

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

**AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
JTI-MACDONALD CORP.**

**ELEVENTH REPORT OF THE MONITOR
March 10, 2022**

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INTRODUCTION

1. On March 8, 2019, JTI-Macdonald Corp. (“**JTIM**” or the “**Applicant**”) filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the “**CCAA**”). Pursuant to the Order of this Court granted on the same date (the “**Original Initial Order**”), Deloitte Restructuring Inc. was appointed as the Monitor in these proceedings (in such capacity, the “**Monitor**”). The proceedings commenced by the Applicant under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. The CCAA Proceedings are being conducted in parallel with CCAA proceedings of Imperial Tobacco Canada Limited and Imperial Tobacco Company Limited (collectively, “**ITL**”), and Rothmans, Benson & Hedges Inc. (“**RBH**”, together with JTIM and ITL, the “**CCAA Applicants**”). The stated objective of these parallel, unconsolidated CCAA proceedings is to provide the CCAA Applicants with an opportunity to identify and settle multi-billion dollar claims against each of them through a structured process.

3. In furtherance of the collective goal of resolving the numerous, substantial and complicated claims, the Honourable Warren K. Winkler, Q.C. has been appointed as mediator (the “**Court-Appointed Mediator**”), with a mandate to oversee and coordinate a multiparty, comprehensive confidential mediation among the CCAA Applicants and their key stakeholders (the “**Mediation**”).
4. As further set out in this Eleventh Report of the Monitor (the “**Eleventh Report**”), the Applicant has been working diligently and in good faith and is participating in the Mediation in the manner requested by the Court-Appointed Mediator in order to achieve a pan-Canadian resolution of the various claims asserted against it and the other CCAA Applicants. The Mediation itself, and the issues raised during the Mediation are legally and factually complex. As a result, additional time is required for the Mediation process to unfold beyond March 31, 2022, when the period for the stay of proceedings granted in the Original Initial Order, (as subsequently extended by further orders of the Court, the “**Stay Period**”), expires.
5. JTIM has brought a motion seeking an order extending the Stay Period through to September 30, 2022, which will enable it to continue to advance the Mediation. For the reasons set out in this Eleventh Report, the Monitor supports the requested extension of the Stay Period. JTIM’s day-to-day business and operations have continued in the ordinary course during the Court-supervised CCAA Proceedings and are expected to continue in the ordinary course through the period to September 30, 2022.

PURPOSE

6. The purpose of this Eleventh Report is to provide the Court with information and updates on the following:
 - a) a brief summary of these CCAA Proceedings, including key Orders and endorsements made to date;
 - b) the activities of JTIM and the Monitor from September 20, 2021, the date of the Tenth Report of the Monitor, filed in connection with the previous motion to extend the Stay (the “**Tenth Report**”), to the date of this Eleventh Report;
 - c) a comparison of actual cash flow results against forecast, for the first 25-week period of the 30-week cash flow statement (the “**Cash Flow Statement**”) that was included in the Tenth Report. The Cash Flow Statement covered the 30-week period from September 6, 2021 to April 1, 2022, and the comparison contained herein is against the first 25 weeks ending February 25, 2022;
 - d) JTIM’s revised cash flow projection (the “**Revised Cash Flow Statement**”) for the 31-week period from the week beginning February 27, 2022 to the week ending October 1, 2022 (the “**Revised Cash Flow Period**”);
 - e) the Applicant’s request for an Order to extend the Stay Period to September 30, 2022; and
 - f) the Monitor’s recommendation in respect of the relief the Applicant is seeking.

7. This Eleventh Report should be read in conjunction with the Affidavit of William Aziz sworn March 8, 2022 in support of the Applicant's motion for the extension of the Stay Period (the "**Aziz Affidavit**").

TERMS OF REFERENCE AND DISCLAIMER

8. In preparing this Eleventh Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by JTIM, and discussions with management and advisors of the Applicant ("**Management**") (collectively, the "**Information**").
9. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Generally Accepted Assurance Standards ("**Canadian GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.
10. Due to restrictions imposed as a result of the ongoing Coronavirus pandemic ("**Covid-19**"), the Monitor has been unable to perform its usual procedures to verify or test the Information provided by Management, including physical attendance at JTIM's premises and meetings with Management.

11. Some of the information referred to in this Eleventh Report consists of financial projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
12. Future-oriented financial information referred to in this Eleventh 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.
13. While this Eleventh Report refers to some of the known effects of Covid-19 on the Applicant's current and future operations, there may be further effects not yet identified that may impact sales, production, supply chain or other aspects of the business. These effects may have an adverse impact on the performance of the Applicant. Readers should consider the increasingly broad effects on the financial condition of the Applicant, as a result of the negative impact on Canada, the global economy and major financial markets from Covid-19.
14. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

HISTORY OF THE CCAA PROCEEDINGS

15. The Original Initial Order commencing these CCAA Proceedings and appointing the Monitor was granted on March 8, 2019. The Original Initial Order provided for the stay of proceedings in respect of, among other parties, the Applicant, until and including April 5, 2019.
16. Since then, a number of further Orders and endorsements have been issued in the CCAA Proceedings. The following provides a summary of select Orders and endorsements of the Court that are material to these proceedings:
 - a) on March 19, 2019, the Court issued an endorsement (the “**March 19 Endorsement**”) suspending the payment of: (i) principal and interest, in respect of certain secured indebtedness, and (ii) royalties owing by the Applicant to JTI-Macdonald TM Corp. in respect of certain licensed trademarks;
 - b) on April 5, 2019, the Original Initial Order was amended and restated to, among other things, (i) clarify that certain Court-ordered charges do not apply to cash collateral provided by the Applicant to certain third parties, (ii) appoint the Court-Appointed Mediator, and (iii) extend the Stay Period;
 - c) on April 26 and 29, 2019, the Court: (i) dismissed the motion of Her Majesty the Queen in Right of Ontario (“**Ontario**”) to lift the stay of proceedings to allow the Ontario health care cost recovery action to proceed, and (ii) granted certain relief

with respect to the Second Amended Fresh as Amended Statement of Claim of Ontario;

- d) on May 14, 2019, the Court granted an unopposed Order that required the Monitor to provide counsel to the Quebec Class Action Plaintiffs (“QCAPs”) and to such other parties on the Service List, on written request, certain details regarding the restructuring fees in these CCAA Proceedings (the “**Fee Disclosure Order**”);
- e) on May 24, 2019, the Court issued an endorsement approving a communication and confidentiality protocol between the Court and the Court-Appointed Mediator;
- f) on June 26, 2019, the Court: (i) granted an Order that, among other things, permitted the Applicant to deposit additional cash collateral with a third party, and (ii) issued an endorsement referring certain matters raised by the QCAPs to the Court-Appointed Mediator;
- g) On December 9, 2019, the Court granted an Order appointing representative counsel to represent certain individuals that may be able to assert claims against the CCAA Applicants arising from alleged “tobacco related wrongs”, to the extent such individuals are not otherwise members of a certified class action; and
- h) On April 6, 2021, the Court issued an endorsement declining the request of the Ontario Flue-Cured Tobacco Board (the “**Growers**”) to lift the stay of proceedings in respect of the Growers claims against the CCAA Applicants. The Growers subsequently filed motion materials on June 27 regarding declarations with respect

to the nature of the Growers' claim. This motion was adjourned *sine die* by the Court on July 29, 2021.

17. During the CCAA Proceeding, the Stay Period has been extended numerous times by further Order, most recently up to and including March 31, 2022.
18. Copies of all orders and endorsements granted in the CCAA Proceedings are located on the Monitor's website, accessible at: <https://www.insolvencies.deloitte.ca/en-ca/pages/JTIMacdonaldCorp.aspx> (the "Monitor's Website"). The Monitor encourages interested stakeholders to review the Monitor's Website for a complete history of the CCAA Proceedings, including the various Orders and endorsements issued.

ACTIVITIES OF JTIM AND THE MONITOR SINCE THE TENTH REPORT

19. A summary of select activities of JTIM since the Tenth Report are set out in the Aziz Affidavit at paragraph 13. Key operational updates to highlight are as follows:
 - a) JTIM completed the installation and commenced operation of slide and shell packaging machines at its manufacturing facility in Quebec in order to comply with the second phase of the Tobacco Products Regulations (Plain and Standardized Appearance) SOR/2019-107 (the "Plain Packaging Regulations") effective November 9, 2021;
 - b) JTIM suffered no disruption to the business from the latest surge in Covid-19 caused by the Omicron variant. JTIM is planning to have its employees based at its

headquarters in Mississauga, Ontario return to more regular in-office work beginning in April 2022;

- c) JTIM has intercompany agreements with two entities located in Russia for the procurement of leaf raw materials. Management advised the Monitor that it expects no material impact to the sourcing of leaf raw materials from the recent conflict between Russia and Ukraine as JTIM has sufficient leaf on-hand and leaf can be sourced from other intercompany entities as required;
- d) JTIM entered into an additional intercompany agreement in furtherance of the Global Transformation Project as further described below; and
- e) JTIM commenced disposition of surplus packaging machines made redundant by the Plain Packaging Regulations.

20. The Monitor has undertaken the following activities since the Tenth Report:

- a) assisted JTIM in preparing revised cash flow projections and cash flow variance reporting;
- b) attended calls and meetings with Management regarding business operations, interim financial results, compilation of financial and other information for inclusion in the Monitor's secure data room containing comprehensive information about the Applicant's business, operations and finances, for the sole purpose of providing information to specified participants in the Mediation (the "**Data Room**"), and the conduct of the CCAA Proceedings;

- c) continued to populate the Data Room with commercially sensitive and confidential information compiled by the Applicant;
- d) coordinated with the monitors of ITL and RBH and their respective counsel on the Mediation, population of financial and other information in the Data Room and the Data Rooms created for ITL and RBH, and procedural aspects of the three CCAA proceedings;
- e) attended the Mediation and confidential meetings in relation thereto;
- f) communicated with the Court with respect to certain procedural matters;
- g) monitored receipts from, and payments to, related parties of JTIM, in respect of goods and services provided. The Monitor confirms that, subject to the amendments related to the Global Transformation Project described below, it is not aware of any deviation from standard payment terms in connection with the various related party contracts, other than as required by the March 19 Endorsement;
- h) reviewed and approved the intercompany agreement (the “**Warsaw Global Business Services Agreement**”) between JTIM and JTI GBS Poland Sp. z.o.o. (“**GBS Warsaw**”) executed as part of the ongoing Global Transformation Project. As described in the Monitor’s Fifth and Tenth Reports, the Global Transformation Project is a multi-year initiative whereby certain of the Applicant’s activities in human resources, finance, information technology, and purchasing will be transferred to a centralized global business centre. The Warsaw Global Business

Services Agreement was effective June 1, 2021 and covers the transfer of functions in legal administrative support and human resources recruitment not covered under the scope of the Global Business Services Agreement with JTI GBS Philippines Inc. Pursuant to paragraph 9 of the Court Order dated April 25, 2019 (the “**Second Amended Initial Order**”)¹, the Monitor reviewed and approved the Warsaw Global Business Services Agreement on the basis that the agreement was entered into as part of the ongoing, company-wide transformation of the international subsidiaries of Japan Tobacco Inc. and that the terms of the agreement are generally consistent with the scope and cost of services of previous intercompany arrangements. As referred to at subparagraph 13(e) of the Aziz Affidavit, the Monitor understands that the Global Transformation Project is now complete as no additional intercompany agreements are expected and all headcount changes have been made. Committed salary continuance costs will be paid to certain terminated employees through 2023;

- i) as described at subparagraph 13(c) of the Aziz Affidavit, reviewed and approved the intercompany transaction (the “**JTI Germany Transaction**”) between JTIM and JTI Germany regarding the sale of certain manufacturing equipment. Six lines of packaging machines were made obsolete by the Plain Packaging Regulations. Three of the lines were sold to the third-party original manufacturer of the equipment. The JTI Germany Transaction contemplates the sale of one further line of obsolete

¹ Paragraph 9 states: This Court orders that the Applicant is authorized to complete outstanding transactions and engage in new transactions with the members of the JTI Group... All Intercompany Transactions in the ordinary course of business between the Applicant and any member of the JTI Group, including the provision of goods and services from any member of the JTI Group to the Applicant, shall continue on terms consistent with existing arrangements or past practice or as otherwise approved by the Monitor. [emphasis added]

packaging machinery to JTI Germany at the same price as the third-party sales. JTIM continues to solicit interest in the remaining two lines of packaging machines. Pursuant to paragraph 9 of the Second Amended Initial Order, the Monitor reviewed the business rationale and approved the JTI Germany Transaction on the basis that the terms of the sale are consistent with the terms of sales of similar machines to the third-party original equipment manufacturer;

- j) reviewed and approved the intercompany agreement (the “**JTI Canada Tech Agreement**”) between JTIM and JTI Canada Tech Inc. (“**JTI Canada Tech**”) regarding the purchase of marketing fixtures. Pursuant to paragraph 9 of the Second Amended Initial Order, the Monitor reviewed the business rationale and approved the JTI Canada Tech Agreement;
- k) communicated with third-party stakeholders regarding the status of the CCAA Proceedings;
- l) provided fee disclosure, in accordance with and subject to, the terms of the Fee Disclosure Order, to those parties that have requested same; and
- m) maintained and updated the Monitor’s Website for these CCAA Proceedings.

CASH FLOW STATEMENT AND RESULTS RELATIVE TO FORECAST

21. Summarized in the following table are JTIM’s actual cash receipts and disbursements for the 25-week period ended February 25, 2022 (the “**Reporting Period**”), as compared to the corresponding weeks in the Cash Flow Statement included in the Tenth Report.

JTI-Macdonald Corp.				
Summary of Actual versus Forecast Cash Flows				
For the 25-week period ended February 25, 2022				
\$CAD '000, unaudited				
	<i>Notes</i>	Actual	Forecast	Variance
Receipts				
Sales		654,688	653,575	1,113
Intercompany Receipts	<i>a</i>	125,688	129,413	(3,725)
Tax Refunds		9,951	8,653	1,298
Other Receipts		1,546	615	931
Total Receipts		791,872	792,256	(384)
Disbursement				
General Expenses		(51,068)	(54,753)	3,685
Payroll and Benefits		(40,990)	(42,950)	1,960
Pension		(7,120)	(7,468)	347
Promotions, Marketing and Distribution Support	<i>b</i>	(59,445)	(84,008)	24,564
Leaf	<i>c</i>	(103)	(7,438)	7,334
Capital Expenditures and Leases	<i>d</i>	(5,253)	(9,102)	3,849
Professional Fees		(446)	(414)	(32)
Restructuring Costs		(2,353)	(3,500)	1,147
Domestic and Import Duty	<i>e</i>	(247,591)	(259,199)	11,608
GST and HST		(42,179)	(43,751)	1,572
Intercompany Disbursements		(185,598)	(188,035)	2,436
Intercompany Royalties		-	-	-
Intercompany Interest		-	-	-
Intercompany Principal		-	-	-
Income Tax Instalments and PTT	<i>f</i>	(36,446)	(41,280)	4,834
Total Disbursements		(678,592)	(741,897)	63,305
Cashflow Surplus/Deficit (-)		113,280	50,358	62,921
Opening Cash Balance		705,936	705,936	-
FX Adjustment		(316)	-	(316)
Closing Cash Balance		818,900	756,294	62,605
Cash Collateral pledged to Citibank				
Closing Balance		11,900	11,900	-
Closing Cash net of Cash Collateral		807,000	744,394	62,605

22. JTIM's actual net cash flow for the Reporting Period was \$113.3 million, compared to forecast net cash flow of \$50.4 million resulting in a favourable variance of \$62.9 million.

A summary of the major variances are as follows:

- a) an unfavourable variance of \$3.7 million in intercompany receipts due to: (i) an unfavourable variance of \$4.8 million in finished goods receipts that is a timing difference and expected to reverse in future periods, which is partially offset by (ii) a favourable variance of \$1.1 million in intercompany receipts for services and expenses that is a permanent difference as intercompany service revenues and expense reimbursements were greater than forecast;
- b) a favourable variance of \$24.6 million in promotions, marketing and distribution support disbursements is primarily a permanent difference arising from JTIM's inability to conduct certain trade marketing activities and promotions in the ordinary course due to the impact of Covid-19 and in lesser part a timing difference that is expected to reverse in future periods;
- c) a favourable variance of \$7.3 million in third-party leaf disbursements is primarily a timing difference that is expected to reverse in future periods and in lesser part a permanent difference as certain leaf was procured from intercompany entities;
- d) a favourable variance of \$3.8 million in capital expenditures is a timing difference that is expected to reverse in future periods. Certain expenditures planned during the Reporting Period, including the regular maintenance and repair of the Applicant's Quebec manufacturing facility referenced in Paragraph 20(k) of the Monitor's Tenth Report will instead be incurred later in 2022;
- e) a favourable variance of \$11.6 million in domestic and import duty payments is expected to be a permanent difference due to lower than forecast production volume

during the Reporting Period. Production volume was lower than forecast in part due to the transition to the plain packaging-compliant machinery and lower inventories at year end; and

- f) a favourable variance of \$4.8 million in income tax installments is a permanent difference as the final income tax instalment for fiscal year 2021 was less than forecast based on year-end results.
23. JTIM's closing cash balance, net of pledged cash collateral, as at February 25, 2022 was \$807.0 million.

APPLICANT'S REVISED CASH FLOW STATEMENT

24. The Applicant, with the assistance of the Monitor, has prepared the Revised Cash Flow Statement for the purposes of projecting the estimated results of the Applicant's planned operations and other activities during the Revised Cash Flow Period. A copy of the Revised Cash Flow Statement with accompanying notes is attached as **Appendix "A"**, and is summarized below for the 31-week period ending October 1, 2022:

JTI-Macdonald Corp.	
31-week Revised Cash Flow Statement	
\$CAD '000, unaudited	
	31-week Total to October 1, 2022
Receipts	
Sales	934,880
Intercompany Receipts	186,560
Tax Refunds	14,455
Other Receipts	2,134
Total Receipts	1,138,029
Disbursement	
General Expenses	55,227
Payroll and Benefits	39,802
Pension	7,030
Promotions, Marketing and Distribution Support	83,472
Leaf	6,853
Capital Expenditures	9,118
Professional Fees	452
Restructuring Costs	3,784
Domestic and Import Duty	344,039
GST and HST	52,733
Intercompany Disbursements	270,197
Intercompany Royalties	-
Intercompany Interest	-
Intercompany Principal	-
Income Tax Instalments and PTT	49,945
Total Disbursements	922,652
Cashflow Surplus/Deficit (-)	215,377
Opening Cash Balance	818,900
FX adjustment	(31)
Closing Cash Balance	1,034,246
Cash Collateral pledged to Citibank	
Closing Balance	11,900
Closing Cash net of Cash Collateral	1,022,346

25. The Revised Cash Flow Statement is presented on a weekly basis during the Revised Cash Flow Period and represents Management's best estimate of the projected cash flows during the Revised Cash Flow Period. The Revised Cash Flow Statement has been prepared by

Management using the assumptions set out in the notes to the Revised Cash Flow Statement (the “**Revised Assumptions**”).

26. JTIM’s opening cash balance, net of pledged cash collateral, on February 28, 2022 was \$807.0 million. The forecast cash flow surplus for the Revised Cash Flow Period is forecast to be \$215.4 million. Accordingly, the Applicant has sufficient liquidity during the proposed extension of the Stay Period.
27. The Monitor has reviewed the Revised Cash Flow Statement to the standard required of a Court-appointed monitor by Section 23(1)(b) of the CCAA. Section 23(1)(b) requires a monitor to review the debtor’s cash flow statement as to its reasonableness and to file a report with the Court based on the monitor’s findings. The Canadian Association of Insolvency and Restructuring Professionals’ (“**CAIRP**”) Standards of Professional Practice include a standard for a monitor fulfilling its statutory responsibilities under the CCAA in respect of its report on the cash flow statement.
28. In accordance with the CCAA and CAIRP standards, the Monitor’s review of the Revised Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to the Revised Cash Flow Statement and Revised Assumptions. Since the Revised Assumptions need not be supported, the Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Cash Flow Statement. The Monitor also reviewed the support provided by Management for the Revised Assumptions and the preparation and presentation of the Revised Cash Flow Statement.

29. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in all material aspects, that:
- a) the Revised Assumptions are not consistent with the purpose of the Revised Cash Flow Statement;
 - b) as at the date of this Eleventh Report, the Revised Assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Revised Cash Flow Statement, given the Revised Assumptions; or
 - c) the Revised Cash Flow Statement does not reflect the Revised Assumptions.
30. Since the Revised Cash Flow Statement is based on the Revised Assumptions regarding future events, actual results will vary from the information presented even if the Revised Assumptions occur and the variations could be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flow Statement will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Revised Cash Flow Statement or the Information relied upon by the Monitor in preparing this Eleventh Report.
31. The Revised Cash Flow Statement has been prepared solely for the purposes described above, and readers of this Eleventh Report are cautioned that it may not be appropriate for other purposes.

STAY EXTENSION

32. The current Stay Period expires on March 31, 2022. The Applicant is seeking the extension of the Stay Period up to and including September 30, 2022, in order for the Applicant, with the assistance of the Monitor, to:
- a) preserve the *status quo* and continue to maintain the stability of operations;
 - b) seek a collective solution for the benefit of all stakeholders in respect of the claims asserted against the Applicant and the other CCAA Applicants in the hundreds of billions of dollars, including through advancing the Mediation led by the Court-Appointed Mediator; and
 - c) determine next steps in respect of the CCAA Proceedings.
33. In the Monitor's view, progress has been made in the Mediation since the last extension of the Stay Period hearing on September 27, 2021. The CCAA Applicants have continued to populate separate Data Rooms with financial information to advance discussions with key stakeholders in the Mediation. The Applicant has responded to stakeholder questions and requests for additional information. The Monitor continues to work with the Applicant to populate the Data Room with financial and other information, as requested in the Mediation.
34. Since the Tenth Report, the Court-Appointed Mediator, with the assistance of the JTIM, ITL, and RBH monitors, continues to conduct meetings in the Mediation and engage in discussions with the CCAA Applicants and the key stakeholders. The Mediation is

confidential. However, the Monitor confirms that the parties continue to advance the Mediation to facilitate a global settlement of the various claims asserted against the CCAA Applicants.

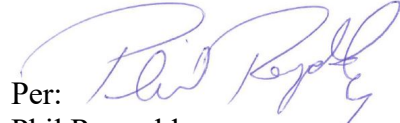
35. Extending the Stay Period for the requested time will allow the Applicant to continue operating in the normal course while participating in the Mediation and pursuing a global settlement. In the Monitor's view, the Applicant's request for an extension of the Stay Period until September 30, 2022, is reasonable and appropriate in the circumstances.
36. As described above, the Revised Cash Flow Statement indicates that the Applicant will have sufficient liquidity during the Revised Cash Flow Period.
37. In the Monitor's view, the Applicant has acted and continues to act in good faith and with due diligence in the CCAA Proceedings.

RECOMMENDATION

38. The Monitor supports the relief sought by the Applicant in its motion to extend the Stay Period to September 30, 2022 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 10th day of March, 2022.

**Deloitte Restructuring Inc.,
Solely in its capacity as Court-appointed Monitor
of JTIM and not in its personal capacity**

Per: 
Phil Reynolds, LIT
Senior Vice-President

Appendix "A"

Revised Cash Flow Statement

JTI-Macdonald Corp.
31-week Revised Cash Flow Statement
\$CAD '000, unaudited

For the week beginning	Notes	27-Feb-22	6-Mar-22	13-Mar-22	20-Mar-22	27-Mar-22	3-Apr-22	10-Apr-22	17-Apr-22	24-Apr-22	1-May-22	8-May-22
Receipts												
Sales	1	23,310	26,747	27,456	28,170	28,881	31,941	30,523	29,862	27,868	24,619	25,179
Intercompany Receipts	2	8,217	4,244	8,233	4,903	6,833	8,060	8,060	8,060	9,904	6,076	6,076
Tax Refunds	3	-	1,750	315	-	-	1,750	315	-	-	1,750	315
Other Receipts	4	56	-	-	-	419	-	61	-	-	139	-
Total Receipts		31,583	32,741	36,004	33,073	36,132	41,751	38,959	37,922	37,771	32,584	31,570
Disbursement												
General Expenses	5	2,077	1,950	1,950	1,950	1,950	1,750	1,750	1,750	1,750	1,825	1,825
Payroll and Benefits	6	427	1,855	455	2,355	630	1,855	455	2,355	630	1,855	455
Pension	7	-	160	-	821	-	160	-	821	-	160	-
Promotions, Marketing and Distribution Support	8	1,880	1,174	1,174	1,174	1,174	3,852	3,852	3,852	3,852	1,877	1,877
Leaf	9	-	1,480	-	-	-	3,326	-	-	-	-	1,997
Capital Expenditures	10	111	118	118	118	118	275	275	275	275	203	203
Professional Fees	11	-	13	13	13	13	16	16	16	16	16	16
Restructuring Costs	12	34	125	125	125	125	125	125	125	125	125	125
Domestic and Import Duty	13	252	-	-	-	48,116	-	-	-	60,047	-	-
GST and HST	14	-	-	-	-	4,855	-	-	-	6,848	-	-
Intercompany Disbursements	15	2,179	3,651	7,902	11,881	10,594	11,396	12,844	10,559	6,696	3,737	11,393
Intercompany Royalties	16	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	17	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	17	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	18	-	2,500	500	-	4,135	2,500	500	-	4,135	2,500	500
Total Disbursements		6,960	13,026	12,237	18,437	71,710	25,255	19,817	19,754	84,374	12,297	18,390
Cashflow Surplus/Deficit (-)		24,623	19,715	23,767	14,636	(35,578)	16,496	19,142	18,168	(46,603)	20,287	13,180
Opening Cash Balance		818,900	843,492	863,207	886,974	901,610	866,032	882,528	901,670	919,838	873,235	893,522
FX adjustment		(31)	-	-	-	-	-	-	-	-	-	-
Closing Cash Balance		843,492	863,207	886,974	901,610	866,032	882,528	901,670	919,838	873,235	893,522	906,702
Cash Collateral pledged to Citibank	19											
Closing Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Closing Cash net of Cash Collateral		831,592	851,307	875,074	889,710	854,132	870,628	889,770	907,938	861,335	881,622	894,802

JTI-Macdonald Corp.
31-week Revised Cash Flow Statement
\$CAD '000, unaudited

For the week beginning	Notes	15-May-22	22-May-22	29-May-22	5-Jun-22	12-Jun-22	19-Jun-22	26-Jun-22	3-Jul-22	10-Jul-22	17-Jul-22	24-Jul-22
Receipts												
Sales	1	28,628	25,909	26,061	33,990	34,256	39,718	40,001	28,823	31,250	33,606	33,457
Intercompany Receipts	2	6,076	6,076	5,839	5,679	5,679	5,679	5,839	6,839	6,839	6,839	9,795
Tax Refunds	3	-	-	1,750	315	-	-	-	1,750	315	-	-
Other Receipts	4	-	-	139	-	400	-	139	-	-	-	-
Total Receipts		34,704	31,985	33,788	39,983	40,335	45,397	45,978	37,412	38,404	40,445	43,252
Disbursement												
General Expenses	5	1,825	1,825	1,540	1,540	1,540	1,540	1,540	2,025	2,025	2,025	2,025
Payroll and Benefits	6	2,355	455	2,030	455	1,855	955	2,030	455	1,855	955	2,030
Pension	7	821	-	160	-	821	-	160	-	160	661	160
Promotions, Marketing and Distribution Support	8	1,877	1,877	1,782	1,782	1,782	1,782	1,782	4,085	4,085	4,085	4,085
Leaf	9	-	-	-	-	-	-	-	25	-	-	-
Capital Expenditures	10	203	203	400	400	400	400	400	303	303	303	303
Professional Fees	11	16	16	14	14	14	14	14	17	17	17	17
Restructuring Costs	12	125	125	125	125	125	125	125	125	125	125	125
Domestic and Import Duty	13	-	-	51,864	-	-	-	54,481	-	-	-	54,478
GST and HST	14	-	-	7,022	-	-	-	8,520	-	-	-	9,191
Intercompany Disbursements	15	11,336	11,336	7,767	6,946	6,790	6,790	7,766	10,034	9,780	9,780	10,807
Intercompany Royalties	16	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	17	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	17	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	18	-	-	4,135	2,500	500	-	4,135	2,500	500	-	4,135
Total Disbursements		18,558	15,836	76,839	13,761	13,827	11,606	80,952	19,569	18,850	17,951	87,356
Cashflow Surplus/Deficit (-)		16,146	16,149	(43,050)	26,222	26,508	33,791	(34,974)	17,843	19,554	22,493	(44,104)
Opening Cash Balance		906,702	922,848	938,996	895,946	922,168	948,676	982,467	947,494	965,337	984,891	1,007,384
FX adjustment		-	-	-	-	-	-	-	-	-	-	-
Closing Cash Balance		922,848	938,996	895,946	922,168	948,676	982,467	947,494	965,337	984,891	1,007,384	963,281
Cash Collateral pledged to Citibank	19											
Closing Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Closing Cash net of Cash Collateral		910,948	927,096	884,046	910,268	936,776	970,567	935,594	953,437	972,991	995,484	951,381

JTI-Macdonald Corp.
31-week Revised Cash Flow Statement
\$CAD '000, unaudited

For the week beginning	Notes	31-Jul-22	7-Aug-22	14-Aug-22	21-Aug-22	28-Aug-22	4-Sep-22	11-Sep-22	18-Sep-22	25-Sep-22	31-week Total to October 1, 2022
Receipts											
Sales	1	27,261	27,034	26,759	26,439	29,880	30,507	34,105	33,485	39,156	934,880
Intercompany Receipts	2	5,297	5,297	5,297	5,436	5,297	2,486	2,486	2,486	2,636	186,560
Tax Refunds	3	1,750	315	-	-	-	1,750	315	-	-	14,455
Other Receipts	4	139	-	-	-	139	-	503	-	-	2,134
Total Receipts		34,447	32,647	32,056	31,875	35,316	34,742	37,408	35,971	41,792	1,138,029
Disbursement											
General Expenses	5	1,580	1,580	1,580	1,580	1,580	1,838	1,838	1,838	1,838	55,227
Payroll and Benefits	6	455	1,855	955	1,855	630	1,855	455	2,355	630	39,802
Pension	7	-	160	661	160	-	160	-	821	-	7,030
Promotions, Marketing and Distribution Support	8	2,247	2,247	2,247	2,247	2,247	4,374	4,374	4,374	4,374	83,472
Leaf	9	-	-	-	-	-	25	-	-	-	6,853
Capital Expenditures	10	305	305	305	305	305	471	471	471	471	9,118
Professional Fees	11	14	14	14	14	14	17	17	17	17	452
Restructuring Costs	12	125	125	125	125	125	125	125	125	125	3,784
Domestic and Import Duty	13	-	-	-	-	51,415	-	-	-	23,387	344,039
GST and HST	14	-	-	-	-	7,387	-	-	-	8,910	52,733
Intercompany Disbursements	15	7,608	8,071	7,608	7,608	8,584	9,634	9,380	9,380	10,360	270,197
Intercompany Royalties	16	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	17	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	17	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	18	-	2,500	500	-	4,135	2,500	500	-	4,135	49,945
Total Disbursements		12,334	16,858	13,996	13,894	76,422	20,999	17,160	19,381	54,247	922,652
Cashflow Surplus/Deficit (-)		22,113	15,789	18,061	17,981	(41,106)	13,744	20,249	16,590	(12,454)	215,377
Opening Cash Balance		963,281	985,394	1,001,183	1,019,243	1,037,224	996,118	1,009,862	1,030,110	1,046,700	818,900
FX adjustment		-	-	-	-	-	-	-	-	-	(31)
Closing Cash Balance		985,394	1,001,183	1,019,243	1,037,224	996,118	1,009,862	1,030,110	1,046,700	1,034,246	1,034,246
Cash Collateral pledged to Citibank	19										
Closing Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Closing Cash net of Cash Collateral		973,494	989,283	1,007,343	1,025,324	984,218	997,962	1,018,210	1,034,800	1,022,346	1,022,346

**In the Matter of the *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF JTI-MACDONALD CORP.**

("JTIM" or the "Applicant")

Notes to the Applicant's Unaudited Revised Cash Flow Statement

Disclaimer

In preparing this cash flow projection (the "**Revised Cash Flow Statement**"), the Applicant has relied upon unaudited interim financial information and the major assumptions listed below. The Revised Cash Flow Statement includes estimates concerning the operations of the Applicant with consideration to the impact of a filing under the *Companies' Creditors Arrangement Act*, as amended (the "**CCAA**"). The Revised Cash Flow Statement is based on assumptions about future events and the actual results achieved during the forecast period will vary from the Cash Flow Statement, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized. Parties using the Revised Cash Flow Statement for reasons other than to assess the cash flows of the Applicant during the forecast period are cautioned that it may not be appropriate for their purposes.

The Revised Cash Flow Statement does not include any consideration of the likely impact of Coronavirus ("**Covid-19**") on sales, production, supply chain or any other aspect of the business of JTIM as the situation continues to evolve, and many uncertainties remain as to the effect the Covid-19 crisis will have on the Applicant and the broader domestic and global economies. Changes to market conditions could substantively affect JTIM and the Revised Cash Flow Statement.

Overview

The Revised Cash Flow Statement reflects cash flows from JTIM. The Applicant, with the assistance of the Monitor, has prepared the Revised Cash Flow Statement based primarily on historical results and JTIM's current expectations derived from their annual budgeting process. Consistent with the Applicant's budgeting process, the Revised Cash Flow Statement is presented in thousands of Canadian Dollars. Receipts and disbursements denominated in U.S. Dollars have been converted into Canadian Dollars using an exchange rate of **CDN\$1.25 = USD\$1.00**.

Major Assumptions

RECEIPTS

1. Sales

Receipts from JTIM's trade sales are estimated based on a weekly forecast of collections from existing accounts. The projected sales are derived from JTIM's annual budget, which includes assumptions surrounding future pricing. JTIM collects payment from its customers via direct debit once product is shipped. The vast majority of JTIM's customers are tobacco wholesalers. JTIM sells smaller volumes directly to retail accounts.

2. Intercompany Receipts

JTIM is owned indirectly by Japan Tobacco Inc. ("**Japan Tobacco**"), a publicly listed company in Japan. Certain employees of JTIM, located at either the Mississauga head office or Montreal factory locations, perform services for non-Canadian entities.

A charge for time spent is applied to the related party corporation benefiting from the services. The charge is based on time spent by the employees based on an annual submission that the employee provides. The fee rate is based on the cost of each employee to JTIM, plus a 5% mark-up.

JTIM provides other related-party international tobacco companies outside of Japan ("**JT International**") with skilled personnel (i.e. expatriates working abroad), and is reimbursed the costs of such employees.

JTIM performs contract manufacturing for non-Canadian branded cigarettes at the Montreal manufacturing facility for JT International SA ("**JTI-SA**").

JTIM exports Canadian brand cigarettes to other JT International entities for sale.

3. Tax Refunds

The projected tax refunds relate to the collection of QST refunds in Quebec, excise tax refunds for product that require rework or destruction and customs duty refunds for imported product that require destruction.

4. Other Receipts

Other receipts relate to interest income earned from short-term investments and high interest savings accounts.

DISBURSEMENTS

5. General Expenses

These projected disbursements include payments related to non-tobacco materials, service related activities, utilities, rent, and travel. Additional expenditures are forecast for regional sales office leases, vehicles used by sales representatives and miscellaneous information technology requirements.

6. Payroll and Benefits

These projected disbursements include payroll and benefit costs for all salaried and hourly plant employees. The forecast amounts are based on historic run rates. Hourly plant employees are paid weekly and salaried employees are paid bi-weekly. Payroll disbursements include all employee source deductions, employee and employer portions of CPP/QPP and EI and other payroll-related taxes, and reflect the terms of the collective bargaining agreement signed in July 2021. Payroll and benefit costs also include severance costs related to the global transformation project.

7. Pension

These projected disbursements represent payments to JTIM's registered employees plan, registered executive employees plan and the executive supplemental benefit plan. The pension amounts forecast in the cash flow include all current and special obligation amounts.

8. Promotions, Marketing and Distribution Support

These projected disbursements relate to the various marketing and promotional initiatives, such as inventory support programs and brand support programs. Initiatives are generally paid 30 days in arrears or via quarterly installments.

9. Leaf

These projected disbursements represent payments to third party suppliers of tobacco leaf. Third party purchases are used in circumstances where JTI-SA does not have a specific grade of tobacco available at the time required to meet the plant's tobacco blend requirements to reduce disruptions in the production process.

10. Capital Expenditures

These capital expenditures include investments in building, equipment, and process improvements at JTIM's Quebec manufacturing facility, and renovation and reconfiguration of JTIM's headquarters in Mississauga deferred from 2021 to respond to new working arrangements for its Head Office staff resulting from changes in the workforce resulting from the Global Transformation Project and the Covid-19 pandemic impact on in-office working requirements.

11. Professional Fees

These projected disbursements include payments to JTIM's legal advisors for corporate matters.

12. Restructuring Costs

These projected disbursements include payments to JTIM's legal advisors for specialist restructuring advice, the fees and costs of the Monitor and its counsel, the fees and costs of the Chief Restructuring Officer, the fees and costs of the Court-Appointed Mediator and his advisors, and the fees and costs of the Representative Counsel and its advisors.

13. Domestic and Import Duty

These projected disbursements relate to payments to the Canada Revenue Agency ("CRA") with respect to tobacco products produced under the *Excise Act, 2001* and customs duty and GST on imported leaf and other raw materials, spare parts or machinery. Excise duty returns and payments are due on the last day of the month following the reporting period (e.g. a return for a period ending February 28 is due by March 31). Import duty payments are paid once a month on a rolling basis with the 21st being the end of the month. The February 2022 payment for excise duties was remitted in the week prior to the Revised Cash Flow Statement period.

14. GST and HST

These projected disbursements represent payments to the CRA with respect to GST and HST. Historically, JTIM has always been in a monthly net payable position.

15. Intercompany Disbursements

These projected disbursements represent: (i) payments for goods and services provided by JT International entities such as tobacco products from JTI-SA, LLC Cres Neva, LLC Petro, JTI (US) Holding Inc., JT International Canarias S.A.U., and Japan Tobacco International USA Inc., (ii) IT services provided by JTI-SA, (iii) global administrative services provided by JTI GBS Philippines Inc., and JTI GBS Poland Sp. z.o.o. (iv) employee arrangements provided by JTI Services Switzerland SA, and (v) global headquarter services provided by JT International Holding B.V.

16. Intercompany Royalties

JTI-Macdonald TM Corp. (“TM”) provides licenses to JTIM to use the trademarks to manufacture and sell goods bearing the trademarks in exchange for a monthly royalty payment. The intercompany royalty payments have been suspended pursuant to the Endorsement of Justice McEwen dated March 19, 2019. The amount of approximately \$1,250,000 continues to be accrued monthly. Additionally, default interest is accruing on royalty payments due and unpaid.

17. Intercompany Interest and Principal

This disbursement represents monthly interest payments on the \$1.2 billion secured convertible debentures by JTIM to TM. The intercompany interest and principal payments have been suspended pursuant to the Endorsement of Justice McEwen dated March 19, 2019. The interest amount of approximately \$7.7 million continues to be accrued monthly. Additionally, default interest is accruing on interest and principal payments due and unpaid.

18. Income Tax Instalments and Provincial Tobacco Taxes

These projected disbursements represent corporate income tax instalments and payments of Provincial Tobacco Taxes (“PTT”) on direct retail sales.

19. Cash Collateral

Cash collateral of \$11.9 million was pledged to Citibank pursuant to agreements dated in 2016, 2017, and 2019 to allow for continued central travel account card services and cash management services provided by Citibank.



March 9, 2022

Deloitte Restructuring Inc.
Bay Adelaide East
8 Adelaide Street West
Suite 200
Toronto, Ontario M5H 0A9
Canada

Attention: Warren Leung

Dear Sirs:

**Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA")
Responsibilities/Obligations and Disclosure with Respect to Cash Flow
Projections**

In connection with the CCAA proceedings in respect of JTI-Macdonald Corp. ("**JTIM**"), the management of JTIM ("**Management**") has prepared the attached Revised Cash Flow Statement and the assumptions on which the Revised Cash Flow Statement is based.

JTIM confirms that:

1. The Revised Cash Flow Statement and the underlying assumptions are the responsibility of JTIM;
2. All material information relevant to the Revised Cash Flow Statement and to the underlying assumptions has been made available to Deloitte Restructuring Inc., in its capacity as Monitor of JTIM;
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the Revised Cash Flow Statement are appropriate in the circumstances;
 - b. That the individual assumptions underlying the Revised Cash Flow Statement, taken as a whole, are appropriate in the circumstances; and

- c. That all relevant assumptions have been properly presented in the Revised Cash Flow Statement or in the notes accompanying the Revised Cash Flow Statement.
4. Management understands and agrees that the determination of what constitutes a material adverse change in the projected cash flow or financial circumstances, for the purposes of our monitoring the on-going activities of JTIM, is ultimately at your sole discretion, notwithstanding that Management may disagree with such determination;
5. Management understands its duties and obligations under the CCAA and that a breach of these duties and obligations could make the JTIM's Management liable to fines and imprisonment in certain circumstances; and
6. The Revised Cash Flow Statement and assumptions have been reviewed and approved by the JTIM's board of directors or Management has been duly authorized by JTIM's board of directors to prepare and approve the cash flow assumptions.

Yours truly,



Name: Robert McMaster

Title: Director, Taxation and Treasury

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO **JTI-MACDONALD CORP.**

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**ELEVENTH REPORT OF THE MONITOR
March 10, 2024**

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