

COURT FILE NUMBER 2001-05630

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, RSC 1985, c C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF DOMINION DIAMOND MINES ULC, DOMINION DIAMOND DELAWARE COMPANY, LLC, DOMINION DIAMOND CANADA ULC, WASHINGTON DIAMOND INVESTMENTS, LLC, DOMINION DIAMOND HOLDINGS, LLC and DOMINION FINCO INC.

APPLICANTS AD HOC COMMITTEE OF BONDHOLDERS (DDJ CAPITAL MANAGEMENT, LLC, BARINGS LLC and BRIGADE CAPITAL MANAGEMENT, LP)

PARTY FILING THIS DOCUMENT AD HOC COMMITTEE OF BONDHOLDERS (DDJ CAPITAL MANAGEMENT, LLC, BARINGS LLC and BRIGADE CAPITAL MANAGEMENT, LP)

DOCUMENT **AFFIDAVIT**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT
Torys LLP
4600 Eighth Avenue Place East
525 - Eighth Ave SW
Calgary, AB T2P 1G1

Attention: Kyle Kashuba
Telephone: + 1 403.776.3744
Fax: +1 403.776.3800
Email: kkashuba@torys.com
Attention: Andrew Gray
Telephone: + 1 416.865.7630
Fax: + 1 416.865.7380
Email: agray@torys.com
File No. 2001-05630

AFFIDAVIT OF FREDERICK VESCIO
Sworn on October 7, 2020

I, Frederick Vescio, of the City of Minneapolis, in the State of Minnesota, Managing Director of Houlihan Lokey, Inc., **MAKE OATH AND SAY THAT:**

KK

My Background & the Role of Houlihan Lokey

1. I am a Managing Director with Houlihan Lokey, Inc. (“**Houlihan Lokey**”). Houlihan Lokey is a leading global investment bank with expertise in financial restructuring, mergers and acquisitions, capital markets and valuation.
2. I have been a member of the Financial Restructuring Group with Houlihan Lokey for more than 10 years. I have been involved in many court-supervised and out-of-court restructurings, including restructurings involving Westinghouse, American Airlines, American Tire Distributors, Peabody Energy, Parker Drilling, U.S. Airways, OneCall, Capmark Financial, Arch Coal, Indiana Toll Road, and Foresight Energy. I have executed transactions in the mining sector, among other industries.
3. Houlihan Lokey is the financial advisor to the ad hoc committee (the “**Committee**”) of holders of the 7.125% senior secured second lien notes (the “**Notes**”) owed the equivalent of approximately CAD\$750,000,000 by Dominion Diamond Mines ULC (together with the other applicants in these proceedings, the “**Company**”). I have been personally involved in representing the Committee in these proceedings since May 2020.
4. I have personal knowledge of the matters and facts hereinafter deposed to.

Shareholder’s Stalking Horse Bid

5. In the course of its mandate, Houlihan Lokey has been centrally involved in seeking, reviewing and assessing an extensive amount of information regarding the Company. This has included, among other things, the review and consideration of information and materials made available by the Company and its representatives in the course of the sale and investment solicitation process in these proceedings (the “**SISP**”).
6. I have reviewed the Asset Purchase Agreement between Dominion Diamond Mines ULC, Dominion Diamond Holdings LLC and Dominion Marketing Corporation, as vendors, their parent, Washington Diamond Investments LLC, and Canadian Diamond Holdings L.P., CA Canadian Diamond Mines ULC, as purchasers (the “**APA**”) and, leaving aside

issues of purchase price addressed below, I note the following significant deficiencies from the perspective of Noteholders and the Company's stakeholders as a whole:

- a. The APA provides for no deposit or other discipline to ensure that the proposed purchaser honours its obligations to complete the transaction. It is unclear whether the proposed purchaser would suffer any consequences from its own breach or failure.
 - b. The Company has not disclosed any information about the creditworthiness, solvency or structure of the proposed purchasing entity. It is currently unknown what its leverage or capital structure would be. It is therefore not possible to assess whether or for how long the purchaser could honour its commitments and avoid another insolvency.
 - c. In its court filings, the Company argues for the desirability of re-starting operations at the Ekati Mine sooner rather than later. Despite the Company's statements that an early re-start is desirable, the proposed APA transaction imposes no obligation whatsoever on the proposed purchaser as to if and when operations at the Ekati Mine will be re-started.
 - d. The APA contains numerous substantive closing conditions. These include important conditions regarding the need to: (i) enter into undefined agreements acceptable to the proposed purchaser with both governmental authorities and surety companies on critical reclamation liabilities; (ii) obtain regulatory approvals for antitrust/competition law and other matters, details of which have not been provided; and (iii) receive governmental approvals for the transfer of all leases, permits, licenses and other operating authorizations.
7. In my respectful view, even if the APA was otherwise worthy of approval at any point-in-time, it should first be required to satisfactorily address the foregoing deficiencies.

The APA's Purchase Price

8. The APA stipulates a cash purchase price of U.S.\$126,107,000 at first instance. However, it provides for a dollar-for-dollar reduction to the extent that the Company's interim facility has a balance of less than U.S.\$55,000,000 at closing. Accordingly, given the Company's new liquidity prospects, the cash purchase price under the APA may be as low as U.S.\$71,107,000.
9. Houlihan has been asked by the Committee to assess the adequacy of the proposed purchase price on the basis of conventional valuation methodologies.
10. Houlihan Lokey has prepared an analysis of the total enterprise value for the assets to be sold under the APA using net present value calculations for the Company's projected cash flow generation in the years-to-come. Discounted cash flow projections is a conventional and widely-accepted valuation methodology for businesses of this kind.
11. It is important to note that the cash flow projections used in Houlihan's analysis are based on the Company's own projections. Houlihan has adjusted for the fact that the APA excludes the Company's Diavik Mine interests.
12. Houlihan's valuation analysis on this basis is set out in Exhibit "A" to my affidavit. This exhibit shows that the value represented by the APA transaction is well below fair value. I note the following:
 - (i) our analysis reveals that the implied total enterprise value of the assets to be sold under the APA is U.S.\$302 million using a 10.0% discount rate; and
 - (ii) even if we use a 25% discount rate our calculations reveal an implied total enterprise value for the purchased assets of U.S.\$174 million.

APA Transaction is not Necessary

13. The Company's liquidity position and prospects have improved very significantly in recent days. With the re-opening of the diamond sales market, the Company has held a successful auction of a large batch of diamond inventory and additional diamond sales are now possible.

14. Houlihan Lokey has prepared a liquidity analysis up to two future dates: (i) the month ended December 2020; and (ii) the month ended March 2021. This analysis is set out in Exhibit “B” to my affidavit. In each case, the analysis uses information provided by the Company and is based on the assumptions set out in Exhibit “A”.
15. Notably, our analysis provides for funding to purchase the fuel which the Company says is required to enable an early re-start of operations at the Ekati Mine.
16. Our liquidity analysis reveals that the Company is in a sustainable liquidity position that permits the time and opportunity to pursue better alternatives to the APA’s proposed transaction if it continues to have available to it DIP financing in an amount not less than the maximum amount which has been made available to it so far in these proceedings.
17. The liquidity conclusions of Houlihan Lokey specifically include that:
 - (i) if the restructuring process continues to the end December 2020, the ending DIP balance would be C\$56.8 million and there would be C\$4.4 million of cash; and
 - (ii) if the restructuring process continues to the end of March 2021, the ending DIP balance would be C\$42.6 million and there would be C\$3.2 million of cash.

Recent Developments

18. Following the completion of the SISP process, the Company has experienced materially positive changes that position it to pursue better alternatives than the transaction proposed under the APA including, among other things:
 - a. The diamond sales market has re-opened and the Company, among others, has conducted a successful auction of a large batch of diamond inventory.
 - b. The Company’s successful diamond sale has greatly improved its liquidity position and prospects, and it has opened up a greater range of options.

c. General capital market conditions have improved steadily since the initiation of the SISP.

19. For all these reasons, it is my considered view that prospects for an alternative sales transaction or plan of arrangement or compromise in these proceedings have very significantly improved in recent days.

20. Due to the circumstances of the COVID-19 pandemic, I am unable to be physically present to swear this affidavit. I, however, was linked by way of video technology to the Commissioner for Oaths ("Commissioner") notarizing this document. The following steps have been or will be taken by the Commissioner or me:

a. I have shown the Commissioner the front and back of my current government-issued photo identification ("ID") and the Commissioner has compared my video image to the information on the ID.

b. The Commissioner has taken a screenshot of the front and back of my ID and will retain it.

c. The Commissioner and I have a paper copy of the affidavit before us, including exhibits.

d. The Commissioner and I have reviewed each page of this affidavit and exhibits to verify the pages are identical and have initialed each page in the lower right corner.

e. At the conclusion of our review of the affidavit and exhibits, the Commissioner administered the oath to me, and the Commissioner watched me sign my name to this affidavit.

f. I will send the signed affidavit including exhibits electronically to the Commissioner.

21. I make this Affidavit for no improper purpose.

SWORN BEFORE ME at Calgary, Alberta,)
this 7th day of October 2020.)

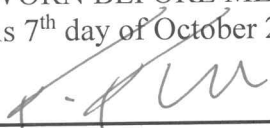
_____)
Notary Public and Commissioner for Oaths in)
and for the Province of Alberta)



Frederick Vescio

- c. General capital market conditions have improved steadily since the initiation of the SISP.
19. For all these reasons, it is my considered view that prospects for an alternative sales transaction or plan of arrangement or compromise in these proceedings have very significantly improved in recent days.
 20. Due to the circumstances of the COVID-19 pandemic, I am unable to be physically present to swear this affidavit. I, however, was linked by way of video technology to the Commissioner for Oaths (“Commissioner”) notarizing this document. The following steps have been or will be taken by the Commissioner or me:
 - a. I have shown the Commissioner the front and back of my current government-issued photo identification (“ID”) and the Commissioner has compared my video image to the information on the ID.
 - b. The Commissioner has taken a screenshot of the front and back of my ID and will retain it.
 - c. The Commissioner and I have a paper copy of the affidavit before us, including exhibits.
 - d. The Commissioner and I have reviewed each page of this affidavit and exhibits to verify the pages are identical and have initialed each page in the lower right corner.
 - e. At the conclusion of our review of the affidavit and exhibits, the Commissioner administered the oath to me, and the Commissioner watched me sign my name to this affidavit.
 - f. I will send the signed affidavit including exhibits electronically to the Commissioner.
 21. I make this Affidavit for no improper purpose.

SWORN BEFORE ME at Calgary, Alberta,)
 this 7th day of October 2020.)


 _____)
 Notary Public and Commissioner for Oaths in)
 and for the Province of Alberta)

Frederick Vescio

Kyle D. Kashuba
Barrister & Solicitor

KD

THIS IS EXHIBIT "A"
TO THE AFFIDAVIT OF FREDERICK VESCIO
SWORN BEFORE ME THIS 1st DAY OF OCTOBER, 2020



Commissioner for Oaths and Notary Public
in and for the Province of Alberta

Kyle D. Kashuba
Barrister & Solicitor

KK

Exhibit A

NPV Valuation Excluding Diavik

- The following valuation adjusts cash flow projections provided by the Company to exclude Diavik
- Cash flows were discounted using a range of discount rates from 10% to 25%, leading to a NPV range of \$412 million to \$540 million. After adjusting for Ekati ARO obligations of \$238 million⁽¹⁾, the Implied TEV range is \$174 million to \$302 million

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA	\$63	\$214	\$326	\$341	\$104	\$31	\$38	\$41	\$10
Unlevered Free Cash Flow	\$23	\$113	\$263	\$247	(\$5)	\$11	\$32	\$77	\$37
Less: Unlevered FCF attributable to NCI ⁽²⁾	2	(11)	(32)	(35)	(12)	(4)	(5)	(10)	(6)
Unlevered Free Cash Flow to DDM	\$25	\$102	\$231	\$211	(\$17)	\$7	\$27	\$66	\$31

	Valuation Using NPV										
	Discount Rate										
	10.00%	12.50%	15.00%	17.50%	20.00%	22.50%	25.00%				
Implied TEV	\$540	\$514	\$489	\$467	\$447	\$429	\$412				
Less: Ekati ARO NPV ⁽¹⁾	(238)	(238)	(238)	(238)	(238)	(238)	(238)				
Implied TEV after ARO	\$302	\$275	\$251	\$229	\$209	\$191	\$174				

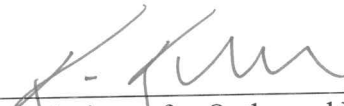
Sources: VDR 4.10.1 Project Jewel CIP Model, VDR, VDR 11.4.5 Project Jewel ARO Summary, VDR, VDR 4.11.2 Restart Reconciliation

Notes: All figures USD millions unless otherwise noted: 2020E includes only November and December, 2020E includes approximately \$1.84mm USD of unbudgeted restart costs. Discount rates are for illustrative purposes and based on estimates from equity research reports on public peers

(1) After taking into account the minority JV partner's 11.11% share of the gross ARO NPV of \$268mm

(2) Net cash flow attributable to the 11.11% Non-Controlling Interest JV partner

THIS IS EXHIBIT "B"
TO THE AFFIDAVIT OF FREDERICK VESCIO
SWORN BEFORE ME THIS 1st DAY OF OCTOBER, 2020



Commissioner for Oaths and Notary Public
in and for the Province of Alberta

Kyle D. Kashuba
Barrister & Solicitor

KK

Exhibit B

Scenario I: Process Extended to the End of December 2020

- If the process were to be extended to the end of December 2020, under the current terms of the DIP, the ending DIP balance would be \$56.8mm CAD, with \$4.4mm CAD of cash, and a peak DIP balance of \$56.8mm CAD
- This analysis was done using materials provided by the Company with few adjustments to illustrate an extension of the process, including:
 - Extending CCAA Professionals Fees and Critical Vendor Payments
 - Including \$27mm CAD of diesel purchases across November and December 2020
 - Including incremental DIP draws and pay downs, along with FX impacts on any DIP draw, and monthly DIP facility interest
 - Including discounted net proceeds from the diamond sale occurring during the week of September 25th 2020, and monthly diamond sales representing one-fourth of the remaining inventory in each of November 2020 and December 2020, assuming a 10% discount to Book Value and an 80% Net Sales Margin to account for further expenses incurred to sell these diamonds (as compared to the implied 87% Net Sales Margin on the first tranche of the September sale)

Scenario I: Extension to the End of December 2020

	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Operating Receipts	\$37,110	\$21,666	\$30,404	\$30,404			
Operating Disbursements	(11,617)	(28,801)	(41,864)	(61,176)			
Net Cash Flow from Operations	\$25,493	(\$7,135)	(\$11,460)	(\$30,772)			
Cash Flow from Financing	196	(17,802)	12,671	9,603			
Net Change in Cash	\$25,689	(\$24,937)	\$1,211	(\$21,170)			
Beginning Cash	\$23,578	\$49,267	\$24,331	\$25,542			
Net Change in Cash	25,689	(24,937)	1,211	(21,170)			
Ending Cash	\$49,267	\$24,331	\$25,542	\$4,372			
Beginning DIP Balance	\$42,600	\$42,600	\$28,400	\$42,600			
Draw / (Paydown)	--	(14,200)	14,200	14,200			
Ending DIP Balance	\$42,600	\$28,400	\$42,600	\$56,800			

Sources: VDR 4.2.7 Cash Forecast to 31 December 2020, Affidavit of K. Kaye Sworn September 18 2020, Sixth Report of the Monitor Dated September 22 2020

Note: All amounts CAD \$000s unless otherwise noted; \$1.33 USD/CAD assumed for projections

AK

Exhibit B

Scenario II: Process Extended to the End of March 2021

- If the process were to be extended to the end of March 2021, under the current terms of the DIP, the ending DIP balance would be \$42.6mm CAD, with \$3.2mm CAD of cash, and a peak DIP balance of \$71.0mm CAD
- This analysis was done using materials provided by the Company with few adjustments to extend the process, including:
 - Extending CCAA Professionals Fees and Critical Vendor Payments
 - Including \$27mm CAD of diesel purchases across November and December 2020
 - Including incremental DIP draws and pay downs, along with FX impacts on any DIP draw, and monthly DIP facility interest
 - Including discounted net proceeds from the diamond sale occurring during the week of September 25th 2020, and monthly diamond sales representing one-fourth of the remaining inventory in each of November 2020, December 2020, January 2021 and March 2021, assuming a 10% discount to Book Value, and an 80% Net Sales Margin to account for further expenses incurred to sell diamonds in November and December 2020 only (as compared to the implied 87% Net Sales Margin on the first tranche of the September sale)
 - Including monthly operating cash flows from the Company monthly model, assuming a 10% discount to Book Value for sales from production, with an adjustment to the receipt of sales originally forecasted for February 2021, which will likely be received in March 2021

Scenario II: Extension to the End of March 2021

	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Operating Receipts	\$37,110	\$21,666	\$30,404	\$30,404	\$38,005	\$--	\$75,876
Operating Disbursements	(11,617)	(28,801)	(35,980)	(48,134)	(37,027)	(41,102)	(46,255)
Net Cash Flow from Operations	\$25,493	(\$7,135)	(\$5,576)	(\$17,730)	\$978	(\$41,102)	\$29,621
Cash Flow from Financing	196	(17,802)	12,671	10,905	3,388	15,652	(29,974)
Net Change in Cash	\$25,689	(\$24,937)	\$7,095	(\$6,825)	\$4,366	(\$25,450)	(\$353)
Beginning Cash	\$23,578	\$49,267	\$24,331	\$31,426	\$24,601	\$28,967	\$3,517
Net Change in Cash	25,689	(24,937)	7,095	(6,825)	4,366	(25,450)	(353)
Ending Cash	\$49,267	\$24,331	\$31,426	\$24,601	\$28,967	\$3,517	\$3,164
Beginning DIP Balance	\$42,600	\$42,600	\$28,400	\$42,600	\$56,800	\$56,800	\$71,000
Draw / (Paydown)	--	(14,200)	14,200	14,200	--	14,200	(28,400)
Ending DIP Balance	\$42,600	\$28,400	\$42,600	\$56,800	\$56,800	\$71,000	\$42,600

Sources: VDR 4.2.7 Cash Forecast to 31 December 2020, VDR 4.10.1 Project Jewel CIP Model_VDR, Affidavit of K. Kaye Sworn September 18 2020, Sixth Report of the Monitor Dated September 22 2020

Note: All amounts CAD \$000s unless otherwise noted: \$1.33 USD/CAD assumed for projections

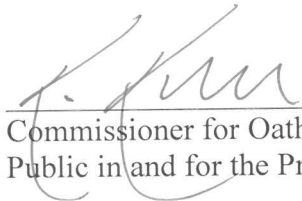
APPENDIX A

Certificate of Commissioning by Videoconference

I, Kyle Kashuba, Commissioner of Oaths in and for the Province of Alberta, took the Affidavit of Frederick Vescio via videoconference on October 7, 2020 (the "Affidavit").

The affiant and I followed the process outlined by the Alberta Court of Queen's Bench in Notice to the Profession and Public #2020-02 dated March 25, 2020. In addition to the steps described in the Affidavit, I compared each page of the copy I received from the affiant with the initialed copy that was before me while I was linked by videoconference with the affiant. Upon being satisfied that the two copies were identical, I affixed my name to the jurat.

On March 17, 2020, the Government of Alberta declared a state of public health emergency pursuant to the Alberta *Public Health Act* in response to the COVID-19 pandemic. The Government of Alberta also strongly recommends that all individuals stay home and avoid contact with others whenever possible. Therefore, I am satisfied that this process was necessary because it was unsafe for the deponent and I to be physically present together.



Commissioner for Oaths and Notary
Public in and for the Province of Alberta

Kyle D. Kashuba
Barrister & Solicitor