

**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.**

**SEVENTH REPORT OF THE MONITOR**  
**February 13, 2020**

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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. JTIM's day-to-day business and operations have continued in the ordinary course, against this backdrop of the Court-supervised CCAA Proceedings, and are expected to continue on in the ordinary course.
4. In furtherance of the collective goal of resolving 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 mediation among the CCAA Applicants and their key stakeholders (the "**Mediation**").
5. As further set out in this Seventh Report of the Monitor (the "**Seventh Report**"), the Applicant has been working diligently and in good faith and is participating in the Mediation in order to achieve a pan-Canadian resolution of various claims being asserted against it and the other CCAA Applicants. The Mediation and the issues being addressed pursuant thereto are complex. As a result, additional time is required for the Mediation process to unfold beyond March 12, 2020, when the stay of proceedings ordered by the Original Initial Order, as subsequently extended by further orders of the Court (the "**Stay**"), expires.
6. JTIM has accordingly brought a motion seeking an order extending the Stay through to September 30, 2020, which will enable it to continue to advance the Mediation. For the reasons set out in this Seventh Report, the Monitor supports the requested Stay extension.

## PURPOSE

7. The purpose of this Seventh Report is to provide the Court with information and updates on the following:
  - a) a background summary of these CCAA Proceedings, including the orders and endorsements made to date herein;
  - b) the activities of JTIM and the Monitor from November 26, 2019, the date of the Sixth Report of the Monitor filed in connection with the previous joint motion to appoint representative counsel (the “**Sixth Report**”), to the date of this Seventh Report;
  - c) a comparison of actual cash flow results against forecast for the first 20-week period of the 25-week cash flow statement (the “**Cash Flow Statement**”) that was included in the Fifth Report of the Monitor dated September 25, 2019 (the “**Fifth Report**”). The Cash Flow Statement covered the 25-week period from September 16, 2019 to March 6, 2020, and the comparison is against the first 20 weeks, ending January 31, 2020;
  - d) JTIM’s revised cash flow projection (the “**Revised Cash Flow Statement**”) for the 35-week period from February 3, 2020 to October 2, 2020 (the “**Revised Cash Flow Period**”);
  - e) the Applicant’s request for an Order to extend the Stay to September 30, 2020; and

- f) the Monitor's recommendations.
- 8. This Seventh Report should be read in conjunction with the Affidavit of William E. Aziz sworn February 12, 2020 in support of the Applicant's motion for the extension of the Stay (the "**Aziz Affidavit**").

#### **TERMS OF REFERENCE AND DISCLAIMER**

- 9. In preparing this Seventh 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 of the Applicant ("**Management**") (collectively, the "**Information**").
- 10. 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.
- 11. Some of the information referred to in this Seventh 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 Seventh 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. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

#### **HISTORY OF THE CCAA PROCEEDINGS**

14. As noted above, the Original Initial Order was granted on March 8, 2019, commencing these CCAA Proceedings and appointing the Monitor. The Original Initial Order provided for the Stay in respect of, among other parties, the Applicant, until and including April 5, 2019 (the "**Stay Period**"). Pursuant to the terms of the Original Initial Order, the Stay could be lifted with leave of the Court or on the consent of the Applicant and the Monitor.
15. On March 19, 2019, the Court issued an endorsement (the "**March 19 Endorsement**") suspending, until further order of the Court, the payment of principal and interest, in respect of certain secured indebtedness, and royalties owing by the Applicant to JTI-Macdonald TM Corp. (acting through its privately appointed receiver, PricewaterhouseCoopers Inc. (the "**TM Receiver**")) in respect of certain licensed trademarks.
16. On April 5, 2019, the Original Initial Order was amended and restated (the "**Amended Initial Order**") to, among other things, clarify that certain Court-ordered charges do not

apply to cash collateral provided by the Applicant to certain third parties and appoint the Court-Appointed Mediator. The Stay Period was extended to June 28, 2019 by further Order of the Court dated April 5, 2019 (the “**Stay Extension Order**”).

17. On April 17, 2019, the Court issued an endorsement that no proceedings could be commenced, continued or take place, by, against or in respect of, the Applicant without leave of the Court (the “**April 17 Endorsement**”).
18. On April 25, 2019, the Amended Initial Order was further amended (the “**Second Amended Initial Order**”), and the ability of JTIM and the Monitor to consent to a lifting of the Stay was removed, in accordance with the April 17 Endorsement.
19. On April 26, 2019, the Court dismissed the motion of Her Majesty the Queen in right of Ontario (“**Ontario**”) to lift the Stay to allow the Ontario health care cost recovery action to proceed.
20. On April 29, 2019, the Court, on an unopposed basis: (i) granted Ontario leave to amend its Amended Fresh as Amended Statement of Claim in the form of the Second Amended Fresh as Amended Statement of Claim; (ii) lifted the Stay for the narrow purpose of permitting the Ontario Superior Court of Justice to formally effect the amendments to Ontario’s Amended Fresh as Amended Statement of Claim as ordered by Master Short on March 8, 2019; and (iii) lifted the Stay for the narrow purpose of allowing Ontario to serve the Second Amended Fresh as Amended Statement of Claim on all of the defendants to the Ontario health care cost recovery action.

21. On May 14, 2019, the Court granted an unopposed Order lifting the Stay to permit the continuation or commencement of certain proceedings against the Applicant related to personal injury matters involving employees of the Applicant as co-defendants. The Court also authorized certain proceedings related to labour and employment matters to be continued or commenced by or against the Applicant with the consent of the Monitor or further order of the Court. On May 14, 2019, the Court further 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**”).
22. On May 24, 2019, the Court issued an endorsement approving a communication and confidentiality protocol between the Court and the Court-Appointed Mediator.
23. On June 26, 2019, the Court granted an Order (the “**Stay Extension and Cash Collateral Order**”) extending the Stay Period to October 4, 2019 and authorized the Applicant to deposit additional cash collateral with Citibank, N.A., Canada Branch (“**Citibank**”) in the amount of \$3 million. Also on June 26, 2019, the Court issued an endorsement approving a common service protocol that prescribed how materials could be filed in the CCAA Proceedings and the CCAA proceedings of each of the other CCAA Applicants.
24. On June 26, 2019, the Court issued an endorsement referring to mediation with the Court-Appointed Mediator the matters raised by the QCAPs in their motion seeking to prohibit the set-off by the TM Receiver of outstanding royalties against a deposit held by the TM Receiver.



25. On June 27, 2019, the Court granted an Order appointing Alvarez & Marsal Canada Inc. as the financial advisor to the Court-Appointed Mediator.
26. On July 9, 2019, the Court granted an Order to provide for court-to-court communications between the Court, other courts in any province or territory in Canada and the United States Bankruptcy Court for the Southern District of New York.
27. On October 2, 2019, the Court granted an Order extending the Stay Period until March 12, 2020.
28. On October 3, 2019, the Court issued an endorsement that permitted the Canadian Cancer Society to participate in the CCAA Proceedings subject to certain conditions but did not permit their participation in the Mediation at this time.
29. On December 9, 2019, the Court granted an Order (the “**Representative Counsel Appointment Order**”) appointing The Law Practice of Wagner & Associates, Inc. (the “**Representative Counsel**”) to represent individuals that may be able to assert claims against the CCAA Applicants (and parties related to them) arising from alleged “Tobacco Related Wrongs” (as defined in the Representative Counsel Appointment Order), to the extent these individuals are not otherwise members of a certified class action.
30. 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>.

## ACTIVITIES OF JTIM AND THE MONITOR SINCE THE SIXTH REPORT

31. The activities of JTIM since the Sixth Report are set out in the Aziz Affidavit at paragraph 13.
32. The Monitor has undertaken the following activities since the Sixth Report:
  - a) assisted JTIM in preparing revised cash flow projections and cash flow variance reporting;
  - b) attended calls and meetings with Management regarding the business operations, interim financial results, compilation of financial and other information for a dataroom created by the Monitor 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 "**Dataroom**"), and the conduct of the CCAA Proceedings;
  - c) advanced matters related to the joint motion to appoint the Representative Counsel, including calls and meetings with the ITL and RBH Monitors and their respective counsel and attendance at Court;
  - d) coordinated with the ITL and RBH Monitors and their respective counsel on the Mediation, population of financial and other information in the Dataroom and similar datarooms for ITL and RBH and procedural aspects of the three CCAA proceedings;
  - e) attended the Mediation and various confidential meetings in relation thereto;

- f) communicated with the Court with respect to certain procedural matters;
- g) as part of its standard oversight procedures, continued to monitor receipts from, and payments to, related parties, in respect of goods and services provided (the Monitor confirms that 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); and
- h) provided fee disclosure, in accordance with and subject to, the terms of the Fee Disclosure Order, to those parties that have requested same.

#### **CASH FLOW STATEMENT AND RESULTS RELATIVE TO FORECAST**

- 33. Summarized in the following table are JTIM's actual cash receipts and disbursements for the 20-week period ended January 31, 2020 (the "**Reporting Period**") as compared to the corresponding weeks in the Cash Flow Statement included in the Fifth Report.

**JTI-Macdonald Corp.**  
**Summary of Actual versus Forecast Cash Flows**  
**For the 20-week period ended Jan 31, 2020**

SCAD '000, unaudited	Notes	Actual	Forecast	Variance
<b>Receipts</b>				
Sales	<i>a</i>	469,795	461,612	8,183
Intercompany Receipts	<i>b</i>	133,767	94,219	39,549
Tax Refunds		4,783	5,000	(217)
Other Receipts	<i>c</i>	2,244	1,235	1,009
<b>Total Receipts</b>		<b>610,589</b>	<b>562,066</b>	<b>48,523</b>
<b>Disbursement</b>				
General Expenses	<i>d</i>	44,168	38,300	(5,868)
Payroll and Benefits		25,960	25,400	(560)
Pension		4,706	4,702	(4)
Promotions and Marketing	<i>e</i>	42,467	55,494	13,028
Leaf	<i>f</i>	1,192	6,247	5,055
Capital Expenditures	<i>g</i>	5,037	12,863	7,827
Professional Fees		619	770	151
Restructuring Costs	<i>h</i>	4,545	3,146	(1,399)
Domestic and Import Duty	<i>i</i>	221,942	174,960	(46,982)
GST and HST	<i>j</i>	30,754	28,376	(2,378)
Intercompany Disbursements	<i>k</i>	129,003	126,284	(2,719)
Intercompany Royalties		-	-	-
Intercompany Interest		-	-	-
Intercompany Principal		-	-	-
Income Tax Instalments and PTT	<i>l</i>	26,396	19,850	(6,546)
<b>Total Disbursements</b>		<b>536,787</b>	<b>496,393</b>	<b>(40,394)</b>
<b>Cashflow Surplus/Deficit (-)</b>		<b>73,801</b>	<b>65,673</b>	<b>8,129</b>
<b>Opening Cash Balance</b>		<b>224,242</b>	<b>224,242</b>	<b>-</b>
<b>FX Adjustment</b>		<b>(104)</b>	<b>-</b>	<b>(104)</b>
<b>Closing Cash Balance</b>		<b>297,939</b>	<b>289,914</b>	<b>8,024</b>
<b>Cash Collateral pledged to Citibank</b>				
Opening Balance		11,900	11,900	-
Cash Collateral Deposit / (Withdrawal)		-	-	-
<b>Closing Balance</b>		<b>11,900</b>	<b>11,900</b>	<b>-</b>
<b>Closing Cash net of Cash Collateral</b>		<b>286,039</b>	<b>278,014</b>	<b>8,024</b>

34. JTIM's actual net cash flow for the Reporting Period was approximately \$73.8 million, compared to forecast net cash flow of \$65.7 million resulting in a favourable variance of \$8.1 million. A summary of the major variances are as follows:

- a) A favourable variance of \$8.2 million in third-party sales receipts is a timing difference due to the accelerated sale of certain products prior to the implementation of the new plain and standardized packaging measures (the “**Plain Packaging Regulations**”);
- b) A favourable variance of \$39.5 million in intercompany receipts due in part to a timing difference from the accelerated sales described above and in part to a permanent difference of \$11.9 million for the reimbursement of marketing expenses not included in the forecast;
- c) A favourable variance of \$1.0 million in other receipts is a permanent difference as actual interest income received was greater than forecast;
- d) An unfavourable variance of \$5.9 million in general expenses is a permanent difference from incurring higher than forecast logistics and non-tobacco material expenditures in preparation for the implementation of the Plain Packaging Regulations;
- e) A favourable variance of \$13.0 million in promotions and marketing disbursements due to a timing difference which is expected to reverse by the end of March 2020;
- f) A favourable variance of \$5.0 million in leaf purchases is a permanent difference as actual disbursements were less than forecast;

- g) A favourable variance of \$7.8 million in capital expenditures is a timing difference due to the deferral of packaging equipment purchases relating to a specific packaging format;
- h) An unfavourable variance of \$1.4 million in restructuring costs is expected to be a permanent difference due to higher than expected professional activity in connection with increased engagement in the Mediation and contested court appearances;
- i) An unfavourable variance of \$47.0 million in domestic and import duty disbursements is a timing difference due in part to the accelerated production and import of certain products prior to the implementation of the Plain Packaging Regulations;
- j) An unfavourable variance of \$2.4 million in GST and HST payments is a timing difference due in part to the accelerated sale of certain products prior to the implementation of the Plain Packaging Regulations;
- k) An unfavourable variance of \$2.7 million in intercompany disbursements is a timing difference due to the accelerated sale of certain products prior to the implementation of the Plain Packaging Regulations; and
- l) An unfavourable variance of \$6.5 million in provincial tobacco tax disbursements is a timing difference due in part to the accelerated sale of certain products prior to the implementation of the Plain Packaging Regulations.

## **APPLICANT'S REVISED CASH FLOW STATEMENT**

35. 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 is attached as **Appendix "A"**, and is summarized below for the 35-week period ending October 2, 2020:

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

<b>For the week beginning</b>	<b>35-week Total to October 2, 2020</b>
<b>Receipts</b>	
Sales	838,683
Intercompany Receipts	176,013
Tax Refunds	10,800
Other Receipts	5,590
<b>Total Receipts</b>	<b>1,031,086</b>
<b>Disbursement</b>	
General Expenses	55,175
Payroll and Benefits	55,655
Pension	7,038
Promotions and Marketing	78,445
Leaf	3,294
Capital Expenditures	14,154
Professional Fees	1,165
Restructuring Costs	9,206
Domestic and Import Duty	318,544
GST and HST	43,957
Intercompany Disbursements	207,825
Intercompany Royalties	-
Intercompany Interest	-
Intercompany Principal	-
Income Tax Instalments and PTT	36,815
<b>Total Disbursements</b>	<b>831,274</b>
<b>Cashflow Surplus/Deficit (-)</b>	<b>199,812</b>
<b>Opening Cash Balance</b>	<b>297,939</b>
<b>Closing Cash Balance</b>	<b>497,751</b>
<b>Cash Collateral pledged to Citibank</b>	
Opening Balance	11,900
Cash Collateral Deposit / (Withdrawal)	-
<b>Closing Balance</b>	<b>11,900</b>
<b>Closing Cash net of Cash Collateral</b>	<b>485,851</b>



36. 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**").
37. JTIM's opening cash balance on February 3, 2020 was \$297.9 million. The forecast cash flow surplus for the Revised Cash Flow Period is estimated to be \$199.8 million (i.e. projected cash receipts will exceed projected cash disbursements by \$199.8 million during the Revised Cash Flow Period). This Revised Cash Flow Forecast reflects the continued deferral of interest and principal payments on the approximately \$1.2 billion secured convertible debentures and royalty payments to JTI-Macdonald TM Corp. Accordingly, the Applicant has sufficient liquidity during the proposed period of extension to the Stay Period.
38. 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 on the monitor's findings. The Canadian Association of Insolvency and Restructuring Professionals' 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.

39. In accordance with the standard, 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.
40. 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 Seventh 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.
41. Since the Revised Cash Flow Statement is based on 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 relied upon by the Monitor in preparing this Seventh Report.

42. The Revised Cash Flow Statement has been prepared solely for the purposes described above, and readers of this Seventh Report are cautioned that it may not be appropriate for other purposes.

### **STAY EXTENSION**

43. The current Stay Period expires on March 12, 2020. The Applicant is seeking the extension of the Stay Period up to and including September 30, 2020 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 multi-billion dollar claims currently being pursued against the Applicant and the other CCAA Applicants, including through advancing the Mediation led by the Court-Appointed Mediator; and
- c) determine next steps in respect of the CCAA Proceedings.

44. In the Monitor's view, progress has been made in the Mediation since the last stay extension hearing on October 2, 2019, and since the issuance of the Representative Counsel Order on December 9, 2019. The CCAA Applicants have continued to populate separate

datarooms with financial information to advance discussions with key stakeholders in the Mediation. The Applicant has responded to stakeholder questions and requests for additional information. Legal and financial advisors to stakeholders have been admitted to the datarooms following execution of non-disclosure agreements. The Monitor continues to work with the Applicant to populate the Dataroom with financial and other information, as requested.

45. Since the Sixth Report, the Court-Appointed Mediator, with the assistance of the monitors, continues to conduct Mediation meetings and engage in discussions with the CCAA Applicants and the key stakeholders. The Mediation negotiations are confidential; however, the parties continue to advance the Mediation to facilitate a global settlement of the various claims asserted against them.
46. In the Monitor's view, the Applicant's request for an extension of the Stay Period until September 30, 2020 is reasonable and appropriate in the circumstances.
47. As described above, the Revised Cash Flow Statement indicates that the Applicant will have sufficient liquidity during the Revised Cash Flow Period.
48. 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**

49. The Monitor supports the relief sought by the Applicant in its motion in connection with the extension of the Stay Period to September 30, 2020 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 13<sup>th</sup> day of February, 2020.

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

A handwritten signature in black ink that reads "P. Casey". The signature is written in a cursive style with a small flourish at the end.

Per:  
Paul M. Casey, CPA, CA, FCIRP, LIT  
Senior Vice-President

Appendix "A"

Revised Cash Flow Statement

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

For the week beginning	Notes	3-Feb-20	10-Feb-20	17-Feb-20	24-Feb-20	2-Mar-20	9-Mar-20	16-Mar-20	23-Mar-20	30-Mar-20	6-Apr-20	13-Apr-20	20-Apr-20	27-Apr-20	4-May-20	11-May-20	18-May-20	25-May-20	1-Jun-20	8-Jun-20	15-Jun-20
<b>Receipts</b>																					
Sales	2	19,938	16,846	16,358	18,014	27,846	15,533	18,343	21,246	21,683	23,322	24,250	23,158	23,632	24,091	24,428	30,251	22,651	25,207	25,372	25,553
Intercompany Receipts	3	4,048	4,048	4,469	4,166	5,019	4,907	6,125	4,907	5,275	5,521	10,034	5,521	5,509	5,462	6,704	5,462	5,462	4,600	4,600	7,506
Tax Refunds	4	-	1,200	-	-	1,200	-	-	-	1,200	-	-	-	1,200	-	-	-	-	1,200	-	-
Other Receipts	5	200	80	60	120	300	80	60	120	330	80	60	120	350	80	60	120	-	380	80	60
<b>Total Receipts</b>		<b>24,186</b>	<b>22,174</b>	<b>20,887</b>	<b>22,300</b>	<b>34,365</b>	<b>20,520</b>	<b>24,528</b>	<b>26,273</b>	<b>28,488</b>	<b>28,923</b>	<b>34,344</b>	<b>28,799</b>	<b>30,691</b>	<b>29,633</b>	<b>31,192</b>	<b>35,833</b>	<b>28,113</b>	<b>31,387</b>	<b>30,052</b>	<b>33,118</b>
<b>Disbursement</b>																					
General Expenses	6	1,500	1,500	1,500	1,500	1,591	1,591	1,591	1,591	1,591	1,591	1,591	1,591	1,558	1,429	1,429	1,429	1,429	1,250	1,250	1,250
Payroll and Benefits	7	617	1,897	10,947	1,897	617	1,897	947	1,897	447	2,067	447	2,397	447	2,067	447	2,397	447	2,067	447	1,897
Pension	8	-	150	561	150	-	150	561	150	-	150	561	150	-	150	561	150	-	150	-	711
Promotions and Marketing	9	2,139	2,139	2,139	2,139	1,969	1,969	1,969	1,969	2,316	2,548	2,548	2,548	2,467	2,143	2,143	2,143	2,143	1,919	1,919	1,919
Leaf	10	-	-	463	-	-	-	687	-	-	-	610	-	-	-	265	-	-	-	-	40
Capital Expenditures	11	-	-	2,502	-	-	-	1,856	-	-	-	688	-	-	-	1,759	-	-	-	-	704
Professional Fees	12	-	-	-	152	-	-	-	-	145	-	-	-	145	-	-	-	145	-	-	-
Restructuring Costs	13	1,054	-	-	-	1,014	-	-	-	1,014	-	-	-	1,014	-	-	-	-	1,014	-	-
Domestic and Import Duty	14	-	-	-	33,250	-	-	-	250	40,392	-	-	-	46,711	-	-	-	46,668	-	-	-
GST and HST	15	-	-	-	3,000	-	-	-	-	4,116	-	-	-	4,855	-	-	-	5,943	-	-	-
Intercompany Disbursements	16	3,921	3,921	5,514	4,383	4,688	4,688	6,401	4,688	5,683	6,237	7,631	6,237	6,527	7,355	9,255	7,355	7,421	6,638	6,638	7,963
Intercompany Royalties	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	19	1,200	300	-	6,230	-	1,200	300	-	2,655	1,200	300	-	2,655	1,200	300	-	2,655	-	1,200	300
<b>Total Disbursements</b>		<b>10,431</b>	<b>9,907</b>	<b>23,627</b>	<b>52,702</b>	<b>9,878</b>	<b>11,494</b>	<b>14,311</b>	<b>10,544</b>	<b>58,360</b>	<b>13,793</b>	<b>14,376</b>	<b>12,923</b>	<b>66,379</b>	<b>14,343</b>	<b>16,158</b>	<b>13,473</b>	<b>66,850</b>	<b>13,037</b>	<b>11,453</b>	<b>14,784</b>
<b>Cashflow Surplus/Deficit (-)</b>		<b>13,755</b>	<b>12,267</b>	<b>(2,740)</b>	<b>(30,402)</b>	<b>24,487</b>	<b>9,026</b>	<b>10,218</b>	<b>15,728</b>	<b>(29,871)</b>	<b>15,130</b>	<b>19,968</b>	<b>15,876</b>	<b>(35,688)</b>	<b>15,290</b>	<b>15,034</b>	<b>22,360</b>	<b>(38,737)</b>	<b>18,350</b>	<b>18,599</b>	<b>18,334</b>
<b>Opening Cash Balance</b>	1	297,939	311,693	323,960	321,221	290,819	315,306	324,332	334,550	350,278	320,407	335,536	355,504	371,380	335,692	350,982	366,016	388,376	349,639	367,989	386,587
<b>Closing Cash Balance</b>		<b>311,693</b>	<b>323,960</b>	<b>321,221</b>	<b>290,819</b>	<b>315,306</b>	<b>324,332</b>	<b>334,550</b>	<b>350,278</b>	<b>320,407</b>	<b>335,536</b>	<b>355,504</b>	<b>371,380</b>	<b>335,692</b>	<b>350,982</b>	<b>366,016</b>	<b>388,376</b>	<b>349,639</b>	<b>367,989</b>	<b>386,587</b>	<b>404,921</b>
<b>Cash Collateral pledged to Citibank</b>																					
Opening Balance	20	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Cash Collateral Deposit / (Withdrawal)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing Balance</b>		<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>
<b>Closing Cash net of Cash Collateral</b>		<b>299,793</b>	<b>312,060</b>	<b>309,321</b>	<b>278,919</b>	<b>303,406</b>	<b>312,432</b>	<b>322,650</b>	<b>338,378</b>	<b>308,507</b>	<b>323,636</b>	<b>343,604</b>	<b>359,480</b>	<b>323,792</b>	<b>339,082</b>	<b>354,116</b>	<b>376,476</b>	<b>337,739</b>	<b>356,089</b>	<b>374,687</b>	<b>393,021</b>

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

For the week beginning	Notes	22-Jun-20	29-Jun-20	6-Jul-20	13-Jul-20	20-Jul-20	27-Jul-20	3-Aug-20	10-Aug-20	17-Aug-20	24-Aug-20	31-Aug-20	7-Sep-20	14-Sep-20	21-Sep-20	28-Sep-20	35-week Total to October 2, 2020
<b>Receipts</b>																	
Sales	2	28,159	28,216	24,022	26,047	26,063	26,048	28,552	23,446	25,745	25,611	25,450	31,460	22,727	24,832	24,583	838,683
Intercompany Receipts	3	4,600	4,832	4,987	7,538	4,987	4,987	2,570	2,570	2,978	2,570	4,194	4,600	5,803	4,600	4,846	176,013
Tax Refunds	4	-	1,200	-	-	-	-	1,200	-	-	-	1,200	-	-	-	1,200	10,800
Other Receipts	5	120	425	80	60	120	-	470	80	60	120	495	80	60	120	560	5,590
<b>Total Receipts</b>		<b>32,880</b>	<b>34,674</b>	<b>29,090</b>	<b>33,645</b>	<b>31,170</b>	<b>31,035</b>	<b>32,792</b>	<b>26,097</b>	<b>28,783</b>	<b>28,301</b>	<b>31,339</b>	<b>36,141</b>	<b>28,590</b>	<b>29,553</b>	<b>31,189</b>	<b>1,031,086</b>
<b>Disbursement</b>																	
General Expenses	6	1,250	1,609	1,848	1,848	1,848	1,848	1,548	1,548	1,548	1,548	1,738	1,786	1,786	1,786	1,890	55,175
Payroll and Benefits	7	947	1,897	617	1,897	947	1,897	617	1,897	947	1,897	447	2,067	447	2,397	447	55,655
Pension	8	-	150	-	711	-	150	-	150	561	150	-	150	561	150	-	7,038
Promotions and Marketing	9	1,919	2,546	2,965	2,965	2,965	2,965	1,924	1,924	1,924	1,924	2,179	2,243	2,243	2,243	2,328	78,445
Leaf	10	-	-	-	153	-	-	-	-	574	-	-	-	503	-	-	3,294
Capital Expenditures	11	-	-	-	1,155	-	-	-	-	2,801	-	-	-	2,690	-	-	14,154
Professional Fees	12	-	145	-	-	-	145	-	-	-	-	145	-	-	-	145	1,165
Restructuring Costs	13	-	1,014	-	-	-	-	1,014	-	-	-	1,054	-	-	-	1,014	9,206
Domestic and Import Duty	14	-	41,408	-	-	-	46,479	-	-	-	31,670	-	-	-	-	31,717	318,544
GST and HST	15	-	5,914	-	-	-	7,185	-	-	-	6,775	-	-	-	-	6,169	43,957
Intercompany Disbursements	16	6,638	6,077	5,594	6,799	5,594	5,660	6,945	6,945	8,436	6,945	3,958	3,129	4,549	3,129	4,284	207,825
Intercompany Royalties	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	19	-	2,655	1,200	300	-	2,655	1,200	300	-	2,655	-	1,200	300	-	2,655	36,815
<b>Total Disbursements</b>		<b>10,753</b>	<b>63,415</b>	<b>12,224</b>	<b>15,828</b>	<b>11,354</b>	<b>68,983</b>	<b>13,248</b>	<b>12,764</b>	<b>16,791</b>	<b>53,564</b>	<b>9,521</b>	<b>10,575</b>	<b>13,078</b>	<b>9,705</b>	<b>50,648</b>	<b>831,274</b>
<b>Cashflow Surplus/Deficit (-)</b>		<b>22,126</b>	<b>(28,741)</b>	<b>16,866</b>	<b>17,817</b>	<b>19,817</b>	<b>(37,948)</b>	<b>19,545</b>	<b>13,333</b>	<b>11,992</b>	<b>(25,263)</b>	<b>21,818</b>	<b>25,566</b>	<b>15,512</b>	<b>19,848</b>	<b>(19,459)</b>	<b>199,812</b>
<b>Opening Cash Balance</b>	1	404,921	427,048	398,306	415,172	432,989	452,806	414,858	434,403	447,736	459,728	434,465	456,283	481,850	497,362	517,210	297,939
<b>Closing Cash Balance</b>		<b>427,048</b>	<b>398,306</b>	<b>415,172</b>	<b>432,989</b>	<b>452,806</b>	<b>414,858</b>	<b>434,403</b>	<b>447,736</b>	<b>459,728</b>	<b>434,465</b>	<b>456,283</b>	<b>481,850</b>	<b>497,362</b>	<b>517,210</b>	<b>497,751</b>	<b>497,751</b>
<b>Cash Collateral pledged to Citibank</b>																	
Opening Balance	20	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Cash Collateral Deposit / (Withdrawal)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing Balance</b>		<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>
<b>Closing Cash net of Cash Collateral</b>		<b>415,148</b>	<b>386,406</b>	<b>403,272</b>	<b>421,089</b>	<b>440,906</b>	<b>402,958</b>	<b>422,503</b>	<b>435,836</b>	<b>447,828</b>	<b>422,565</b>	<b>444,383</b>	<b>469,950</b>	<b>485,462</b>	<b>505,310</b>	<b>485,851</b>	<b>485,851</b>



**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 Cash Flow Statement**

**Disclaimer**

In preparing this cash flow projection (the "**Cash Flow Statement**"), the Applicant has relied upon unaudited interim financial information and the major assumptions listed below. The 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 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 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.

**Overview**

The Cash Flow Statement reflects cash flows from JTIM. The Applicant, with the assistance of the Monitor, has prepared the 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 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\$1.32 = USD\$1.00**.

## **Major Assumptions**

### **RECEIPTS**

#### **1. Opening cash balance**

This is the opening cash balance at the start of the cash flow projection.

#### **2. 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 industry wide price fluctuations. JTIM collects payment from its customers via direct debit once product is shipped. The vast majority of JTIM's customers are tobacco wholesalers. In limited circumstances, JTIM sells directly to retail accounts.

#### **3. 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.

There are three JT International Global Service Desks ("**GSDs**") located across the world in Canada, Russia and Malaysia. The GSDs handle information and technology queries from JT International employees and corporations on a twenty-four hour basis. The GSDs are managed out of the international headquarters of Japan Tobacco in Geneva, Switzerland. The costs of the Canadian GSD, located in Montreal, are initially paid by JTIM, but fully cross-charged to JT International S.A. ("**JTI-SA**") to be included in the global IT cost base for allocation across Japan Tobacco.

JTIM performs contract manufacturing for non-Canadian branded cigarettes at the Montreal manufacturing facility for JTI-SA.

JTIM also provides services to JTI Canada Tech Inc. with respect to the distribution of potentially reduced risk products in Canada.

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

#### **4. 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.

#### **5. Other Receipts**

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

### **DISBURSEMENTS**

#### **6. General Expenses**

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

#### **7. 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. Payroll and benefit costs also include severance costs related to the global transformation project.

## **8. 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.

## **9. Promotions and Marketing**

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.

## **10. 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.

## **11. Capital Expenditures**

These projected disbursements relate to capital expenditures for plant and equipment purchases at the Montreal production facility. These capital expenditures include investments in new plain packaging machinery for statutory compliance, machine upgrades, new product flow control systems and environmental health and safety.

## **12. Professional Fees**

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

### **13. 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 advisers, and the fees and costs of the Representative Counsel and its advisers.

### **14. 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.

### **15. 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.

### **16. 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, JTI (US) Holdings Inc., and Japan Tobacco International USA Inc., (ii) IT services provided by JTI-SA, (iii) global administrative services provided by JTI Business Services Ltd., (iv) employee arrangements provided by JTI Services Switzerland SA, and (v) global headquarter services provided by JT International Holdings B.V.

### **17. 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 \$900,000 continues to be accrued monthly. Additionally, default interest is accruing on royalty payments due and unpaid.

### **18. 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.

### **19. 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.

### **20. 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.



February 12, 2020

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

Attention: Paul M. Casey

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.

JTI-Macdonald Corp.

1 Robert Speck Parkway, Suite 1601  
Mississauga, Ontario, L4Z 0A2, Canada  
905 804 7300

[jti.com](http://jti.com)

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.**

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

Proceeding commenced at Toronto

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**SEVENTH REPORT OF THE MONITOR  
Dated February 13, 2020**

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**BLAKE, CASSELS & GRAYDON LLP**

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