

CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.: 500-11-063053-231

SUPERIOR COURT
Commercial Division

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

11272420 CANADA INC.

- and -

STORNOWAY DIAMONDS (CANADA) INC.

Debtors

- and -

DELOITTE RESTRUCTURING INC.

Monitor

**THIRD REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS MONITOR**
(Companies' Creditors Arrangement Act)

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.
2. On October 27, 2023, 1127420 Canada Inc. ("**1127**") and Stornoway Diamonds (Canada) Inc. ("**SCD**") (collectively "**Stornoway**", the "**Company**" or the "**Debtors**") filed an *Application for the Issuance of an Initial Order, an Amended and Restated Initial Order and Ancillary Relief* (the "**Initial Application**") under the *Companies' Creditors Arrangement Act* ("**CCAA**"), before the Superior Court of Québec (the "**Court**") seeking the appointment of Deloitte Restructuring Inc. as the CCAA monitor in these proceedings (the "**Proposed Monitor**") and various other relief measures.

3. On October 26, 2023, Deloitte, then in its capacity as Proposed Monitor, filed its first report to the Court (the "**First Report**") as part of the Debtors' CCAA proceedings (the "**CCAA Proceedings**"). The purpose of the First Report was 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.
4. On October 27, 2023, the Court granted the Initial Application and rendered the First Day Initial Order and the SISP Approval Order which provided for, inter alia, i) a stay of proceedings against the Debtors until and including November 6, 2023 (the "**Stay Period**"); ii) a stay of proceedings against the Directors and Officers; iii) the appointment of Deloitte Restructuring Inc. as the monitor under the CCAA ("**Deloitte**" or the "**Monitor**"); iv) authorization to pay critical suppliers, v) a General Administration Charge of \$500K, a Streamers Administration Charge on the Stream Encumbered Property, a D&O Charge of \$3.9M and a KERP Charge of \$480K, and vi) approval of the sale and investment solicitation process ("**SISP**").
5. On November 3, 2023, the Court rendered the Restated Initial Order which provided for an extension of the Stay Period to November 13, 2023, following its initial expiry on November 6, 2023.
6. On November 9, 2023, the Monitor filed its Second Report (the "**Second Report**"). The purpose of the Second Report was to provide information to the Court with respect to i) update regarding Stornoway's communications to stakeholders and operations ii) the Monitor's activities since the First Report iii) the SISP iv) payments to critical suppliers v) charges sought in the Proposed Initial Order vi) Key Employee Retention Program vii) environmental matters viii) cash flow results for the 2-week period ended October 29, 2023, ix) overview of the Cash Flow Projections, and x) request for an extension of the Stay Period until January 24, 2024.
7. On November 13, 2023, the Court rendered an Amended and Restated Initial Order. The Court also extended the Stay Period until January 25, 2024.
8. On January 19, 2024, the Debtors filed and Application for the Issuance of a Second Amended and Restated Initial Order and Ancillary Relief (the "**Application**").
9. Capitalized terms not otherwise defined herein have the meaning ascribed to them in the First Report, the Second Report or the Initial Application under the CCAA.
10. The purpose of this third report of the Monitor (the "**Third Report**") is to provide information to the Court with respect to:
 - I. Update regarding Stornoway's communications and operations;
 - II. The Monitor's activities since the Second Report;
 - III. Update on the SISP;
 - IV. Payments to critical suppliers;
 - V. Environmental matters;

- VI. Cash flow results for the 10-week period ended January 7, 2024;
 - VII. Overview of the Cash Flow Projections and authorization of certain payments to unaffected creditors;
 - VIII. Key employee's retention program trust;
 - IX. Extension of the Stay Period; and
 - X. The Monitor's conclusions and recommendations.
11. In preparing the Third Report and making the comments herein, the 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**"):
- (i) 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 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 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 Third 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.
12. Future oriented financial information referred to in this Third 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 indicated, the Monitor's understanding of factual matters expressed in the Third Report concerning Stornoway and their business is based on the Information, and not independent factual determinations made by the Monitor.

I. UPDATE REGARDING STORNOWAY'S COMMUNICATIONS AND OPERATIONS

14. Since the granting of the Amended and Restated Initial Order, Stornoway has had communications with many of its main suppliers and other key stakeholders to explain the current situation and the next steps relating to the proposed restructuring (the "**Restructuring Process**").
15. Stornoway has pursued its ongoing discussions with its secured lenders Osisko Gold Royalties Ltd., CDPQ Ressources Inc., TF R&S Canada Ltd., Washington State Investment Board, Albion Exploration Fund LLC (collectively, the "**Streamers**") and their respective legal and/ or financial advisors as well as with Diaquem Inc. ("**Diaquem**") and its legal advisor, including by providing them with all requested information and documentation relating to the Restructuring Process.

16. Stornoway and the Monitor have had several discussions and exchanges of information in order to:
 - a) Actively provide information to parties participating to the SISP;
 - b) Manage the transfer, transport and sales of diamonds;
 - c) Manage all issues raised to the Monitor by Stornoway with respect to the employees;
 - d) Optimize working capital and implement various cost reduction measures;
 - e) Organize individual meetings with key stakeholders of Stornoway, including main suppliers and contractors;
 - f) Ensure the continuation and viability of key contracts;
 - g) Ongoing review of the environmental obligations of Stornoway;
 - h) Manage the camp renovation on Unit A; and,
 - i) Coordinate the return of the explosive inventories out of the Renard mine.
17. Stornoway has been proactive in responding to the different stakeholders' inquiries relating to the CCAA Proceedings and the Restructuring Process.
18. Stornoway remained careful and vigilant in managing its liquidities. As previously reported to the Court, Stornoway focused on limiting costs by placing the Renard mine in Care and Maintenance during the Restructuring Process. With the assistance of the Monitor, Stornoway continues to explore the possibility of further reducing the costs of Care and Maintenance operations.
19. Stornoway continued to operate as a going concern under Care and Maintenance and pay their current employees and their suppliers in the normal course of business, for services rendered since the beginning of the CCAA Proceedings.
20. To the Monitor's knowledge, the Debtors remained in compliance with the provisions of the Amended and Restated Initial Order and the SISP Approval Order since their issuance, and have acted in good faith and with due diligence.

II. THE MONITOR'S ACTIVITIES SINCE THE SECOND REPORT

21. Since the Second Report and following the establishment of a dedicated email address (stornoway@deloitte.ca) and a phone number (514-369-9666), the Monitor has responded to inquiries received from various parties in respect of the Restructuring Process and the CCAA proceedings. The inquiries pertaining to the SISP were directed to Deloitte Corporate Finance Inc. (the "**SISP Agent**").
22. Since the Second Report, the Monitor posted a copy of the CCAA Proceedings' materials, the Second Report of the Monitor as well as the Amended and Restated Initial Order on the Monitor's Website, which it updates on a regular and proactive basis.
23. On November 14, 2023, a second notice to creditors was published in La Presse+ (French version) and in the Globe and Mail National Edition (English version), as provided by the First Day Initial Order.
24. On November 21, 2023, a press release setting out the Notice of the Sale *and Investment Solicitation Process* was issued with Canada Newswire as provided by the Bidding Procedures Order.
25. In addition, the *Notice of Sale and Investment Solicitation Process* was published on the in La Presse + (French version) and in the Globe and Mail National Edition (English version) on November 27, 2023, as provided by the Bidding Procedures Order.

26. The Monitor assisted the Debtors in their discussions with their main suppliers and other key stakeholders. The Monitor has also participated in meetings with several stakeholders since the Second Report, including:
 - a) Stornoway's main secured creditors, the Streamers and Diaquem;
 - b) Holders of construction hypothecs; and
 - c) Certain unsecured creditors, employees and other stakeholders.
27. More generally, the Monitor has been responding to questions and inquiries of various stakeholders in relation to the CCAA Proceedings and the Restructuring Process.
28. Since the Second Report, the Monitor continued to work with Stornoway to develop and implement procedures to monitor the Company's activities in view of reporting to the Court.
29. The Monitor has had multiple communications and discussions with the SISP Agent and the Company regarding the preparation and progress of the SISP.
30. The Monitor is also holding regular discussions with the Company and its board members and is being kept apprised, on a daily basis, in respect of:
 - a) Stornoway's operations; and
 - b) any other issues encountered by Stornoway.
31. The Monitor implemented a daily review of Stornoway bank accounts' receipts and disbursements. Since the Second Report, daily information relating to the payment of goods or services supplied to the Debtors has been presented to the Monitor by Stornoway. The Monitor received full cooperation from Management.
32. The Monitor has continued to assist Stornoway in preparing revised cash flow projections and modeling the different scenarios regarding the funding of its operations.

III. UPDATE ON THE SISP

33. Since the issuance of, and pursuant to the SISP Approval Order, the Debtors initiated steps to implement the SISP which is intended to solicit interest in Stornoway's business and assets through one or more transactions; and/or an investment, recapitalization, refinancing or other form of reorganization transaction(s) (collectively, the "**Opportunity**"). The SISP is being conducted by Stornoway, with the assistance of the SISP Agent, and under the oversight of the Monitor, the whole in accordance with the SISP procedures approved by the Court pursuant to the SISP Approval Order (the "**Bidding Procedures**").
34. Since the issuance of the Bidding Procedures and in the accordance with its terms, the Monitor has taken the following actions:
 - a) Stornoway, with the assistance of the SISP Agent and Stornoway's legal advisors, prepared a letter describing the opportunity (the "**Solicitation Letter**") outlining the SISP and inviting recipients to express their interest pursuant to the SISP. For parties having executed a non-disclosure agreement ("NDA"), a confidential information memorandum ("**CIM**") and a virtual data room ("**VDR**") in which all the available information in order to assess the current opportunities was made available to the interested parties having executed the NDA;
 - b) On October 30, 2023, the Monitor posted a copy of the Bidding Procedures on the Monitor's Website;

- c) On November 13, 2023, the SISP Agent, under the oversight of the Monitor, commenced the distribution by email of a Solicitation Letter to 68 potentially interested parties;
 - d) On November 14, 2023, the Monitor posted a copy of the Solicitation Letter on the Monitor's Website;
 - e) The Monitor published a notice of the SISP with respect to the Bidding Procedures Order in *La Presse +* and in the *Globe and Mail National Edition* on November 27, 2023, and issued a press release in *Canada Newswire* on November 21, 2023;
 - f) The Monitor has been advised that the SISP Agent followed up on a regular basis with potential interested parties having received the Solicitation Letter, by emails, phone calls and meetings. The Monitor also understands that the SISP Agent followed up with additional interested parties that were added to the list of potentially interested parties after the initial distribution of the Solicitation Letter. Many approaches were made by the SISP Agent to contact potential interested parties and attract them to the Opportunity;
 - g) The Monitor understands that the SISP Agent attended numerous discussions and conference calls with potential bidders and their representatives; and,
 - h) The SISP Agent and the Monitor participated in regular conference calls with Management and the Board members to provide them updates on the progress of the SISP. These discussions were held collaboratively, and any material decision taken in connection with the SISP was made consensually by the Debtors, the Monitor, the SISP Agent, the Streamers and Diaquem.
 - i) Certain highlights of the SISP, as reported by the SISP Agent, can be summarized as follows:
 - i. 68 potentially interested parties were contacted directly by the SISP Agent, in addition to the notice of the SISP published or issued;
 - ii. 28 potentially interested parties participated in more serious discussions about the opportunity or confirmed that they were not interested;
 - iii. 11 interested parties executed an NDA, received the CIM and were granted access to the VDR;
 - iv. 10 interested parties have access the VDR; and,
 - v. Non-binding Letters of intent ("**LOIs**") were received prior to the Phase 1 Bid Deadline.
35. Interested parties that participated in Phase 1 of the SISP had until January 19, 2024 ("**Phase 1 Bid Deadline**") to provide a non-binding LOI as described in the Bidding Procedures.
36. Based on the various discussions with prospective bidders during Phase 1 of the SISP, it was apparent to the Monitor that the Stornoway mine was already very well known by most of the strategic and industry leaders.

37. During a meeting held on January 19, 2024, the board of directors of Stornoway reviewed the LOIs in accordance with paragraph 16 of the Bidding Procedures and agreed that the SISP process should continue with the objective of achieving an acceptable transaction. The Monitor attended the board meeting and participated in the discussions.
38. As provided under the Bidding Procedures, Stornoway, in consultation with the Monitor, the SISP Agent, the Streamers and Diaquem, is seeking clarifications and/or negotiating amendments with the Phase 1 Qualified Bidders (as defined in the Bidding Procedures). It is expected that the SISP Agent will notify the Phase 1 Qualified Bidders in writing as to whether their respective bid constitutes a Phase 1 Satisfactory Bids (as defined in the Bidding Procedures) by no later than January 26, 2024.
39. Stornoway consulted with its main secured creditors, the Streamers and Diaquem, as provided for in the Bidding Procedures and it was determined that pursuing the SISP is in the best interest of Stornoway and its stakeholders, including the Streamers and Diaquem.
40. In the event that the SISP is unsuccessful and is terminated prior to March 29, 2024, the Monitor shall assist the Debtors in implementing an orderly liquidation and wind-down of their assets and operations.

IV. PAYMENTS TO CRITICAL SUPPLIERS

41. The First Day Initial and Amended and Restated Order provides that Stornoway may, with the prior consent of the Monitor and subject to certain conditions, pay amounts owing for goods or services actually supplied to Stornoway prior to the First Day Initial Order by third party suppliers up to a maximum aggregate amount of \$3.6 million, if, in the opinion of Stornoway and the Monitor, the supplier is critical to the business and the continued operations (the "**Critical Suppliers**").
42. Given the current situation and developments in the CCAA Proceedings, the Debtors are of the view that it is not currently necessary to modify the maximum aggregate amount.
43. As of the date of this report, the Monitor has approved Critical Suppliers payments totaling \$1.648 million, of which \$1.2 million (72.8%) is related to a single critical supplier. The amount paid to this critical supplier will reduce the registered legal hypothec for construction liens on Stornoway's real estate property. Stornoway would have had to pay this critical supplier to release the legal hypothec.
44. The opportunity and extent of payments to Critical Suppliers will depend namely on the ongoing discussions with creditors and other stakeholders, which discussions will impact the measures and steps of the Restructuring Process and allow Stornoway to maximize the value of its assets.
45. The Debtors and the Monitor are still of the view that such payments to Critical Suppliers will be marginal.

V. ENVIRONMENTAL MATTERS

46. Since the issuance of the Second Report, the Monitor continues to have frequent discussions with the employee responsible for environmental matters with a view to establish whether the proper safeguards and procedures are in place and in order to identify if any actions are required in this regard.

47. There has not been any environmental incident during the reporting period that has not been addressed by Stornoway and communicated to the environmental authorities in the normal course of business. As of the date of this Third Report, the Monitor has not been made aware of any issues that would necessitate immediate action.
48. Furthermore, since Stornoway has been advised that during the period of care and maintenance of the Renard Mine, it should not keep explosives on the mine to comply with environmental requirements given that some of the explosives held by Stornoway have expired and others have limited shelf life, Stornoway proceeded with and paid for the disposal costs of same to become compliant with the environmental requirements. As of the date of this report, all the explosives have been removed from the mine site.
49. In addition, Stornoway and the Monitor, in consultation with the Streamers and Diaquem reviewed and evaluated Stornoway's environmental obligations in the event of the closure of the Renard Mine.
50. As appears from the Application, Stornoway was required to submit to the *Ministère des Ressources naturelles et des forêts* ("**MNR**") a rehabilitation and restoration plan for its environmental obligations under the *Mining Act*.
51. In 2018, Stornoway submitted a plan with an estimated cost of \$21.4M for the restoration of the Renard mine site. This plan includes, amongst other things, restoration of accumulation areas, revegetation of surfaces, demolition and dismantlement of building and equipment, necessary workforce and associated costs and 5 years of site monitoring. On May 5, 2021, the MNR approved this plan (the "**Approved Plan**").
52. The Mining Act also requires Stornoway to provide and maintain in force a guarantee covering the anticipated cost of completing the rehabilitation and restoration under the Approved Plan. On February 23, 2023, XL Specialty Insurance Company ("**XL**") issued a guarantee in favour of the MNR to secure the rehabilitation and restoration costs in the amount of \$21.4M (the "**XL Guarantee**").
53. On February 17, 2023, Stornoway entered into a general indemnity agreement with XL (the "**XL Indemnity**"). Under the XL Indemnity, Stornoway undertook to indemnify XL for any damages arising from the XL Guarantee or any claim relating thereto.
54. As indicated in the Initial Application, as security for its obligations under the XL Indemnity, Stornoway provided cash collateral in the approximate amount of \$5.4M (representing 25% of the estimated cost of the Approved Plan) and a hypothec on certain movable property of Stornoway in the amount of \$21.4M (the "**XL Hypothec**"). The Monitor understands that the XL Hypothec ranks behind those of Diaquem and the Streamers on these same assets, and XL does not benefit from any cession of rank from Diaquem or the Streamers.
55. A revised rehabilitation and restoration plan dated June 2023 has been submitted to the MNR, with revised total restoration costs estimated at \$25M (the "**Revised Plan**"). The increase to \$25M is mainly explained by the inflation over the last 5 years.
56. This Revised Plan has not yet been approved by the MNR, but if approved, Stornoway will have to provide an additional guarantee to cover any increase in the estimated restoration costs, whether by amending the XL Guarantee or otherwise.
57. The XL Guarantee expires on February 23, 2024, but will be automatically renewed in accordance with its terms, as advised by the Debtors.

58. In the case of the non-renewal, termination, revocation or cancellation of the XL Guarantee, XL shall remain liable, where the requirements of sections 232.1 to 232.10 of the *Mining Act* are not met, for the payment of the cost of the work involved in mining operations carried out before the date of expiry, termination, revocation or cancellation up to the amount covered by the XL Guarantee (i.e. \$21.4M).

VI. CASH FLOW RESULTS FOR THE 10-WEEK PERIOD ENDED JANUARY 7, 2024

59. The highlights of Stornoway's financial performance for the period commencing on October 30, 2023, and ending on January 7, 2024, are presented in the Actual Cash Flow annexed below as **Appendix A**.

60. The table below provides an overview of the cash balances and the cash variances by Stornoway from October 30, 2023, to January 7, 2024:

Stornoway Cash Variation For the Period of October 30, 2023 to January 7, 2024 (In 000's CAD)	
Cash and Cash Equivalents - Beginning	8,596
Net Variation in Cash Balance	30,592
Cash and Cash Equivalents - Ending	<u>39,188</u>

61. The Monitor's comments on the financial performance of Stornoway during such period are the following:

- a) Compared with the initial statement of projected cash flow presented to the Court in the Second Report dated November 13, 2023 (the "**Initial Cash Flow Statement**"), Stornoway experienced a favorable variance of approximately \$999K in respect to the cash inflows. The variance is primarily attributable to:
 - i. Stornoway has yet to collect \$1,840K in pre-filing sales taxes credits, which was budgeted for the week ended November 26. This variance is due to a timing issue as tax refunds during CCAA proceedings are subject to more analysis and delays from tax authorities;
 - ii. During this period, Stornoway had better than expected revenue from the sales of diamonds which causes a permanent favorable variance of \$2,545K.
 - iii. The payments to Streamers on the diamond sales occurred during the last 10-week period ended January 7, 2024, were made in accordance with the Initial Cash Flow Forecast.
- b) Compared with Initial Cash Flow Statement, Stornoway experienced an unfavorable variance of \$301K in respect to the cash outflows:
 - i. Favorable variance of \$888K in payroll costs mainly due to a lower actual amount of payroll than budgeted in the first weeks of the Care and Maintenance operations;
 - ii. Favorable variance of \$1,143K in vacation expense. This variance is however due to timing as some temporary laid-off employees requested for their vacation to be paid in 2024;

- iii. Favorable variance of approximately \$1,352K for payment to Critical Suppliers;
 - iv. Unfavorable variance of \$3,341K for vendors payment (excluding Critical Suppliers) as Management underestimated the liquified natural gas and transportation costs during the Care and Maintenance period; and,
 - v. Unfavorable variance for the restructuring fees of \$343K due to the intensity of labour at the beginning of the CCAA. The restructuring fees also include deposit for professionals.
- c) Compared with the Initial Cash Flow Statement, Stornoway experienced a net favorable variance of approximately \$14.6M relating to certain payments to the unaffected creditors. This variance mainly is explained by the temporary postponement on payments for the royalties to Diaquem (\$1.2M), the senior loan interest (\$2.3M) and the cash sweep 2022 (\$11M) totaling approximately \$14.5M that were projected to be paid (as previously authorized by the Court) in the weeks ending December 24 and 31, 2024, in the Initial Cash Flow Statement (collectively, the "**December Payments**"). As further described in the next section of this report, the Debtors are seeking the issuance of an order confirming that Stornoway may proceed with the December Payments, as initially authorized by the Court as part of the ARIO.
- d) In summary, compared with the Initial Cash Flow Statement, Stornoway experienced a net favorable variance of approximately \$15.3M.
62. As of the date of this Third Report, all post-filing expenses incurred by Stornoway have been or will be paid in the normal course of business.

VII. OVERVIEW OF PROJECTED CASH FLOW AND AUTHORIZATION OF CERTAIN PAYMENTS TO UNAFFECTED CREDITORS

63. Stornoway, with the assistance of the Monitor, has prepared the projected cash flow (the "**Cash Flow Statement**") for the 13-week period commencing on January 1 and ending on March 29, 2024 (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 attached as **Appendix B** to this Third Report.
64. Presented in the table below is a summary of the Cash Flow Statement:

Stornoway Summary of the Cash Flow Statement Ending March 29, 2024 (In 000's CAD)	
Cash and Cash Equivalents - Beginning	38,591
Net Variation in Cash Balance	(26,638)
Cash and Cash Equivalents - Ending	<u>11,954</u>

Overview of the projected Cash Flow Statement

65. The Cash Flow Statement has been prepared by Stornoway using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.
66. The Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by the Management.
67. Since the hypothetical assumptions do not need to be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation of the Cash Flow Statement.
68. Based on the 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:
- a) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;
 - b) As at the date of this Third Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans or Stornoway or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or,
 - c) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.
69. 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 Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The 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 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.
70. 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.

Application for the issuance of an order approving certain payments to unaffected creditors

71. The Debtors seek *de bene esse* a confirmation from the Court that they are authorized to make the December Payments to the unaffected creditors, the Streamers and Diaquem.
72. As shown in Appendix A, the Court previously authorized and ordered the Debtors to make the December Payments in the weeks ending December 24 and 31, 2024, along with the other payments contemplated in the Initial Cash Flow Statement which was submitted to, and approved by, the Court as part of the ARIQ. However, such payments were temporarily

postponed, which resulted in a positive variance in the cashflow. The December Payments are now included in the Cash Flow Statement as illustrated in Appendix B of this Third Report.

73. As provided in the Initial Order and the ARIO, the Streamers and Diaquem were declared to be unaffected creditors throughout the CCAA Proceedings, subject to the terms of their respective contracts, agreements or arrangements with the Debtors. This was a fundamental consideration for the Streamers and Diaquem to support the Debtors' Restructuring Process.
74. As unaffected creditors, the Streamers and Diaquem were to receive all of payments contemplated by the Initial Cash Flow Statement, which was approved by the Court, including the December Payments.
75. However, in December 2023, following the sale of their remaining diamond inventory and the payments made to the Streamers and other payments made in accordance with the Initial Cash Flow Statement, and the resulting availability of liquidities, the Debtors, in light of the ongoing SISP and review and consideration of potential environmental remediation and restoration obligations, advised the Streamers and Diaquem that they had decided to temporarily postpone the December Payments and seek a confirmation from the Court on a *de bene esse* basis that they could indeed make such payments out of an abundance of caution.
76. The Debtors are now seeking, on a *de bene esse* basis, a confirmation from this Court that they can proceed with and make the December Payments to the applicable Streamers and Diaquem, as provided for in the Cash Flow Statement, namely considering the following:
 - a) The December Payments previously ordered to be made by this Court and were forecasted in the Initial Cash Flow Projections which this Court also approved;
 - b) The December Payments, along with the other payments contemplated in the Initial Cash Flow Statement, were a fundamental consideration for the Streamers and Diaquem to support the Debtors' Restructuring Process, and payment of same remains necessary in order to ensure such continued support while pursuing to the SISP and these CCAA Proceedings;
 - c) As of the date hereof, the SISP remains ongoing and there is a possibility that a going concern transaction may result therefrom, and discussions remain ongoing with potential investors or purchasers with respect thereto;
 - d) While the Monitor cannot disregard the possibility that the SISP may not lead to a going concern transaction, the treatment of the end-of-life environmental obligations will be addressed, taking into account, *inter alia*, the proceeds that are expected to be generated by the liquidation of the Debtors' assets, the XL Guarantee, and the then remaining liquidities of the Debtors, if any, subject to the rights of the unaffected creditors; and, finally,
 - e) The December Payments will not negatively affect the Debtors' ability to finance their care and maintenance operations and their Restructuring Process;
77. As things currently stand, based on the Cash Flow Statement, which includes the payment of the December Payments (in the aggregate amount of \$14.5M) together with the projected burn rate, Stornoway's total liquidities are estimated to be in the amount of \$11.9M as at March 29, 2024. While these remaining liquidities will be insufficient to cover in full the restoration and rehabilitation costs as set out in the Approved Plan or the Revised Plan which are estimated respectively at \$21.4M and \$25M, it's important to note however that these liquidities do not include proceeds resulting from a liquidation of Stornoway's assets or

proceeds that would be available under the XL Guarantee. Indeed, reliance on the XL Guarantee may be necessary to fund any remaining rehabilitation and the remediation costs of the mine, which may allow said restoration and rehabilitation obligations to be covered in full.

78. This being said, the Debtors' rehabilitation and the remediation obligations in respect of the Renard mine site will only become relevant should the SISP be unsuccessful and not result in a going concern transaction.
79. As indicated above, the SISP Agent received non-binding LOIs prior to the Phase 1 Bid Deadline. As such, the Debtors believe that based on the expressions of interests received and the ongoing discussions with potential investors, a successful outcome of the SISP with a transaction preserving the going concern activities of the Debtors is a realistic and reasonable possibility.
80. In light of the above, the Monitor is of the view that it is appropriate and reasonable for the Court to authorize, *de bene esse*, the December Payments to the Streamers and Diaquem.
81. As indicated in the Application, the Debtors intend to return to Court for approval of any further payments to the unaffected creditors.

Conclusion on the projected Cash Flow Statement

82. As indicated previously in this Third Report, Stornoway should have sufficient liquidity to continue to meet its obligations during the extension period.

VIII. KEY EMPLOYEE'S RETENTION PROGRAM TRUST

83. 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.
84. On November 13, 2023, the Court issued the ARIO, declaring that the beneficiaries of the KERP are entitled to the benefit of and are thereby granted a charge, hypothec and security affecting the General Encumbered Property to the extent of the aggregate amount of \$480K (the "**KERP Charge**").
85. To secure this obligation from the uncertainties surrounding the SISP and end-of-life environmental obligation, Stornoway wishes to set aside an amount equal to the payments set out in the KERP Agreements (collectively, the "**KERP Amount**") in trust with the Monitor or a third party trust agent (the "**KERP Trust**"). The KERP Trust will ensure the availability of the KERP Amount irrespective of the outcome of any uncertainties with respect to the SISP and Stornoway's environmental obligations.
86. The amount to be transferred in the KERP Trust is detailed in the KERP Trust calculation in Appendix C (under seal). This amount also includes retention incentives for two additional employees (the "**Retention Amount**"), which were not included in the KERP Charge, but that are deemed essential to the successful restructuring of Stornoway and that in the absence of a retention and incentive plan, are likely to seek other employment opportunities.
87. The Monitor understands that the Retention Amount for these two employees was supported by the Streamers and Diaquem before the issuance of the Initial Order. The retention incentives terms and conditions are reasonable and comparable to a restructuring process of similar magnitude.

88. The Monitor believes that the KERP Trust sought by the Debtors is reasonable and appropriate in the circumstances to secure the KERP Amount and Retention Amount in more certainty than the KERP Charge, especially for the Retention Amount for which no charge has been granted by the Court.
89. As a result, Stornoway also seeks the cancellation of the KERP Charge, effective upon the issuance of a certificate confirming the implementation of the KERP Trust and the confirmation of the transfer of the KERP and Retention Amounts set forth in Appendix C.
90. The Monitor believes that the replacement of the KERP Charge with the KERP Trust is appropriate and reasonable in the circumstances.

IX. EXTENSION OF THE STAY PERIOD

91. The current Stay Period expires on January 25, 2024.
92. The Debtors are seeking an extension of the Stay Period until March 29, 2024, in order to continue and complete the ongoing SISP or, alternatively, to prepare the initiation of an orderly termination of Stornoway's operations as a going concern and the liquidation of its assets should the SISP does not result in a successful bid and transaction.
93. The Stay Period allows Stornoway to operate in a more structured and stable environment, and for Management to fully concentrate on the Restructuring Process, the ongoing SISP and on the operations of Stornoway in this particular context, the whole for the benefit of all stakeholders.
94. Moreover, at the expiry of the Stay Period being sought, phases 1 and 2 of the SISP will have been completed (subject to any further extension as may be necessary) and a successful bidder may have been selected by the Stornoway. Stornoway and the Monitor will therefore have clearer visibility at that time as to potential outcomes from the SISP.
95. The Monitor is informed that Stornoway intends to continue to pay its trade creditors for services rendered and goods provided in the normal course of business during the CCAA Proceedings.
96. As demonstrated by the Cash Flow Statement, Stornoway should have sufficient liquidity to continue to meet its obligations during the extension period.

X. CONCLUSIONS AND RECOMMENDATIONS

97. In light of the foregoing, the Monitor is of the view that:
 - (i) The extension of the Stay Period up to March 29, 2024, is required to continue the SISP for the benefit of all its stakeholders and preserve the value of Stornoway's assets;
 - (ii) Based on the information presently available, the Monitor believes the Debtors' creditors will not be materially prejudiced by the requested extension of the Stay Period, the authorization of the December Payments to the unaffected creditors and the implementation of a KERP Trust; and,
 - (iii) The Debtors have acted, and are acting, in good faith and with due diligence, which make the requested extension of the stay of proceedings appropriate.

98. Accordingly, the Monitor supports the relief sought by the Debtors in the Application.
99. The Monitor confirms that there is no further material development to report in this matter, other than what is provided for in this Third Report.
100. The Monitor respectfully submits to the Court this, its Third Report.

DATED AT MONTREAL, this 22nd day of January 2024.

DELOITTE RESTRUCTURING INC.

In its capacity as Court-Appointed Monitor of
Stornoway



Jean-François Nadon, CPA, CIRP, LIT
President



Benoit Clouâtre, CPA, CIRP, LIT
Senior Vice President

Appendix A

Under Seal

Appendix B

Under Seal

Appendix C

Under Seal