

**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.**

**FOURTH REPORT OF THE MONITOR
JUNE 21, 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 Original Initial Order provided for a stay of proceedings (the “**Stay**”) in respect of, among other parties, the Applicant, until and including April 5, 2019 (the “**Stay Period**”). The Original Initial Order provided that the Stay could be lifted with leave of the Court or on the consent of the Applicant and the Monitor. The proceedings commenced by the Applicant under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
2. On March 19, 2019, the Court issued an endorsement (the “**March 19 Endorsement**”) suspending the payments of principal and interest, in respect of certain secured

indebtedness, and royalties, in respect of certain licensed trademarks, owing by the Applicant to JTI-Macdonald TM Corp. (acting through its privately appointed receiver, PricewaterhouseCoopers Inc. (the “**TM Receiver**”)) pending further order of the Court.

3. 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 Hon. Warren K. Winkler, Q.C. as mediator (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**”).
4. 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**”).
5. 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.
6. On April 26, 2019, the Court issued an endorsement that 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.
7. 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.

8. 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 proceedings (the "**Fee Disclosure Order**").
9. On May 24, 2019, the Court issued an endorsement approving a communication and confidentiality protocol between the Court and the Court-Appointed Mediator.

PURPOSE

10. The purpose of this fourth report of the Monitor (the "**Fourth Report**") is to provide the Court with information and updates on the following:

- a) the activities of JTIM and the Monitor from March 28, 2019, the date of the First Report of the Monitor filed in connection with the motion to extend the Stay Period (the “**First Report**”), to the date of this Fourth Report;
 - b) the cash flow projection for the 27-week period from March 25, 2019 to September 27, 2019 included in the First Report (the “**Cash Flow Statement**”) and results relative to forecast;
 - c) JTIM’s revised cash flow projection (the “**Revised Cash Flow Statement**”) for the 27-week period from June 17, 2019 to December 20, 2019 (the “**Revised Cash Flow Period**”);
 - d) the suspension of certain related party payments and the application of the Deposit (as such term is hereafter defined) held by the TM Receiver against royalty payments due and in arrears;
 - e) the Applicant’s request for an Order to (i) increase the cash collateral posted with Citibank, N.A., Canada Branch (“**Citibank**”) by \$3 million; and (ii) extend the Stay Period to December 16, 2019; and
 - f) the Monitor’s recommendation.
11. This Fourth Report should be read in conjunction with the Affidavit of William E. Aziz sworn June 12, 2019 in support of the Applicant’s motion (the “**Aziz Affidavit**”).

TERMS OF REFERENCE AND DISCLAIMER

12. In preparing this Fourth 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**”).
13. 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.
14. Some of the information referred to in this Fourth Report consists of financial projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
15. Future oriented financial information referred to in this Fourth 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.

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

ACTIVITIES OF JTIM SINCE THE FIRST REPORT

17. In addition to the various Court appearances described above, the activities of JTIM since the First Report are set out in the Aziz Affidavit at paragraphs 12 - 22 and such activities of JTIM (through JTIM's external counsel and/or its Chief Restructuring Officer, William Aziz of BlueTree Advisors Inc.), include:

- (a) initial discussions with counsel to various stakeholders in an attempt to commence resolution discussions in respect of their respective claims against the Applicant (since deferred in favour of the Court-Appointed Mediator's process);
- (b) communications with the Court-Appointed Mediator and his counsel in order to advance the mediation process;
- (c) negotiating non-disclosure agreements to permit certain stakeholders to have access to commercially sensitive and confidential information; and
- (d) providing regular updates to the Monitor and its counsel.

18. The Monitor notes the Applicant conducted the following additional activities:

- a) issued communications regarding the Stay Extension Order to:
 - i. customers;
 - ii. suppliers; and

- iii. unionized and non-unionized employees and retirees;
- b) managed relationships with customers and suppliers to minimize business disruptions and to maintain an uninterrupted supply of products and services;
- c) further developed its plans, operations and capital investments required to comply with the new plain and standardized packaging measures that will come into force on November 9, 2019. Details of the new regulation can be found at: <https://www.canada.ca/en/health-canada/news/2019/05/plain-and-standardized-appearance-for-tobacco-packaging-and-products.html>. In this regard, JTIM has and will incur costs to comply with the new regulation including but not limited to purchasing and installing new machinery, designing and preparing the packaging and products to meet the packaging requirements and coordinating with customers and suppliers; and
- d) posted security, as agreed to by the Monitor, in accordance with paragraph 23 of the Second Amended Initial Order, with respect to certain suppliers providing post-filing trade credit to the Applicant.

ACTIVITIES OF THE MONITOR SINCE THE FIRST REPORT

19. In addition to the various Court appearances described above, since the First Report, the Monitor has undertaken the following activities:
- 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, financial results and the CCAA Proceedings, including compliance with plain packaging legislation, and changes in importing arrangements for certain imported products;
- c) coordinated with the CCAA monitors of Imperial Tobacco Canada Limited and Imperial Tobacco Company Limited, and Rothmans, Benson & Hedges Inc. (collectively, “**ITL and RBH Monitors**”) and their respective counsel on procedural aspects of the three CCAA proceedings;
- d) communicated with the Court with respect to certain procedural matters and at the direction of the Court and in coordination with the ITL and RBH Monitors, prepared a court to court communications protocol and a common service list protocol for the Court’s consideration;
- e) attended a preliminary meeting with counsel to the consortium of the Provinces of British Columbia, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Saskatchewan in connection with their asserted claims for the recovery of health care costs against, among others, JTIM, and responded to various procedural questions as appropriate;
- f) attended to various inquiries that the Monitor received by the Monitor’s hotline and/or e-mail address from JTIM’s creditors and other interested parties, including Canada Revenue Agency, Citibank, customs brokers, ongoing suppliers and claimants on lift-stay requests;

- g) provided fee disclosure, in accordance with and subject to, the terms of the Fee Disclosure Order, to those parties that have requested same;
- h) attended meetings with the Court-Appointed Mediator and his counsel to address any issues and concerns stakeholders may have in connection with the Original Initial Order and with respect to the conduct of the CCAA proceedings and proposed mediation; and
- i) monitored receipts and disbursements of the Applicant, including with respect to related parties, as discussed in greater detail below.

CASH FLOW STATEMENT AND RESULTS RELATIVE TO FORECAST

20. Summarized in the following table are JTIM's actual cash receipts and disbursements for the 12-week period ended June 14, 2019 (the "**Reporting Period**") as compared to the corresponding weeks in the Cash Flow Statement included in the First Report.

JTI-Macdonald Corp.				
Summary of Actual versus Forecast Cash Flows				
For the 12-week period ended June 14, 2019				
SCAD '000, unaudited	Notes	Actual	Forecast	Variance
Receipts				
Sales	<i>a</i>	273,095	279,465	(6,370)
Intercompany Receipts	<i>b</i>	62,845	67,780	(4,935)
Tax Refunds	<i>c</i>	582	2,000	(1,418)
Other Receipts	<i>d</i>	1,226	-	1,226
Total Receipts		337,748	349,246	(11,498)
Disbursement				
General Expenses		25,665	25,681	16
Payroll and Benefits		13,788	14,740	952
Pension		2,480	2,734	254
Promotions and Marketing	<i>e</i>	19,828	24,538	4,710
Leaf		1,895	2,405	510
Capital Expenditures and Leases	<i>f</i>	219	8,456	8,237
Professional Fees		1,655	1,592	(64)
Restructuring Costs	<i>g</i>	3,520	1,955	(1,565)
Domestic and Import Duty	<i>h</i>	156,690	146,144	(10,546)
GST and HST	<i>i</i>	13,846	15,310	1,464
Intercompany Disbursements	<i>j</i>	90,723	88,100	(2,623)
Intercompany Royalties	<i>k</i>	-	2,367	2,367
Intercompany Interest	<i>l</i>	-	22,945	22,945
Intercompany Principal		-	-	-
Income Tax Instalments and PTT		12,274	12,508	234
Total Disbursements		342,582	369,473	26,891
Cashflow Surplus/Deficit (-)		(4,834)	(20,227)	15,393
Opening Cash Balance		154,308	154,308	-
FX Adjustment		(376)	-	(376)
Closing Cash Balance		149,098	134,081	15,017
Cash Collateral pledged to Citibank				
Opening Balance		8,900	8,900	-
Cash Collateral Deposit / (Withdrawal)		-	-	-
Closing Balance		8,900	8,900	-
Closing Cash net of Cash Collateral		140,198	125,181	15,017

21. JTIM's actual net cash outflow for the 12-week period ended June 14, 2019 was approximately \$4.8 million, compared to forecast net cash outflows of \$20.2 million resulting in a favourable variance of \$15.4 million. Security deposits totaling approximately \$1.0 million were provided to certain suppliers for services related to sales, import and distribution of products. A summary of the major variances are as follows:
- a) An unfavourable variance of \$6.4 million in third-party sales receipts as a result of industry-wide volume declines that were greater than forecast. The unfavourable variance is expected to be a permanent difference;
 - b) An unfavourable variance of \$4.9 million in intercompany receipts due to a timing difference which is expected to reverse in future periods;
 - c) An unfavourable variance of \$1.4 million in tax refunds due to a timing difference which is expected to reverse in future periods;
 - d) A favourable variance of \$1.2 million due to interest income earned from Citibank, Royal Bank of Canada and Sumitomo Mitsui Banking Corporation. The favourable variance is expected to be a permanent difference because interest income was not forecast in the Cash Flow Statement included in the First Report;
 - e) A favourable variance of \$4.7 million in promotions and marketing disbursements due to a timing difference which is expected to reverse in future periods;
 - f) A favourable variance of \$8.2 million in capital expenditures due to a timing difference which is expected to reverse in future periods;

- g) An unfavourable variance of \$1.6 million in restructuring costs is expected to be a permanent variance because more time was spent than forecast to resolve issues related to the Original Initial Order and the forecast amount did not include pre-filing accrued restructuring professional fees and fees in connection with the Court-ordered mediation process, which were paid during the Reporting Period;
- h) An unfavourable variance of \$10.5 million in domestic and import duty disbursements is a permanent variance as the actual duty and customs payments were greater than forecast. JTIM incurred \$7.6 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;
- i) A favourable variance of \$1.5 million in GST/HST remittances due to lower sales in April 2019. The favourable variance is expected to be a permanent difference;
- j) An unfavourable variance of \$2.6 million in intercompany disbursements due to a timing difference that is expected to reverse in future periods;
- k) A favourable variance of \$2.4 million in intercompany royalties that were payable by JTIM to TM, which was suspended pursuant to the March 19 Endorsement; and
- l) A favourable variance of \$22.9 million in intercompany interest that was payable by JTIM to TM on the \$1.2 billion secured convertible debentures, which was suspended pursuant to the March 19 Endorsement.

APPLICANT'S REVISED CASH FLOW STATEMENT

22. 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 27-week period ending December 20, 2019:

JTI-Macdonald Corp.	
27-week Revised Cash Flow Statement	
\$CAD '000, unaudited	
For the week beginning	27-week Total to December 20, 2019
Receipts	
Sales	665,077
Intercompany Receipts	133,358
Tax Refunds	7,000
Other Receipts	1,465
Total Receipts	806,900
Disbursement	
General Expenses	58,875
Payroll and Benefits	35,115
Pension	8,243
Promotions and Marketing	78,086
Leaf	6,069
Capital Expenditures and Leases	14,824
Professional Fees	1,389
Restructuring Costs	6,362
Domestic and Import Duty	242,860
GST and HST	37,222
Intercompany Disbursements	171,749
Intercompany Royalties	-
Intercompany Interest	-
Intercompany Principal	-
Income Tax Instalments and PTT	25,620
Total Disbursements	686,413
Cashflow Surplus/Deficit (-)	120,487
Opening Cash Balance	149,098
Closing Cash Balance	269,585
Cash Collateral pledged to Citibank	
Opening Balance	8,900
Cash Collateral Deposit / (Withdrawal)	3,000
Closing Balance	11,900
Closing Cash net of Cash Collateral	257,685

23. 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**").
24. JTIM's opening cash balance on June 17, 2019 was \$149.1 million. The forecast cash flow surplus for the Revised Cash Flow Period is estimated to be \$120.5 million (i.e. projected cash receipts will exceed projected cash disbursements by \$120.5 million during the Revised Cash Flow Period). Accordingly, the Applicant has sufficient liquidity during the proposed period of extension to the Stay Period.
25. 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' Standard 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.
26. 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.

27. 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 Fourth 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.

28. 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 Fourth Report.

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

RELATED PARTY PAYMENTS

30. As part of its standard oversight procedures, the Monitor continues 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.
31. The Monitor confirms that, in accordance with the March 19 Endorsement, no such suspended payments relating to principal and interest or royalties have been made by the Applicant to the TM Receiver. The Monitor notes that the TM Receiver advised the Monitor and the Applicant that it intended to exercise its right of set-off against the deposit held by it in the amount of \$1.33 million (the “**Deposit**”) in accordance with the Trademark License Agreement dated October 8, 1999 and the forbearance arrangements described more fully in the Affidavit of Rob McMaster sworn March 8, 2019. The Monitor understands the Deposit has now been set-off by the TM Receiver primarily against pre-filing accruals as described in the Aziz Affidavit. The Monitor understands that at the time of set-off, the total amount of the outstanding royalty payments exceeded the total amount of the Deposit.

CASH COLLATERAL

32. Pursuant to agreements dated November 18, 2016 and February 24, 2017 between JTIM and Citibank, JTIM pledged to Citibank \$900,000 as cash collateral in respect of central travel account card services and \$8.0 million in respect of certain cash management services which require the extension of credit by Citibank.
33. The Applicant received a request from Citibank to increase the cash collateral posted with Citibank in respect of certain cash management services that require the extension of credit by Citibank from \$8.0 million to \$11.0 million. This was as a result of an increased quantum of automatic clearing house (“ACH”) transactions, as described in the Aziz Affidavit. The Applicant reviewed its year-to-date banking activity from January 1 to May 10, 2019 (the “**Review Period**”) and confirmed that there were six instances during the Review Period where the quantum of ACH transactions exceeded the existing \$8 million cash collateral. The maximum amount of ACH transactions in a single day during the Review Period was approximately \$10.4 million. The Monitor has reviewed the relevant supporting documents and supports the proposed increase to the cash collateral.
34. Pursuant to paragraph 48(e) of the Second Amended Initial Order, the additional cash collateral can be posted by the Applicant with the consent of the Monitor or by further order of the Court. Given the quantum involved, the Applicant thought it prudent to obtain Court approval. The Monitor concurs.

STAY EXTENSION

35. The current Stay Period expires on June 28, 2019. The Applicant is seeking the extension of the Stay Period up to and including December 16, 2019 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 the Quebec Court of Appeal judgment in favour of the QCAPs and the other multi-billion dollar claims currently being pursued against the Applicant and other defendants, including through advancing the mediation process with the Court-Appointed Mediator; and
 - c) determine next steps in respect of the CCAA Proceedings.
36. As described above, the Revised Cash Flow Statement indicates that the Applicant will have sufficient liquidity during the Revised Cash Flow Period.
37. 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

38. The Monitor supports the relief sought by the Applicant in its motion in connection with the posting of additional cash collateral with Citibank and for the extension of the Stay Period to December 16, 2019 and respectfully recommends that the Court grant the requested relief.

All of which is respectfully submitted this 21st day of June, 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.
27-week Revised Cash Flow Statement
SCAD '000, unaudited

For the week beginning	Notes	17-Jun-19	24-Jun-19	1-Jul-19	8-Jul-19	15-Jul-19	22-Jul-19	29-Jul-19	5-Aug-19	12-Aug-19	19-Aug-19	26-Aug-19	2-Sep-19	9-Sep-19	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	27-week Total to December 20, 2019		
Receipts																															
Sales	2	26,201	26,201	26,403	26,403	26,403	26,403	26,617	23,944	23,944	23,944	23,944	22,309	24,787	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		665,077	
Intercompany Receipts	3	4,552	5,982	4,326	4,326	6,660	4,326	4,431	4,588	4,588	4,820	4,588	2,808	3,510	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		133,358	
Tax Refunds	4	1,000	-	-	-	1,000	-	-	-	1,000	-	-	-	-	1,000	-	-	-	1,000	-	-	-	1,000	-	-	-	-	1,000		7,000	
Other Receipts	5	-	-	160	-	-	-	190	-	-	-	-	230	-	-	-	265	-	-	-	280	-	-	-	-	340	-	-	1,465		
Total Receipts		31,753	32,183	30,890	30,730	34,063	30,730	31,238	28,532	29,532	28,764	28,532	25,346	28,297	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	806,900		
Disbursement																															
General Expenses	6	2,250	2,250	2,826	2,826	2,826	2,826	2,605	2,273	2,273	2,273	2,273	1,600	2,000	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		58,875	
Payroll and Benefits	7	2,345	445	1,845	445	1,845	945	1,845	445	1,845	945	1,845	445	1,845	945	1,845	445	1,845	445	2,345	445	1,845	445	2,345	445	1,845	445	2,345		35,115	
Pension	8	967	-	200	-	967	-	200	-	967	-	200	-	200	767	200	-	200	767	200	-	200	767	200	-	200	-	200	1,041		8,243
Promotions and Marketing	9	2,067	2,067	3,244	3,244	3,244	3,244	2,696	1,873	1,873	1,873	1,873	2,413	3,016	3,016	2,573	2,462	1,970	2,462	2,435	2,328	2,328	2,328	2,328	2,328	6,037	6,037	6,037		78,086	
Leaf	10	310	-	-	-	310	-	-	-	303	-	-	-	197	-	-	-	-	413	-	-	4,537	-	-	-	-	-	-	-	6,069	
Capital Expenditures and Leases	11	-	512	-	-	-	-	1,935	-	-	-	103	-	-	-	-	7,947	-	-	-	1,597	-	-	-	2,730	-	-	-	14,824		
Professional Fees	12	170	170	84	84	84	84	49	39	39	39	39	39	39	39	39	32	32	32	32	25	25	25	25	25	32	32	32		1,389	
Restructuring Costs	13	164	-	125	-	606	100	100	208	531	208	100	208	531	208	100	225	531	225	100	208	531	208	531	208	100	208	531	208	6,362	
Domestic and Import Duty	14	-	43,398	-	-	(450)	-	41,099	-	-	-	42,919	-	-	-	30,832	-	-	-	-	40,143	-	-	-	44,919	-	-	-	242,860		
GST and HST	15	-	6,957	-	-	-	-	5,748	-	-	-	6,974	-	-	-	5,801	-	-	-	-	5,358	-	-	-	6,384	-	-	-	37,222		
Intercompany Disbursements	16	7,026	7,625	4,855	4,855	5,582	4,855	6,561	6,343	6,343	6,032	7,450	5,219	6,524	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	171,749		
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	-	1,500	-	25,620		
Total Disbursements		15,299	66,194	13,179	12,954	15,015	12,054	65,607	12,681	14,174	11,370	66,546	9,924	15,655	14,255	53,127	18,683	12,232	9,653	11,232	60,586	15,263	17,791	14,677	69,962	17,851	18,075	22,377	686,413		
Cashflow Surplus/Deficit (-)		16,454	(34,011)	17,710	17,775	19,049	18,675	(34,369)	15,851	15,358	17,394	(38,014)	15,423	12,642	15,352	(24,830)	10,976	17,456	21,526	18,456	(32,237)	12,125	10,597	15,131	(42,574)	13,534	12,970	12,068	120,487		
Opening Cash Balance	1	149,098	165,552	131,541	149,251	167,027	186,076	204,751	170,382	186,234	201,591	218,985	180,971	196,394	209,035	224,387	199,557	210,533	227,989	249,515	267,971	235,735	247,860	258,457	273,588	231,014	244,547	257,517	149,098		
Closing Cash Balance		165,552	131,541	149,251	167,027	186,076	204,751	170,382	186,234	201,591	218,985	180,971	196,394	209,035	224,387	199,557	210,533	227,989	249,515	267,971	235,735	247,860	258,457	273,588	231,014	244,547	257,517	269,585	269,585		
Cash Collateral pledged to Citibank	20																														
Opening Balance		8,900	8,900	8,900	8,900	8,900	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	8,900	
Cash Collateral Deposit / (Withdrawal)		-	-	-	-	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,000	
Closing Balance		8,900	8,900	8,900	8,900	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		156,652	122,641	140,351	158,127	174,176	192,851	158,482	174,334	189,691	207,085	169,071	184,494	197,135	212,487	187,657	198,633	216,089	237,615	256,071	223,835	235,960	246,557	261,688	219,114	232,647	245,617	257,685	257,685		

**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.

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 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.

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 restructuring professionals in connection with the CCAA proceedings.

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 \$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. The Applicant, at the request of Citibank, is seeking authorization to deposit additional cash collateral with Citibank in the amount of \$3.0 million in July.



June 17, 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