

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED**

**AND IN THE MATTER OF A PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
JTI-MACDONALD CORP.**

**EIGHTH REPORT OF THE MONITOR
September 18, 2020**

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INTRODUCTION

1. On March 8, 2019, JTI-Macdonald Corp. (“**JTIM**” or the “**Applicant**”) filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the “**CCAA**”). Pursuant to the Order of this Court granted on the same date (the “**Original Initial Order**”), Deloitte Restructuring Inc. was appointed as the Monitor in these proceedings (in such capacity, the “**Monitor**”). The proceedings commenced by the Applicant under the CCAA are referred to herein as the “**CCAA Proceedings**”.
2. The CCAA Proceedings are being conducted in parallel with CCAA proceedings of Imperial Tobacco Canada Limited and Imperial Tobacco Company Limited (collectively, “**ITL**”), and Rothmans, Benson & Hedges Inc. (“**RBH**”, together with JTIM and ITL, the “**CCAA Applicants**”). The stated objective of these parallel, unconsolidated CCAA proceedings is to provide the CCAA Applicants with an opportunity to identify and settle multi-billion dollar claims against each of them through a structured process.

3. In furtherance of the collective goal of resolving numerous, substantial and complicated claims, the Honourable Warren K. Winkler, Q.C. has been appointed as mediator (the “**Court-Appointed Mediator**”), with a mandate to oversee and coordinate a multiparty, comprehensive mediation among the CCAA Applicants and their key stakeholders (the “**Mediation**”).
4. As further set out in this Eighth Report of the Monitor (the “**Eighth Report**”), the Applicant has been working diligently and in good faith and is participating in the Mediation in order to achieve a pan-Canadian resolution of various claims being asserted against it and the other CCAA Applicants. The Mediation and the issues being addressed pursuant thereto are complex. As a result, additional time is required for the Mediation process to unfold beyond September 30, 2020, when the stay of proceedings ordered by the Original Initial Order, as subsequently extended by further orders of the Court (the “**Stay**”), expires.
5. JTIM has accordingly brought a motion seeking an order extending the Stay through to March 31, 2021, which will enable it to continue to advance the Mediation. For the reasons set out in this Eighth Report, the Monitor supports the requested Stay extension. JTIM’s day-to-day business and operations have continued in the ordinary course, against this backdrop of the Court-supervised CCAA Proceedings, and are expected to continue in the ordinary course through the period to March 31, 2021.

PURPOSE

6. The purpose of this Eighth Report is to provide the Court with information and updates on the following:
 - a) a background summary of these CCAA Proceedings, including the orders and endorsements made to date herein;
 - b) the activities of JTIM and the Monitor from February 13, 2020, the date of the Seventh Report of the Monitor filed in connection with the previous motion to extend the Stay granted in the CCAA Proceedings (the “**Seventh Report**”), to the date of this Eighth Report;
 - c) a comparison of actual cash flow results against forecast, for the first 31-week period of the 35-week cash flow statement (the “**Cash Flow Statement**”) that was included in the Seventh Report. The Cash Flow Statement covered the 35-week period from February 3, 2020 to October 2, 2020, and the comparison is against the first 31 weeks, ending September 4, 2020;
 - d) JTIM’s revised cash flow projection (the “**Revised Cash Flow Statement**”) for the 30-week period from September 7, 2020 to April 2, 2021 (the “**Revised Cash Flow Period**”);
 - e) the Applicant’s request for an Order to extend the Stay to March 31, 2021; and
 - f) the Monitor’s recommendation.

7. This Eighth Report should be read in conjunction with the Affidavit of William Aziz sworn September 18, 2020 in support of the Applicant's motion for the extension of the Stay (the "**Aziz Affidavit**").

TERMS OF REFERENCE AND DISCLAIMER

8. In preparing this Eighth Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by JTIM, and discussions with management and advisors of the Applicant ("**Management**") (collectively, the "**Information**").
9. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Generally Accepted Assurance Standards ("**Canadian GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.
10. Due to restrictions imposed as a result of the Coronavirus pandemic ("**Covid-19**"), the Monitor has been unable to perform usual procedures to verify or test information provided by Management, including physical attendance at JTIM's premises and meetings with Management.

11. Some of the information referred to in this Eighth 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 Eighth Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
13. While this Eighth Report does reference some of the known impacts of Covid-19 on the Applicant's current and future operations, there may be further impacts not yet identified that may impact sales, production, supply chain or any other aspect of the business, which may have an adverse impact on the performance of the Applicant. Readers should consider the increasingly broad effects on the financial condition of the Applicant, as a result of the negative impact on Canada, the global economy and major financial markets from Covid-19.
14. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

HISTORY OF THE CCAA PROCEEDINGS

15. As noted above, the Original Initial Order was granted on March 8, 2019, commencing these CCAA Proceedings and appointing the Monitor. The Original Initial Order provided

for the Stay in respect of, among other parties, the Applicant, until and including April 5, 2019. Pursuant to the terms of the Original Initial Order, the Stay could be lifted with leave of the Court or on the consent of the Applicant and the Monitor.

16. On March 19, 2019, the Court issued an endorsement (the “**March 19 Endorsement**”) suspending, until further order of the Court, the payment of principal and interest, in respect of certain secured indebtedness, and royalties owing by the Applicant to JTI-Macdonald TM Corp. (acting through its privately appointed receiver, PricewaterhouseCoopers Inc. (the “**TM Receiver**”)) in respect of certain licensed trademarks.
17. On April 5, 2019, the Original Initial Order was amended and restated (the “**Amended Initial Order**”) to, among other things, clarify that certain Court-ordered charges do not apply to cash collateral provided by the Applicant to certain third parties and appoint the Court-Appointed Mediator. The Stay was extended to June 28, 2019 by further Order of the Court dated April 5, 2019 (the “**Stay Extension Order**”).
18. On April 17, 2019, the Court issued an endorsement that no proceedings could be commenced, continued or take place, by, against or in respect of, the Applicant without leave of the Court (the “**April 17 Endorsement**”).
19. On April 25, 2019, the Amended Initial Order was further amended (the “**Second Amended Initial Order**”), and the ability of JTIM and the Monitor to consent to a lifting of the Stay was removed, in accordance with the April 17 Endorsement.

20. On April 26, 2019, the Court dismissed the motion of Her Majesty the Queen in right of Ontario (“**Ontario**”) to lift the Stay to allow the Ontario health care cost recovery action to proceed.
21. On April 29, 2019, the Court, on an unopposed basis: (i) granted Ontario leave to amend its Amended Fresh as Amended Statement of Claim in the form of the Second Amended Fresh as Amended Statement of Claim; (ii) lifted the Stay for the narrow purpose of permitting the Ontario Superior Court of Justice to formally effect the amendments to Ontario’s Amended Fresh as Amended Statement of Claim as ordered by Master Short on March 8, 2019; and (iii) lifted the Stay for the narrow purpose of allowing Ontario to serve the Second Amended Fresh as Amended Statement of Claim on all of the defendants to the Ontario health care cost recovery action.
22. On May 14, 2019, the Court granted an unopposed Order lifting the Stay to permit the continuation or commencement of certain proceedings against the Applicant related to personal injury matters involving employees of the Applicant as co-defendants. The Court also authorized certain proceedings related to labour and employment matters to be continued or commenced by or against the Applicant with the consent of the Monitor or further order of the Court. On May 14, 2019, the Court further granted an unopposed Order that required the Monitor to provide counsel to the Quebec Class Action Plaintiffs (“**QCAPs**”) and to such other parties on the Service List, on written request, certain details regarding the restructuring fees in these CCAA Proceedings (the “**Fee Disclosure Order**”).

23. On May 24, 2019, the Court issued an endorsement approving a communication and confidentiality protocol between the Court and the Court-Appointed Mediator.
24. On June 26, 2019, the Court granted an Order (the “**Stay Extension and Cash Collateral Order**”) extending the Stay to October 4, 2019 and authorizing the Applicant to deposit additional cash collateral with Citibank, N.A., Canada Branch (“**Citibank**”) in the amount of \$3 million. Also on June 26, 2019, the Court issued an endorsement approving a common service protocol that prescribed how materials could be filed in the CCAA Proceedings and the CCAA proceedings of each of the other CCAA Applicants.
25. On June 26, 2019, the Court issued an endorsement referring to mediation with the Court-Appointed Mediator the matters raised by the QCAPs in their motion seeking to prohibit the set-off by the TM Receiver of outstanding royalties against a deposit held by the TM Receiver.
26. Pursuant to paragraph 41(b) in the Second Amended Initial Order, the Court-Appointed Mediator may retain advisors as he considers necessary to assist him in carrying out his mandate. On June 27, 2019, the Court granted an Order appointing Alvarez & Marsal Canada Inc. as the financial advisor to the Court-Appointed Mediator.
27. On July 9, 2019, the Court granted an Order to provide for court-to-court communications between the Court, other courts in any province or territory in Canada and the United States Bankruptcy Court for the Southern District of New York.
28. On October 2, 2019, the Court granted an Order extending the Stay until March 12, 2020.

29. On October 3, 2019, the Court issued an endorsement that permitted the Canadian Cancer Society to participate in the CCAA Proceedings subject to certain conditions but did not permit their participation in the Mediation at this time.
30. On December 9, 2019, the Court granted an Order (the “**Representative Counsel Appointment Order**”) appointing The Law Practice of Wagner & Associates, Inc. (the “**Representative Counsel**”) to represent individuals that may be able to assert claims against the CCAA Applicants (and parties related to them) arising from alleged “Tobacco Related Wrongs” (as defined in the Representative Counsel Appointment Order), to the extent these individuals are not otherwise members of a certified class action.
31. On February 20, 2020, the Court granted an Order extending the Stay until September 30, 2020.
32. As noted above, pursuant to paragraph 41(b) in the Second Amended Initial Order, the Court-Appointed Mediator may retain advisors as he considers necessary to assist him in carrying out his mandate. On September 15, 2020, the Court granted an Order appointing Daniel Shapiro Legal Professional Corporation (“**Shapiro**”) as consultant to the Court-Appointed Mediator to provide general advice and consulting services to support the Court-Appointed Mediator in connection with the fulfilment of his duties, as such services may be requested from time to time by the Court-Appointed Mediator and agreed to by Shapiro.
33. Copies of all orders and endorsements granted in the CCAA Proceedings are located on the Monitor’s website, accessible at: <https://www.insolvencies.deloitte.ca/en-ca/pages/JTIMacdonaldCorp.aspx>.

ACTIVITIES OF JTIM AND THE MONITOR SINCE THE SEVENTH REPORT

34. The activities of JTIM since the Seventh Report are set out in the Aziz Affidavit at paragraph 13.
35. The Monitor has undertaken the following activities since the Seventh Report:
- a) assisted JTIM in preparing revised cash flow projections and cash flow variance reporting;
 - b) attended calls and meetings with Management regarding the business operations, interim financial results, compilation of financial and other information for the inclusion in a dataroom created by the Monitor containing comprehensive information about the Applicant's business, operations and finances, for the sole purpose of providing information to specified participants in the Mediation (the "**Dataroom**"), and the conduct of the CCAA Proceedings;
 - c) populated the Dataroom with commercially sensitive and confidential information compiled by the Applicant, with the assistance of the Monitor;
 - d) responded to the information request from the financial advisor to the Provinces of British Columbia, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, and Saskatchewan in their capacities as plaintiffs in the HCCR Legislation claims;
 - e) coordinated with the ITL and RBH Monitors and their respective counsel on the Mediation, population of financial and other information in the Dataroom and

similar datarooms for ITL and RBH and procedural aspects of the three CCAA proceedings;

- f) attended the Mediation and various confidential meetings in relation thereto;
- g) communicated with the Court with respect to certain procedural matters;
- h) as part of its standard oversight procedures, continued to monitor receipts from, and payments to, related parties, in respect of goods and services provided (the Monitor confirms that it is not aware of any deviation from standard payment terms in connection with the various related party contracts, other than as required by the March 19 Endorsement);
- i) provided fee disclosure, in accordance with and subject to, the terms of the Fee Disclosure Order, to those parties that have requested same; and
- j) maintained the Monitor's JTIM website.

CASH FLOW STATEMENT AND RESULTS RELATIVE TO FORECAST

36. Summarized in the following table are JTIM's actual cash receipts and disbursements for the 31-week period ended September 4, 2020 (the "**Reporting Period**") as compared to the corresponding weeks in the Cash Flow Statement included in the Seventh Report.

JTI-Macdonald Corp.				
Summary of Actual versus Forecast Cash Flows				
For the 31-week period ended September 4, 2020				
\$CAD '000, unaudited	Notes	Actual	Forecast	Variance
Receipts				
Sales	<i>a</i>	869,464	735,080	134,384
Intercompany Receipts	<i>a</i>	207,432	156,163	51,269
Tax Refunds	<i>b</i>	25,536	9,600	15,936
Other Receipts	<i>c</i>	3,617	4,770	(1,153)
Total Receipts		1,106,049	905,613	200,436
Disbursement				
General Expenses	<i>d</i>	(60,001)	(47,929)	(12,073)
Payroll and Benefits	<i>e</i>	(46,486)	(50,297)	3,811
Pension	<i>f</i>	(9,250)	(6,177)	(3,073)
Promotions and Marketing	<i>g</i>	(64,812)	(69,389)	4,577
Leaf		(3,782)	(2,791)	(991)
Capital Expenditures and Leases	<i>h</i>	(3,673)	(11,465)	7,792
Professional Fees		(793)	(1,020)	227
Restructuring Costs	<i>i</i>	(5,235)	(8,192)	2,957
Domestic and Import Duty	<i>j</i>	(342,651)	(286,827)	(55,824)
GST and HST	<i>j</i>	(49,027)	(37,788)	(11,239)
Intercompany Disbursements	<i>k</i>	(243,000)	(192,734)	(50,266)
Intercompany Royalties		-	-	-
Intercompany Interest		-	-	-
Intercompany Principal		-	-	-
Income Tax Instalments and PTT	<i>l</i>	(38,364)	(32,660)	(5,704)
Total Disbursements		(867,074)	(747,269)	(119,806)
Cashflow Surplus/Deficit (-)		238,975	158,345	80,630
Opening Cash Balance		297,939	297,939	-
FX Adjustment		(785)	-	(785)
Closing Cash Balance		536,129	456,283	79,845
Cash Collateral pledged to Citibank				
Opening Balance		11,900	11,900	-
Cash Collateral Deposit / (Withdrawal)		-	-	-
Closing Balance		11,900	11,900	-
Closing Cash net of Cash Collateral		524,229	444,383	79,845

37. JTIM's actual net cash flow for the Reporting Period was \$239.0 million, compared to forecast net cash flow of \$158.4 million resulting in a favourable variance of \$80.6 million.

A summary of the major variances are as follows:

- a) Favourable variances of \$134.4 million in third-party sales receipts and \$51.3 million in intercompany receipts due to higher than expected volume during the Reporting Period from:
- i. retailers re-stocking branded products with unbranded products at the end of the plain packaging implementation period;
 - ii. increase in consumer demand likely due to the uncertainty arising from Covid-19 and the resulting stockpiling of inventories driven by adjustments in consumer buying patterns (i.e. multi pack & carton purchases) resulting in increased early demand;
 - iii. restricted access to First Nation reserves for tobacco purchases at the onset of Covid-19;
 - iv. inventory shortage in competitor products resulting in increased sales of JTIM products at the onset of Covid-19;
 - v. Canadian travel significantly decreasing in 2020, having a positive impact on domestic purchasing; and
 - vi. increase in customer demand in the weeks prior to a price increase effective September 8, 2020.
- b) A favourable variance of \$15.9 million in tax refunds is a permanent difference from the destruction of branded products after the plain packaging implementation;
- c) An unfavourable variance of \$1.2 million in other receipts is a permanent difference as actual interest income received was less than forecast;
- d) An unfavourable variance of \$12.1 million in general expenses due in part to a permanent difference from higher than forecast logistics and non-tobacco material expenditures from increased production and sales volume, and in part to a timing difference which is expected to reverse in future periods;

- e) A favourable variance of \$3.8 million in payroll and benefit disbursements is a permanent difference as the actual annual variable incentive payments were less than forecast and employees made less health and dental claims during Covid-19;
- f) An unfavourable variance of \$3.1 million in pension disbursements is a permanent difference that is not expected to reverse in future periods due to higher than forecast contributions to employee defined contribution and executive supplemental benefit pension plans;
- g) A favourable variance of \$4.6 million in promotions and marketing disbursements is a timing difference which is expected to reverse in future periods;
- h) A favourable variance of \$7.8 million in capital expenditures is a timing difference due to the deferral of factory upgrade projects and packaging equipment purchases relating to a specific packaging format;
- i) A favourable variance of \$3.0 million in restructuring costs is a timing difference that is expected to reverse in future periods;
- j) Unfavourable variances of \$55.8 million in domestic and import duty and \$11.2 million in GST and HST is a permanent difference from the increased production and sales volume as mentioned above;
- k) An unfavourable variance of \$50.3 million in intercompany disbursements is a permanent difference mainly comprised of i) \$5.1 million unfavorable variance in intercompany leaf purchases and ii) \$43.3 million unfavorable variance in

intercompany finished goods purchases due to the increase in production and sales volume as mentioned above; and

- l) An unfavourable variance of \$5.7 million in income tax instalments and PTT is a permanent difference due to higher than forecast sales to retail partners.

APPLICANT'S REVISED CASH FLOW STATEMENT

38. The Applicant, with the assistance of the Monitor, has prepared the Revised Cash Flow Statement for the purposes of projecting the estimated results of the Applicant's planned operations and other activities during the Revised Cash Flow Period. A copy of the Revised Cash Flow Statement is attached as **Appendix "A"**, and is summarized below for the 30-week period ending April 2, 2021:

JTI-Macdonald Corp.	
30-week Revised Cash Flow Statement	
\$CAD '000, unaudited	
For the week beginning	30-week Total to April 2, 2021
Receipts	
Sales	671,892
Intercompany Receipts	145,679
Tax Refunds	15,237
Other Receipts	1,295
Total Receipts	834,104
Disbursement	
General Expenses	49,752
Payroll and Benefits	45,805
Pension	7,129
Promotions and Marketing	81,744
Leaf	4,019
Capital Expenditures	6,471
Professional Fees	810
Restructuring Costs	8,142
Domestic and Import Duty	277,984
GST and HST	41,925
Intercompany Disbursements	172,948
Intercompany Royalties	-
Intercompany Interest	-
Intercompany Principal	-
Income Tax Instalments and PTT	50,265
Total Disbursements	746,995
Cashflow Surplus/Deficit (-)	87,109
Opening Cash Balance	536,129
Closing Cash Balance	623,238
Cash Collateral pledged to Citibank	
Opening Balance	11,900
Cash Collateral Deposit / (Withdrawal)	-
Closing Balance	11,900
Closing Cash net of Cash Collateral	611,338

39. The Revised Cash Flow Statement is presented on a weekly basis during the Revised Cash Flow Period and represents Management's best estimate of the projected cash flows during the Revised Cash Flow Period. The Revised Cash Flow Statement has been prepared by

Management using the assumptions set out in the notes to the Revised Cash Flow Statement (the “**Revised Assumptions**”).

40. JTIM’s opening cash balance on September 7, 2020 was \$536.1 million. The forecast cash flow surplus for the Revised Cash Flow Period is estimated to be \$87.1 million (i.e. projected cash receipts will exceed projected cash disbursements by \$87.1 million during the Revised Cash Flow Period). Accordingly, the Applicant has sufficient liquidity during the proposed period of extension of the Stay.
41. The Monitor has reviewed the Revised Cash Flow Statement to the standard required of a Court-appointed monitor by Section 23(1)(b) of the CCAA. Section 23(1)(b) requires a monitor to review the debtor’s cash flow statement as to its reasonableness and to file a report with the Court on the monitor’s findings. The Canadian Association of Insolvency and Restructuring Professionals’ Standards of Professional Practice include a standard for a monitor fulfilling its statutory responsibilities under the CCAA in respect of its report on the cash flow statement.
42. In accordance with the standard, the Monitor’s review of the Revised Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to the Revised Cash Flow Statement and Revised Assumptions. Since the Revised Assumptions need not be supported, the Monitor’s procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Cash Flow Statement. The Monitor also reviewed the support provided by Management for the Revised Assumptions and the preparation and presentation of the Revised Cash Flow Statement.

43. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in all material aspects, that:
- a) the Revised Assumptions are not consistent with the purpose of the Revised Cash Flow Statement;
 - b) as at the date of this Eighth 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.
44. Since the Revised Cash Flow Statement is based on Revised Assumptions regarding future events, actual results will vary from the information presented even if the Revised Assumptions occur, and the variations could be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flow Statement will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Revised Cash Flow Statement, or relied upon by the Monitor in preparing this Eighth Report.
45. The Revised Cash Flow Statement has been prepared solely for the purposes described above, and readers of this Eighth Report are cautioned that it may not be appropriate for other purposes.

STAY EXTENSION

46. The current Stay expires on September 30, 2020. The Applicant is seeking the extension of the Stay up to and including March 31, 2021 in order for the Applicant, with the assistance of the Monitor, to:
- a) preserve the *status quo* and continue to maintain the stability of operations;
 - b) seek a collective solution for the benefit of all stakeholders in respect of multi-billion dollar claims 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.
47. In the Monitor's view, progress has been made in the Mediation since the last Stay extension hearing on February 20, 2020. The CCAA Applicants have continued to populate separate datarooms with financial information to advance discussions with key stakeholders in the Mediation. The Applicant has responded to stakeholder questions and requests for additional information. The Monitor continues to work with the Applicant to populate the Dataroom with financial and other information, as requested.
48. Since the Seventh Report, the Court-Appointed Mediator, with the assistance of the JTIM, ITL, and RBH monitors, continues to conduct meetings in the Mediation and engage in discussions with the CCAA Applicants and the key stakeholders. The Mediation is confidential; however, the Monitor confirms that the parties continue to advance the

Mediation to facilitate a global settlement of the various claims asserted against the CCAA Applicants.

49. Extending the Stay for the requested time will allow the Applicant to continue operating in the normal course while participating in the Mediation and pursuing a global settlement. In the Monitor's view, the Applicant's request for an extension of the Stay until March 31, 2021, is reasonable and appropriate in the circumstances.
50. As described above, the Revised Cash Flow Statement indicates that the Applicant will have sufficient liquidity during the Revised Cash Flow Period.
51. In the Monitor's view, the Applicant has acted and continues to act in good faith and with due diligence in the CCAA Proceedings.

RECOMMENDATION

52. The Monitor supports the relief sought by the Applicant in its motion in connection with the extension of the Stay to March 31, 2021 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 18th day of September, 2020.

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

A handwritten signature in black ink that reads "P. Casey". The signature is written in a cursive, slightly slanted style.

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

Appendix "A"

Revised Cash Flow Statement

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

For the week beginning	Notes	7-Sep-20	14-Sep-20	21-Sep-20	28-Sep-20	5-Oct-20	12-Oct-20	19-Oct-20	26-Oct-20	2-Nov-20	9-Nov-20	16-Nov-20	23-Nov-20	30-Nov-20	7-Dec-20	14-Dec-20	21-Dec-20
Receipts																	
Sales	2	29,806	21,816	23,731	23,374	23,309	28,657	21,107	22,919	22,543	22,390	20,328	19,952	19,575	20,199	28,415	40,945
Intercompany Receipts	3	3,023	3,815	5,291	4,401	5,334	4,303	5,334	10,450	4,491	4,491	4,612	6,698	4,742	4,804	4,840	7,572
Tax Refunds	4	3,000	-	-	381	-	4,290	-	261	-	-	1,200	261	-	-	1,200	-
Other Receipts	5	60	35	60	35	60	35	60	-	35	60	35	60	35	60	35	60
Total Receipts		35,889	25,666	29,082	28,191	28,703	37,285	26,501	33,630	27,068	26,941	26,175	26,971	24,351	25,064	34,491	48,577
Disbursement																	
General Expenses	6	1,371	1,371	1,371	1,867	2,095	2,095	2,095	2,095	1,333	1,333	1,333	1,333	2,152	2,357	2,357	2,357
Payroll and Benefits	7	1,855	455	1,855	620	1,855	455	1,855	455	2,020	455	1,855	455	2,020	455	1,855	455
Pension	8	160	624	160	-	160	624	160	-	160	-	784	-	160	-	827	-
Promotions and Marketing	9	2,292	2,865	2,865	3,252	3,833	3,067	3,833	3,833	2,517	2,517	2,517	2,517	4,376	4,841	4,841	3,873
Leaf	10	-	-	-	-	-	-	-	-	-	-	1,239	-	-	-	-	-
Capital Expenditures	11	164	164	164	164	336	336	336	336	250	250	250	250	264	264	264	264
Professional Fees	12	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27
Restructuring Costs	13	267	267	267	267	278	278	278	278	220	220	220	220	220	321	321	321
Domestic and Import Duty	14	-	-	-	35,066	-	-	-	47,658	-	-	-	38,350	-	-	-	-
GST and HST	15	-	-	-	7,023	-	-	-	7,559	-	-	-	7,174	-	-	-	-
Intercompany Disbursements	16	5,793	7,315	7,242	7,756	4,957	3,966	5,030	6,380	6,923	6,923	6,996	8,287	6,085	5,876	5,949	6,570
Intercompany Royalties	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	19	2,000	-	-	2,655	2,200	-	-	2,655	-	3,500	-	2,655	-	2,100	-	-
Total Disbursements		13,929	13,088	13,951	58,696	15,742	10,848	13,615	71,277	13,451	15,226	15,221	61,269	15,305	16,241	16,441	13,867
Cashflow Surplus/Deficit (-)		21,960	12,579	15,131	(30,505)	12,961	26,438	12,887	(37,647)	13,618	11,715	10,953	(34,298)	9,046	8,822	18,049	34,710
Opening Cash Balance	1	536,129	558,089	570,668	585,799	555,294	568,255	594,692	607,579	569,932	583,550	595,265	606,218	571,920	580,966	589,788	607,837
Closing Cash Balance		558,089	570,668	585,799	555,294	568,255	594,692	607,579	569,932	583,550	595,265	606,218	571,920	580,966	589,788	607,837	642,547
Cash Collateral pledged to Citibank																	
Opening Balance	20	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Cash Collateral Deposit / (Withdrawal)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Closing Cash net of Cash Collateral		546,189	558,768	573,899	543,394	556,355	582,792	595,679	558,032	571,650	583,365	594,318	560,020	569,066	577,888	595,937	630,647

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

For the week beginning	Notes	28-Dec-20	4-Jan-21	11-Jan-21	18-Jan-21	25-Jan-21	1-Feb-21	8-Feb-21	15-Feb-21	22-Feb-21	1-Mar-21	8-Mar-21	15-Mar-21	22-Mar-21	29-Mar-21	30-week Total to April 2, 2021
Receipts																
Sales	2	15,216	19,265	18,632	19,025	19,425	19,794	18,945	20,612	21,023	21,460	21,868	22,272	22,668	22,621	671,892
Intercompany Receipts	3	2,883	3,250	4,245	3,286	4,058	4,000	4,000	4,166	4,608	4,783	4,783	6,663	5,613	5,142	145,679
Tax Refunds	4	261	-	1,200	-	261	-	-	1,200	261	-	-	1,200	-	261	15,237
Other Receipts	5	60	35	35	60	-	35	60	35	60	35	60	35	60	-	1,295
Total Receipts		18,419	22,550	24,112	22,371	23,744	23,829	23,005	26,013	25,952	26,278	26,711	30,169	28,341	28,025	834,104
Disbursement																
General Expenses	6	1,414	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,478	1,478	1,478	1,478	1,505	49,752
Payroll and Benefits	7	2,020	455	1,855	455	2,020	455	1,855	455	12,020	455	1,855	455	2,020	455	45,805
Pension	8	160	-	890	-	160	-	160	730	160	-	160	730	160	-	7,129
Promotions and Marketing	9	2,905	1,900	1,900	1,900	1,900	2,150	2,150	2,150	2,150	1,891	1,891	1,891	1,891	1,237	81,744
Leaf	10	-	-	-	-	-	-	-	-	-	-	-	2,780	-	-	4,019
Capital Expenditures	11	264	200	200	200	200	163	163	163	163	140	140	140	140	140	6,471
Professional Fees	12	27	27	27	27	27	27	27	27	27	27	27	27	27	27	810
Restructuring Costs	13	321	275	275	275	275	275	275	275	275	275	275	275	275	275	8,142
Domestic and Import Duty	14	41,460	-	-	-	40,100	-	-	-	32,145	-	-	-	-	43,205	277,984
GST and HST	15	6,069	-	-	-	2,100	-	-	-	4,500	-	-	-	-	7,500	41,925
Intercompany Disbursements	16	3,526	5,500	5,500	5,573	6,927	4,000	4,000	4,073	6,157	4,565	4,565	4,638	6,593	5,285	172,948
Intercompany Royalties	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	19	2,655	3,100	-	-	3,645	-	2,000	-	14,955	-	2,500	-	-	3,645	50,265
Total Disbursements		60,821	12,957	12,147	9,930	58,854	8,570	12,130	9,373	74,052	8,832	12,892	12,415	12,585	63,273	746,995
Cashflow Surplus/Deficit (-)		(42,402)	9,593	11,965	12,441	(35,110)	15,259	10,876	16,641	(48,099)	17,446	13,819	17,754	15,756	(35,249)	87,109
Opening Cash Balance	1	642,547	600,145	609,738	621,703	634,144	599,034	614,293	625,169	641,810	593,711	611,157	624,976	642,730	658,486	536,129
Closing Cash Balance		600,145	609,738	621,703	634,144	599,034	614,293	625,169	641,810	593,711	611,157	624,976	642,730	658,486	623,238	623,238
Cash Collateral pledged to Citibank																
Opening Balance	20	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Cash Collateral Deposit / (Withdrawal)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
Closing Cash net of Cash Collateral		588,245	597,838	609,803	622,244	587,134	602,393	613,269	629,910	581,811	599,257	613,076	630,830	646,586	611,338	611,338

**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 a filing under the *Companies' Creditors Arrangement Act*, as amended (the "**CCAA**"). The Revised Cash Flow Statement is based on assumptions about future events and the actual results achieved during the forecast period will vary from the Cash Flow Statement, even if the assumptions materialize, and such variations may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized. Parties using the Revised Cash Flow Statement for reasons other than to assess the cash flows of the Applicant during the forecast period are cautioned that it may not be appropriate for their purposes.

The Revised Cash Flow Statement does not include any consideration of the likely impact of Coronavirus ("**Covid-19**") on sales, production, supply chain or any other aspect of the business of JTIM as the situation continues to evolve, and many uncertainties remain as to the effect the Covid-19 crisis will have on the Applicant and the broader domestic and global economies. Changes to market conditions could substantively affect JTIM and the Revised Cash Flow Statement.

Overview

The Revised Cash Flow Statement reflects cash flows from JTIM. The Applicant, with the assistance of the Monitor, has prepared the Revised Cash Flow Statement based primarily on historical results and JTIM's current expectations derived from their annual budgeting process. Consistent with the Applicant's budgeting process, the Revised Cash Flow Statement is presented in thousands of Canadian Dollars. Receipts and disbursements denominated in U.S. Dollars have been converted into Canadian Dollars using an exchange rate of **CDN\$1.39 = USD\$1.00**.

Major Assumptions

RECEIPTS

1. Opening cash balance

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

2. Sales

Receipts from JTIM's trade sales are estimated based on a weekly forecast of collections from existing accounts. The projected sales are derived from JTIM's annual budget, which includes assumptions surrounding industry wide price fluctuations. JTIM collects payment from its customers via direct debit once product is shipped. The vast majority of JTIM's customers are tobacco wholesalers. In limited circumstances, JTIM sells directly to retail accounts.

3. Intercompany Receipts

JTIM is owned indirectly by Japan Tobacco Inc. ("**Japan Tobacco**"), a publicly listed company in Japan. Certain employees of JTIM, located at either the Mississauga head office or Montreal factory locations, perform services for non-Canadian entities. A charge for time spent is applied to the related party corporation benefiting from the services. The charge is based on time spent by the employees based on an annual submission that the employee provides. The fee rate is based on the cost of each employee to JTIM, plus a 5% mark-up.

JTIM provides other related-party international tobacco companies outside of Japan ("**JT International**") with skilled personnel (i.e. expatriates working abroad), and is reimbursed the costs of such employees.

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

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

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

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

4. Tax Refunds

The projected tax refunds relate to the collection of QST refunds in Quebec, excise tax refunds for product that require rework or destruction and customs duty refunds for imported product that require destruction.

5. Other Receipts

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

DISBURSEMENTS

6. General Expenses

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

7. Payroll and Benefits

These projected disbursements include payroll and benefit costs for all salaried and hourly plant employees, including annual variable incentive payments. The forecast amounts are based on historic run rates. Hourly plant employees are paid weekly and salaried employees are paid bi-weekly. Payroll disbursements include all employee source deductions, employee and employer portions of CPP/QPP and EI, and other payroll-related taxes. Payroll and benefit costs also include retention bonuses and severance costs related to the global transformation project.

8. Pension

These projected disbursements represent payments to JTIM's registered employees plan, registered executive employees plan and the executive supplemental benefit plan. The pension amounts forecast in the cash flow include all current and special obligation amounts.

9. Promotions and Marketing

These projected disbursements relate to the various marketing and promotional initiatives, such as inventory support programs and brand support programs. Initiatives are generally paid 30 days in arrears or via quarterly installments.

10. Leaf

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

11. Capital Expenditures

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

12. Professional Fees

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

13. Restructuring Costs

These projected disbursements include payments to JTIM's legal advisors for specialist restructuring advice, the fees and costs of the Monitor and its counsel, the fees and costs of the Chief Restructuring Officer, the fees and costs of the Court-Appointed Mediator and his advisers, and the fees and costs of the Representative Counsel and its advisors.

14. Domestic and Import Duty

These projected disbursements relate to payments to the Canada Revenue Agency ("CRA") with respect to tobacco products produced under the *Excise Act*, 2001 and customs duty and GST on imported leaf and other raw materials, spare parts or machinery. Excise duty returns and payments are due on the last day of the month following the reporting period (e.g. a return for a period ending February 28 is due by March 31). Import duty payments are paid once a month on a rolling basis with the 21st being the end of the month.

15. GST and HST

These projected disbursements represent payments to the CRA with respect to GST and HST. Historically, JTIM has always been in a monthly net payable position.

16. Intercompany Disbursements

These projected disbursements represent: (i) payments for goods and services provided by JT International entities such as tobacco products from JTI-SA, LLC Cres Neva, LLC Petro, JTI (US) Holdings Inc., JT International Canarias S,A,U, and Japan Tobacco International USA Inc., (ii) IT services provided by JTI-SA, (iii) global administrative services provided by JTI Business Services Ltd., (iv) employee arrangements provided by JTI Services Switzerland SA, and (v) global headquarter services provided by JT International Holdings B.V.

17. Intercompany Royalties

JTI-Macdonald TM Corp. ("TM") provides licenses to JTIM to use the trademarks to manufacture and sell goods bearing the trademarks in exchange for a monthly royalty payment. The intercompany royalty payments have been suspended pursuant to the Endorsement of Justice

McEwen dated March 19, 2019. The amount of approximately \$900,000 continues to be accrued monthly. Additionally, default interest is accruing on royalty payments due and unpaid.

18. Intercompany Interest and Principal

This disbursement represents monthly interest payments on the \$1.2 billion secured convertible debentures by JTIM to TM. The intercompany interest and principal payments have been suspended pursuant to the Endorsement of Justice McEwen dated March 19, 2019. The interest amount of approximately \$7.7 million continues to be accrued monthly. Additionally, default interest is accruing on interest and principal payments due and unpaid.

19. Income Tax Instalments and Provincial Tobacco Taxes

These projected disbursements represent corporate income tax instalments and payments of Provincial Tobacco Taxes (“PTT”) on direct retail sales.

20. Cash Collateral

Cash collateral of \$11.9 million was pledged to Citibank pursuant to agreements dated in 2016, 2017, and 2019 to allow for continued central travel account card services and cash management services provided by Citibank.



September 16, 2020

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

Attention: Paul M. Casey

Dear Sirs:

**Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA")
Responsibilities/Obligations and Disclosure with Respect to Cash Flow
Projections**

In connection with the CCAA proceedings in respect of JTI-Macdonald Corp. ("**JTIM**"), the management of JTIM ("**Management**") has prepared the attached Revised Cash Flow Statement and the assumptions on which the Revised Cash Flow Statement is based.

JTIM confirms that:

1. The Revised Cash Flow Statement and the underlying assumptions are the responsibility of JTIM;
2. All material information relevant to the Revised Cash Flow Statement and to the underlying assumptions has been made available to Deloitte Restructuring Inc., in its capacity as Monitor of JTIM;
3. Management has taken all actions that it considers necessary to ensure:
 - a. That the individual assumptions underlying the Revised Cash Flow Statement are appropriate in the circumstances;
 - b. That the individual assumptions underlying the Revised Cash Flow Statement, taken as a whole, are appropriate in the circumstances; and
 - c. That all relevant assumptions have been properly presented in the Revised Cash Flow Statement or in the notes accompanying the Revised Cash Flow Statement.

4. Management understands and agrees that the determination of what constitutes a material adverse change in the projected cash flow or financial circumstances, for the purposes of our monitoring the on-going activities of JTIM, is ultimately at your sole discretion, notwithstanding that Management may disagree with such determination;
5. Management understands its duties and obligations under the CCAA and that a breach of these duties and obligations could make the JTIM's Management liable to fines and imprisonment in certain circumstances; and
6. The Revised Cash Flow Statement and assumptions have been reviewed and approved by the JTIM's board of directors or Management has been duly authorized by JTIM's board of directors to prepare and approve the cash flow assumptions.

Yours truly,



Name: Robert McMaster

Title: Director, Taxation and Treasury

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO **JTI-MACDONALD CORP.**

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

Proceeding commenced at Toronto

**EIGHTH REPORT OF THE MONITOR
Dated September 18, 2020**

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