

**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 OF
JTI-MACDONALD CORP.**

**SIXTEENTH REPORT OF THE MONITOR
March 18, 2024**

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 settle the multi billion dollars of claims alleged against each of them through a structured process.

3. In furtherance of the collective goal of resolving the numerous, substantial and complicated claims against the CCAA Applicants, the Honourable Warren K. Winkler, K.C. was appointed as mediator (the “**Court-Appointed Mediator**”), with a mandate to oversee and coordinate a multiparty, confidential mediation among the CCAA Applicants and their key stakeholders (the “**Mediation**”).

4. As further set out in this Sixteenth Report of the Monitor (the “**Sixteenth 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. Additional time is required beyond March 29, 2024, when the current 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, 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 CCAA Applicants including through advancing the Mediation led by the Court-Appointed Mediator; and
 - c) determine next steps in respect of the CCAA Proceedings.

5. On March 11, 2024, JTIM brought a motion seeking an order extending the Stay Period through to September 30, 2024. Similar motions were brought by RBH and ITL on the

same date also seeking orders extending the stay period in their CCAA proceedings to September 30, 2024.

6. For the reasons set out in this Sixteenth Report, the Monitor supports the requested extension of the Stay Period. JTIM's day-to-day business and operations have continued in the ordinary course during the Court-supervised CCAA Proceedings and are expected to continue in the ordinary course through the period to September 30, 2024.

PURPOSE

7. The purpose of this Sixteenth 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 September 20, 2023, the date of the Fifteenth Report of the Monitor filed in connection with the previous motion to extend the Stay Period (the "**Fifteenth Report**"), to the date of this Sixteenth Report;
 - c) a comparison of actual cash flow results against forecast for the first 26-week period of the 30-week cash flow statement (the "**Cash Flow Statement**") that was included in the Fifteenth Report. The Cash Flow Statement covered the 30-week period from September 4, 2023 to March 29, 2024, and the comparison contained herein is against the first 26 weeks ending March 1, 2024;

- d) JTIM's updated cash flow projection (the "**Revised Cash Flow Statement**") for the 31-week period from the week beginning March 4, 2024, to the week ending October 4, 2024 (the "**Revised Cash Flow Period**");
 - e) the Applicant's request for an order to extend the Stay Period to September 30, 2024; and
 - f) the Monitor's recommendation in respect of the relief the Applicant is seeking.
8. This Sixteenth Report should be read in conjunction with the Affidavit of William Aziz, Chief Restructuring Officer of JTIM, sworn March 11, 2024, in support of the Applicant's motion for the extension of the Stay Period (the "**Aziz Affidavit**").

TERMS OF REFERENCE AND DISCLAIMER

9. In preparing this Sixteenth 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**").
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 Sixteenth 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 Sixteenth 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. Capitalized terms used herein and not otherwise defined have the meanings set forth in the Original Initial Order or prior reports of the Monitor.

SUMMARY OF THE CCAA PROCEEDINGS

14. The Original Initial Order commencing the CCAA Proceedings and appointing the Monitor was granted on March 8, 2019. The Original Initial Order provided for a stay of

proceedings in respect of, among other parties, the Applicant, until and including April 5, 2019.

15. Since then, further orders and endorsements have been issued in the CCAA Proceedings. A summary of select orders and endorsements of the Court that are material to these proceedings are as follows:

- a) on March 19, 2019, the Court issued an endorsement (the “**March 2019 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. (“**JTI-TM**”) 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, and (ii) appoint the Court-Appointed Mediator to, among other things, adopt processes which, in his discretion, he considers appropriate to facilitate negotiation of a global settlement of the Tobacco Claims;
- c) the Second Amended and Restated Initial Order was issued by the Court on April 25, 2019 (the “**Second Amended and Restated Initial Order**”);
- d) 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;

- e) on May 14, 2019, the Court granted an unopposed Order that required the Monitor to provide to counsel to the 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**”);
- f) also on May 14, 2019, the Court granted JTIM’s motion for an order lifting the stay of proceedings to allow certain proceedings to continue or be commenced in the ordinary course (the “**Lift Stay Order**”);
- g) on May 24, 2019, the Court issued an endorsement approving a communication and confidentiality protocol between the Court and the Court-Appointed Mediator;
- h) 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;
- i) 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;

- j) 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 additional 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;

- k) on April 14, 2023, the Court heard the motion (the “**Leave Motion**”) by the Heart & Stroke Foundation of Canada seeking leave to bring a motion to appoint Tyr LLP as representative counsel for “Future Tobacco Harm Stakeholders”, who are described in the Leave Motion as individuals who, after the commencement of the CCAA Proceedings “will purchase or use tobacco products, or will be exposed to their use”. With reasons issued on June 23, 2023, the Court dismissed the Leave Motion; and

- l) on September 27, 2023, the Court ordered that the Stay Period be extended up to and including March 29, 2024 (the “**September 2023 Stay Extension Order**”). In the accompanying endorsement dated October 5, 2023 (the “**October 2023 Endorsement**”), Chief Justice Geoffrey B. Morawetz wrote that “I am directing the three Monitors, to work in conjunction with the Honorable Warren K. Winkler, Court-appointed Mediator, to develop Plans of Compromise or Arrangement. The Monitors and the Court-appointed Mediator are also directed to keep this Court updated as to their progress”.

16. During the CCAA Proceedings, the Stay Period has been extended numerous times by further order, most recently via the September 2023 Stay Extension Order.
17. 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 the complete history of the CCAA Proceedings, including orders and endorsements issued.

ACTIVITIES OF JTIM AND THE MONITOR SINCE THE FIFTEENTH REPORT

18. A summary of select activities of JTIM since the Fifteenth Report are set out in the Aziz Affidavit. Key activities that required Monitor approval during the period are as follows:
 - a) In response to a decline in cigarette sales volumes in recent years, which is expected to continue into the future, JTIM will be eliminating the third shift in their Montreal plant effective June 2024. Specifically, up to 17 employees will be terminated and offered severance packages in accordance with the terms of the collective agreement. Pursuant to paragraph 7(a) of the Second Amended and Restated Initial Order, the Monitor reviewed the business rationale and supporting documentation, and approved the severance packages offered to employees as a result of the elimination of the third shift.
 - b) On October 27, 2023, a labour and employment claim was filed with the Supreme Court of British Columbia against JTIM and Sun Life Assurance Company of Canada. The Monitor reviewed the claim and consented to the commencement of the proceedings pursuant to paragraph 5 of the Lift Stay Order.

19. In addition to the approval activities reported in the preceding paragraph, the Monitor has undertaken the following activities since the Fifteenth Report:
- a) attended calls, virtual and in-person 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) maintained and updated the Data Room with financial and other information relevant to the Mediation and the CCAA Proceedings;
 - c) coordinated with the monitors of ITL and RBH (together with the Monitor, the "**Monitors**") and their respective counsel on the Mediation, the population of financial and other information in the Data Room and the data rooms created for ITL and RBH, 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) communicated with third-party stakeholders regarding the status of the CCAA Proceedings and facilitated responses to information requests from creditors and claimants;
 - g) 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 the restrictions as required by the March 2019 Endorsement;

- 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

- 20. Summarized in the following table are JTIM's actual cash receipts and disbursements for the 26-week period ended March 1, 2024 (the "**Reporting Period**"), as compared to the corresponding weeks in the Cash Flow Statement included in the Fifteenth Report.

| JTI-Macdonald Corp. | | | | |
|---|--------------|------------------|------------------|-----------------|
| Summary of Actual versus Forecast Cash Flows | | | | |
| For the 26 week period ended March 1, 2024 | | | | |
| \$CAD '000, unaudited | <i>Notes</i> | Actual | Forecast | Variance |
| Receipts | | | | |
| Sales | <i>a</i> | 636,338 | 695,781 | (59,443) |
| Intercompany Receipts | <i>b</i> | 130,638 | 144,484 | (13,846) |
| Tax Refunds | <i>c</i> | 13,376 | 8,082 | 5,294 |
| Other Receipts | | 34,457 | 32,249 | 2,208 |
| Total Receipts | | 814,809 | 880,596 | (65,787) |
| Disbursements | | | | |
| General Expenses | <i>d</i> | (42,303) | (48,800) | 6,497 |
| Payroll and Benefits | | (41,722) | (44,609) | 2,887 |
| Pension | | (7,100) | (7,399) | 299 |
| Promotions, Marketing and Distribution Support | | (70,582) | (74,993) | 4,411 |
| Leaf | | (2,776) | (3,714) | 938 |
| Capital Expenditures and Leases | | (3,005) | (6,256) | 3,251 |
| Professional Fees | | (513) | (780) | 267 |
| Restructuring Costs | | (3,634) | (3,380) | (254) |
| Domestic and Import Duty | <i>e</i> | (242,097) | (262,141) | 20,044 |
| GST and HST | | (38,167) | (41,267) | 3,100 |
| Intercompany Disbursements | <i>f</i> | (168,194) | (206,100) | 37,906 |
| Intercompany Royalties | | - | - | - |
| Intercompany Interest | | - | - | - |
| Intercompany Principal | | - | - | - |
| Income Tax Instalments and PTT | | (70,869) | (70,440) | (429) |
| Total Disbursements | | (690,962) | (769,879) | 78,917 |
| Cashflow Surplus/Deficit (-) | | 123,847 | 110,717 | 13,130 |
| Opening Cash Balance | | 1,243,740 | 1,243,740 | - |
| FX Adjustment | | (133) | - | (133) |
| Closing Cash Balance | | 1,367,454 | 1,354,457 | 12,997 |
| Cash Collateral pledged to Citibank | | | | |
| Opening Balance | | 11,900 | 11,900 | - |
| Cash Collateral Deposit / (Withdrawal) | | - | (900) | 900 |
| Closing Balance | | 11,900 | 11,000 | 900 |
| Closing Cash net of Cash Collateral | | 1,355,554 | 1,343,457 | 12,097 |

21. JTIM's actual net cash flow for the Reporting Period was \$123.8 million, compared to forecast net cash flow of \$110.7 million, resulting in a favourable variance of \$13.1 million.

Major variances identified by the notes in the table above are as follows:

- a) an unfavourable variance of \$59.4 million in third-party sales receipts is a permanent difference due to lower than expected sales volume, which was partially offset by price increases;
- b) an unfavourable variance of \$13.8 million in intercompany receipts is a permanent difference in finished goods sales due to lower than expected sales volume;
- c) a favourable variance of \$5.3 million in tax refunds is a reversal of timing differences from prior periods;
- d) a favourable variance of \$6.5 million in general expenses is primarily a permanent difference from decreased sales volume;
- e) a favourable variance of \$20.0 million in domestic and import duty payments is a permanent difference due to lower than expected production volumes; and
- f) a favourable variance of \$37.9 million in intercompany disbursements is a combination of permanent differences in finished goods purchases due to lower than expected sales volume and an annual transfer price adjustment to reflect actual results.

22. JTIM's closing cash balance as of March 1, 2024, net of pledged cash collateral, was \$1.4 billion.

APPLICANT'S REVISED CASH FLOW STATEMENT

23. 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 31-week period ending October 4, 2024:

| JTI-Macdonald Corp. | |
|--|---|
| 31-week Revised Cash Flow Statement | |
| SCAD '000, unaudited | |
| | 31-week Total to October 4, 2024 |
| Receipts | |
| Sales | 849,073 |
| Intercompany Receipts | 163,586 |
| Tax Refunds | 11,229 |
| Other Receipts | 41,772 |
| Total Receipts | 1,065,660 |
| Disbursement | |
| General Expenses | (49,600) |
| Payroll and Benefits | (46,163) |
| Pension | (5,710) |
| Promotions and Marketing | (72,662) |
| Leaf | (5,932) |
| Capital Expenditures | (8,973) |
| Professional Fees | (775) |
| Restructuring Costs | (6,200) |
| Domestic and Import Duty | (307,944) |
| GST and HST | (44,996) |
| Intercompany Disbursements | (237,374) |
| Intercompany Royalties | - |
| Intercompany Interest | - |
| Intercompany Principal | - |
| Income Tax Instalments and PTT | (78,672) |
| Total Disbursements | (865,000) |
| Cashflow Surplus/Deficit (-) | 200,660 |
| Opening Cash Balance | 1,367,454 |
| FX adjustment | - |
| Closing Cash Balance | 1,568,114 |
| Cash Collateral pledged to Citibank | |
| Opening Balance | 11,900 |
| Cash Collateral Deposit / (Withdrawal) | (900) |
| Closing Balance | 11,000 |
| Closing Cash net of Cash Collateral | 1,557,114 |

24. 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 included in Appendix "A" to this Sixteenth Report (the "**Revised Assumptions**").
25. JTIM's opening cash balance, net of pledged cash collateral, on March 1, 2024 was \$1.4 billion. The cash flow surplus for the Revised Cash Flow Period is forecast to be \$200.7 million, resulting in a closing cash balance, net of pledged cash collateral, of \$1.6 billion on October 4, 2024. Accordingly, the Applicant is forecast to have sufficient liquidity during the proposed extension of the Stay Period.
26. The Monitor has reviewed the Revised Cash Flow Statement to the standard required of a Court-appointed monitor under 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.
27. In accordance with the CCAA and CAIRP's 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 the 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.

28. 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 of the date of this Sixteenth 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.
29. 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 Sixteenth Report.

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

STAY EXTENSION

31. The current Stay Period expires on March 29, 2024. The Applicant is seeking the extension of the Stay Period up to and including September 30, 2024, 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 including through advancing the Mediation led by the Court-Appointed Mediator; and
 - c) determine next steps in respect of the CCAA Proceedings.
32. In the Monitor's view, significant progress has been made since the last Stay Period extension hearing on September 27, 2023. The Court-Appointed Mediator, with the assistance of the Monitors, continues to conduct confidential Mediation meetings with the CCAA Applicants and key stakeholders. However, additional time is required to resolve remaining important issues in order for the Court-Appointed Mediator and Monitors to develop a Plan of Compromise or Arrangement for each of the CCAA Applicants, as ordered by the Court in the October 2023 Endorsement.

33. As described above, the Revised Cash Flow Statement projects that the Applicant will have sufficient liquidity to operate in the normal course during the Revised Cash Flow Period. In the Monitor's view, the Applicant has acted and continues to act in good faith and with due diligence in the CCAA Proceedings.
34. In the Monitor's view, the Applicant's request for an extension of the Stay Period until September 30, 2024 is reasonable and appropriate in the circumstances.

RECOMMENDATION

35. The Monitor supports the relief sought by the Applicant in its motion to extend the Stay Period to September 30, 2024 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 18th day of March, 2024

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

A handwritten signature in cursive script, appearing to read "Philip J. Reynolds".

Per:

Philip J. Reynolds, LIT
Senior Vice-President

APPENDIX “A”

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

| For the week beginning | Notes | 4-Mar-24 | 11-Mar-24 | 18-Mar-24 | 25-Mar-24 | 1-Apr-24 | 8-Apr-24 | 15-Apr-24 | 22-Apr-24 | 29-Apr-24 | 6-May-24 | 13-May-24 | 20-May-24 |
|--|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts | | | | | | | | | | | | | |
| Sales | 1 | 24,894 | 25,410 | 26,525 | 32,790 | 18,717 | 19,578 | 20,724 | 75,683 | 15,116 | 22,257 | 27,719 | 29,288 |
| Intercompany Receipts | 2 | 6,761 | 5,886 | 5,886 | 5,886 | 6,024 | 5,455 | 5,455 | 5,455 | 5,170 | 4,829 | 4,829 | 4,972 |
| Tax Refunds | 3 | 1,100 | 347 | - | - | 1,100 | 347 | - | - | 1,100 | 347 | - | - |
| Other Receipts | 4 | 2,478 | - | - | - | 2,542 | 795 | 8,733 | - | 1,573 | 1,050 | - | - |
| Total Receipts | | 35,232 | 31,643 | 32,411 | 38,676 | 28,382 | 26,175 | 34,913 | 81,138 | 22,959 | 28,482 | 32,548 | 34,260 |
| Disbursement | | | | | | | | | | | | | |
| General Expenses | 5 | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) |
| Payroll and Benefits | 6 | (2,209) | (791) | (2,011) | (1,362) | (2,209) | (1,162) | (2,011) | (892) | (2,209) | (461) | (2,011) | (892) |
| Pension | 7 | (171) | - | (515) | - | (171) | - | (515) | - | (171) | - | - | (515) |
| Promotions and Marketing | 8 | (1,443) | (1,443) | (1,443) | (1,443) | (3,454) | (3,454) | (3,454) | (3,454) | (1,519) | (1,519) | (1,519) | (1,519) |
| Leaf | 9 | (3,530) | - | - | - | (2,307) | - | - | - | - | - | - | - |
| Capital Expenditures | 10 | (90) | (90) | (90) | (90) | (82) | (82) | (82) | (82) | (101) | (101) | (101) | (101) |
| Professional Fees | 11 | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) |
| Restructuring Costs | 12 | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) |
| Domestic and Import Duty | 13 | - | - | - | (46,137) | - | - | - | - | (44,217) | - | - | - |
| GST and HST | 14 | - | - | - | (5,074) | - | - | - | - | (5,675) | - | - | - |
| Intercompany Disbursements | 15 | (6,473) | (6,127) | (6,079) | (7,811) | (8,724) | (8,372) | (8,372) | (9,535) | (6,750) | (6,085) | (6,085) | (6,085) |
| Intercompany Royalties | 16 | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany Interest | 17 | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany Principal | 17 | - | - | - | - | - | - | - | - | - | - | - | - |
| Income Tax Instalments and PTT | 18 | (1,661) | (826) | (2,285) | (5,500) | - | (2,000) | (3,900) | - | (5,500) | (2,000) | (900) | (3,000) |
| Total Disbursements | | (17,402) | (11,103) | (14,248) | (69,243) | (18,772) | (16,894) | (20,159) | (15,787) | (67,968) | (11,991) | (12,441) | (13,937) |
| Cashflow Surplus/Deficit (-) | | 17,830 | 20,540 | 18,163 | (30,567) | 9,610 | 9,281 | 14,755 | 65,351 | (45,008) | 16,491 | 20,106 | 20,323 |
| Opening Cash Balance | | 1,367,454 | 1,385,284 | 1,405,824 | 1,423,987 | 1,393,420 | 1,403,031 | 1,412,312 | 1,427,066 | 1,492,418 | 1,447,409 | 1,463,900 | 1,484,006 |
| FX adjustment | | - | - | - | - | - | - | - | - | - | - | - | - |
| Closing Cash Balance | | 1,385,284 | 1,405,824 | 1,423,987 | 1,393,420 | 1,403,031 | 1,412,312 | 1,427,066 | 1,492,418 | 1,447,409 | 1,463,900 | 1,484,006 | 1,504,330 |
| Cash Collateral pledged to Citibank | 19 | | | | | | | | | | | | |
| Opening 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 |
| Cash Collateral Deposit / (Withdrawal) | | - | - | - | - | - | - | - | - | - | - | - | (900) |
| Closing Balance | | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,900 | 11,000 |
| Closing Cash net of Cash Collateral | | 1,373,384 | 1,393,924 | 1,412,087 | 1,381,520 | 1,391,131 | 1,400,412 | 1,415,166 | 1,480,518 | 1,435,509 | 1,452,000 | 1,472,106 | 1,493,330 |

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

| For the week beginning | Notes | 27-May-24 | 3-Jun-24 | 10-Jun-24 | 17-Jun-24 | 24-Jun-24 | 1-Jul-24 | 8-Jul-24 | 15-Jul-24 | 22-Jul-24 | 29-Jul-24 | 5-Aug-24 | 12-Aug-24 |
|--|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts | | | | | | | | | | | | | |
| Sales | 1 | 20,632 | 18,997 | 26,210 | 28,063 | 34,323 | 29,394 | 25,329 | 26,219 | 26,105 | 28,812 | 37,213 | 29,019 |
| Intercompany Receipts | 2 | 4,829 | 6,480 | 6,435 | 6,435 | 6,435 | 4,350 | 4,306 | 4,306 | 7,367 | 4,610 | 5,882 | 5,882 |
| Tax Refunds | 3 | - | 1,100 | 347 | - | - | 1,100 | 347 | - | - | - | 1,100 | 347 |
| Other Receipts | 4 | - | 2,704 | - | - | - | 3,589 | - | 8,653 | - | 1,064 | 1,803 | - |
| Total Receipts | | 25,460 | 29,281 | 32,993 | 34,499 | 40,758 | 38,433 | 29,981 | 39,177 | 33,472 | 34,485 | 45,998 | 35,248 |
| Disbursement | | | | | | | | | | | | | |
| General Expenses | 5 | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) |
| Payroll and Benefits | 6 | (2,011) | (659) | (2,106) | (461) | (2,442) | (659) | (2,146) | (461) | (2,561) | (659) | (2,011) | (461) |
| Pension | 7 | - | (171) | - | (515) | - | (171) | - | (970) | - | (171) | - | - |
| Promotions and Marketing | 8 | (1,519) | (2,365) | (2,365) | (2,365) | (2,365) | (2,603) | (2,603) | (2,603) | (2,603) | (2,603) | (2,480) | (2,480) |
| Leaf | 9 | - | (47) | - | - | - | - | - | - | - | - | - | - |
| Capital Expenditures | 10 | (101) | (192) | (192) | (192) | (192) | (108) | (108) | (108) | (108) | (108) | (1,211) | (1,211) |
| Professional Fees | 11 | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (25) |
| Restructuring Costs | 12 | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) |
| Domestic and Import Duty | 13 | (55,302) | - | - | - | (49,033) | - | - | - | - | (43,192) | - | - |
| GST and HST | 14 | (9,059) | - | - | - | (4,629) | - | - | - | - | (5,772) | - | - |
| Intercompany Disbursements | 15 | (7,248) | (9,101) | (8,188) | (8,188) | (9,351) | (8,263) | (7,096) | (7,096) | (8,259) | (7,096) | (8,346) | (7,291) |
| Intercompany Royalties | 16 | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany Interest | 17 | - | - | - | - | - | - | - | - | - | - | - | - |
| Intercompany Principal | 17 | - | - | - | - | - | - | - | - | - | - | - | - |
| Income Tax Instalments and PTT | 18 | (5,500) | - | (2,900) | (3,000) | (5,500) | - | (2,000) | (3,900) | - | (5,500) | (2,000) | (900) |
| Total Disbursements | | (82,565) | (14,360) | (17,576) | (16,546) | (75,336) | (13,629) | (15,778) | (16,963) | (15,355) | (66,926) | (17,873) | (14,169) |
| Cashflow Surplus/Deficit (-) | | (57,105) | 14,920 | 15,417 | 17,953 | (34,578) | 24,805 | 14,204 | 22,215 | 18,117 | (32,441) | 28,125 | 21,079 |
| Opening Cash Balance | | 1,504,330 | 1,447,225 | 1,462,145 | 1,477,562 | 1,495,515 | 1,460,937 | 1,485,742 | 1,499,945 | 1,522,160 | 1,540,277 | 1,507,836 | 1,535,961 |
| FX adjustment | | - | - | - | - | - | - | - | - | - | - | - | - |
| Closing Cash Balance | | 1,447,225 | 1,462,145 | 1,477,562 | 1,495,515 | 1,460,937 | 1,485,742 | 1,499,945 | 1,522,160 | 1,540,277 | 1,507,836 | 1,535,961 | 1,557,040 |
| Cash Collateral pledged to Citibank | | | | | | | | | | | | | |
| Opening Balance | 19 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 |
| Cash Collateral Deposit / (Withdrawal) | | - | - | - | - | - | - | - | - | - | - | - | - |
| Closing Balance | | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 |
| Closing Cash net of Cash Collateral | | 1,436,225 | 1,451,145 | 1,466,562 | 1,484,515 | 1,449,937 | 1,474,742 | 1,488,945 | 1,511,160 | 1,529,277 | 1,496,836 | 1,524,961 | 1,546,040 |

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

| For the week beginning | Notes | 19-Aug-24 | 26-Aug-24 | 2-Sep-24 | 9-Sep-24 | 16-Sep-24 | 23-Sep-24 | 30-Sep-24 | 31-week Total to October 4, 2024 |
|--|--------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---|
| Receipts | | | | | | | | | |
| Sales | 1 | 31,064 | 32,249 | 24,835 | 23,156 | 22,597 | 22,151 | 24,006 | 849,073 |
| Intercompany Receipts | 2 | 5,882 | 5,882 | 3,176 | 3,131 | 3,131 | 3,302 | 5,154 | 163,586 |
| Tax Refunds | 3 | - | - | 1,100 | 347 | - | - | 1,100 | 11,229 |
| Other Receipts | 4 | - | - | 2,947 | - | - | 813 | 3,028 | 41,772 |
| Total Receipts | | 36,947 | 38,132 | 32,058 | 26,634 | 25,729 | 26,266 | 33,288 | 1,065,660 |
| Disbursement | | | | | | | | | |
| General Expenses | 5 | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (1,600) | (49,600) |
| Payroll and Benefits | 6 | (2,753) | (461) | (2,209) | (461) | (2,011) | (1,203) | (2,209) | (46,163) |
| Pension | 7 | (970) | - | (171) | - | (515) | - | - | (5,710) |
| Promotions and Marketing | 8 | (2,480) | (2,480) | (2,730) | (2,730) | (2,730) | (2,730) | (2,162) | (72,662) |
| Leaf | 9 | - | - | (47) | - | - | - | - | (5,932) |
| Capital Expenditures | 10 | (1,211) | (1,267) | (363) | (363) | (363) | (363) | (121) | (8,973) |
| Professional Fees | 11 | (25) | (25) | (25) | (25) | (25) | (25) | (25) | (775) |
| Restructuring Costs | 12 | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (6,200) |
| Domestic and Import Duty | 13 | - | (46,242) | - | - | - | - | (23,820) | (307,944) |
| GST and HST | 14 | - | (7,970) | - | - | - | - | (6,816) | (44,996) |
| Intercompany Disbursements | 15 | (7,291) | (8,453) | (9,417) | (7,970) | (7,970) | (7,970) | (6,278) | (237,374) |
| Intercompany Royalties | 16 | - | - | - | - | - | - | - | - |
| Intercompany Interest | 17 | - | - | - | - | - | - | - | - |
| Intercompany Principal | 17 | - | - | - | - | - | - | - | - |
| Income Tax Instalments and PTT | 18 | (3,000) | (5,500) | - | (2,900) | (3,000) | - | (5,500) | (78,672) |
| Total Disbursements | | (19,531) | (74,199) | (16,763) | (16,250) | (18,414) | (14,092) | (48,732) | (865,000) |
| Cashflow Surplus/Deficit (-) | | 17,416 | (36,067) | 15,295 | 10,385 | 7,314 | 12,174 | (15,444) | 200,660 |
| Opening Cash Balance | | 1,557,040 | 1,574,456 | 1,538,390 | 1,553,684 | 1,564,069 | 1,571,383 | 1,583,557 | 1,367,454 |
| FX adjustment | | - | - | - | - | - | - | - | - |
| Closing Cash Balance | | 1,574,456 | 1,538,390 | 1,553,684 | 1,564,069 | 1,571,383 | 1,583,557 | 1,568,114 | 1,568,114 |
| Cash Collateral pledged to Citibank | 19 | | | | | | | | |
| Opening Balance | | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,900 |
| Cash Collateral Deposit / (Withdrawal) | | - | - | - | - | - | - | - | (900) |
| Closing Balance | | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 | 11,000 |
| Closing Cash net of Cash Collateral | | 1,563,456 | 1,527,390 | 1,542,684 | 1,553,069 | 1,560,383 | 1,572,557 | 1,557,114 | 1,557,114 |

**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.

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\$1.35 = 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 and projected sales from JTIM's annual plan, 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. ("**JT**"), 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, and excise tax refunds for product that require rework or 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, 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, except as noted below. 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 during the Revised Cash Flow Period also include severance costs related to the elimination of the third shift at JTIM's Montreal plant effective June 2024.

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.

9. Leaf

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

10. Capital Expenditures

These capital expenditures include investments in building, equipment, and process improvements at JTIM's Quebec manufacturing facility, and IT software and hardware purchases.

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 representative counsel appointed by the Court on December 9, 2019.

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. 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 tobacco products and related services provided by JT International entities such as JTI-SA, 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 JT International Italia s.r.l. (v) regional services provided by JTI (US) Holding Inc., and (vi) 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 \$1.1 million continues to be accrued monthly. Additionally, default interest is accruing on royalty payments due and unpaid. The balance owing for intercompany royalties and default interest since the suspension to February 29, 2024 is approximately \$78 million.

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. The balance owing for intercompany interest payable including default interest since the suspension to February 29, 2024 is approximately \$547 million. JTIM and TM plan to file a joint tax election with CRA in June

2024 to avoid having the deferred TM intercompany interest and royalties (paragraph 16) expense from the 2020 taxation year being re-added to taxable income.

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. Starting in the 4th quarter of 2023, the Province of Alberta amended its PTT regime whereby PTT is collected at the time of sale to wholesalers that have a significant amount of retail sales (i.e. on a PTT collect basis) in addition to their wholesaler activities. This requires JTIM to collect and remit PTT on a higher amount of sales in Alberta than prior to this change. This change was not implemented by other Provinces.

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. JTIM transitioned its corporate credit card program from Citibank to Bank of America in September 2023. Bank of America does not require any cash collateral from JTIM for these corporate credit cards. Once all of the outstanding balances from the Citibank corporate credit cards have been paid, Citibank will release the existing cash collateral of \$900,000 to JTIM’s general operating bank account.



March 6, 2024

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 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 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,

A handwritten signature in blue ink, reading "Robert McMaster", written over a horizontal line.

Name: Robert McMaster

Title: Director, Taxation and Treasury