

**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.**

FIFTH REPORT OF THE MONITOR

September 25, 2019

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SEPTEMBER 25, 2019**

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. 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 on in the ordinary course for the foreseeable future.
4. 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**").
5. As further set out in this Fifth Report of the Monitor (the "**Fifth Report**"), the Applicants have been working diligently and in good faith to make the necessary disclosure and otherwise prepare for the Mediation, however, additional time is required for the Mediation process and the stay of proceedings ordered by the Original Initial Order and extended by subsequent order of the Court (the "**Stay**") will expire on October 4, 2019.
6. JTIM has accordingly brought a motion seeking an order extending the Stay through to March 6, 2020, which will enable it to continue to advance the Mediation. For the reasons set out in this Fifth Report, the Monitor supports the requested Stay extension.

PURPOSE

7. The purpose of this Fifth 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 therein;
 - b) the activities of JTIM and the Monitor from June 21, 2019, the date of the Fourth Report of the Monitor (the “**Fourth Report**”) filed in connection with the previous motion to extend the Stay to the date of this Fifth Report;
 - c) a comparison of the actual cash flow results for the first 13 week period ended September 13, 2019 to the cash flow projection for the 27-week period from June 17, 2019 to December 20, 2019 included in the Fourth Report (the “**Cash Flow Statement**”);
 - d) JTIM’s revised cash flow projection (the “**Revised Cash Flow Statement**”) for the 25-week period from September 16, 2019 to March 6, 2020 (the “**Revised Cash Flow Period**”);
 - e) the Applicant’s request for an Order to extend the Stay to March 6, 2020; and
 - f) the Monitor’s recommendation.
8. This Fifth Report should be read in conjunction with the Affidavit of William E. Aziz sworn September 20, 2019 in support of the Applicant’s motion (the “**Aziz Affidavit**”).

TERMS OF REFERENCE AND DISCLAIMER

9. In preparing this Fifth 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 of the Applicant (“**Management**”) (collectively, the “**Information**”).

10. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Generally Accepted Assurance Standards (“**Canadian GAAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.
11. Some of the information referred to in this Fifth Report consists of financial projections. An examination or review of the financial projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
12. Future oriented financial information referred to in this Fifth Report was prepared based on Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
13. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

HISTORY OF THE CCAA PROCEEDINGS

14. 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 (the “**Stay Period**”). 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.
15. 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.
16. 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 Period was extended to June 28, 2019 by further Order of the Court dated April 5, 2019 (the “**Stay Extension Order**”).
17. 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**”).

18. 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.
19. 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.
20. 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.
21. 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**”).
22. On May 24, 2019, the Court issued an endorsement approving a communication and confidentiality protocol between the Court and the Court-Appointed Mediator.
 23. On June 26, 2019, the Court granted an Order (the “**Stay Extension and Cash Collateral Order**”) extending the Stay Period to October 4, 2019 and authorized 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 served in the CCAA Proceedings and the CCAA proceedings of each of the other CCAA Applicants.
 24. 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 (the “**QCAP Set-Off Dispute**”). The Monitor has recently been advised that the QCAP Set-Off Dispute is no longer being pursued as a discrete issue in the mediation.
 25. On June 27, 2019, the Court granted an Order appointing Alvarez & Marsal Canada Inc. as the financial advisor to the Court-Appointed Mediator.
 26. 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.

27. 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 SINCE THE FOURTH REPORT

28. In addition to the various Court appearances described above, the activities of JTIM since the Fourth Report are set out in the Aziz Affidavit at paragraph 14, and such activities of JTIM that are related to or arising out of these CCAA Proceedings, the Mediation and the various matters being addressed therein, include:
- (a) communications with the Court-Appointed Mediator and his counsel in order to advance the Mediation;
 - (b) negotiating non-disclosure agreements with certain stakeholders with regards to the disclosure of commercially sensitive and confidential information;
 - (c) compiling commercially sensitive and confidential 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**");
 - (d) preparing a mediation brief as requested by the Court-Appointed Mediator;

- (e) reviewing the mediation briefs and reply mediation briefs of other parties to the Mediation;
- (f) preparing for a plenary session scheduled by the Court-appointed Mediator and for the Mediation generally;
- (g) finalizing documents and arranging for the depositing of additional cash collateral of \$3 million with Citibank in accordance with paragraph 3 of the Stay Extension and Cash Collateral Order; and
- (h) providing regular updates and information to the Monitor and its counsel.

29. In addition to the foregoing activities related to the CCAA Proceedings, the Monitor notes the Applicant conducted or continued to conduct the following activities:

- a) managed relationships with customers, suppliers and other stakeholders to minimize business disruptions and to maintain an uninterrupted supply of products and services; and
- b) commenced the implementation of a global transformation project which involves approximately 48 personnel changes at JTIM between 2019 and 2022, including moving certain roles and functions (including finance, human resources, information technology and purchasing) from JTIM to centralized global business services centres (the “**Global Transformation Project**”). The Global Transformation Project was initiated on September 3, 2019, and affected certain employees immediately and will reposition other employees and employee responsibilities incrementally through to 2022. The total net estimated salary

continuance and retention bonus costs to JTIM of the Global Transformation Project over the four-year period after taking into account reimbursement by a related entity for salary continuance and retention bonus payments made to certain employees is approximately \$4.6 million. The future service costs to JTIM for its use of additional global business service functions are unknown at this time, but Management expects an overall net saving to JTIM from the Global Transformation Project. The Monitor has reviewed such steps in the Global Transformation Project with the Applicant, and is comfortable that the steps are reasonable. The Monitor approves the Global Transformation Project.

ACTIVITIES OF THE MONITOR SINCE THE FOURTH REPORT

30. In addition to the various Court appearances described above, the Monitor has undertaken the following activities since the Fourth 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, Global Transformation Project, interim financial results, compilation of financial and other information for the Dataroom, and the conduct of the CCAA Proceedings;
- c) responded to the comprehensive 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 healthcare costs recovery actions (“**HCCR Actions**”);

- d) coordinated with the CCAA monitors of ITL and RBH (collectively, “**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;
- e) attended meetings with the Court-Appointed Mediator and his counsel in relation to the Mediation, the status of the Dataroom and the coordination of a plenary session to be attended by the CCAA Applicants and certain stakeholders of the CCAA Applicants;
- f) created the Dataroom, including the curation of commercially sensitive and confidential information compiled by the Applicant, with the assistance of the Monitor, and coordinated terms of access by stakeholders;
- g) reviewed the mediation briefs and reply mediation briefs of parties to the Mediation and considered various issues with independent counsel regarding stakeholder interests and issues in connection with the Mediation;
- h) communicated with the Court with respect to certain procedural matters, including providing comments (in coordination with the ITL and RBH Monitors) on the court-to-court communications protocol;
- i) responded to requests for information from various stakeholders, including counsel-to-counsel correspondence with the QCAPs regarding specific requests related to the QCAP Set-off Dispute;

- j) 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);
- k) attended to various inquiries that the Monitor received through the Monitor's hotline and/or e-mail address from JTIM's creditors and other interested parties, ongoing suppliers and other claimants; and
- l) provided fee disclosure, in accordance with and subject to, the terms of the Fee Disclosure Order, to those parties that have requested same.

CASH FLOW STATEMENT AND RESULTS RELATIVE TO FORECAST

31. Summarized in the following table are JTIM's actual cash receipts and disbursements for the 13-week period ended September 13, 2019 (the "**Reporting Period**") as compared to the corresponding weeks in the Cash Flow Statement included in the Fourth Report.

JTI-Macdonald Corp.
Summary of Actual versus Forecast Cash Flows
For the 13-week period ended Sept 13, 2019

\$CAD '000, unaudited	<i>Notes</i>	Actual	Forecast	Variance
Receipts				
Sales	<i>a</i>	336,741	327,503	9,238
Intercompany Receipts	<i>b</i>	68,114	59,506	8,609
Tax Refunds	<i>c</i>	5,835	3,000	2,835
Other Receipts		1,036	580	456
Total Receipts		411,727	390,589	21,138
Disbursement				
General Expenses		30,871	31,100	229
Payroll and Benefits		17,477	17,085	(392)
Pension		3,368	3,701	333
Promotions and Marketing	<i>d</i>	24,663	32,728	8,065
Leaf		845	922	78
Capital Expenditures and Leases	<i>e</i>	1,350	2,550	1,199
Professional Fees		329	961	631
Restructuring Costs		2,625	2,880	255
Domestic and Import Duty	<i>f</i>	142,381	126,966	(15,416)
GST and HST		18,829	19,679	850
Intercompany Disbursements	<i>g</i>	80,836	79,270	(1,566)
Intercompany Royalties		-	-	-
Intercompany Interest		-	-	-
Intercompany Principal		-	-	-
Income Tax Instalments and PTT		13,138	12,810	(328)
Total Disbursements		336,712	330,652	(6,061)
Cashflow Surplus/Deficit (-)		75,015	59,937	15,077
Opening Cash Balance		149,098	149,098	-
FX Adjustment		129	-	129
Closing Cash Balance		224,242	209,035	15,206
Cash Collateral pledged to Citibank				
Opening Balance		8,900	8,900	-
Cash Collateral Deposit / (Withdrawal)		3,000	3,000	-
Closing Balance		11,900	11,900	-
Closing Cash net of Cash Collateral		212,342	197,135	15,206

32. JTIM's actual net cashflow for the Reporting Period was approximately \$75.0 million, compared to forecast net cashflow of \$59.9 million resulting in a favourable variance of \$15.1 million. A summary of the major variances are as follows:
- a) A favourable variance of \$9.2 million in third-party sales receipts due to higher than expected volume during the Reporting Period;
 - b) A favourable variance of \$8.6 million in intercompany receipts due in part to a timing difference from prior periods;
 - c) A favourable variance of \$2.8 million in tax refunds due in part to a timing difference from prior periods;
 - d) A favourable variance of \$8.1 million in promotions and marketing disbursements due to a timing difference which is expected to reverse in future periods;
 - e) A favourable variance of \$1.2 million in capital expenditures due to a timing difference which is expected to reverse in future periods;
 - f) An unfavourable variance of \$15.4 million in domestic and import duty disbursements which is a permanent variance as the actual duty and customs payments were greater than forecast. JTIM incurred \$11.7 million in import duties not included in the forecast due in part to the accelerated import of certain products prior to the implementation of the new plain and standardized packaging measures;
and

- g) An unfavourable variance of \$1.6 million in intercompany disbursements due to a timing difference which is expected to reverse in future periods.

APPLICANT'S REVISED CASH FLOW STATEMENT

- 33. 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 25-week period ending March 6, 2020:

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

For the week beginning	25-week Total to March 6, 2020
Receipts	
Sales	559,340
Intercompany Receipts	118,580
Tax Refunds	6,000
Other Receipts	2,015
Total Receipts	685,934
Disbursement	
General Expenses	46,618
Payroll and Benefits	30,925
Pension	5,593
Promotions and Marketing	63,154
Leaf	6,247
Capital Expenditures and Leases	12,863
Professional Fees	918
Restructuring Costs	4,147
Domestic and Import Duty	223,960
GST and HST	33,376
Intercompany Disbursements	157,932
Intercompany Royalties	-
Intercompany Interest	-
Intercompany Principal	-
Income Tax Instalments and PTT	24,120
Total Disbursements	609,854
Cashflow Surplus/Deficit (-)	76,080
Opening Cash Balance	224,242
Closing Cash Balance	300,322
Cash Collateral pledged to Citibank	
Opening Balance	11,900
Cash Collateral Deposit / (Withdrawal)	-
Closing Balance	11,900
Closing Cash net of Cash Collateral	288,422

34. 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**").
35. JTIM's opening cash balance on September 16, 2019 was \$224.2 million. The forecast cash flow surplus for the Revised Cash Flow Period is estimated to be \$76.1 million (i.e. projected cash receipts will exceed projected cash disbursements by \$76.1 million during the Revised Cash Flow Period). Accordingly, the Applicant has sufficient liquidity during the proposed period of extension to the Stay Period.
36. 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.
37. 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.

38. 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 Fifth 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.

39. 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 Fifth Report.

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

STAY EXTENSION

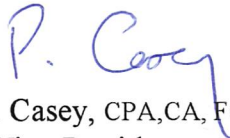
41. The current Stay Period expires on October 4, 2019. The Applicant is seeking the extension of the Stay Period up to and including March 6, 2020 in order for the Applicant, with the assistance of the Monitor, to:
- a) preserve the *status quo* and continue to maintain the stability of operations;
 - b) seek a collective solution for the benefit of all stakeholders in respect of multi-billion dollar claims currently being pursued 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.
42. As described above, the Revised Cash Flow Statement indicates that the Applicant will have sufficient liquidity during the Revised Cash Flow Period.
43. 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

44. The Monitor supports the relief sought by the Applicant in its motion in connection with the extension of the Stay Period to March 6, 2020 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 25th day of September, 2019.

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

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

Appendix "A"

Revised Cash Flow Statement

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

For the week beginning	Notes	16-Sep-19	23-Sep-19	30-Sep-19	7-Oct-19	14-Oct-19	21-Oct-19	28-Oct-19	4-Nov-19	11-Nov-19	18-Nov-19	25-Nov-19	2-Dec-19	9-Dec-19	16-Dec-19	23-Dec-19	30-Dec-19	6-Jan-20	13-Jan-20	20-Jan-20	27-Jan-20	3-Feb-20	10-Feb-20	17-Feb-20	24-Feb-20	2-Mar-20	25-week Total to March 6, 2020
Receipts																											
Sales	2	24,787	24,787	24,639	24,623	23,623	24,623	22,867	21,637	21,637	21,637	21,637	27,026	27,026	27,026	18,864	8,108	6,067	30,333	30,333	30,333	18,750	18,750	18,750	18,750	22,727	559,340
Intercompany Receipts	3	3,820	3,510	4,754	5,065	6,556	5,065	5,202	5,751	5,751	8,171	5,751	4,018	4,018	6,418	2,411	1,607	5,091	3,984	3,636	3,636	3,864	3,864	6,066	3,864	6,705	118,580
Tax Refunds	4	1,000	-	-	-	1,000	-	-	-	1,000	-	-	-	-	1,000	-	-	-	1,000	-	-	-	-	-	1,000	-	6,000
Other Receipts	5	-	-	265	-	-	-	280	-	-	-	-	340	-	-	-	350	-	-	-	-	380	-	-	-	400	2,015
Total Receipts		29,607	28,297	29,658	29,688	31,179	29,688	28,349	27,388	28,388	29,808	27,388	31,385	31,045	34,444	21,275	10,065	11,158	35,318	33,970	33,970	22,994	22,614	25,816	22,614	29,832	685,934
Disbursement																											
General Expenses	6	2,000	2,000	1,945	1,932	1,545	1,932	1,950	2,024	2,024	2,024	2,024	2,125	2,125	2,125	1,275	850	2,673	1,909	1,909	1,909	1,625	1,625	1,625	1,625	1,818	46,618
Payroll and Benefits	7	945	1,845	445	1,845	445	2,345	445	1,845	445	2,345	445	1,845	445	2,345	445	1,845	445	1,845	945	1,845	445	1,845	945	1,845	445	30,925
Pension	8	617	200	-	200	511	200	-	200	510	200	-	200	-	774	-	200	-	691	-	200	-	200	491	200	-	5,593
Promotions and Marketing	9	3,016	3,016	2,573	2,462	1,970	2,462	2,435	2,328	2,328	2,328	2,328	6,037	6,037	6,037	3,622	2,415	1,305	932	932	932	1,375	1,375	1,375	1,375	2,159	63,154
Leaf	10	197	-	-	-	413	-	-	-	4,537	-	-	-	-	-	-	-	-	-	1,100	-	-	-	-	-	-	6,247
Capital Expenditures and Leases	11	-	-	7,947	-	-	-	1,597	-	-	-	2,730	-	-	-	-	-	589	-	-	-	-	-	-	-	-	12,863
Professional Fees	12	39	39	42	42	42	42	38	38	38	38	38	46	46	46	46	-	59	29	29	29	30	30	30	30	29	918
Restructuring Costs	13	108	-	-	133	479	133	-	125	524	125	-	125	524	125	-	242	260	242	-	242	260	242	260	242	-	4,147
Domestic and Import Duty	14	-	30,832	-	-	-	-	40,143	-	-	-	44,919	-	-	-	-	31,218	-	-	-	27,849	-	-	-	49,000	-	223,960
GST and HST	15	-	5,801	-	-	-	-	5,358	-	-	-	6,384	-	-	-	-	4,793	-	-	-	6,040	-	-	-	5,000	-	33,376
Intercompany Disbursements	16	7,083	6,524	5,640	4,035	3,949	4,035	5,762	7,133	7,133	7,547	8,237	7,405	7,405	10,590	4,443	4,065	7,445	6,112	5,318	6,422	5,875	5,875	6,669	6,978	6,250	157,932
Intercompany Royalties	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Interest	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Principal	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Tax Instalments and PTT	19	-	2,770	-	1,500	-	-	2,770	1,500	-	-	2,770	-	1,500	-	-	2,770	1,500	-	-	2,770	-	1,500	-	2,770	-	24,120
Total Disbursements		14,005	53,027	18,593	12,149	9,354	11,149	60,499	15,194	17,539	14,608	69,875	17,784	18,083	22,043	9,831	48,745	13,669	12,878	9,376	47,995	9,592	12,709	11,377	68,823	10,959	609,854
Cashflow Surplus/Deficit (-)		15,602	(24,730)	11,065	17,538	21,825	18,538	(32,149)	12,194	10,849	15,200	(42,487)	13,601	12,962	12,402	11,444	(38,679)	(2,511)	22,440	24,594	(14,026)	13,402	9,904	14,439	(46,210)	18,873	76,080
Opening Cash Balance	1	224,242	239,844	215,114	226,179	243,718	265,542	284,081	251,931	264,126	274,975	290,175	247,688	261,289	274,251	286,652	298,096	259,417	256,906	279,346	303,940	289,914	303,316	313,220	327,659	281,449	224,242
Closing Cash Balance		239,844	215,114	226,179	243,718	265,542	284,081	251,931	264,126	274,975	290,175	247,688	261,289	274,251	286,652	298,096	259,417	256,906	279,346	303,940	289,914	303,316	313,220	327,659	281,449	300,322	300,322
Cash Collateral pledged to Citibank	20																										
Opening Balance		11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	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	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		227,944	203,214	214,279	231,818	253,642	272,181	240,031	252,226	263,075	278,275	235,788	249,389	262,351	274,752	286,196	247,517	245,006	267,446	292,040	278,014	291,416	301,320	315,759	269,549	288,422	288,422

**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 Cash Flow Statement

Disclaimer

In preparing this cash flow projection (the "**Cash Flow Statement**"), the Applicant has relied upon unaudited interim financial information and the major assumptions listed below. The 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 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 Cash Flow Statement for reasons other than to assess the cash flows of the Applicant during the forecast period are cautioned that it may not be appropriate for their purposes.

Overview

The Cash Flow Statement reflects cash flows from JTIM. The Applicant, with the assistance of the Monitor, has prepared the 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 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\$1.29 = 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 across the world 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.

7. Payroll and Benefits

These projected disbursements include payroll and benefit costs for all salaried and hourly plant employees. The forecast amounts are based on historic run rates. Hourly plant employees are paid weekly and salaried employees are paid bi-weekly. Payroll disbursements include all employee source deductions, employee and employer portions of CPP/QPP and EI, and other payroll-related taxes. Payroll and benefit costs also include 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 and Leases

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. Additional expenditures are forecast for regional sales office leases, vehicles used by marketing representatives and miscellaneous information technology requirements.

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 and the fees and costs of the Court-Appointed Mediator and his 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 duty on imported tobacco products. 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, JTI (US) Holdings Inc., 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 13, 2019

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 Cash Flow Statement and the assumptions on which the Cash Flow Statement is based.

JTIM confirms that:

1. The Cash Flow Statement and the underlying assumptions are the responsibility of JTIM;
2. All material information relevant to the 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 Cash Flow Statement are appropriate in the circumstances;
 - b. That the individual assumptions underlying the Cash Flow Statement, taken as a whole, are appropriate in the circumstances; and
 - c. That all relevant assumptions have been properly presented in the Cash Flow Statement or in the notes accompanying the Cash Flow Statement.

JTI-Macdonald Corp.

1 Robert Speck Parkway, Suite 1601
Mississauga, Ontario, L4Z 0A2, Canada
905 804 7300

jti.com

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 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

**FIFTH REPORT OF THE MONITOR
Dated September 25, 2019**

BLAKE, CASSELS & GRAYDON LLP

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Suite 4000, Commerce Court West
Toronto, Ontario M5L 1A9

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