Court File No. 19-CV-615862-00CL

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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO JTI-MACDONALD CORP.

REPORT OF THE PROPOSED MONITOR
March 8, 2019

INTRODUCTION

1. Deloitte Restructuring Inc. ("**Deloitte**" or the "**Proposed Monitor**") understands that JTI-Macdonald Corp. ("**JTIM**" or the "**Applicant**") will be bringing an application before the Ontario Superior Court of Justice (Commercial List) (the "**Court**") seeking, among other things, an initial order (the "**Proposed Initial Order**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). The Applicant proposes that Deloitte be appointed as Monitor in the CCAA proceedings.

2. This report (the "**Report**") has been prepared by the Proposed Monitor prior to and in contemplation of its appointment as Monitor in the CCAA proceedings to provide information to the Court for its consideration on the Applicant's initial hearing seeking protection pursuant to the CCAA.

PURPOSE

3. The purpose of this Report is to provide information to the Court on:

i. Deloitte's qualifications to act as Monitor;

ii. Background information with respect to JTIM;

iii. An overview of arrangements in place regarding certain financing, operational and administrative services between JTIM and certain related-parties;

iv. The review by the Proposed Monitor's counsel of certain security granted by JTIM to JTI-Macdonald TM Corp. ("**TM**");

v. The review by the Proposed Monitor's counsel of other related party security;

vi. Deloitte's proposed monitoring procedures;

vii. An overview of JTIM's 13-week cash flow projection (the "**Cash Flow Statement**");

viii. The proposed Court-ordered charges; and

ix. The Proposed Monitor's comments on the Proposed Initial Order and conclusions.

TERMS OF REFERENCE AND DISCLAIMER

4. In preparing this Report and making the comments herein, the Proposed 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**").

5. The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of 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 Proposed Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.

6. Some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

7. Future oriented financial information referred to in this Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

8. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

I. DELOITTE'S QUALIFICATIONS TO ACT AS MONITOR

9. Deloitte is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). The senior Deloitte professional personnel associated with this

matter have acquired knowledge of the Applicant and its business through discussions held with Management and other interested parties. Prior to the filing, Deloitte was engaged by JTIM for the limited purposes of assisting JTIM in preparation for a potential CCAA filing and providing financial consulting services in connection therewith. In preparation for the potential appointment as Monitor, Deloitte has spent time with Management to understand the Applicant's operations, debt structure and intercompany arrangements as more fully described in this Report for the assistance of the Court. This mandate also included consultation with independent legal advisors. Deloitte is, therefore, in a position to immediately assist the Applicant in its CCAA proceedings.

10. Deloitte is not subject to any of the restrictions on who may be appointed as Monitor pursuant to section 11.7(2) of the CCAA.

11. For completeness, the Proposed Monitor notes the following regarding other members of the Deloitte global group, for the Court's information:

i. In Canada, Deloitte LLP ("**Deloitte Canada**"), an affiliate of the Proposed Monitor, provides audit services to the trustees of the Applicant's pension plans. Deloitte Canada is retained directly by the trustees, although paid by JTIM;

ii. Deloitte Canada provides personal tax compliance services for JTIM in respect of its internationally assigned employees. This work forms a part of a global engagement between Deloitte SA in Switzerland and JT International SA ("**JTI-SA**") in respect of internationally assigned employees of Japan Tobacco Inc. ("**Japan Tobacco**");

iii. Previously, Deloitte Canada provided certain administrative functions to certain litigation defendants, including JTIM by hosting data productions received from provincial governments for counsel's review and assembly relating to health care cost litigation in Quebec. This mandate finished in April 2013. Deloitte Canada currently provides such administrative hosting functions for health care cost litigation in New Brunswick. No advocacy, analysis, review or reporting functions were or are currently performed by Deloitte Canada in respect of such hosting services;

iv. Globally, Deloitte Touche Tohmatsu LLC ("**DTT**") is the independent auditor of Japan Tobacco. DTT most recently conducted an audit for fiscal 2017 and quarterly reviews for the current year out of its offices in Tokyo, Japan. There is no common ownership between the Proposed Monitor and DTT and neither entity has control or oversight over the other. Deloitte Canada does not provide audit services to JTIM or any of the Canadian affiliates or subsidiaries of JTIM. For fiscal years ended 2011 and prior, Deloitte Canada assisted DTT with group reporting, but no longer does so;

v. In 1999, Deloitte & Touche LLP (the predecessor firm name for Deloitte Canada) was retained by RJR Nabisco, Inc. to provide an independent valuation of the assets of RJR Nabisco, Inc. in connection with the purchase by Japan Tobacco of the world-wide tobacco operations of R.J. Reynolds Tobacco Company. Also in 1999, Deloitte & Touche LLP provided an independent valuation of the brand equity of RJR-Macdonald Corp. for the purposes of supporting the fair market value transfer of RJR Macdonald Corp.'s beneficial ownership of its trademarks and the associated rights to sell goods bearing the trademarks to TM. These matters were described in the Fourth Report of Ernst & Young Inc. in its capacity as Monitor in JTIM's 2004 CCAA proceedings, which is attached as Exhibit "G" to the McMaster Affidavit (as defined below); and

vi. Deloitte & Touche LLP previously provided specialized tax services (not audit functions) to JTIM and its Canadian affiliates but has not provided such services for at least five years.

12. None of the Proposed Monitor's team members have had any prior involvement with the matters set out above. Only the Proposed Monitor's team members will have access to confidential information and internal documents relating to the CCAA proceedings.

13. Deloitte has consented to act as Monitor, should the Court grant the Applicant's request for the Proposed Initial Order.

14. The Proposed Monitor has retained Blake, Cassels & Graydon LLP ("**Monitor's Counsel**") to act as its independent counsel.

II. BACKGROUND INFORMATION WITH RESPECT TO JTIM

15. This Report should be read in conjunction with the Affidavit of Robert McMaster sworn March 8, 2019 (the "**McMaster Affidavit**") for additional background information with respect to JTIM, upon which the Proposed Monitor relies.

Background

16. Japan Tobacco, together with its subsidiaries, manufactures and sells tobacco products, primarily cigarettes, in Japan and internationally. It also distributes imported tobacco products. Japan Tobacco is based in Tokyo, Japan.

17. In Canada, JTIM is a wholly owned subsidiary of JT Canada LLC Inc. ("**ParentCo**") which is an indirect subsidiary of Japan Tobacco. Originally founded in 1858 as McDonald Brothers and Co., the company's name was changed to JTI-Macdonald Corp. in 1999 when Japan Tobacco bought the non-US tobacco operations of RJR Nabisco Inc., R.J. Reynolds Tobacco Co. and their respective affiliates (collectively, the "**RJR Group**"). JTIM is the third largest tobacco company based on volume of sales in Canada.

18. JTIM manufactures and imports a variety of cigarettes – its Canadian manufactured brands include Export A, Macdonald Special, Liggett Ducat and Winston. Besides standard cigarettes, the company also produces two lines of fine-cut products, under the brand names Export A and Macdonald Special, and Century Sam cigars.

19. The Applicant's sales, net of taxes, for fiscal 2018 were approximately $598.5 million. The vast majority of the Applicant's customers are tobacco wholesalers who then distribute the products to their retail customers. In limited circumstances, the Applicant sells products directly to retailers and consumers in Ontario.

Class Actions and Health-Care Cost Recovery Litigation

20. As discussed in the McMaster Affidavit, a judgment (the "**Judgment**") was rendered by the Quebec Superior Court against JTIM in two class action lawsuits (the "**Quebec Class**

Actions") commenced in the Province of Quebec. The Judgment was appealed to the Quebec Court of Appeal by JTIM and the other defendants in the proceedings, also Canadian tobacco companies.

21. As discussed in the McMaster Affidavit, the Quebec Court of Appeal substantially upheld the Judgment for the reasons described in the decision released on March 1, 2019 (the "**QCA Judgment**"). The QCA Judgment is 422 pages and is in French only. The English conclusions of the QCA Judgment and an English summary prepared by the Quebec Court of Appeal is attached as Exhibit "A" to the McMaster Affidavit.

22. As discussed in the McMaster Affidavit, JTIM is also the subject of lawsuits filed by each of the ten provinces against tobacco industry members relating to the potential recovery of health-care costs resulting from alleged "tobacco related wrongs" (the "**HCCR Actions**"). The defendants in such actions include R.J. Reynolds Tobacco Co. and R.J. Reynolds Tobacco International, Inc. (collectively, "**Reynolds**"), which parties benefit from an indemnity arising from the purchase agreement between the RJR Group and Japan Tobacco. As stated in the McMaster Affidavit, JTIM may have liability for the indemnification claims should a judgment be rendered against Reynolds. The total potential quantum of damages claimed is not yet known. The amount of claims, where quantified or estimated based on plaintiffs' expert reports, against Canadian tobacco industry members are as follows:

Provinces	Estimated Amount of Claims ('000s)
British Columbia	120,000,000
Alberta	10,000,000
Saskatchewan	Unspecified
Manitoba	Unspecified
Ontario	330,000,000
Quebec	61,000,000
New Brunswick	18,000,000
Nova Scotia	Unspecified
Prince Edward Island	Unspecified
Newfoundland and Labrador	Unspecified
	539,000,000 plus unspecified amounts

23. In addition to the Quebec Class Actions lawsuits and the HCCR Actions, the McMaster Affidavit also describes the following other outstanding litigation:

Provinces	Name of Class Action	Status	Estimated Value of Claims ('000s)
British Columbia	Bourassa	Dormant/Expired	Unspecified
British Columbia	McDermid	Dormant/Expired	Unspecified
Alberta	Dorian	Dormant/Expired	Unspecified
Saskatchewan	Adams	Dormant/Expired	Unspecified
Manitoba	Kunta	Dormant/Expired	Unspecified
Ontario	Jacklin	Dormant	Unspecified
Ontario	Tobacco Growers	Ongoing	$50.0 million (plus interest and costs)
Nova Scotia	Semple	Dormant/Expired	Unspecified

24. Based on the financial position of JTIM as set out in the McMaster Affidavit, JTIM does not have available funds to satisfy the QCA Judgment**.**

25. The Applicant requires the protections afforded under the CCAA in order to maintain the *status quo* of its operations and preserve going concern value for all of its stakeholders. If JTIM is forced to cease operations as a result of enforcement steps taken pursuant to the QCA Judgment, significant value of the business could be lost, employees will lose their

jobs, and trade creditors who rely on JTIM will be harmed. The stay of proceedings will provide an opportunity for JTIM to engage in discussions with its creditors, assess its strategic options, and seek a collective solution for the benefit of all stakeholders.

III. OVERVIEW OF ARRANGEMENTS WITH RELATED PARTIES

26. An organization chart with the relevant Canadian entities related to JTIM is attached as Exhibit "B" to the McMaster Affidavit.

27. As part of the Japan Tobacco global group, the Applicant benefits from group purchasing, financing, management expertise, information technology and licensing agreements. A description of certain related parties and the nature of their arrangements with the Applicant are outlined in detail in the McMaster Affidavit. The following table summarizes the material receivables and payables (gross annual transactions greater than $1.0 million) between the related parties as at December 31, 2018:

Amounts in '000s				Balance as at December 31, 2018	
Related Party	**Description**	**Frequency**	**2018 Annual Receipt (Payment)**	**Due to JTIM**	**Due from JTIM**
TM	Convertible debenture[1]	Monthly	(93,634)	-	1,187,674
TM	Royalty payments[1]	Monthly	(10,640)	429	-
ParentCo	Revolving Line of Credit*	On demand	-	-	-
ParentCo	Demand note	On demand	-	-	8,989
JTI-SA	Tobacco purchases, payments related to contract manufacturing and distribution of certain brands	Monthly in advance except Vantage royalties and distribution of certain brands which are 60 or 90 days	(262,594)	-	54,537
JTI-SA	Contract manufacturing for JTI-SA	Monthly	199,051	23,252	-
JTI-SA	Global IT services from JTI-SA	Monthly in advance	(4,140)	-	-
JTI-SA	Global function services for JTI-SA	Quarterly	4,691	34	-
JTI-SA	Regional IT services	Quarterly	4,475	416	
JTI-SA	Global human resources services	Monthly	5,058	207	
JTIH-BV[2]	Global administrative services	Monthly in advance	(6,688)	-	-
JTI Services[3]	Global human resources services	Monthly in advance	(1,203)	34	-
JTI-US[4]	Regional services provided for JTI-US	Quarterly	3,075	26	-
JTI-US[4]	Regional services provided by JTI-US	Monthly in advance	(632)	-	-
LLC-Cres[5]	Tobacco purchases	Monthly in advance	(2,229)	-	70
JTI-USA[6]	Distribution of brands in USA	Two to three times annually	4,428	1,890	-
JTI-USA[6]	Master Settlement Agreement for distribution of brands in USA	Monthly in advance	(578)	-	-
JTI-BusServ[7]	Global administrative services	Monthly in advance	(1,052)	-	-
JTI CTI[8]	Administrative services	Monthly	174	933	-
Logic[9]	Scientific & regulatory affairs services	Quarterly	1,184	-	-
				27,221	**1,251,270**

*ParentCo Loan Agreement was entered into on June 25, 2015 to replace the facility with Citibank; the principal balance outstanding is nil as at February 28, 2019.
[1]Amounts include both principal and interest accrual and payments. The Forbearance Letter dated August 3, 2017 (as amended on January 26, 2018, April 10, 2018, July 31, 2018, September 28, 2018 and January 8, 2019) between TM and JTIM amended the royalty and interest payment frequency from semi-annually to monthly. The amount owing with respect to royalty payments is net of a deposit of $1.3 million provided to TM, in satisfaction of the terms of the January 26, 2018 amendment.
[2]JT International Holding B.V.
[3]JTI Services Switzerland SA
[4]JTI (US) Holdings Inc.
[5]LLC Cres Neva
[6]Japan Tobacco International USA Inc.
[7]JTI Business Services Ltd.
[8]JTI Canada Tech Inc.
[9]Logic Technology Development LLC

IV. REVIEW OF TM SECURITY

28. The monies owed by the Applicant to TM are evidenced by debentures (the "**TM Term Debentures**") governed by the laws in the Province of Nova Scotia that are due November 18, 2024. The TM Term Debentures are redeemable at the option of the Applicant and convertible into special preference shares of JTIM at the option of TM. As part of an agreement by JTIM's secured creditors to forbear from exercising their enforcement rights against JTIM, the TM Term Debentures were amended by an agreement dated August 3, 2017, which amendment changed the interest payment dates (but not the amounts) from bi-annually to monthly; monthly interest payments are approximately $7.6 million and principal payments, due every May and November, are approximately $950,000.

29. The Proposed Monitor has requested that Monitor's Counsel review and opine on the security granted by JTIM to TM to secure obligations owing by JTIM to TM (the "**TM Security**"). The Proposed Monitor understands that JTIM owns real and personal (i.e: moveable and immovable) property in the Province of Quebec, and personal property in the other nine provinces.

30. Subject to the assumptions and qualifications as more particularly described in the opinions of the Monitor's Counsel, TM holds a valid security interest in the personal property of JTIM located in Nova Scotia, Ontario, Alberta and British Columbia and in the personal property and real property of JTIM located in Quebec. Copies of the Monitor's Counsel's legal opinions will be made available to the Court at the hearing of this matter and to stakeholders on appropriate arrangements regarding confidentiality, reliance and privilege.

31. Monitor's Counsel has also conducted searches of the personal property security registries against JTIM in Saskatchewan, Manitoba, New Brunswick, Prince Edward Island and Newfoundland & Labrador (the "**Additional Provinces**"). The searches disclose registrations in favour of TM, which on the face of the search have not expired. The Monitor's Counsel is not licenced to practice law in these jurisdictions, and no legal opinion has been given in respect of the validity or perfection of the TM Security in the Additional Provinces. The Proposed Monitor has been advised that JTIM's collateral in these jurisdictions is limited to non-material amounts of inventory compared to the total indebtedness owing to TM (i.e. $1.2 billion). As a result, the Monitor did not engage counsel in the Additional Provinces to provide security opinions.

32. As noted in the McMaster Affidavit, ParentCo privately appointed PricewaterhouseCoopers Inc. as receiver of TM on July 9, 2015 pursuant to the security granted by TM to ParentCo. Accordingly, references hereinafter to TM are to TM, in receivership.

V. OTHER RELATED PARTY SECURITY

33. In addition to the TM Security, JTIM has granted security to ParentCo to secure JTIM's obligations under a revolving line of credit. The Monitor understands there are currently no amounts owing under that credit facility.

34. JTIM has also granted security to secure ordinary course trade terms in favour of certain related party suppliers. Such trade terms and related security are discussed in greater detail in the McMaster Affidavit.

35. The Applicant is not seeking any specific relief in connection with these secured arrangements at this time. Monitor's Counsel is in a position to review and opine on such security, if and when required.

VI. PROPOSED MONITORING PROCEDURES

36. As part of its monitoring procedures, the Proposed Monitor would monitor and report on the following to ensure compliance with the Proposed Initial Order:

i. material disbursements by the Applicant to third parties in compliance with the terms of the Proposed Initial Order;

ii. receipts and disbursements as may be authorized by the Court, in respect of the Applicant's bank accounts, and weekly receipts and disbursements on a summary basis for comparison to the 13-week Cash Flow Statement (as may be updated in the future);

iii. receipts from related parties in respect of goods and services provided in accordance with existing contracts;

iv. fees paid by the Applicant to any of its related parties in respect of goods supplied and services performed to test that they are reasonable and supportable, in accordance with existing contracts including:

(a) terms and payments with respect to related party tobacco leaf purchases;

(b) fees paid by the Applicant to related parties in respect of the global information technology services provided, the sale of tobacco brands under the distribution agreement and the use of trademarks through licensing agreements, to test that they are reasonable and supportable, in accordance with existing contracts;

(c) fees paid by the Applicant to related parties in respect of the global functions provided, to test that they are reasonable and supportable, in accordance with existing contracts;

(d) fees paid by the Applicant to related parties in respect of staffing support, to test that they are reasonable and supportable, in accordance with existing contracts; and

(e) royalty payments made to TM in respect of the use of licensed trademarks and interest service payments made to TM in connection with the TM Term Debentures.

37. The Proposed Monitor believes that appropriate monitoring of the delivery of and payment for third party and intercompany services will provide the necessary oversight of the Applicant's operations during the CCAA proceedings. The Applicant and the Proposed Monitor have discussed these procedures with which the Applicant concurs.

VII. APPLICANT'S CASH FLOW STATEMENT

38. The Applicant, with the assistance of the Proposed Monitor, has prepared the Cash Flow Statement for the period from February 25 to May 24, 2019 (the "**Cash Flow Period**") for the purposes of projecting the estimated results of the Applicant's planned operations and other activities during the Cash Flow Period. A copy of the Cash Flow Statement is attached as Appendix "A" hereto, and summarized below:

Summary of Cash Flow Statement	**Amount ('000s)**
Receipts	
Sales and other	261,379
Intercompany	75,959
Total Receipts	**337,338**
Disbursements	
Payroll and Benefits	17,085
Pension	2,301
Taxes	184,153
Intercompany – Debenture	23,878
Intercompany – Royalties	2,284
Intercompany – Other	70,766
Professional Fees	4,194
Restructuring Costs	2,430
Other	62,036
Total Disbursements	**369,127**
Cash Flow Surplus / (Deficit)	**(31,789)**
Opening Cash	**161,196**
Closing Cash	**129,407**
Cash Collateral pledged to Citibank	**8,900**
Closing Cash net of Cash Collateral	**120,507**

39. The Cash Flow Statement is presented on a weekly basis during the Cash Flow Period and represents the best estimate of Management of the projected cash flow during the Cash Flow Period. The Cash Flow Statement has been prepared by Management, using the probable and hypothetical assumptions set out in the notes to the Cash Flow Statement (the "**Assumptions**").

40. The Proposed Monitor has reviewed the 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 monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on a cash flow statement.

41. In accordance with the standard, the Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to the Information. Since the Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by Management for the Assumptions and the preparation and presentation of the Cash Flow Statement.

42. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe, in all material aspects, that:

    i. the Assumptions are not consistent with the purpose of the Cash Flow Statement;

    ii. as at the date of this Report, the Assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Cash Flow Statement, given the Assumptions; or

    iii. the Cash Flow Statement does not reflect the Assumptions.

43. Since the Cash Flow Statement is based on Assumptions regarding future events, actual results will vary from the information presented even if the Assumptions occur, and the variations could be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. In addition, the Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of the financial information presented in the Cash Flow Statement, or relied upon by the Proposed Monitor in preparing this Report.

44. The Cash Flow Statement has been prepared solely for the purposes described above, and readers are cautioned that it may not be appropriate for other purposes.

VIII. OTHER COURT ORDERED CHARGES

45. The Proposed Initial Order provides for an Administration Charge (as defined below), a Directors' Charge (as defined below) and a Sales and Excise Tax Charge (as defined below) (collectively, the "**Charges**").

46. If the Proposed Initial Order is granted, the Charges shall constitute a charge on the Property (as defined in the Proposed Initial Order) and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise in favour of any person, except for (i) purchase money security interests, (ii) statutory superpriority deemed trusts and liens for unpaid employee source deductions, (iii) statutory superpriority deemed trusts and liens for any pension obligations with respect to the Applicant's pension plans, (iv) liens for unpaid municipal property taxes or utilities that are given first priority over other liens by statute, and (v) cash collateral securing letters of credit or bank guarantees (the "**Permitted Priority Liens**").

Administration Charge

47. The Proposed Initial Order provides for a charge (the "**Administration Charge**") in favour of counsel to the Applicant, the Monitor, Monitor's Counsel and the proposed Chief Restructuring Officer (the "**CRO**"), other than any success fee in respect of the CRO. The Administration Charge shall not exceed an aggregate amount of $3.0 million, as security for professional fees and disbursements incurred at the standard rates and charges of the CRO, the Monitor and such counsel, both before and after the issuance of the Proposed Initial Order in respect of these CCAA proceedings.

Directors' Charge

48. The Proposed Initial Order provides for a charge in the amount of $4.1 million (the "**Directors' Charge**") in favour of the Applicant's directors and officers as security for any obligations or liabilities that may arise after the commencement of the CCAA

proceedings, except to the extent that such obligation or liability is incurred as a result of such director's or officer's gross negligence or wilful misconduct and to the extent that such directors do not have coverage under any directors' and officers' insurance policy.

Sales and Excise Tax Charge

49. The Proposed Initial Order provides for a charge in favour of the provincial, territorial and federal taxing authorities (the "**Sales and Excise Tax Charge**") to secure the Applicant's obligations to remit harmonized and provincial sales or excise tax or duties, import or customs duties and provincial and territorial tobacco tax (collectively, the "**Sales and Excise Taxes**"). The Sales and Excise Tax Charge shall not exceed an aggregate amount of $127.0 million.

IX. PROPOSED MONITOR'S COMMENTS ON THE PROPOSED INITIAL ORDER

50. In addition to the matters described above, the Proposed Monitor has set out its observations with respect to the following certain matters relating to the Proposed Initial Order or referenced in the McMaster Affidavit:

i. the Charges and their priority:

ii. the appointment of the CRO;

iii. payment of trade creditors, taxes, pension and other disbursements;

iv. scope of stay;

v. sealing Order; and

vi. notice to creditors.

i. ***Charges***

51. The Charges, as set out in the Proposed Initial Order, would have the following priority:

    i. Administration Charge;

    ii. Directors' Charge;

    iii. Sales and Excise Tax Charge.

52. The Proposed Monitor is of the view that the proposed Administration Charge is reasonable and appropriate in the circumstances, having regard to, among other things, the complexity of these CCAA proceedings, and the potential professional work involved at peak times.

53. The Proposed Monitor reviewed the proposed amount of the Directors' Charge, taking into consideration the amount of the Applicant's payroll and vacation pay and pension liabilities. The quantum of the Directors' Charge, however, does not include amounts owed by JTIM in respect of taxes that may also be personal liabilities of the directors and/or officers if not paid by JTIM. JTIM's obligations in connection with such tax liabilities are to be secured by the Sales and Excise Tax Charge.

54. The table below is derived from the Cash Flow Statement and discussions with Management and estimates the maximum liability associated with potential directors' and officers' obligations in the ordinary course of business:

Potential Directors & Officers Liabilities	Payment Frequency	Max Liability	Amount ('000s)
Payroll	Weekly/Bi-weekly	2 weeks	2,100
Pension	Monthly	1 month	982
Vacation and other	Monthly	1 month	557
			3,639
Proposed Director's Charge			**4,100**

55. The Applicant maintains directors' and officers' liability insurance ("**D&O Insurance**") for the directors and officers of the Applicant. The Proposed Monitor understands that the current D&O Insurance provides a total of $12.9 million in coverage and a retention amount (akin to a deductible) is applicable for certain claims in the amount of $45,178.

56. The proposed Directors' Charge of $4.1 million is approximately the maximum estimated liability associated with directors' and officers' non-tax related obligations at peak times. The Proposed Initial Order provides that the Directors' Charge will only be available to the extent the D&O Insurance is not available, in the event a claim is made. The Proposed Monitor is of the view that the Directors' Charge is reasonable and appropriate under the circumstances.

57. The Proposed Monitor reviewed the proposed amount of the Sales and Excise Tax Charge, taking into consideration the amount of the Applicant's tax liabilities and surety bonds or other security posted as security for such unremitted taxes. As mentioned in the McMaster Affidavit, the Applicant remits more than $500 million in taxes and duties annually to the

federal and provincial governments in relation to the sale of JTIM's products; directors and officers potentially face significant liability if those taxes were not remitted. The Sales and Excise Tax Charge ensures this risk is mitigated and provides the directors and officers comfort that they will not expose themselves to personal liability by remaining with JTIM. The table below estimates the maximum liability the directors and/or officers may be personally liable for if not paid by JTIM:

Potential Directors & Officers Liabilities	**Payment Frequency**	**Max Liability**	**Amount ('000s)**
Domestic and Import Duty	Monthly	2 months	116,796
GST/HST/QST	Monthly	2 months	14,217
Income Tax	Monthly	1 month	1,685
Provincial Tobacco Tax	Monthly	2 months	3,393
			136,091
Less: Amounts provided for by surety bonds			**(8,916)**
			127,175
Proposed Sales and Excise Tax Charge			**127,000**

58. As noted above, these tax liabilities have not been taken into consideration in determining the quantum of the Directors' Charge. The Proposed Monitor is of the view that the Sales and Excise Tax Charge is reasonable and appropriate under the circumstances.

ii. CRO Appointment

59. The Applicant seeks the approval and confirmation of the Court of the retention of an experienced CRO to oversee and direct the stakeholder engagement and negotiation process and the approval of the terms of the CRO's engagement letter. The Proposed Monitor understands that the engagement of a CRO is requested in order to minimize the

disruption to the business and the distraction of senior executives away from the task of managing the business.

60. A copy of the unredacted CRO engagement letter is attached to the McMaster Affidavit as Confidential Exhibit "1" (the "**CRO Engagement Letter**").

61. The CRO Engagement Letter provides for both a monthly work fee as well as a success fee. The Proposed Monitor is of the view that the work fee is reasonable and consistent with fees approved in other recent CCAA proceedings.

62. The success fee is only payable if the Quebec Class Actions are settled contractually or compromised pursuant to a CCAA plan or if all claims filed against the Applicant in the CCAA proceedings (including the Quebec Class Actions, the HCCR Actions and the other tobacco related claims) are contractually settled or compromised in a CCAA plan. The success fee is not payable where the assets of JTIM are sold.

63. The Proposed Monitor is of the view that that success fee is reasonable in light of (i) the nature and complexity of the Quebec Class Actions, the HCCR Actions and other tobacco related litigation that has been commenced against JTIM; (ii) the quantum of the QCA Judgment and the amounts asserted in other tobacco related litigation (including the HCCR Actions) against JTIM relative to the success fee; (iii) the enterprise value of JTIM that would be preserved in a successful resolution of such claims relative to the success fee; and (iv) the fact that the success fee is not payable in a liquidation or sale of JTIM's business or assets but only payable in circumstances where a consensual resolution has

been achieved, either by way of a contractual settlement or a CCAA plan that receives requisite creditor support and court approval and is implemented.

64. The Proposed Monitor is of the view that the relief sought in the Proposed Initial Order with respect the CRO, including with respect to limitations of liability of the CRO, are appropriate in the circumstances and consistent with established precedent.

iii. Payment of employees, trade creditors, taxes, pension obligations and other disbursements

65. As described in the McMaster Affidavit, the Applicant proposes to pay its employees, trade creditors, taxes, pension obligations and other disbursements in the ordinary course of business for amounts owing both before and after JTIM's application to the Court for protection under the CCAA.

66. The McMaster Affidavit states that there are approximately 1,300 suppliers and normal course creditors to the Applicant, with approximately 15% being resident in foreign jurisdictions. All such trade suppliers are current at this time, with standard payment terms not typically exceeding 30 days. Management advises the Proposed Monitor that as at December 31, 2018 approximately $108.1 million is owed to non-related third parties. The third party amounts are comprised of taxes and duties, trade creditors, accruals and other liabilities. Further amounts are owed for pension and post-retirement benefits. Additionally, as at December 31, 2018, the current portion of liabilities owed to related parties is approximately $40.0 million.

67. The current portion of related party amounts pertain to trade related payables, demand promissory notes payable to ParentCo, royalty payments due in respect of the license of

trademarks from TM, and interest payable to TM under the TM Term Debentures. Further, the Applicant owes approximately $1.2 billion to TM under the TM Term Debentures.

68. While pre-filing claims could be stayed pursuant to the CCAA, the Proposed Monitor does not object to the Applicant's intention to make the proposed pre-filing payments for the reasons set out below.

69. Employees, Pension Obligations, Taxes and Duties: The Proposed Monitor is supportive of paying pre-filing amounts in relation to payroll and benefits including normal course pension payments and special payments, and taxes and duties, many of which amounts have priority status and/or will give rise to director liability if not paid. In the Proposed Monitor's experience, it is common to pay both pre-filing and post-filing obligations to employees in the normal course, including to ensure continued and uninterrupted service by employees. To the extent that cash flows support the ability to do so, in the Proposed Monitor's experience, it is also common to pay both normal course and special payments pension obligations. Based on the Proposed Monitor's discussions with Management, the Applicant has the cash resources to make the required payments.

70. Third Party Trade Creditors: The Proposed Monitor supports the Applicant's proposal to pay third party trade creditors for the following reasons:

i. As noted in the McMaster Affidavit, related party suppliers have amended their contractual terms to provide for at will supply and do not have long term supply obligations. It is JTIM's intention to treat all categories of suppliers equally and not advantage those that may be better placed to exert commercial pressure because of their geographic location or supply terms. The incremental cost of paying the pre-filing amounts of those third party suppliers situated in Canada that also have committed supply obligations is not material relative to the value of the Applicant's business, the Applicant's cash resources or the QCA Judgment.

ii. Paying these creditors their pre-filing debt in the ordinary course avoids significant administrative time expenditure of Management and the Proposed Monitor communicating, negotiating future payment terms, and calculating pre- and post-filing cut-off with this large number of parties.

iii. The Applicant's production facility operates on a near-continuous basis. There is significant risk that an unpaid supplier could temporarily disrupt production by withholding supply until such communication and arrangements have been put in place or orders of the Court are enforced. This risk is avoided by paying such suppliers their current invoices in the ordinary course for pre-filing obligations.

iv. The proposed CCAA proceeding is not intended to be an operational restructuring and the Applicant does not seek CCAA protection in response to any liquidity constraints arising from any inability to service its pre-filing trade credit. To the contrary, the Applicant has the cash resources to continue to make such payments in the normal course and minimize any deleterious effects of the proposed CCAA proceedings on the supply chain.

71. Related Party Payments: As noted above, the Applicant's related party suppliers supply on an at will basis. Like third party trade creditors, the Applicant's related party suppliers

provide needed supplies and services pursuant to previously agreed upon trade terms. Making the requested payments in accordance with ordinary terms does not appear to place any undue burden on the cash resources of the Applicant and allows similarly situated trade creditors to be treated rateably. The Proposed Monitor does not see any basis for asymmetrical treatment of suppliers. The Proposed Monitor notes that the Applicant does not owe any amounts to TM in respect of pre-filing royalty payments.

72. Interest Service Payment: In light of the Monitor's Counsel's conclusions about the validity of the TM Security, the Proposed Monitor does not object to ordinary course interest payments under the TM Term Debentures being made. As noted in the McMaster Affidavit, JTIH-BV has provided an undertaking to repay any post-filing interest received during the CCAA proceedings in the event that this Court (or any applicable appellate court) should finally determine that TM was not entitled to such post-filing interest payments.

iv. Scope of the Stay

73. In addition to the standard stay of proceedings contemplated by the CCAA Model Order, under the Proposed Initial Order, the Applicant seeks to stay the Pending Litigation related to a Tobacco Claim (defined terms as defined in the Proposed Initial Order) including the HCCR Actions against all parties thereto, including Reynolds.

74. As noted above, Reynolds benefits from an indemnity for which JTIM could have liability should a judgment be rendered against Reynolds in the HCCR Actions.

75. The Proposed Monitor is of the view that the scope of the stay is appropriate as it affords the parties the opportunity to reach a global settlement to address the potential liability of JTIM as both principal and potential indemnitor.

v. Sealing Order

76. As described in the McMaster Affidavit, the Applicant is seeking a sealing order in respect of the unredacted CRO engagement letter. The CRO engagement letter contains commercially sensitive information regarding the terms of the engagement of the CRO that the CRO has advised may have a detrimental impact on its ability to negotiate compensation on future engagements.

77. The Monitor is of the view that the sealing of the unredacted CRO engagement letter should not materially prejudice any third parties and supports such sealing.

vi. Notice to creditors

78. The Proposed Monitor will fulfill the statutory requirement to send a notice of the CCAA proceedings to every known creditor who has a claim against the Applicant of more than $5,000. Subject to the Court approving this increased threshold, the Proposed Monitor believes this is reasonable notice considering that JTIM proposes to pay its employees, trade creditors, taxes, pension obligations and other disbursements in the ordinary course of business for amounts owing both before and after the CCAA filing. It is the Proposed Monitor's intention to publish two notices of the CCAA filing in each of the national edition of the *Globe and Mail* and *La Presse*. Stakeholder communications and the Initial

Order will be published on the Proposed Monitor's dedicated website in English and French.

CONCLUSION

79. Based on the circumstances and analysis set out above, the Proposed Monitor is supportive of the Applicant's request for relief pursuant to the CCAA and the terms of the Proposed Initial Order.

All of which is respectfully submitted this 8 th day of March, 2019.

Deloitte Restructuring Inc.
Solely in its proposed role 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

Cash Flow Statement

JTI-Macdonald Corp.
13-week Cash Flow Statement
$CAD '000, unaudited

For the week beginning	Notes	25-Feb-19	4-Mar-19	11-Mar-19	18-Mar-19	25-Mar-19	1-Apr-19	8-Apr-19	15-Apr-19	22-Apr-19	29-Apr-19	6-May-19	13-May-19	20-May-19	13 weeks Total
Receipts															
Sales	2	17,657	17,941	18,165	18,418	18,680	18,960	20,644	17,244	20,077	20,838	22,137	23,340	23,305	257,407
Intercompany Receipts	3	4,064	6,349	4,664	7,840	8,417	4,992	4,992	8,128	4,992	5,101	5,173	5,173	6,074	75,959
Tax Refunds	4	972	-	1,000	-	-	-	-	1,000	-	-	-	1,000	-	3,972
Total Receipts		**22,694**	**24,290**	**23,830**	**26,258**	**27,097**	**23,952**	**25,635**	**26,372**	**25,069**	**25,939**	**27,310**	**29,513**	**29,380**	**337,338**
Disbursement															
General Expenses	5	2,276	2,381	2,381	2,281	2,381	2,273	2,273	2,173	2,273	2,083	1,957	1,957	1,857	28,543
Payroll and Benefits	6	1,845	445	1,845	945	1,845	445	1,845	445	2,345	445	1,845	445	2,345	17,085
Pension	7	-	-	-	767	-	-	-	767	-	-	-	767	-	2,301
Promotions and Marketing	8	878	1,610	1,610	1,610	1,610	2,562	2,562	2,562	2,562	2,004	1,632	1,632	1,632	24,464
Leaf	9	-	-	2,688	-	-	-	-	2,405	-	-	-	-	-	5,093
Capital Expenditures and Leases	10	249	-	1,689	-	241	-	-	-	-	1,757	-	-	-	3,936
Professional Fees	11	305	305	305	305	305	437	437	437	437	229	229	229	229	4,194
Restructuring Costs	12	264	168	168	168	249	153	153	153	249	153	153	153	249	2,430
Domestic and Import Duty	13	48,500	-	-	-	2,000	36,057	-	-	-	57,085	-	-	-	143,642
GST and HST	14	5,000	-	-	-	-	3,804	-	-	-	5,707	-	-	-	14,511
Intercompany Disbursements	15	2,258	350	4,538	10,456	5,258	5,811	5,811	6,665	5,811	6,779	5,468	5,468	6,093	70,766
Intercompany Royalties	16	828	-	-	-	707	-	-	-	-	749	-	-	-	2,284
Intercompany Interest	17	-	-	-	7,648	-	-	-	7,648	-	-	-	-	7,648	22,945
Intercompany Principal	17	-	-	-	-	-	-	-	-	-	-	-	-	933	933
Income Tax Instalments and PTT	18	16,180	1,500	-	-	-	2,660	1,500	-	-	2,660	1,500	-	-	26,000
Total Disbursements		**78,583**	**6,760**	**15,225**	**24,180**	**14,597**	**54,202**	**14,580**	**23,254**	**13,677**	**79,650**	**12,783**	**10,650**	**20,986**	**369,127**
Cashflow Surplus/Deficit (-)		**(55,889)**	**17,530**	**8,605**	**2,078**	**12,500**	**(30,250)**	**11,055**	**3,118**	**11,391**	**(53,711)**	**14,527**	**18,863**	**8,394**	**(31,789)**
Opening Cash Balance	1	**161,196**	**105,306**	**122,837**	**131,442**	**133,520**	**146,020**	**115,770**	**126,825**	**129,943**	**141,334**	**87,623**	**102,150**	**121,013**	**161,196**
Closing Cash Balance		**105,306**	**122,837**	**131,442**	**133,520**	**146,020**	**115,770**	**126,825**	**129,943**	**141,334**	**87,623**	**102,150**	**121,013**	**129,407**	**129,407**
Cash Collateral	19														
Opening Balance		8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900	8,900
Cash Collateral Withdrawal/(deposit)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance		**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**	**8,900**
Closing Cash net of Cash Collateral		**96,406**	**113,937**	**122,542**	**124,620**	**137,120**	**106,870**	**117,925**	**121,043**	**132,434**	**78,723**	**93,250**	**112,113**	**120,507**	**120,507**

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 another JT International entity in Canada with respect to that entity's 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.

DISBURSEMENTS

5. General Expenses

These projected disbursements include payments related to non-tobacco materials, travel, service related activities, utilities and rent.

6. 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.

7. 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.

8. 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.

9. 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.

10. Capital Expenditures and Leases

These projected disbursements relate to capital expenditures for plant and equipment purchases at the Montreal production facility. These capital expenditures primarily relate to 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.

11. Professional Fees

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

12. 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 and the fees and costs of the Chief Restructuring Officer.

13. 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.

14. 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.

15. 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.

16. 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.

17. Intercompany Interest and Principal

This disbursement represents the semi-annual principal and monthly interest payments on the $1.2 billion secured convertible debentures by JTIM to TM. Principal payments on the debentures are made in May and November.

18. 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. The Cash Flow Statement includes a top-up payment for 2018 corporate income tax on February 28, 2019.

19. Cash Collateral

Cash Collateral of $8.9 million was pledged to Citibank pursuant to two agreements dated in 2016 and 2017 to allow for continued central travel account card services and cash management services provided by Citibank.

March 6, 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 application by JTI-Macdonald Corp. ("**JTIM**") for the commencement of proceedings under the CCAA in respect of 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 proposed 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.

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,

Robert McMaster

Name: Robert McMaster
Title: Director, Taxation and Treasury