

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT No.: 500-11-057094-191
OFFICE No.: 0000438-2019-QC

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

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

7936567 CANADA INC. (formerly known as
STORNOWAY DIAMOND CORPORATION)

-&-

11641638 CANADA INC.

-&-

11641735 CANADA INC.

Petitioners

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**COMPUTERSHARE TRUST COMPANY OF
CANADA**

-&-

DIAQUEM INC.

-&-

INVESTISSEMENT QUÉBEC

-&-

**FONDS DE SOLIDARITÉ DES TRAVAILLEURS
DU QUÉBEC**

-&-

**FONDS RÉGIONAL DE SOLIDARITÉ F.T.Q.
NORD-DU- QUÉBEC, SOCIÉTÉ EN
COMMANDITE**, acting through its general
partner, **FONDS RÉGIONAUX DE SOLIDARITÉ
FTQ**

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CREE NATION OF MISTISSINI

-&-

**GRAND COUNCIL OF THE CREE (EYYOU
ISTCHEE)**

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CREE NATION GOVERNMENT

-&-

**CATERPILLAR FINANCIAL SERVICES
LIMITED**

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**CHUBB LIFE INSURANCE COMPANY OF
CANADA**

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THE BANK OF NOVA SCOTIA

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XEROX CANADA LTD.

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ATLAS COPCO CANADA INC.

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CWB NATIONAL LEASING INC.

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OSISKO GOLD ROYALTIES LTD.

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CDPQ RESSOURCES INC.

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TF R&S CANADA LTD.

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ALBION EXPLORATION FUND LLC

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WASHINGTON STATE INVESTMENT BOARD

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TSX INC.

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ATTORNEY GENERAL OF CANADA

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QUEBEC REVENUE AGENCY

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11641603 CANADA INC.

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11641638 CANADA INC.

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11641735 CANADA INC.

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**THE MINISTER OF ECONOMY, SCIENCE AND
INNOVATION OF QUÉBEC**

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**THE MINISTER OF FINANCE AND ECONOMY
OF QUÉBEC**

Mises-en-cause

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DELOITTE RESTRUCTURING INC.

Monitor

**THIRD REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS MONITOR (THE "MONITOR")**
(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)

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INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the First Report, the *Motion Seeking (i) Extension of the Stay of Proceedings; (ii) Amendment and Restatement of the Initial Order; and (iii) Leave to Enter Into the Participating Streamers/Diaquem Transaction with Issuance of an Approval and Vesting Order and Ancillary Relief* ("**Motion**") under the *Companies' Creditors Arrangement Act* ("**CCAA**") and in the SPA.
2. On September 9, 2019, Stornoway Diamond Corporation ("**SWY**"), Stornoway Diamonds (Canada) Inc. ("**SDCI**"), Ashton Mining of Canada Inc. ("**Ashton**") and FCDC Sales and Marketing Inc. ("**FCDC**") (collectively the "**Petitioners**" or "**Stornoway**") filed for and obtained protection from their creditors under Section 4, 5 and 11 of the CCAA pursuant to an Order rendered by this Honourable Court (the "**Initial Order**"). The Initial Order provides for, *inter alia*, (i) a stay of proceedings against the Petitioners until October 9, 2019 (the "**Stay Period**") (ii) the appointment of Deloitte Restructuring Inc. as the Monitor under the CCAA ("**Deloitte**" or the "**Monitor**"), (iii) the approval of the Interim Facility and the (iv) granting of an Interim Lenders' Charge, an Administration Charge, a D&O Charge and a SISP Managers Charge. The proceedings commenced under the CCAA by the Petitioners will be referred to herein as the "**CCAA Proceedings**".
3. On September 8, 2019, the Monitor issued its First Report. The purpose of the First Report was to provide background information on Deloitte's qualification to act as Monitor, the business, affairs and financial results of the Petitioners, Stornoway's main creditors, the Petitioners' SISP process, on the contemplated transaction, the charges sought in the Initial Order and to cover specifically the Cash Flow Statement, in accordance with paragraph 23(1)(b) of the CCAA.
4. On October 2, 2019, the Monitor issued its Second Report (the "**Second Report**"). The purpose of the Second Report was to provide information to the Court on the activities of the Petitioners and the Monitor since the commencement of the CCAA Proceedings, to request an Approval and Vesting Order and an Amended and Restated Initial Order.
5. On October 7, 2019, an order was granted by this Honourable Court approving the Participating Streamers/Diaquem Transaction, restate the Initial Order and extend the Stay Period to November 30, 2019.

PURPOSE OF THE THIRD REPORT

6. The purpose of this Third Report of the Monitor (the "**Third Report**") is to provide information to the Court with respect to:
 - (i) the activities of the Petitioners since the Second Report;
 - (ii) the activities of the Monitor since the Second Report;
 - (iii) the Closing of the Participating Streamers/Diaquem transaction;
 - (iv) the Petitioners' original cash flow statement and a comparison to actual receipts and disbursements for the four-week period ended October 25, 2019;
 - (v) next steps and the discharge sought by the Monitor;
 - (vi) the Monitor's conclusions and recommendations.

TERMS OF REFERENCE

7. In preparing this Third Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, the Petitioners' books and records and financial information prepared by the Petitioners and discussions with management ("**Management**") of the Petitioners (collectively, the "**Information**"). The Monitor makes the following observations in connection with the Information, some of which has been provided to the Monitor in draft form:
- (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 Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and
 - (ii) some of the information referred to in this Third Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
8. 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.
9. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Third Report concerning the Petitioners and their business are based on the Information, and not independent factual determinations made by the Monitor.
10. A copy of this Third Report the Monitor will be made available on the Monitor's website at <https://www.insolvencies.deloitte.ca/Stornoway>. The Monitor has also provided a dedicated email address and phone number that are referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the Petitioners' restructuring or the CCAA process.

STATUS OF THE CCAA PROCEEDINGS

11. Since the granting of the Initial Order:
- (i) the Petitioners continued to operate as a going concern and to pay their current employees and their suppliers in the normal course of business, for both their pre- and post-filing claims, as permitted by the Initial Order;
 - (ii) the Monitor, with the Petitioners' assistance, has been responding to questions of various stakeholders as to the status of these CCAA Proceedings;
 - (iii) the Monitor has analyzed the receipts and disbursements transacted through the SWY and SDCI bank accounts on a weekly basis with the full co-operation of Management and was presented with all requests to pay for services rendered to the Petitioners' since the granting of the Initial Order;
 - (iv) the Petitioners, the Participating Streamers and Diaquem agreed to the terms of the SPA and all related documents including the structure of the Participating Streamers/Diaquem Transaction; and

- (v) the Monitor was kept informed on the progress of the proposed Closing of the Participating Streamers/Diaquem Transaction.

12. Pursuant to the Amended and Restated Initial Order:

- (i) on October 7, 2019, the Monitor posted a copy of the Court materials, the Second Report, the Amended and Restated Initial Order and the Approval and Vesting Order on the Monitor's website.

CLOSING OF THE PARTICIPATING STREAMERS/DIAQUEM TRANSACTION

- 13. On October 7, 2019, an order was granted approving the Participating Streamers/Diaquem Transaction. Since the granting of the order, the Petitioners, the Participating Streamers and Diaquem have worked relentlessly in order to prepare all supporting agreements and documentation in view of Closing the proposed transaction.
- 14. On November 1, 2019, the Vendor and AcquisitionCo confirmed to the Monitor that the conditions of Closing set forth in the Purchase Agreement had been satisfied and/or waived and that the Closing Date had occurred.
- 15. Also on November 1, 2019, as per the Approval and Vesting Order and the SPA, and following receipt of the confirmations from the Vendor and AcquisitionCo, the Monitor issued the Monitor's Certificate confirming that the Closing Date had occurred.

ACTUAL RECEIPTS AND DISBURSEMENTS

- 16. The highlights of the Petitioners' financial performance for the period commencing on October 7, 2019, and ending on October 27, 2019, are presented in our comments on the financial performance of the Petitioners during such period as follow:
 - (i) compared with the second statement of projected cash flow presented by the Petitioners to the Court (the "**Second Cash Flow Statement**"), the Petitioners experienced a favourable variance of approximately \$16,844K in respect of cash inflows. The variance is primarily attributable to the following:
 - i. favourable variance of \$17,342K related to the proceeds from November's sale being partly received one week earlier than projected. This variance is mainly due to timing;
 - ii. unfavourable variance of \$2,000K related to the Working Capital Facility not being drawn upon. Due to the recent overall positive variance of the Company's net cash flow, no additional funding was necessary;
 - iii. favourable variance of \$1,133K related to August's sales tax receivable being partly received earlier than projected. This variance is mainly due to timing;
 - iv. favourable variance of \$293K related to a higher amount received for the Cree subvention. The actual amount received was for six months of claims while it was initially budgeted for three months. This difference is permanent; and
 - v. favourable variance of \$76K related to unbudgeted equipment sales.
 - (ii) compared with the Second Cash Flow Statement, the Petitioners experienced a favourable variance of approximately \$3,832K in respect to the cash outflows. The variance is primarily attributable to the following:
 - i. favourable variance of \$3,549K related to lower than projected payments to suppliers. This variance is mainly due to timing as the

Petitioners have been managing their supplier payments on a conservative basis. These disbursements will be made in the near future;

- ii. favourable variance of \$842K related to timing of payroll payments, as all employees are now being paid every two weeks due to merged payroll schedules;
- iii. unfavourable variance of \$575K related to a projected payment to Gaz Metro being made one week earlier than expected;
- iv. unfavourable variance of \$138K related to consultant fees. This variance is mainly due to timing;
- v. favourable variance of \$720K related to the contingency for unexpected fees and expenses, as those expenses have been lower than anticipated; and
- vi. favourable variance of \$154K due to timing of other budgeted expenses. These costs will have to be disbursed in the near future.

17. All post-filing expenses incurred by the Petitioners as of the Closing Date have been or will be paid in the normal course.

NEXT STEPS AND SOUGHT DISCHARGE

18. As anticipated, upon the issuance of the Monitor's Certificate all directors and officers of NewCo2 (11641638 Canada Inc.), NewCo 3 (11641735 Canada Inc.) and SWY (7936567 Canada Inc.) have resigned.
19. In the Amended and Restated Initial Order, the Monitor was empowered and authorized to assign Newco 2, Newco 3 and SWY into bankruptcy as deemed appropriate in the circumstances by the Petitioners and the Monitor.
20. It is the Monitor's intention to assign NewCo2, NewCo 3 and SWY into bankruptcy in the coming days, should all statutory documentation be obtained.
21. In the present case, to be in a position to assign Newco 2, Newco 3 and SWY into bankruptcy, it is respectfully submitted that the release of the Monitor's responsibilities and obligations under the Amended and Restated Initial Order is advisable given the closing the Participating Streamers/Diaquem Transaction.

THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

22. The Monitor believes that the Petitioners have acted, and are acting, in good faith and with due diligence.
23. The Vendor and AcquisitionCo confirmed to the Monitor that the conditions of Closing set forth in the SPA had been satisfied and/or waived and that the Closing Date had occurred. Therefore, the Monitor issued the Monitor's Certificate accordingly.
24. For the reasons stated in this Third Report, the Monitor is of the view that the discharge of the Monitor's responsibilities and obligations under the Amended and Restated Initial Order by this Honorable Court are advisable and should be granted.
25. The Monitor respectfully submits to the Court this, its Third Report.

DATED AT MONTREAL, this 4th day of
November 2019.

DELOITTE RESTRUCTURING INC.

In its capacity as Court-Appointed Monitor of 7936567
Canada Inc., 11641638 Canada Inc. and 11641735
Canada Inc.



Jean-François Nadon, CPA, CA, CIRP, LIT
President



Benoît Clouâtre, CPA, CA, CIRP, LIT
Senior Vice President