

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.

TWELFTH REPORT OF THE MONITOR
September 21, 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 the 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 Twelfth Report of the Monitor (the “**Twelfth 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 continue beyond September 30, 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 March 31, 2023, which will enable it to continue to advance the Mediation. For the reasons set out in this Twelfth 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 March 31, 2023.

PURPOSE

6. The purpose of this Twelfth Report is to provide the Court with information and updates on the following:
 - a) a brief summary of the CCAA Proceedings, including key Orders and endorsements made to date;
 - b) the activities of JTIM and the Monitor from March 10, 2022, the date of the Eleventh Report of the Monitor, filed in connection with the previous motion to extend the Stay Period (the “**Eleventh Report**”), to the date of this Twelfth Report;
 - c) a comparison of actual cash flow results against forecast, for the first 27-week period of the 31-week cash flow statement (the “**Cash Flow Statement**”) that was included in the Eleventh Report. The Cash Flow Statement covered the 31-week period from February 27, 2022 to October 1, 2022, and the comparison contained herein is against the first 27 weeks ending September 2, 2022;
 - d) JTIM’s updated cash flow projection (the “**Revised Cash Flow Statement**”) for the 30-week period from the week beginning September 5, 2022 to the week ending March 31, 2023 (the “**Revised Cash Flow Period**”);
 - e) the Applicant’s request for an Order to extend the Stay Period to March 31, 2023;
and
 - f) the Monitor’s recommendation in respect of the relief the Applicant is seeking.

7. This Twelfth Report should be read in conjunction with the Affidavit of William Aziz, Chief Restructuring Officer of JTIM, sworn September 16, 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 Twelfth 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 Twelfth 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 Twelfth 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 Twelfth 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. Capitalized terms used herein and not otherwise defined have the meanings set forth in the Original Initial Order or prior reports of the Monitor.

HISTORY OF THE CCAA PROCEEDINGS

15. The Original Initial Order commencing the 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, 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 incurred during the 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, 2021 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 September 30, 2022.
18. Copies of all orders and endorsements granted in the CCAA Proceedings are posted 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 ELEVENTH REPORT

19. A summary of select activities of JTIM since the Eleventh Report are set out in the Aziz Affidavit at paragraph 13. Key activities are as follows:
 - a) in March, 2022, to address the extreme hardship and danger faced by its employees in the Ukraine, Japan Tobacco Inc. implemented a crisis response plan ("**Crisis Response Plan**") to assist immediate and extended families of displaced Ukrainian employees. All members of the Japan Tobacco group globally have been asked to participate in the Crisis Response Plan. JTIM's participation in the Crisis Response Plan includes facilitating and funding short term accommodation for families of Ukrainian employees that may want to come to Canada. The Monitor considered the circumstances of this employee support and provided its consent to JTIM's

participation in the Crisis Response Plan for employees and their families relocating to Canada. To date, only a small number of family groups have requested temporary funding from JTIM for this purpose;

- b) also due to the Russian invasion of Ukraine, JTI has re-sourced certain tobacco leaf purchases from JTI Russia entities to JT International SA (“**JTI SA**”) on terms similar to those previously in place. No leaf shortages are expected for JTIM;
- c) JTIM has recently replaced the Chief Financial Officer, Head of Legal, Head of Sales and Head of Corporate Affairs and Communications as these individuals have either been reassigned to other JTI entities or other roles within JTIM; and
- d) as reported in paragraph 20 i) of the Eleventh Report, JTIM is in the process of divesting six lines of packaging machines that were made obsolete by the Plain Packaging Regulations. As set out in the Eleventh Report, three of the lines were sold to the third-party original manufacturer of the equipment. During the Reporting Period, JTIM closed the sale of one line in a transaction with JTI Germany, which had previously been approved by the Monitor as set out in the Eleventh Report, and is pursuing the disposition of a further line with JTI Germany.

20. The Monitor has undertaken the following activities since the Eleventh Report:
- a) attended calls and virtual meetings with Management regarding business operations, interim financial results and compilation of financial and other information for inclusion in the Monitor's secure data room (the "**Data Room**");
 - b) continued to populate the Data Room with commercially sensitive and confidential information compiled by the Applicant;
 - c) 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, reviewed ITL and RBH motion materials with respect to posting cash security for their vaping businesses, attended Court hearings in respect of such relief and addressed other procedural and Mediation aspects of the three CCAA proceedings;
 - d) attended the Mediation and confidential meetings in relation thereto;
 - e) communicated with the Court with respect to certain procedural matters;
 - f) monitored receipts from, and payments to, related parties of JTIM, 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;

- g) communicated with third-party stakeholders regarding the status of the CCAA Proceedings and facilitated responses to information requests from creditors;
- h) provided fee disclosure, in accordance with and subject to, the terms of the Fee Disclosure Order, to those parties that have requested same; and
- i) 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 27-week period ended September 2, 2022 (the "**Reporting Period**"), as compared to the corresponding weeks in the Cash Flow Statement included in the Eleventh Report.

JTI-Macdonald Corp.				
Summary of Actual versus Forecast Cash Flows				
For the 27-week period ended September 2, 2022				
\$CAD '000, unaudited				
	<i>Notes</i>	Actual	Forecast	Variance
Receipts				
Sales	<i>a</i>	767,188	797,627	(30,439)
Intercompany Receipts		177,208	176,467	741
Tax Refunds		9,370	12,390	(3,020)
Other Receipts		5,428	1,631	3,797
Total Receipts		959,194	988,115	(28,921)
Disbursement				
General Expenses	<i>b</i>	(40,889)	(47,877)	6,988
Payroll and Benefits		(32,353)	(34,507)	2,154
Pension		(6,364)	(6,049)	(315)
Promotions, Marketing and Distribution Support	<i>c</i>	(58,941)	(65,974)	7,033
Leaf		(7,553)	(6,828)	(725)
Capital Expenditures and Leases		(4,764)	(7,235)	2,471
Professional Fees		(396)	(383)	(13)
Restructuring Costs		(3,050)	(3,284)	234
Domestic and Import Duty	<i>d</i>	(327,893)	(320,652)	(7,241)
GST and HST		(41,224)	(43,823)	2,601
Intercompany Disbursements	<i>e</i>	(241,968)	(231,443)	(10,525)
Intercompany Royalties		-	-	-
Intercompany Interest		-	-	-
Intercompany Principal		-	-	-
Income Tax Instalments and PTT		(42,290)	(42,810)	520
Total Disbursements		(807,685)	(810,865)	3,180
Cashflow Surplus/Deficit (-)		151,509	177,250	(25,741)
Opening Cash Balance		818,900	818,900	-
FX Adjustment		(601)	(31)	(570)
Closing Cash Balance		969,808	996,119	(26,311)
Cash Collateral pledged to Citibank				
Opening Balance		11,900	11,900	-
Cash Collateral Deposit / (Withdrawal)		-	-	-
Closing Balance		11,900	11,900	-
Closing Cash net of Cash Collateral		957,908	984,219	(26,311)

22. JTIM's actual net cash flow for the Reporting Period was \$151.5 million, compared to forecast net cash flow of \$177.2 million, resulting in an unfavourable variance of \$25.7 million. A summary of the major variances are as follows:
- a) an unfavourable variance of \$30.4 million in third-party sales receipt due to lower than expected sales volume during the Reporting Period as a result of overall secular decline in the industry, which was partially offset by price increases.
 - b) a favourable variance of \$7.0 million in general expenses is a combination of permanent differences from decreased sales volume and timing differences;
 - c) a favourable variance of \$7.0 million in marketing and distribution support disbursements is a combination of permanent differences arising from JTIM's inability to conduct certain trade marketing activities in the ordinary course due to the impact of Covid-19 and timing differences for deferred expenditures;
 - d) an unfavourable variance of \$7.2 million in domestic and import duty payments is primarily a timing difference due to production scheduling. July production volumes were higher than expected to prepare for the three-week factory shutdown in August; and
 - e) an unfavourable variance of \$10.5 million in intercompany disbursements is primarily a timing difference in finished goods purchases.
23. JTIM's closing cash balance as at September 2, 2022, net of pledged cash collateral, was \$957.9 million.

APPLICANT'S REVISED CASH FLOW STATEMENT

24. The Applicant 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 30-week period ending March 31, 2023:

JTI-Macdonald Corp.	
30-week Revised Cash Flow Statement	
\$CAD '000, unaudited	
For the week beginning	30-week Total to March 31, 2023
Receipts	
Sales	791,296
Intercompany Receipts	174,570
Tax Refunds	14,455
Other Receipts	14,008
Total Receipts	994,329
Disbursement	
General Expenses	(60,750)
Payroll and Benefits	(46,671)
Pension	(8,612)
Promotions and Marketing	(72,040)
Leaf	(4,296)
Capital Expenditures	(5,652)
Professional Fees	(434)
Restructuring Costs	(3,750)
Domestic and Import Duty	(328,306)
GST and HST	(49,120)
Intercompany Disbursements	(224,454)
Intercompany Royalties	-
Intercompany Interest	-
Intercompany Principal	-
Income Tax Instalments and PTT	(55,306)
Total Disbursements	(859,391)
Cashflow Surplus/Deficit (-)	134,938
Opening Cash Balance	969,808
FX adjustment	-
Closing Cash Balance	1,104,746
Cash Collateral pledged to Citibank	
Opening Balance	11,900
Cash Collateral Deposit / (Withdrawal)	-
Closing Balance	11,900
Closing Cash net of Cash Collateral	1,092,846

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 September 5, 2022 was \$957.9 million. The cash flow surplus for the Revised Cash Flow Period is forecast to be \$134.9 million, resulting in a closing cash balance, net of pledged cash collateral of \$1.09 billion on March 31, 2023. 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 Twelfth 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 Twelfth Report.

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

STAY EXTENSION

32. The current Stay Period expires on September 30, 2022. The Applicant is seeking the extension of the Stay Period up to and including March 31, 2023, 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 March 22, 2022. The CCAA Applicants have actively participated in the Mediation and continued to populate separate Data Rooms with financial

information to advance mediated discussions with key stakeholders. The Applicant has responded to stakeholder questions and requests for additional information.

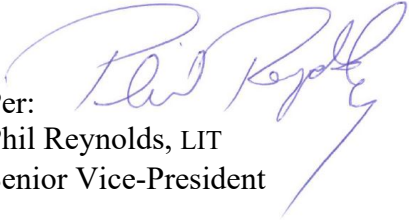
34. Since the Eleventh Report, the Court-Appointed Mediator, with the assistance of the Monitor and the monitors of ITL and RBH, continues to conduct meetings in the Mediation and engage in discussions with the CCAA Applicants and the tobacco claimants. The Mediation is confidential. However, the Monitor 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 March 31, 2023, 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 March 31, 2023 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 21th day of September, 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.
30-week Revised Cash Flow Statement
SCAD '000, unaudited

For the week beginning	Notes	5-Sep-22	12-Sep-22	19-Sep-22	26-Sep-22	3-Oct-22	10-Oct-22	17-Oct-22	24-Oct-22	31-Oct-22	7-Nov-22	14-Nov-22	21-Nov-22
Receipts													
Sales	1	25,724	30,793	28,435	35,483	22,300	21,964	21,566	21,157	23,827	28,873	28,716	28,041
Intercompany Receipts	2	2,702	2,702	2,724	4,915	6,564	6,564	6,564	6,926	5,059	5,059	5,059	5,081
Tax Refunds	3	1,750	315	-	-	1,750	315	-	-	1,750	315	-	-
Other Receipts	4	-	2,610	-	-	959	-	-	-	985	-	-	-
Total Receipts		30,176	36,420	31,160	40,398	31,574	28,843	28,130	28,083	31,621	34,247	33,775	33,122
Disbursement													
General Expenses	5	(1,750)	(1,750)	(1,750)	(1,750)	(1,800)	(1,800)	(1,800)	(1,800)	(2,350)	(2,350)	(2,350)	(2,350)
Payroll and Benefits	6	(1,855)	(455)	(2,255)	(630)	(1,855)	(455)	(2,255)	(455)	(2,030)	(455)	(1,855)	(855)
Pension	7	(165)	-	(1,078)	-	(165)	-	(1,078)	-	(165)	-	(412)	-
Promotions and Marketing	8	(2,944)	(2,944)	(2,944)	(2,944)	(2,986)	(2,986)	(2,986)	(2,986)	(2,262)	(2,262)	(2,262)	(2,262)
Leaf	9	(43)	-	-	-	-	-	-	-	-	(1,213)	-	-
Capital Expenditures	10	(211)	(211)	(211)	(211)	(419)	(419)	(419)	(419)	(300)	(300)	(300)	(300)
Professional Fees	11	(14)	(14)	(14)	(14)	(16)	(16)	(16)	(16)	(14)	(14)	(14)	(14)
Restructuring Costs	12	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Domestic and Import Duty	13	-	-	-	(24,602)	-	-	-	(53,325)	-	-	-	-
GST and HST	14	-	-	-	(8,324)	-	-	-	(7,054)	-	-	-	-
Intercompany Disbursements	15	(10,572)	(9,459)	(9,459)	(10,482)	(4,735)	(3,783)	(3,783)	(4,751)	(7,661)	(8,435)	(7,661)	(7,661)
Intercompany Royalties	16	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	17	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	17	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	18	(2,500)	(700)	-	(3,689)	(2,500)	(700)	-	(3,689)	(2,500)	(700)	-	-
Total Disbursements		(20,179)	(15,658)	(17,836)	(52,771)	(14,600)	(10,284)	(12,462)	(74,619)	(17,407)	(15,855)	(14,979)	(13,567)
Cashflow Surplus/Deficit (-)		9,996	20,761	13,323	(12,373)	16,974	18,559	15,668	(46,536)	14,213	18,392	18,795	19,554
Opening Cash Balance		969,808	979,805	1,000,566	1,013,889	1,001,517	1,018,490	1,037,050	1,052,718	1,006,183	1,020,396	1,038,788	1,057,583
FX adjustment		-	-	-	-	-	-	-	-	-	-	-	-
Closing Cash Balance		979,805	1,000,566	1,013,889	1,001,517	1,018,490	1,037,050	1,052,718	1,006,183	1,020,396	1,038,788	1,057,583	1,077,137
Cash Collateral pledged to Citibank													
Opening Balance	19	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)		-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance		11,900	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		967,905	988,666	1,001,989	989,617	1,006,590	1,025,150	1,040,818	994,283	1,008,496	1,026,888	1,045,683	1,065,237

JTI-Macdonald Corp.
30-week Revised Cash Flow Statement
SCAD '000, unaudited

For the week beginning	Notes	28-Nov-22	5-Dec-22	12-Dec-22	19-Dec-22	26-Dec-22	2-Jan-23	9-Jan-23	16-Jan-23	23-Jan-23	30-Jan-23	6-Feb-23	13-Feb-23
Receipts													
Sales	1	29,162	29,788	33,874	44,535	19,438	22,291	23,479	31,816	12,605	12,722	20,718	25,920
Intercompany Receipts	2	5,224	7,488	7,488	7,495	8,522	5,729	5,729	5,729	6,121	5,109	5,109	5,109
Tax Refunds	3	-	1,750	315	-	-	1,750	315	-	-	1,750	315	-
Other Receipts	4	1,008	-	2,666	-	-	1,014	-	-	-	1,048	-	-
Total Receipts		35,393	39,026	44,343	52,029	27,961	30,784	29,524	37,545	18,727	20,628	26,142	31,028
Disbursement													
General Expenses	5	(2,350)	(3,050)	(3,050)	(3,050)	(3,050)	(1,850)	(1,850)	(1,850)	(1,850)	(1,800)	(1,800)	(1,800)
Payroll and Benefits	6	(2,030)	(455)	(1,855)	(855)	(2,030)	(455)	(1,855)	(455)	(2,255)	(630)	(1,855)	(455)
Pension	7	(165)	-	(412)	-	(165)	-	(165)	(594)	(165)	-	(165)	-
Promotions and Marketing	8	(2,262)	(2,798)	(2,798)	(2,798)	(2,798)	(2,263)	(2,263)	(2,263)	(2,263)	(1,767)	(1,767)	(1,767)
Leaf	9	-	(2,751)	-	-	-	-	-	-	-	-	(247)	-
Capital Expenditures	10	(300)	(245)	(245)	(245)	(245)	(120)	(120)	(120)	(120)	(4)	(4)	(4)
Professional Fees	11	(14)	(17)	(17)	(17)	(17)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Restructuring Costs	12	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)
Domestic and Import Duty	13	(53,463)	-	-	-	(59,906)	-	-	-	-	(43,682)	-	-
GST and HST	14	(6,975)	-	-	-	(7,033)	-	-	-	-	(7,501)	-	-
Intercompany Disbursements	15	(8,621)	(9,670)	(8,805)	(8,805)	(9,781)	(9,722)	(8,361)	(8,361)	(9,815)	(5,415)	(6,127)	(5,415)
Intercompany Royalties	16	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	17	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	17	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	18	(3,689)	(2,500)	(700)	-	(3,689)	(2,500)	(700)	-	-	(6,750)	(700)	-
Total Disbursements		(79,994)	(21,610)	(18,008)	(15,896)	(88,839)	(17,049)	(15,454)	(13,783)	(16,607)	(67,689)	(12,803)	(9,580)
Cashflow Surplus/Deficit (-)		(44,600)	17,415	26,335	36,134	(60,878)	13,735	14,070	23,763	2,119	(47,061)	13,339	21,448
Opening Cash Balance		1,077,137	1,032,537	1,049,952	1,076,287	1,112,421	1,051,543	1,065,278	1,079,348	1,103,111	1,105,230	1,058,169	1,071,507
FX adjustment		-	-	-	-	-	-	-	-	-	-	-	-
Closing Cash Balance		1,032,537	1,049,952	1,076,287	1,112,421	1,051,543	1,065,278	1,079,348	1,103,111	1,105,230	1,058,169	1,071,507	1,092,956
Cash Collateral pledged to Citibank													
Opening Balance	19	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)		-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance		11,900	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		1,020,637	1,038,052	1,064,387	1,100,521	1,039,643	1,053,378	1,067,448	1,091,211	1,093,330	1,046,269	1,059,607	1,081,056

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

For the week beginning	Notes	20-Feb-23	27-Feb-23	6-Mar-23	13-Mar-23	20-Mar-23	27-Mar-23	30-week Total to March 31, 2023
Receipts								
Sales	1	25,239	23,122	30,968	29,936	27,474	31,330	791,296
Intercompany Receipts	2	6,709	5,944	5,944	5,944	5,944	9,316	174,570
Tax Refunds	3	-	1,750	315	-	-	-	14,455
Other Receipts	4	-	1,066	-	2,653	-	-	14,008
Total Receipts		31,948	31,881	37,227	38,533	33,417	40,646	994,329
Disbursement								
General Expenses	5	(1,800)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(60,750)
Payroll and Benefits	6	(9,951)	(630)	(1,855)	(455)	(2,555)	(630)	(46,671)
Pension	7	(2,794)	-	(165)	-	(759)	-	(8,612)
Promotions and Marketing	8	(1,767)	(1,940)	(1,940)	(1,940)	(1,940)	(1,940)	(72,040)
Leaf	9	-	-	(43)	-	-	-	(4,296)
Capital Expenditures	10	(4)	(31)	(31)	(31)	(31)	(31)	(5,652)
Professional Fees	11	(15)	(12)	(12)	(12)	(12)	(12)	(434)
Restructuring Costs	12	(125)	(125)	(125)	(125)	(125)	(125)	(3,750)
Domestic and Import Duty	13	-	(43,576)	-	-	-	(49,752)	(328,306)
GST and HST	14	-	(6,598)	-	-	-	(5,636)	(49,120)
Intercompany Disbursements	15	(5,415)	(7,437)	(6,426)	(5,600)	(5,600)	(6,635)	(224,454)
Intercompany Royalties	16	-	-	-	-	-	-	-
Intercompany Interest	17	-	-	-	-	-	-	-
Intercompany Principal	17	-	-	-	-	-	-	-
Income Tax Instalments and PTT	18	-	(9,650)	(2,500)	(700)	-	(4,250)	(55,306)
Total Disbursements		(21,871)	(71,599)	(14,697)	(10,463)	(12,622)	(70,610)	(859,391)
Cashflow Surplus/Deficit (-)		10,077	(39,718)	22,530	28,070	20,795	(29,964)	134,938
Opening Cash Balance		1,092,956	1,103,033	1,063,315	1,085,845	1,113,915	1,134,710	969,808
FX adjustment		-	-	-	-	-	-	-
Closing Cash Balance		1,103,033	1,063,315	1,085,845	1,113,915	1,134,710	1,104,746	1,104,746
Cash Collateral pledged to Citibank								
Opening Balance	19	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Cash Collateral Deposit / (Withdrawal)		-	-	-	-	-	-	-
Closing Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900
Closing Cash net of Cash Collateral		1,091,133	1,051,415	1,073,945	1,102,015	1,122,810	1,092,846	1,092,846

**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 continuing operations 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. Further, there may be continued global supply chain interruption caused by the Russian invasion of Ukraine and the resulting economic sanctions although JTIM has determined alternative sourcing for leaf that had previously been sourced from Russian affiliates. 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 plan updated for latest estimates, which includes assumptions surrounding future pricing and volumes. JTIM collects payment from most of 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 also sells factory by-products to 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, which will be fully paid by December 31, 2023.

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 amounts. No special obligation payments are expected during the forecast period.

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, some of which were deferred from 2021 and the first half of 2022 due to Covid-19. 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, IT software and hardware purchases, and renovation and reconfiguration of JTIM's headquarters in Mississauga deferred from 2021 and the first half of 2022 to respond to new working arrangements for its Head Office staff and with a focus on supporting more productive employee work collaborations.

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.

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, 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. The February 2023 income tax instalments include the estimated income tax expense true-up for the taxation year 2022.

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.



September 16, 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 Management liable to fines and imprisonment in certain circumstances; and
6. The Revised Cash Flow Statement and assumptions have been reviewed and approved by 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

**TWELFTH REPORT OF THE MONITOR
September 21, 2022**

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