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

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

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

11272420 CANADA INC., a duly incorporated company having its principal place of business at 1111 Rue Saint-Charles West, Suite 400, in the city of Longueuil, province of Quebec, J4K 5G4

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STORNOWAY DIAMONDS (CANADA) INC., a duly incorporated company having its principal place of business at 1111 Rue Saint-Charles West, Suite 400, in the city of Longueuil, province of Quebec, J4K 5G4

Applicants

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

Proposed Monitor

**FIRST REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED MONITOR**

(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)

INTRODUCTION

1. 1127420 Canada Inc. ("**1127**") and Stornoway Diamonds (Canada) Inc. ("**SCD**") (collectively "**Stornoway**" or the "**Applicants**") have filed an *Application for the Issuance of a Initial Order, an Amended and Restated Initial Order and Ancillary Relief* (the "**Application**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**"), before the Superior Court of Québec (the "**Court**") seeking the appointment of Deloitte Restructuring Inc. ("**Deloitte**") as the CCAA monitor in these proceedings (the "**Proposed Monitor**") and various other relief measures.

2. This report (the "**First Report**") has been prepared by the Proposed Monitor prior to its appointment as monitor in the contemplated CCAA proceedings (the "**CCAA Proceedings**") to provide information to the Court for its consideration in respect of the Application and addresses only those matters set out in the first day initial order sought pursuant thereto (the "**Proposed First Day Initial Order**").
3. If the Proposed First Day Initial Order is granted, the Applicants intend to return to Court on November 6, 2023, to seek the issuance of the amended and restated initial order sought in the Application (the "**Proposed Initial Order**") and the Proposed Monitor will file a supplemental report to provide information and its views to the Court in respect of the Proposed Initial Order being sought by the Applicants.
4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

PURPOSE OF THIS REPORT

5. The purpose of the First Report of the Proposed Monitor is to provide information to the Court with respect to:
 - (i) Deloitte's qualification to act as monitor;
 - (ii) The business, financial affairs and financial results of Stornoway;
 - (iii) Stornoway's creditors;
 - (iv) The proposed Sale and Investment Solicitation Process;
 - (v) Key Employees Retention Program;
 - (vi) Critical suppliers;
 - (vii) Charges sought in the Proposed First Day Initial Order and the Proposed Initial Order;
 - (viii) Overview of the 4-week cash flow projections; and,
 - (ix) The Proposed Monitor's conclusions and recommendations.
6. In preparing the First Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, Stornoway's books and records and financial information prepared by Stornoway and discussions with management ("**Management**") of Stornoway (collectively, the "**Information**"). Except as described in this First Report in respect of the Applicants' Cash Flow Statement (as defined below):
 - (i) The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and,
 - (ii) Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections,

as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.

7. Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
8. Unless otherwise indicated, the Proposed Monitor's understanding of factual matters expressed in the First Report concerning Stornoway and their business is based on the Information, and not independent factual determinations made by the Proposed Monitor.

DELOITTE'S QUALIFICATION TO ACT AS MONITOR

9. Deloitte is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.
10. On October 16, 2023, the Proposed Monitor was retained by Stornoway to provide support to the Management on the following matters:
 - (i) Review and assist Management with the preparation of financial projections and weekly cashflow in order to establish Stornoway's financing and timing requirements;
 - (ii) Assist Management with the preparation of financial reporting packages to all stakeholders;
 - (iii) Advise Management with respect to potential enhancements to the cash flow and financial forecasts to enhance their utility and reduce the cost structure; and,
 - (iv) Conduct, with the assistance of Stornoway, a solicitation and investment process and prepare the required information related to the said process.
11. In addition, in 2019, the Proposed Monitor was also retained by the Stornoway Diamond Corporation (the former controlling entity of Stornoway) to act as financial advisor and Monitor under CCAA proceedings for a previous successful restructuring of former Stornoway that occurred in 2020.
12. In the context of the foregoing, the senior Deloitte professional personnel involved in this matter acquired material knowledge of Stornoway and its business. Deloitte has spent time with Management understanding the operations and financial structure as more fully described in the First Report. Deloitte is, therefore, in a position to act as court-appointed monitor of Stornoway in an efficient and diligent manner in the CCAA Proceedings for the benefit of all of its stakeholders and the Court.
13. The Proposed Monitor has retained Osler, Hoskin and Harcourt LLP ("**Osler**") to act as its independent counsel in the CCAA Proceedings.

THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF STORNOWAY

Historical overview

14. Stornoway is a group comprising 1127, a holding company which holds all of the issued and outstanding shares of SDCI, a diamond mining company whose focus is the operation of its

fully owned Renard mine, Québec's first diamond mine, located approximately 250 km north of the Cree community of Mistissini and 350 km north of Chibougamau in the James Bay region of north-central Quebec, approximately 800 km north of Montreal (the "**Renard Mine**").

15. The Renard Mine is one of only five (5) diamond mines in Canada, employing approximately 550 people.
16. Mine construction at the Renard Mine commenced on July 10, 2014, following the successful completion of a comprehensive \$946 million financing package designed to fully fund the project to completion. The Renard Mine financing was the largest single project financing transaction for a publicly listed diamond company in Canada, and included equity, senior and convertible debt, equipment financing and the world's first ever diamond stream.
17. Year-round access to the Renard Mine was made possible by the extension of Route 167, the construction of which was completed in September 2013, allowing to operate the Renard Mine with significantly reduced costs and operating risk.
18. Feasibility studies obtained at the time indicated that the Renard Mine was expected to produce an average of 1.6 million carats per year and assumed a certain diamond grade and price. The initial business plan of the project at the time contemplated an initial fourteen (14) year mine life, representing approximately 1% of global supply. First processing was achieved in July 2016, and commercial production was formally declared on January 1, 2017.
19. In 2019, after three (3) years of sustained significant losses resulting from ramp-up issues, lower production, carat recovery and diamond grade than expected and unanticipated significant reduction of the global sale process of rough diamonds, Stornoway Diamond Corporation and its affiliate entities completed a first restructuring under the CCAA. As a result of this restructuring, Stornoway became privately owned by a new group of shareholders.
20. Since the completion of the restructuring in 2019, the operations of the Renard Mine had been mostly profitable allowing Stornoway to partially reduce its outstanding indebtedness, continue the implementation of its development plan with a view to increasing its diamond reserves and extending the lifespan of the mine.
21. However, despite this successful restructuring, external market factors have negatively impacted the Petitioners leaving them with no alternative but to file the CCAA Proceedings.
22. As appears from the Application, at the end of September 2023, India announced a 2-month freeze between October 15, 2023 and December 15, 2023, on imports of rough diamonds to reduce polished diamond inventories and restore the global price of diamond.
23. The Indian manufacturing sector historically bought 90% of the available rough diamonds on the global market. This unilateral ongoing import freeze and ongoing downward pressure on price since March 2023, as illustrated later in this report, have resulted in a dramatic loss of revenue for Stornoway and has seriously impaired Stornoway's ability to sell its inventory at acceptable and profitable market prices.
24. In these circumstances, Stornoway has found itself without sufficient liquidity to operate, and in a precarious financial situation leaving it with no option but to implement operational initiatives to minimize costs while exploring all restructuring opportunities including the sale of its diamond reserves.
25. It is in this context that Stornoway has decided to halt its diamond extraction activities and proceed with the implementation of a Care and Maintenance scenario on October 27, 2023

to protect its assets while it considers all restructuring alternatives. As part of this Care and Maintenance scenario, the Stornoway intends to implement a temporary layoff of approximately 450 employees leaving it with approximately 71 full-time equivalents ("FTE").

Corporate structure and mining statutory requirements

26. Stornoway, which is operated on a consolidated basis, has the following corporate structure:



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

- (i) Mining Lease: A mining lease issued by the Québec Ministère des Ressources naturelles in October 2012 (hereinafter the "Mining Lease"); and
- (ii) Certificate of Authorization: The Québec Certificate of Authorization issued by the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs in December 2012.

Financial analysis

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

Stornoway Income Statement For the 12-month period ended on (Expressed in thousands of Canadian dollars)	Audited Dec-21	Audited Dec-22	Non-Audited Sept-23 (9 months)
Revenues	219,863	286,791	172,139
Cost of goods sold	154,621	187,433	139,651
Gross profit	65,242	99,358	32,488
Selling, general and administrative expenses	5,209	8,728	4,611
Impairment charge	900	3,343	-
Income from operations	59,133	87,287	27,877
Financial expenses	52,840	39,892	40,668
Foreign exchange loss (gain)	20	4,578	49
Net income (loss) before tax	6,273	42,817	(12,840)
Income tax	7	656	293
Net income (loss)	6,266	42,161	(13,133)

29. As described in the table above, Stornoway has sustained losses since the beginning of 2023. According to Management and as demonstrated in the financial model for Stornoway, these losses are largely attributable to the significant reduction of the rough diamond price in the market, as well as the pause in diamond imports implemented by the Indian manufacturing sector. These losses are also, but less significantly, explained by:

- (i) Employee costs and other general and administrative costs; and,
- (ii) Financial expenses related to the different loans obtained to support the operations of Stornoway.

30. The table below demonstrates Stornoway's historical balance sheet:

Stornoway Balance Sheet As at (Expressed in thousands of Canadian dollars)	Audited Dec-21	Audited Dec-22	Non-Audited Sept-23 (9 months)
Cash and cash equivalents	26,630	42,686	2,209
Other current asstes	49,165	59,528	82,181
Non-current assets	162,540	190,812	203,647
Total assets	238,335	293,026	288,037
Current liabilities	150,325	55,700	56,738
Long-term liabilities	137,793	244,858	251,964
Equity	(49,693)	(7,532)	(20,665)
Total liabilities & Equity	238,425	293,026	288,037

31. Based on the September 2023 financial statements, the main assets of Stornoway are composed of:

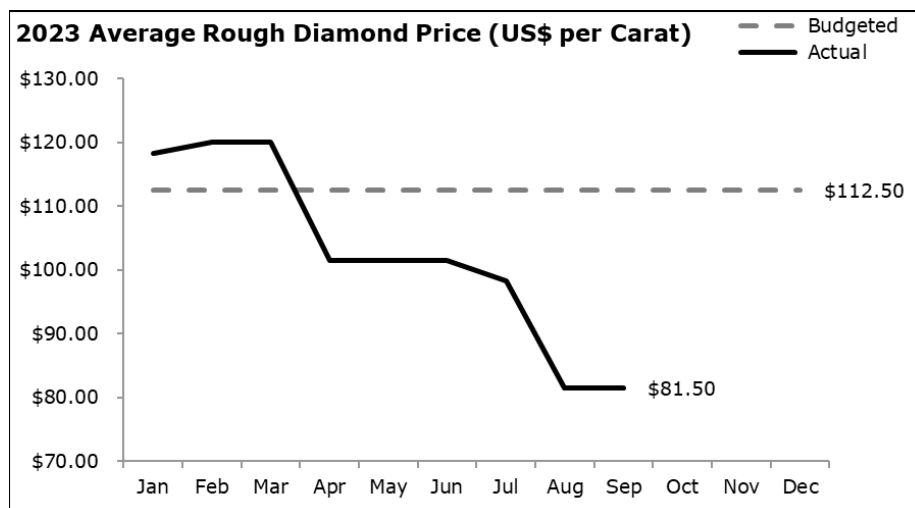
- (i) Inventories of approximately \$75M, which is composed of \$15M of materials and supplies, \$16M of work in progress rough diamonds and \$44M of finished goods rough diamonds;
- (ii) Property, plant and equipment totaling \$188M;
- (iii) Right-of-use assets of \$9.3M; and,
- (iv) Other assets totaling \$15M composed of cash and cash equivalent, financial assets, prepaid expenses and receivables.

Market variation in the rough diamond price

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

33. Since 2023, the Renard Mine's diamonds have generated an average price return of approximately US\$103.52/pc. As you can see from the curve below, in 2023, a rough market price correction occurred, mainly due to the pause in diamond imports implemented by the Indian manufacturing sector.

34. With respect to the 2023 sales to date by Stornoway (a total of six transactions), the average price for each transaction has been respectively US\$118.33/pc, US\$120.02/pc, US\$101.52/pc, US\$101.47/pc, US\$98.28/pc and US\$81.50/pc.



Overall situation

35. As of the date of this First Report, and as explained in further detail below, Management estimates that Stornoway's working capital is not sufficient to allow it to meet its financial obligations, commitments and necessary budgeted expenditures for the foreseeable future.

36. Consequently, the Proposed Monitor is of the view that Stornoway is insolvent.

STORNOWAY'S CREDITORS

Secured creditors

37. The Company has advised the Proposed Monitor that its principal secured creditors are as follows:

- (i) Osisko Gold Royalties Ltd. ("**Osisko**");
- (ii) Caisse de dépôt et placement du Québec ("**CDPQ**");
- (iii) TF R&S Canada Ltd. ("**TF**");
- (iv) Albion Exploration Fund LLC ("**Albion**");
- (v) Washington State Investment Board ("**Washington**");
- (vi) Diaquem Inc. ("**Diaquem**"); and
- (vii) Caterpillar Financial Services Limited ("**Caterpillar**").

38. By way of a high-level summary, the Company advises that its secured indebtedness may be described as follows:

- (i) The indebtedness owing to Osisko, CDPQ, TF, Albion and Washington (collectively, the "**Streamers**") is secured by a hypothec on the universality of all of Stornoway property, movable and immovable, personal and real, corporeal and incorporeal, tangible and intangible, present and future, of whatever nature and wherever situated.
- (ii) The Diaquem indebtedness is secured by a charge over the universality of all present and future mining titles of Stornoway.
- (iii) The Caterpillar indebtedness is secured by a charge over all financed equipment of Stornoway.

39. The above-noted indebtedness and related security are more fully described in the Application.
40. The Proposed Monitor has asked Osler to conduct an independent review of the security held by the Streamers as well as Diaquem. This review is currently underway. Once completed, the Proposed Monitor will report to the Court on its findings.
41. As appears from the Application and the Proposed First Day Initial Order, both the Streamers and Diaquem are treated as unaffected creditors for all purposes in the CCAA Proceedings.

Unsecured creditors

42. Stornoway has advised the Proposed Monitor that its principal unsecured liabilities consist of:

- (i) Amounts owed to The Cree Nation Government ("**Cree Nation**");
- (ii) Accrued salaries and vacation pay;
- (iii) Trade payables and accruals; and
- (iv) Lease obligations.

43. According to Management, payroll obligations are current, other than accrued vacation totaling approximately \$3.7 million in the aggregate. Payments are made on a bi-weekly basis. Payroll management is outsourced to a third party, Desjardins. As per Management, all source deductions are current. The Company has indicated that it intends to pay the accrued vacation owing to its temporarily laid off employees, in accordance with Company policy, once the Company will have secured sufficient liquidities. It is currently anticipated that this could occur prior to the completion of the restructuring process. As for the remaining employees, they will continue to benefit from their accumulated vacation banks. Should they be laid off during the restructuring process, it is intended that they will benefit from the same treatment as the employees that are to be laid off as a result of the implementation of the Care & Maintenance program noted above. According to Stornoway's books and records, the following table summarizes the obligations of Stornoway to secured and unsecured creditors as of September 30, 2023:

Stornoway Summary of debts as at September 30, 2023 (Expressed in thousands of Canadian dollars)	Secured	Unsecured	Total
Osisko Gold Royalties Ltd.	59,513		59,513
CDPQ Ressources Inc.	24,797		24,797
TF R&S Canada Ltd.	24,797		24,797
Washington State Investment Board	7,188		7,188
Albion Exploration Fund, LLC	7,074		7,074
Diaquem	119,854		119,854
Caterpillar Financial Services Limited and other leases	5,876		5,876
Cree Nation		6,508	6,508
Lease liabilities		1,429	1,429
Accrued salaries and vacation pay		7,741	7,741
Accounts payables and accrued liabilities		23,358	23,358
Asset retirement obligations		19,676	19,676
Financial derivative instruments		892	892
Total	249,099	59,603	308,702

44. As indicated above, in the context of the implementation of the Care and Maintenance scenario, Stornoway intends to implement a temporary lay off in respect of approximately 450 employees. Should these layoffs become permanent, a total severance liability of

approximately \$23.6M will become payable to these employees representing an additional unsecured liability of Stornoway.

THE PROPOSED SALE AND INVESTMENT SOLICITATION PROCESS

45. One of the stated objectives of the restructuring process under the CCAA is to allow Stornoway to pursue a transparent court-authorized and supervised sale and investment solicitation process (the "**SISP**"), in respect of its shares, property, assets and/or business (collectively, the "**Business**") the whole with a view to maximizing the value of the Business for the benefit of all of its stakeholders.
46. The purpose of the SISP will be to solicit interest in, and opportunities for: (i) one or more sales or partial sales of all, substantially all, or certain portion of the Business and/or (ii) for an investment in, restructuring, recapitalization, refinancing or other form of reorganization of the Applicants and the Business, as a going concern or otherwise.
47. The SISP was developed by the Applicants in consultation with the Proposed Monitor and Deloitte Corporate Finance Inc. (the "**SISP Agent**") and the Applicants' secured creditors as well as certain other stakeholders have been informed of the SISP.
48. Stornoway's difficult liquidity situation, including its need to immediately implement the Care and Maintenance program as well as proceed with significant layoffs, requires the implementation of a SISP within a short and critical timeframe in order to preserve the value of the Business as well as jobs for the benefit of all of Stornoway's stakeholders.
49. Consequently, Stornoway has requested that the SISP and governing bidding procedures (the "**Bidding Procedures**") be approved concurrently with the issuance of the Proposed First Day Initial Order in accordance with the proposed SISP approval order sought pursuant to the Application (the "**Proposed SISP Order**").
50. The Proposed Monitor also believes that the approval of the SISP concurrently with the issuance of the Proposed First Day Initial Order and in accordance with the Proposed SISP Order is reasonable and appropriate in the circumstances.
51. Subject to Court approval, a two-phase SISP is proposed to be conducted as follows:
 - (i) Distribution of solicitation letters and signature of non-disclosure agreements (starting on November 3, 2023);
 - (ii) Access to the confidential information memorandum and virtual data room to potentially interested parties who entered into non-disclosure agreements (by no later than November 10, 2023);
 - (iii) Phase 1: bid deadline for non-binding letters of intent (January 19, 2024), followed by identification and notification in respect of Phase 1 satisfactory bid(s) (January 26, 2024);
 - (iv) Phase 2: definitive offers bid deadline (February 23, 2024) and selection of successful bid(s) (by March 8, 2024), which may contemplate one or more auctions;
 - (v) Approval of any successful bid(s) (March 29, 2024) by the Court and closing of successful bid(s) (April 5, 2024 or such earlier date as is achievable), with an outside closing date of April 19, 2024.

52. The proposed modalities of the SISP are more fully detailed in the Application and the Bidding Procedures.

KEY EMPLOYEES' RETENTION PROGRAM

53. Stornoway employs certain employees who are highly specialized and difficult to replace, especially in the context of the industry in which it operates but also because of some of the employees work remotely on site at the Renard mine.
54. Management has developed a key employee retention plan (the "**KERP**") to encourage key employees to remain employed by Stornoway. Management and the Proposed Monitor believe that maintaining the employment of certain key employees is essential to the successful restructuring of Stornoway and that in the absence of a retention and incentive plan for certain identified key employees, those employees are likely to seek other employment opportunities.
55. The KERP will provide participants with additional payments to encourage them to remain employed by Stornoway during the CCAA Proceedings.
56. The KERP targets a limited number of employees and has a total cost of approximately \$477k. A detail list of employees with supportive calculations is provided in Appendix B (under seal).
57. The Proposed Monitor has reviewed the KERP and believes that it is necessary in the circumstances noted above and that the milestones of the KERP are aligned with those of the proposed restructuring process, namely the contemplated implementation of the SISP.

CRITICAL SUPPLIERS

58. The Proposed Monitor has been informed by Management that certain suppliers who provide essential goods and services to operate the Business have not been paid in full for goods or services actually supplied to Stornoway in the weeks before the initiation of the CCAA Proceedings (the "**Critical Suppliers**").
59. Management has represented to the Proposed Monitor that it could become necessary to pay such amounts owing to the Critical Suppliers, for the following reasons:
- (i) Certain of the Critical Suppliers operate small businesses, such that if they are not paid they will be put in financial difficulty, which would in turn jeopardize the supply of essential goods to Stornoway during the Care and Maintenance period;
 - (ii) Many of these Critical Suppliers do not have a long-term contract with Stornoway, and could unilaterally cease providing the necessary goods and services to the Debtors; and
 - (iii) The Proposed Monitor has been informed that a number of these Critical Suppliers will not provide goods or services for the upcoming week if they have not been paid for the previous week, such that they would cease doing business with Stornoway, which would significantly impair Stornoway's ability to put in place its Care and Maintenance program in the coming months.
60. The Proposed Monitor believes that it is necessary in the circumstances that Management be authorized to (i) identify which of these suppliers are essential to the business and ongoing operations of Stornoway, and (ii) pay certain pre-filing claims of the Critical Suppliers, with the Proposed Monitor's prior written approval and provided that the payments of such amounts are made in accordance with the Cash Flow Statement (defined below).

61. The Proposed Monitor will monitor the payments to be done in relation to the pre-filing claims of the Critical Suppliers, will provide a detailed accounting and will regularly report to this Court in subsequent Monitor reports in this regard.

CHARGES SOUGHT IN THE PROPOSED FIRST DAY INITIAL ORDER AND THE PROPOSED INITIAL ORDER

Administration Charges sought in the Proposed First Day Initial Order

62. The Proposed First Day Initial Order provides that the Monitor, the SISP Agent, the Monitor's legal counsel (Osler Hoskin Harcourt LLP), the legal counsel for the Debtors (Norton Rose Fulbright Canada LLP), the legal counsel for Diaquem (McCarthy Tétrault LLP), and the legal and financial advisors of the Streamers (Stikeman Elliott LLP, Fasken LLP and FTI Consulting), as security for the professional fees and disbursements incurred both before and after the issuance of the First Day Initial Order and directly related to the CCAA Proceedings, the Plan and the Restructuring (but in the case of the legal and financial advisors of the Streamers, solely for the 2024 Streamers' Costs), are entitled to the benefit of a charge, hypothec and security in the Property, with the exception of the Stream Encumbered Property (as defined below), to the extent of the aggregate amount of \$500,000 (the "**General Administration Charge**"). The General Administration Charge has been established based on the respective professionals' previous experience with restructurings of similar magnitude and complexity.
63. The Proposed First Day Initial Order also provides that the legal and financial advisors of the Streamers (Stikeman Elliott LLP, Fasken LLP and FTI Consulting) are entitled to the benefit of a charge, hypothec and security (the "**Streamers Administration Charge**") in the Subject Diamonds Interest and the Stream Net Proceeds, as well as any Realization Proceeds and Insurance Proceeds with respect thereto (collectively, the "**Stream Encumbered Property**"), as security for the 2023 Streamers' Costs and the 2024 Streamers' Costs incurred directly in relation to the CCAA Proceedings, the Plan and the Restructuring, whether before or after the issuance of the First Day Initial Order.
64. The Proposed Monitor believes that the General Administration Charge and the Streamers Administration Charge are required and is reasonable under the circumstances.

Directors and Officers Charge sought in the Proposed First Day Initial Order

65. The Proposed Monitor understands that the Applicants hold insurance which provides for coverage with respect to directors' and officers' liability ("**D&O Insurance**"). The D&O Insurance has not been reviewed by the Proposed Monitor as of the date hereof.
66. The Proposed Monitor understands from the information provided by Management that there might be insufficient coverage in respect of certain potential directors' and officers' liabilities, notably in respect of wages, including accrued and accruing vacation pay and other employee related obligations.
67. It is expected that the directors of the Applicants will continue to serve if the Proposed First Day Initial Order is granted by the Court, and their committed and continued support is key to complete the restructuring process. The directors and officers are requiring indemnification against any obligations and liabilities that they may incur in such capacity.
68. The Proposed First Day Initial Order provides for a priority charge in the amount of up to \$3.9M in favor of the directors and officers of Stornoway in respect of liabilities incurred in such capacity after the issuance of the First Day Initial Order, except to the extent that such obligation or liability was incurred as a result of the directors' and officers' gross negligence, willful misconduct or gross or intentional fault ("**D&O Charge**").

69. As per the Application, the D&O Charge becomes effective only if the existing D&O Insurance is not responsive or sufficient, such that the added D&O Insurance coverage reduces the risk that the D&O Charge would be triggered.
70. The amount of the D&O Charge has been calculated by the Proposed Monitor, taking into consideration the periodic payroll costs of existing employees, the accruing and accrued vacation and average sales tax payments, having considered the analysis prepared by Stornoway in that regard. A detailed calculation of the potential exposure of the directors and officers that will benefit from the D&O Charge is provided in Appendix C.
71. The Proposed Monitor believes that the D&O Charge is required and is reasonable under the circumstances.

KERP Charge

72. The Proposed First Day Initial Order provides for a priority charge for the KERP in the amount of up to \$480K in favor of the employees covered by the KERP, as described earlier in this First Report (the "**KERP Charge**" and together with the Administration Charge, the D&O Charge and the KERP Charge, the "**CCAA Charges**").
73. The Proposed Monitor believes that the KERP Charge is required and is reasonable under the circumstances.

Adjustments to the CCAA Charges sought in the Proposed Initial Order

74. If the Proposed First Day Initial Order is granted, the Applicants will seek the issuance of the Proposed Initial Order, which will propose the following adjustments to the CCAA Charges:
- (i) An increase in the Administration Charge to the total amount of \$1M; and,
 - (ii) A reduction in the D&O Charge to a total amount of \$1.4M. The reduced amount results from the implementation of the Care and Maintenance scenario, and the temporary lay off of approximately 450.
75. The Proposed Monitor's views on the reasonableness of the modifications to the CCAA Charges to be sought pursuant to the Proposed Initial Order will be set out in its supplemental report to the Court.
76. The priorities of the CCAA Charges as between them are set out in the Proposed First Day Initial Order and the Proposed Initial Order.

OVERVIEW OF THE 4-WEEK CASH FLOW PROJECTIONS

77. Stornoway, with the assistance of the Proposed Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 4-week period from October 16, 2023, to November 12, 2023 (the "**Cash Flow Period**") for the purpose of projecting Stornoway's estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is provided in Appendix A (under seal) of this First Report.
78. The Cash Flow Statement has been prepared by Stornoway using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.
79. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by

Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

80. Based on the Proposed Monitor's review and the foregoing qualifications and limitations, nothing has come to its attention that causes it to believe that, in all material respects:
- (i) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;
 - (ii) As at the date of this First Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of Stornoway or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or
 - (iii) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.
81. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report. Neither does the Proposed Monitor express any opinion as to the performance of Stornoway's statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia* the payment of wages, the government remittances and the payroll deductions to be made by Stornoway.
82. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.
83. The key assumptions used in the Cash Flow Statement are based on the revised 2023 fiscal year operating plan. Stornoway's consolidated cash balance as of October 16, 2023, is estimated to be approximately \$4.2M. The Cash Flow Statement demonstrates that this liquidity level would be sufficient to fund the operations during the initial 4-week period.
84. Management anticipates more restrictive payment terms for purchases from suppliers following the announcement of the CCAA proceedings. As such, Management has anticipated certain "cash on delivery" purchases.
85. As appears from the Cash Flow Statement and the Application, in order to preserve the value of its operations with the view to completing the SISP, Stornoway intends to continue to pay its trade creditors for services rendered and goods supplied in the normal course of business during these CCAA proceedings.
86. Management has advised the Proposed Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

THE PROPOSED MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

87. The Proposed Monitor believes that the Applicants qualify for and should be granted the benefit of protection under the CCAA, in accordance with the Proposed First Day Initial Order (including granting of the charges provided for therein for the initial amounts set out above), and that the Proposed SISP Order should be granted concurrently as both will allow the Applicants the opportunity to proceed with the contemplated restructuring and to launch the SISP without delay, the whole for the benefit of their stakeholders.

88. The Proposed Monitor respectfully recommends that the Applicants' request for the Proposed First Day Initial Order and the Proposed SISP Order, including the ancillary relief described in this First Report be granted by this Court.
89. The Proposed Monitor respectfully submits to the Court this, its First Report.

DATED AT MONTREAL, this 26th day of October 2023.

DELOITTE RESTRUCTURING INC.

In its capacity as Proposed Court-Appointed Monitor of
the Petitioners



Benoit Clouâtre, CPA, CIRP, LIT
Senior Vice President



Jean-François Nadon, CPA, CIRP, LIT
President

APPENDIX A

CASH FLOW STATEMENT

(UNDER SEAL)

APPENDIX B

KEY EMPLOYEES RETENTION PROGRAM
("KERP")

(UNDER SEAL)

APPENDIX C

Directors and Officers Charge ("D&O Charge)

Initial Order:

Stornoway (in 000's CAD)	Estimated D&O Charge Calculation		
	Week 4	Week 6	Total
Salaries	3,285	476	3,761
Vacations	131	19	150
Total	3,416	495	3,911

Amended and Restated Initial Order:

Stornoway (in 000's CAD)	Estimated D&O Charge Calculation		
	Week 6	Week 8	Total
Salaries	476	861	1,337
Vacations	19	19	38
Total	495	880	1,375