1,450
TD Financial Advisor Fees	-	-	750	-	-	-	-	-	-	750
Hedging	-	-	93	15	-	-	-	-	-	108
Insurance Tail	323	-	-	-	-	-	-	-	-	323
Interest Payments on WCF	-	-	-	-	-	-	-	-	-	-
Debt Repayment - FTQ	-	-	-	-	-	-	-	-	-	-
Debt Repayment - IBA	-	-	-	-	393	-	-	-	-	393
Debt Repayment - Road Loan	-	-	-	-	-	-	-	-	-	-
Debt Repayment - IQ	-	-	-	-	-	-	-	-	-	-
Debt Repayment - Caterpillar	-	-	4,336	-	-	-	-	-	-	4,336
Debt Repayment - Bondholders	-	-	-	-	-	-	-	-	-	-
	6,516	5,544	9,953	4,418	4,962	3,368	4,268	3,368	4,269	46,666
Contingencies	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(180)	(1,620)
Amended Bridge Loan advance	-	-	-	2,509	-	-	-	-	-	2,509
Bridge Lenders Funding	5,700	-	-	-	-	-	-	-	-	5,700
Net Cash Flow	(996)	1,276	8,268	(2,089)	(4,385)	(3,548)	8,552	(3,548)	15,261	18,791
Beginning Cash	4,839	3,843	5,119	13,387	11,298	6,913	3,365	11,917	8,369	4,839
Ending Cash	**3,843**	**5,119**	**13,387**	**11,298**	**6,913**	**3,365**	**11,917**	**8,369**	**23,630**	**23,630**

NOTES TO THE CASH-FLOW STATEMENT

NOTE A – PURPOSE

The purpose of these cash-flow projections is to determine the liquidity requirements of the Company during the CCAA proceedings.

NOTE B

The Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the 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 Cash Flow Statement. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

NOTE C - DEFINITIONS

(1) CASH-FLOW STATEMENT

In respect of a Company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the Company as defined in section 2(1) of the Act based on Probable and Hypothetical Assumptions that reflect the Company's planned course of action for the period covered.

(2) HYPOTHETICAL ASSUMPTIONS:

Means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash-Flow Statement.

(3) PROBABLE ASSUMPTIONS:

Means assumptions that:

(i) The Company believes reflect the most probable set of economic conditions and planned courses of action, **Suitably Supported** that are consistent with the plans of the Company; and
(ii) Provide a reasonable basis for the Cash-Flow Statement.

(4) SUITABLY SUPPORTED:

Means that the Assumptions are based on either one or more of the following factors:

(i) The past performance of the Company;
(ii) The performance of other industry/market participants engaged in similar activities as the Company;
(iii) Feasibility studies;
(iv) Marketing studies; or
(v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

NOTE C - ASSUMPTIONS

Assumptions	Source	Probable Assumption	Hypothetical Assumption
Opening cash balance	Based on current bank balances	x	
Exchange rate	Exchange rates used by management are the following: • US $ / Cnd $ = 1.3310 / 1.00		x
Forecast cash receipts:			
Gross sales	Amounts related to the 19-06 diamonds sales (USD$67.60 / ct, 221,800 ct)	x	x
Payment to Streamers	Amount due to the streamers related to the 19-06 sale – to be re-advanced as per Amended Bridge Loan Agreement	x	x
Cree grant	Based on the Company's calculation and historical receipts	x	
Working cap facility ("WCF")	Interim financing during CCAA	x	
Fuel tax	Fuel tax receivable from the Government	x	
Forecast cash disbursements:			
Payroll	Based on the Company's historical payroll reports	x	
Retention incentives	Based on the Company's plan already in place to retain key employees an amount of $300K is currently held in NRF trust account – the total amount of $400k will be released to employees at the end of September 2019	x	
Rent	Based on lease agreements	x	
Pension	Employer portion of pension costs for employees based on contracts	x	
Group insurance	Insurance costs for employees insurance based on insurance contracts	x	
AP payment	Weekly estimate of disbursements required based on historical costs	x	

Gaz Metro payment	Monthly estimate of disbursements required based on historical costs	x	
Consultant fees	Management estimate of professional fees to be incurred in the following weeks for monitor and legal services		x
WCF lenders professional fees	Management estimate of professional fees to be incurred in the following weeks for secured lenders legal services		x
TD financial advisor fees	Based on contract with the Company financial advisors regarding SISP	x	
Hedging	Based on derivatives contracts and the Company estimated FX rate		x
Insurance tail	Based on insurance contract	x	
Debt repayment - IBA	Based on loan contracts with the Cree nation	x	
Debt Repayment - Caterpillar	Based on loan contracts with Caterpillar	x	
Contingencies	General provision		x
Bridge lenders redirection of payments	Amount reimbursed by the streamers related to the 19-06 sale	x	
Interim Facility advance	As per WCF and budget needs	x	
Amended Bridge Loan advance	As per Amended Bridge Loan Agreement	x	