

COURT FILE NUMBER 20016-

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT 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 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.

DOCUMENT PRE-FILING REPORT OF FTI CONSULTING CANADA
INC., IN ITS CAPACITY AS PROPOSED MONITOR 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.

April 21, 2020

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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PRE-FILING REPORT OF THE PROPOSED MONITOR

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INTRODUCTION

1. FTI Consulting Canada Inc. (“**FTI Consulting**” or the “**Proposed Monitor**”) has been advised that 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. (collectively, “**Dominion**” or the “**Applicants**”) intend to make an application for an initial order (the “**Initial Order**”) to commence proceedings (the “**CCAA Proceedings**”) under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and establish an initial stay of proceedings (the “**Stay of Proceedings**”) in favour of the Applicants.

PURPOSE

2. The purpose of this report is to provide this Honourable Court and the Applicants’ stakeholders with information and the Proposed Monitor’s comments with respect to the following:
 - a. the qualifications of FTI Consulting to act as Monitor in the CCAA Proceedings;
 - b. a cash flow statement (the “**Cash Flow Statement**”) for the 13-week period ending July 17, 2020 (the “**Forecast Period**”) as well as the key assumptions on which the Cash Flow Statement is based;
 - c. the Applicants’ request for authorization to pay certain pre-filing amounts owing to critical suppliers;
 - d. the amount and priority of the proposed Court-ordered charges; and
 - e. the Proposed Monitor’s conclusions and recommendations with respect to Dominion’s application for the Initial Order.

TERMS OF REFERENCE

3. In preparing this report, the Proposed Monitor has relied upon certain information (the “**Information**”) including Dominion’s unaudited financial information, books and records and discussions with senior management (“**Management**”).
4. Except as described in this report, the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.
5. The Proposed Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
6. Future oriented financial information reported to be relied on in preparing this report is based on Management’s assumptions regarding future events. Actual results may vary from forecast and such variations may be material.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

OVERVIEW OF DOMINION AND CAUSES OF INSOLVENCY

8. Dominion is a diamond mining company based in Calgary, Alberta with ownership interests in two large diamond mines in the Northwest Territories.
9. Dominion owns a controlling interest in the Ekati Diamond Mine (“**Ekati**”) which it operates and a 40% interest in the Diavik Diamond Mine (“**Diavik**”) which is operated by a subsidiary of the Rio Tinto Group.

10. Dominion has historically supplied rough diamonds to the global market through its sorting operations in Mumbai, India and a sales centre in Antwerp, Belgium. It has been one of Canada's largest independent diamond producers and one of the largest private employers in the Northwest Territories.
11. In March 2020, the Applicants' operations were significantly disrupted by the COVID-19 pandemic which has resulted in, among other things, a shut-down of the Belgian rough-diamond exchange where Dominion's inventory is sold, an inability to efficiently transport diamonds between operating locations and challenges with respect to operating a producing mine while observing social distancing protocols. As a result of the foregoing, Dominion transitioned Ekati to care and maintenance operations in March 2020 in order to protect the health and safety of its current employees, safeguard the environment and preserve the Ekati assets and infrastructure.
12. Dominion is also required to pay large monthly cash calls in respect of its interest in Diavik which is continuing to operate notwithstanding the current issues facing the diamond industry.
13. The ongoing costs of the care and maintenance operations at Ekati, cash calls in respect of Diavik, impending interest payments in respect of the Applicants' US\$550 million second-lien notes payable and a lack of sales proceeds have resulted in an urgent liquidity crisis and Dominion is currently unable to meet its obligations as they generally become due.
14. The business and affairs of the Applicants and the causes of their insolvency are described in further detail in the Affidavit of K. Kaye dated April 21, 2020 (the "**Kaye Affidavit**").

PROPOSED MONITOR

15. FTI Consulting is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and with respect to the Applicants, is not subject to any of the restrictions on who may be appointed as monitor as set out in section

11.7(2) of the CCAA. FTI Consulting has provided its consent to act as Monitor in the CCAA Proceedings, a copy of which is attached to the Kaye Affidavit.

16. FTI Consulting is familiar with the business and operations of the Applicants and the key stakeholders in the CCAA Proceedings. The senior FTI Consulting personnel with carriage of the matter are Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees who have acted in restructuring and CCAA matters of this nature and scale.

17. The Proposed Monitor is also prepared to act as foreign representative of the Applicants for purposes of having the CCAA Proceedings recognized in the US under Chapter 15, should it become necessary.

CASH FLOW STATEMENT

18. The Applicants have prepared the Cash Flow Statement to set out the liquidity requirements of Dominion during the Forecast Period of the 13 weeks ending July 17, 2020. The Cash Flow Statement is summarized in the following table:

<i>(CAD000's)</i>	Initial Stay Period	Forecast Period
Operating Receipts		
Sales	\$ -	\$ -
Total Operating Receipts	-	-
Operating Disbursements		
Payroll and Benefits	1,540	9,433
Consultants and Contractors	729	2,519
Rent	261	782
Equipment Leases	745	2,234
Underground Mining Contractor	441	1,323
Travel	156	500
Insurance	483	1,449
IT & Software	711	2,133
IBA Payments	-	417
Power	126	378
Site Maintenance & Environment	486	2,236
CCAA Professional Fees	1,402	11,645
Critical Vendors Accounts Payable	1,100	5,000
Other	564	2,452
Total Operating Disbursements	8,744	42,501
Net Change in Cash from Operations	(8,744)	(42,501)
Financing		
Intercompany Receipts / (Disbursements)	-	4,603
Interest & Bank Charges	(372)	(1,293)
Net Change in Cash from Financing	(372)	3,309
Net Change in Cash	(9,116)	(39,191)
Opening Cash	27,519	27,519
Ending Cash	\$ 18,403	\$ (11,672)

19. The Cash Flow Statement is based on the following key assumptions:

- a. operating receipts will be nil during the period as Dominion is unable to transport its inventory to market due to restrictions relating to the COVID-19 pandemic;
- b. operating disbursements relate primarily to ordinary course payments to run Dominion's corporate office and care and maintenance operations at Ekati;
- c. the forecast includes approximately \$5.0 million of payments of pre-filing amounts due to critical suppliers that may be required to avoid disruption of key supplies and services which are discussed further below in paragraph 22; and

- d. professional fees are forecast to be approximately \$11.6 million during the period and include the Applicants' financial advisor, the Applicants' Canadian and United States counsel, the Monitor, the Monitor's counsel and other professionals.
20. Absent additional financing, Dominion is forecasting to incur a liquidity shortfall of approximately \$11.7 million during the Forecast Period. Accordingly, Dominion and its financial advisors are actively pursuing interim financing and expect to apply to this Court at a future hearing for approval of such arrangements, once finalized.
21. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Proposed Monitor hereby reports as follows
- a. the Cash Flow Statement has been prepared by Management for the purpose described in the notes to the Cash Flow Statement, using the probable assumptions and the hypothetical assumptions set out in notes 1 to 15 thereof;
 - b. the Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by Management and employees of the Applicants. Since hypothetical 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 has also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement;
 - c. based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
 - i. the hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;

- ii. as at the date of this report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or
 - iii. the Cash Flow Statement does not reflect the probable and hypothetical assumptions;
- d. since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information present in this Report, or relied upon by the Proposed Monitor in preparing this Report; and
- e. the Cash Flow Statement has been prepared solely for the purposes described in the notes to the Cash Flow Statement and readers are cautioned that it may not be appropriate for other purposes.

PAYMENTS OF PRE-FILING AMOUNTS TO CRITICAL SUPPLIERS

22. Management has identified certain vendors and other creditors that have been determined to be critical to the ongoing operation of the business, many of which are First Nations partners or deemed by Management to be essential to the care and maintenance of Ekati.
23. The Initial Order provides authorization for the Applicants, with consent of the Monitor, to make payments to these vendors to satisfy pre-filing obligations, to a maximum of \$5.0 million.
24. The Proposed Monitor has reviewed the Applicants' list of critical vendors and has had detailed discussions with Management with respect to the nature of the goods or services

provided, amounts due, prospects of making alternative arrangements and potential recourse available to such vendors. Based on its review, the Proposed Monitor is satisfied that if these vendors were to cease the supply of goods or services it may have a material negative impact on the Applicants' operations or assets.

25. The Proposed Monitor's view is that the requested authorization to pay a limited amount (up to \$5 million) of pre-filing obligations is reasonable in the circumstances and necessary for the preservation of the Applicants' business and assets during the CCAA proceedings. However, the Applicants will first attempt to rely on the general provisions of the Initial Order to negotiate and compel vendors to continue to supply services.

AMOUNT AND PRIORITY OF COURT ORDERED CHARGES

26. The Initial Order provides for two Court-ordered charges that rank in priority to all other charges and security interests against the Applicant. The proposed charges include:
- a. an administration charge (the “**Administration Charge**”); and
 - b. a director and officers' charge (the “**D&O Charge**”).

Administration Charge

27. The proposed Initial Order provides for an Administration Charge in an amount not to exceed \$3.5 million, charging the assets of the Applicants to secure the fees and disbursements incurred in connection with services rendered to the Applicants before and after the commencement of the CCAA Proceedings by counsel to the Applicants, the Proposed Monitor, and the Proposed Monitor's counsel.
28. The Proposed Monitor believes it is appropriate for the beneficiaries to be afforded the Administration Charge as they will be undertaking a necessary and integral role in the CCAA Proceedings.

29. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants have based the quantum of the proposed Administration Charge, the anticipated complexity of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge, and is of the view that the proposed quantum of the Administration Charge is reasonable and appropriate in the circumstances.

D&O Charge

30. The Initial Order provides for the D&O Charge over the property of Dominion in favour of the directors and officers of the Applicants as security for the indemnity contained in the Initial Order in respect of specified obligations and liabilities that the directors and officers may incur after the commencement of the CCAA Proceeding. The D&O Charge will not exceed an aggregate amount of \$4.0 million and will rank subordinate to the Administration Charge.

31. As described in the Kaye Affidavit, the Applicants maintain certain insurance coverage for the directors and officers, but the deductibles and exclusions from the policies mean that the insurance may not fully cover the potential statutory liabilities of the beneficiaries of the D&O Charge. The Proposed Monitor notes that the directors and officers will only be entitled to the benefit of the D&O Charge to the extent that they do not have coverage under any existing insurance policy, or to the extent that such coverage is insufficient to pay amounts for which the directors and officers are entitled to be indemnified pursuant to the provisions of the Proposed Initial Order.

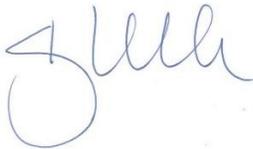
32. It is the Proposed Monitor's view that the continued support and service of the directors and officers of the Applicants during the CCAA Proceedings would be beneficial to the Applicants' efforts to preserve value and maximize recoveries for stakeholders through completion of CCAA Proceedings. The Proposed Monitor has reviewed the underlying assumptions upon which the Applicants have based the estimate of the potential liability in respect of directors' statutory obligations and is of the view that the D&O Charge is reasonable in relation to the quantum of the estimated potential liability and appropriate in the circumstances.

CONCLUSIONS

33. The Initial Order and Stay of Proceedings will provide the Applicants with stability while they preserve Dominion's assets, perform ongoing care and maintenance operations at the Ekati mine and pursue and implement a restructuring strategy.
34. The Applicants have available liquidity for the period of the initial Stay of Proceedings and are planning to seek Court-approval of an interim financing arrangement at a subsequent hearing in the coming weeks.

All of which is respectfully submitted this 21st day of April 2020.

FTI Consulting Canada Inc.
In its capacity as Proposed Monitor of the Applicants



Deryck Helkaa
Senior Managing Director



Tom Powell
Senior Managing Director

Dominion Diamond Mines
Consolidated Cash Flow Statement
For the 13-week period ending July 17, 2020

(CAD000's)	Week Ending	Notes	Initial Stay Period		Week 3 8-May	Week 4 15-May	Week 5 22-May	Week 6 29-May	Week 7 5-Jun	Week 8 12-Jun	Week 9 19-Jun	Week 10 26-Jun	Week 11 3-Jul	Week 12 10-Jul	Week 13 17-Jul	Total
			Week 1 24-Apr	Week 2 1-May												
Operating Receipts																
Sales		[1]	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Receipts			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Disbursements																
Payroll and Benefits		[2]	-	1,540	-	1,540	-	1,540	-	-	1,733	-	1,540	-	1,540	9,433
Consultants and Contractors		[3]	260	469	102	28	211	150	542	28	51	239	382	28	28	2,519
Rent		[4]	-	261	-	-	-	-	261	-	-	-	261	-	-	782
Equipment Leases			-	745	-	-	-	-	745	-	-	-	745	-	-	2,234
Underground Mining Contractor		[5]	-	441	-	-	-	-	441	-	-	-	441	-	-	1,323
Travel		[6]	-	156	-	-	-	-	156	-	-	-	156	15	15	500
Insurance		[7]	-	483	-	-	-	-	483	-	-	-	483	-	-	1,449
IT & Software			-	711	-	-	-	-	711	-	-	-	711	-	-	2,133
IBA Payments		[8]	-	-	-	-	-	-	-	-	-	-	417	-	-	417
Power		[9]	-	126	-	-	-	-	126	-	-	-	126	-	-	378
Site Maintenance & Environment		[10]	54	432	115	54	54	54	651	54	54	99	452	54	107	2,236
CCAA Professional Fees		[11]	1,121	281	-	5,660	-	-	140	-	2,151	-	140	-	2,151	11,645
Critical Vendors Accounts Payable		[12]	-	1,100	2,500	1,400	-	-	-	-	-	-	-	-	-	5,000
Other		[13]	40	524	35	192	28	192	400	43	177	48	526	63	183	2,452
Total Operating Disbursements			1,476	7,268	2,753	8,874	293	1,937	4,656	125	4,167	387	6,380	161	4,025	42,501
Net Change in Cash from Operations			(1,476)	(7,268)	(2,753)	(8,874)	(293)	(1,937)	(4,656)	(125)	(4,167)	(387)	(6,380)	(161)	(4,025)	(42,501)
Financing																
Intercompany Receipts / (Disbursements)		[14]	-	-	222	1,000	381	1,000	667	778	556	-	-	-	-	4,603
Interest & Bank Charges		[15]	-	(372)	-	(149)	-	(237)	-	(149)	-	-	(237)	(149)	-	(1,293)
Net Change in Cash from Financing			-	(372)	222	851	381	763	667	629	556	-	(237)	(149)	-	3,309
Net Change in Cash			(1,476)	(7,640)	(2,530)	(8,024)	88	(1,173)	(3,990)	503	(3,611)	(387)	(6,617)	(310)	(4,025)	(39,191)
Opening Cash			27,519	26,043	18,403	15,873	7,849	7,937	6,764	2,774	3,277	(334)	(720)	(7,337)	(7,647)	27,519
Ending Cash			\$ 26,043	\$ 18,403	\$ 15,873	\$ 7,849	\$ 7,937	\$ 6,764	\$ 2,774	\$ 3,277	\$ (334)	\$ (720)	\$ (7,337)	\$ (7,647)	\$ (11,672)	\$ (11,672)



Kristal Kaye, Chief Financial Officer
Dominion Diamond Mines

Notes:

Management has prepared this Cash Flow Statement solely for the purposes of determining the liquidity requirements of the Company during the CCAA Proceedings.

The Cash Flow Statement is based on the probable and hypothetical assumptions detailed below. Actual results will likely vary from performance projected and such variations may be material.

- [1] Receipts are assumed to be nil during the Forecast Period as COVID-19 related business disruptions have resulted in the Applicants being unable to sell diamonds in the normal course.
- [2] Payroll and benefits relate to management and employees at Dominion's corporate office as well as two rotating shifts of employees that perform care and maintenance activities at the Ekati mine site.
- [3] Consultants and contractors relate primarily to contract camp and catering staff and consultants.
- [4] Rent includes lease costs, utilities and property taxes for the Applicants' offices in Calgary, Toronto and Yellowknife.
- [5] Underground mining contractor costs relate to dewatering costs and standby fees for the contractor that operates the underground mine.
- [6] Travel relates to airlines that transport employees and contractors to the Ekati mine site.
- [7] Insurance relates to a premium financing arrangement for the Applicants' insurance policies.
- [8] Impact and benefit agreements are assumed to remain current during the forecast period.
- [9] Power includes contractors that operate the power plant at the Ekati mine.
- [10] Site maintenance and environmental costs are based on Dominion's care and maintenance plan and are assumed to be consistent with current run rates.
- [11] CCAA Professional fees includes the Applicants' Canadian legal counsel, United States legal counsel and financial advisor as well as the Monitor and the Monitor's legal counsel.
- [12] The Initial Order authorizes the Applicants to pay certain pre-filing amounts owing to critical suppliers of up to \$5.0 million, with prior approval of the Monitor.
- [13] Other operating costs include miscellaneous disbursements and a contingency.
- [14] Intercompany accounts relate to cash calls to the joint venture partner in respect of the Ekati Core Zone.
- [15] Interest and bank fees are comprised of interest, letter of credit and standby fees in respect of the Applicants' Revolving Facility.