

Court File No. CV-19-616077-00CL

**Imperial Tobacco Canada Limited and
Imperial Tobacco Company Limited**

FIRST REPORT OF THE MONITOR

April 3, 2019

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**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 OF
IMPERIAL TOBACCO CANADA LIMITED AND IMPERIAL TOBACCO
COMPANY LIMITED

**FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

GENERAL

1. In this Report, unless otherwise defined, all capitalized terms shall have the respective meanings specified in the glossary attached to this Report as [Appendix "A"](#). Each capitalized term throughout this Report, if defined in the glossary, is hyperlinked to its respective definition in the glossary.

INTRODUCTION

2. Pursuant to the [Initial Order](#) of the Ontario Superior Court of Justice (Commercial List) made on March 12, 2019, [Imperial](#) was granted protection under the [CCAA](#) and FTI Consulting Canada Inc. was appointed as the [Monitor](#). A copy of the [Initial Order](#) can be found [here](#).
3. The principal purpose of these [CCAA Proceedings](#), and the related [Chapter 15 Proceedings](#), is to restructure and compromise [Imperial's](#) liabilities, specifically the liabilities arising from the [Quebec Appeal Judgment](#) and the [Tobacco Claims](#).

Purpose of this Report

4. The purpose of this Report is to provide the [Court](#) with information regarding:
 - (a) [Imperial](#)'s budget to actual cash flow results since the commencement of these [CCAA Proceedings](#) to March 24, 2019;
 - (b) [Imperial](#)'s cash flow forecast for the period commencing the week beginning March 25, 2019 through the week beginning June 24, 2019;
 - (c) the [Monitor](#)'s activities since the date of its appointment;
 - (d) the [Chapter 15 Proceedings](#) which were commenced on March 14, 2019;
 - (e) [Imperial](#)'s intention to continue making related party payments for goods and services;
 - (f) the [Quebec Litigation Plaintiffs](#)' request to tax the [Monitor](#)'s fees and the Monitor's counsel's fees in these [CCAA](#) proceedings on intervals of no more than 90 days;
 - (g) [Imperial](#)'s request for an order extending the [Stay of Proceedings](#) to June 28, 2019; and
 - (h) the [Monitor](#)'s comments and recommendations in respect of the foregoing matters.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
6. This Report should be read in conjunction with the [Pre-Filing Report](#), which can be found [here](#), the [Second Thauvette Affidavit](#), and the [Responding Thauvette Affidavit](#).

BACKGROUND

7. [Imperial](#) is the largest distributor of [Tobacco Products](#) in Canada and operates two businesses: tobacco and logistics. The tobacco business includes the marketing and sale of [Tobacco Products](#). The logistics business distributes [Tobacco Products](#) for tobacco manufactures, as well as certain non-[Tobacco Products](#) and services.
8. [Imperial](#) is highly integrated with [BAT](#) and its affiliates. [Imperial](#) benefits from a wide range of services, licenses and rights provided by certain of [BAT](#)'s affiliates, including but not limited to: treasury, accounting, SAP and IT infrastructure, IT, human resources, product development and testing, technical and advisory assistance, integrated sales and operating plans. These services and functions have been and continue to be vital for preserving Imperial's business and value.
9. The [Thauvette Affidavit](#) provides, *inter alia*, details regarding [Imperial](#)'s background, including the reasons for the commencement of these [CCAA Proceedings](#).
10. The [Second Thauvette Affidavit](#) and the [Responding Thauvette Affidavit](#) provide details on the nature of the intercompany goods and services provided to [Imperial](#), the necessity for such goods and services and the global nature of these intercompany arrangements.
11. Further information regarding these [CCAA Proceedings](#) and [Imperial](#)'s background is provided in the [Monitor](#)'s [Pre-Filing Report](#).
12. All [Court](#) materials filed in these [CCAA Proceedings](#) are available on the [Monitor](#)'s website at: <http://cfcanada.fticonsulting.com/imperialtobacco/>

CASH FLOW FORECAST UPDATE

13. [Imperial](#), with the assistance of the [Monitor](#), has prepared an updated cash flow forecast for the 14 week period commencing the week beginning March 25, 2019 through the week beginning June 24, 2019. The [Forecast](#) is attached as **Appendix "B"** to this Report.

14. During the [Forecast Period](#), total operating receipts are forecast to be approximately \$1,469 million and total operating disbursements are forecast to be approximately \$1,143 million, resulting in net positive operating cash flow of approximately \$326 million. In addition, [Imperial](#) forecasts interest income of approximately \$1 million in respect of cash balances on deposit in Canada and professional fees disbursements of approximately \$11 million, such that net cash flow is forecast to be approximately \$316 million. Although net cash flows are positive during the [Forecast Period](#), there are three weeks within this period which are forecasted to have negative operating cash flows. These are largely driven by the timing of the payment of taxes and government levies due at the end of each month. As such, cash flows in the weeks that fall on month-end tax payments are expected to be negative, which are then offset by the receipt of the positive cash flows during the remainder of the month.
15. [Imperial](#) intends to make ordinary course payments during the [Stay Extension Period](#) in accordance with the [Forecast](#), specifically, amounts due to trade creditors, third party and related party suppliers, landlords, contractual counterparties and taxing authorities to ensure the business continues to operate in the ordinary course.

Receipts and Disbursements for the Two-Week Period Ending March 24, 2019

16. [Imperial](#)'s actual net cash inflow for the two-week period ending March 24, 2019 was approximately \$59.2 million, compared to a forecast net cash inflow of \$39.1 million described in the [Monitor's Pre-Filing Report](#), resulting in a positive variance of approximately \$20.1 million as indicated in the table continued on the page below:

(CAD\$ in thousands)

VARIANCE REPORT	Actuals	Forecast	Variance
For the 2-week period ending 24-Mar-19			
RECEIPTS			
Trade Receipts	168,321	170,271	(1,950)
DISBURSEMENTS			
<i>Operating Disbursements</i>			
Taxes and Levies	(91,940)	(86,409)	(5,531)
Operations	(17,199)	(41,613)	24,415
<i>Total Operating Disbursements</i>	(109,139)	(128,022)	18,883
OPERATING CASH FLOWS	59,182	42,249	16,933
<i>Financing Disbursements</i>			
Interest and Related Fees	35	-	35
<i>Restructuring Disbursements</i>			
Restructuring Fees	-	(3,192)	3,192
NET CASH FLOWS	59,217	39,057	20,160
CASH			
Beginning Balance	304,700	304,700	0
Net Cash Inflows / (Outflows)	59,217	39,057	20,160
Other (FX)	93	-	93
ENDING CASH	364,010	343,757	20,253

17. The main budget to actual variances and explanations for such variances are as follows:

- (a) trade receipts negative variance of \$2.0 million or 1%. Such variances are common in the ordinary course of business;
- (b) taxes and levies negative timing variance of \$5.5 million driven by higher payment of provincial tobacco taxes in certain purchase method provinces due to the timing of product shipments. In purchase method provinces, the provincial tobacco taxes are due when the product is shipped to the province, regardless of the timing of the sale. This variance is expected to reverse in future periods;

- (c) positive timing variance in operations of \$24.4 million due to timing of payments to suppliers and the continuance of credit terms provided by certain suppliers, although the initial cash flow forecast was prepared on a cash on delivery basis. This variance is expected to reverse in future forecast periods; and
- (d) positive timing variance in restructuring fees of \$3.2 million. This variance is expected to reverse in future forecast periods as outstanding invoices are paid.

OVERVIEW OF THE MONITOR'S ACTIVITIES

Activities Pursuant to the Initial Order

- 18. [Imperial](#) has provided the [Monitor](#) with its full co-operation and unrestricted access to its premises, books and records. The [Monitor](#) has implemented procedures for monitoring operations, receipts and disbursements and is assisting [Imperial](#) in dealing with employees, suppliers, creditors and other stakeholders.
- 19. The [Monitor](#) has worked with [Imperial](#) on cash management matters, including assisting in the preparation of the cash flow projections and monitoring budget to actual results.
- 20. The [Monitor](#) has carried out the following other activities pursuant to the [Initial Order](#):
 - (a) arranging for notices to be published in The Globe and Mail (National Edition) and La Presse on March 16, 2019 containing the information prescribed by the [CCAA](#), the date of the [Comeback Motion](#) and advising of the [Tobacco Claimant Coordinator](#)'s appointment;
 - (b) sending a notice advising of these [CCAA Proceedings](#) to each of [Imperial](#)'s known creditors owed more than \$5,000;
 - (c) providing notice to the [Tobacco Claimants](#) advising of these [CCAA](#)

[Proceedings](#) and the [Tobacco Claimant Coordinator](#)'s appointment by posting a notice on the [Monitor](#)'s website and placing advertisements in the Globe and Mail (National Edition) and La Presse;

- (d) establishing a website in accordance with the E-Service Guide of the Commercial List, as well as creating an email address to ensure all stakeholders have access to the documents and updates relating to these [CCAA Proceedings](#);
- (e) submitting and filing the statutory Form 1 and Form 2 with the Office of Superintendent of Bankruptcy pursuant to subsection 23(1)(f) of the [CCAA](#); and
- (f) attending at the [US Bankruptcy Court](#) on March 14, 2019 to seek recognition of these proceedings under Chapter 15 of the [US Bankruptcy Code](#).

Engagement with Stakeholders

- 21. Since the commencement of these [CCAA Proceedings](#), the [Monitor](#) has assisted [Imperial](#) in its communications and dealings with business stakeholders by participating in discussions with the representatives of a number of [Imperial](#)'s strategic business partners, including suppliers of transportation, financial, and marketing services.
- 22. The [Monitor](#) and its counsel have held numerous meetings and discussions with other stakeholders and interested parties to provide information regarding these [CCAA Proceedings](#), to attempt to resolve differences between the parties and to ensure efficiency at the [Comeback Motion](#). These stakeholders include:
 - (a) the [Tobacco Claimant Coordinator](#) and his counsel;
 - (b) counsel to the [Quebec Litigation Plaintiffs](#);
 - (c) counsel to [BAT](#) and its affiliates;

- (d) counsel to [JTI](#), the monitor for JTI, and counsel to the monitor for JTI;
- (e) counsel to [Rothmans](#), the monitor for [Rothmans](#), and counsel to the monitor for [Rothmans](#);
- (f) the financial advisor and counsel to the [Consortium of Provinces](#);
- (g) counsel to the Provinces of Alberta and Newfoundland, in each Province's capacity as a plaintiff in the [HCCR Claims](#);
- (h) counsel to the Province of Ontario, in the Province's capacity as a plaintiff in the [HCCR Claims](#); and
- (i) the Canada Revenue Agency and counsel to the Canada Revenue Agency.

Communications with the Beneficiaries of the Genstar Plans

23. Prior to the commencement of these [CCAA Proceedings](#), [Imperial](#) has, for several decades, funded payments to beneficiaries of the [Genstar Plans](#) established by Imasco Holdings Group, Inc., a now largely dormant Imperial subsidiary. As a result of these [CCAA Proceedings](#), these payments are no longer being made. [Bracewell](#) and the [Monitor](#) have received a number of enquiries from beneficiaries of the [Genstar Plans](#) regarding the cessation of benefit payments. The [Monitor](#) understands that certain beneficiaries of the [Genstar Plans](#) have established the [Committee](#) and have retained Canadian and U.S. counsel who are seeking to represent the interests of the beneficiaries of the [Genstar Plans](#).
24. The [Monitor](#) has spoken to proposed Canadian counsel for the beneficiaries of the [Genstar Plans](#) and understands that a motion will be brought to determine the entitlement to payments under the [Genstar Plans](#) before the end of April (and before the date of the next payments due under the [Genstar Plans](#)). The [Monitor](#) is also working with [Imperial](#) and its Canadian and US counsel to address certain information requests made by proposed counsel for the beneficiaries of the [Genstar Plans](#), and by the Pension Benefit Guaranty Corporation.

CHAPTER 15 PROCEEDINGS

25. On March 13, 2019, the [Monitor](#), acting as “foreign representative” of [ITCAN](#) pursuant to paragraph 31(j) of the [Initial Order](#), filed a petition with the [US Bankruptcy Court](#) to commence the [Chapter 15 Proceedings](#). The [Chapter 15 Proceedings](#) are administered before the Honourable Shelley C. Chapman.
26. On March 14, 2019, the [US Bankruptcy Court](#) entered the following orders:
 - (a) [Scheduling Order](#), which can be found [here](#);
 - (b) [Temporary Restraining Order](#), which can be found [here](#); and
 - (c) [Interim Sealing Order](#), which can be found [here](#).
27. On March 25, 2019, the [US Bankruptcy Court](#) issued a [Preliminary Injunction Order](#), which can be found [here](#). The [Preliminary Injunction Order](#) extends the relief granted pursuant to the [Temporary Restraining Order](#) until the hearing to consider entry of the [Foreign Recognition Order](#).
28. The hearing for the [Foreign Recognition Order](#) is scheduled for April 15, 2019. Objections to this hearing must be filed by April 8, 2019. The [Monitor](#) understands that as of April 2, 2019, four objections were filed by former beneficiaries of the [Genstar Plans](#).
29. The [Monitor](#), assisted by [Bracewell](#), is in the process of engaging [KCC](#) to provide noticing and claims management services in connection with the [Chapter 15 Proceedings](#).
30. The relevant orders and materials in the [Chapter 15 Proceedings](#) can be found [here](#).

INTERCOMPANY PAYMENTS

31. Pursuant to the initial cash flow forecast attached to the [Monitor](#)’s [Pre-Filing Report](#), [Imperial](#) made intercompany payments on March 26, 2019, and March

- 27, 2019, in the ordinary course of business. These payments totalled \$20.6 million. These payments were made for the purchase of [Tobacco Products](#) and for services provided by [BAT](#)'s affiliates. These payments are for services and products which are essential to [Imperial](#)'s business as set out in the paragraphs below.
32. As described in detail in the [Responding Thauvette Affidavit](#) at paragraphs 5 to 11, [Imperial](#)'s parent, [BAT](#), operates and organizes its business affairs on a global basis. Over the past decade, [BAT](#) has implemented a number of initiatives to reduce costs by centralizing the provision of services to its subsidiaries. These services include IT, finance, accounting, marketing, R&D and a number of other services.
33. As described in paragraphs 27 to 30 of the [Responding Thauvette Affidavit](#), [Imperial](#) is completely reliant on the services provided by [BAT](#)'s affiliates. Even if it were possible to replace the services provided by [BAT](#)'s affiliates, such replacement could only happen after significant disruption to [Imperial](#)'s business and profitability and would take significant time to arrange and implement.
34. As described in the [Responding Thauvette Affidavit](#), in order to achieve production efficiencies, [BAT](#) has reduced the number of locations in which it produces [Tobacco Products](#). [Imperial](#) no longer manufactures any of the [Tobacco Products](#) that it sells. As set out in paragraphs 13 and 14 of the [Responding Thauvette Affidavit](#), other than a small amount of Marlboro cigarettes manufactured under contract on behalf of [Imperial](#), all products sold by [Imperial](#) are purchased from [BAT](#)'s affiliates.
35. As described in paragraph 31 of the [Responding Thauvette Affidavit](#), the payments to [BAT](#)'s affiliates are not a transfer of profit. Rather, the [Monitor](#) understands that they are the cost of essential goods and services. These payments include but are not limited to payments for products, manufacturing services, innovation royalties, and financial services. Information provided to the [Monitor](#) would indicate that the goods and services provided and the basis of allocation of

costs for such goods and services between the [BAT](#) subsidiaries is consistent across [BAT](#)'s affiliates. However, the [Monitor](#) notes that it has not undertaken a detailed review of the intercompany pricing of goods and services. If it would be beneficial to the [Court](#), the [Monitor](#) would undertake such a review and Imperial has indicated that it would cooperate fully.

36. For these reasons, the [Monitor](#) supports [Imperial](#)'s intention to make intercompany payments in the ordinary course and to maintain its business supply arrangements with [BAT](#)'s affiliates.

THE TOBACCO CLAIMANT COORDINATOR

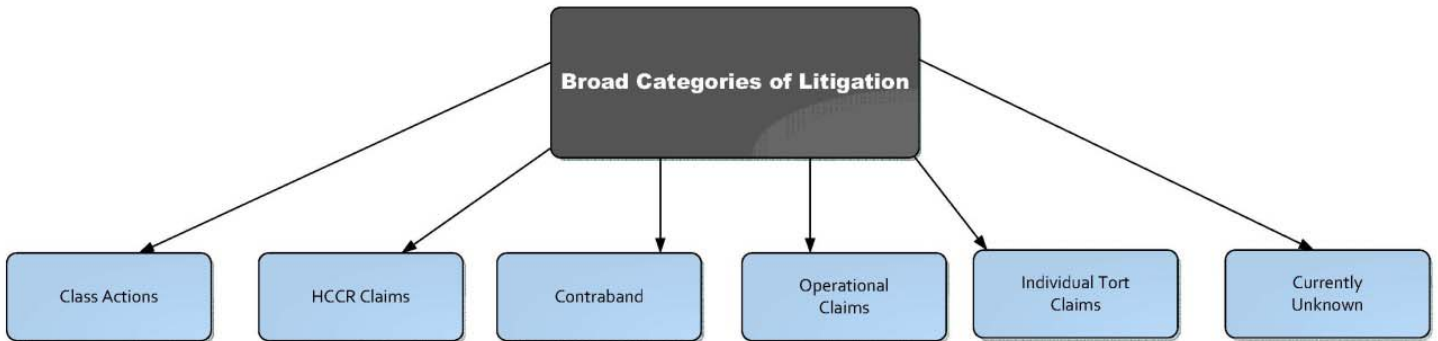
37. On March 12, 2019, and pursuant to the Initial Order, the [Tobacco Claimant Coordinator](#) was appointed until April 30, 2019 to assist and to coordinate the interests of all persons in these [CCAA Proceedings](#) in connection with any [Tobacco Claim](#).
38. Since March 12, 2019, the [Monitor](#) has met with the [Tobacco Claimant Coordinator](#) and his counsel. The [Monitor](#) has also been advised that the [Tobacco Claimant Coordinator](#) has held a number of meetings with [Imperial](#) and [Imperial](#)'s counsel, as well as with the following parties: a) counsel to the [Quebec Litigation Plaintiffs](#); b) counsel to [JTI](#); c) counsel to [Rothmans](#); d) the monitor for Rothmans and its counsel; e) counsel to the [Consortium of Provinces](#); f) counsel to the Provinces of Alberta and Newfoundland in respect of each Province's [HCCR Claim](#); g) counsel to the plaintiffs in the [Knight Action](#); and h) counsel to the plaintiffs in each [Putative Action](#).
39. The [Monitor](#) has been kept apprised of the [Tobacco Claimant Coordinator](#)'s proposed approach to assist with and coordinate the interests of the [Tobacco Claimants](#). The [Monitor](#) is of the view that the current role of the [Tobacco Claimant Coordinator](#) will be of assistance to the [Court](#) in these [CCAA Proceedings](#), particularly in light of the complexity of the [Tobacco Claims](#) facing [Imperial](#). The diagrams, as set out below paragraph 40, illustrate the complexity

of the [Tobacco Claims](#) which are currently known to and facing [Imperial](#).

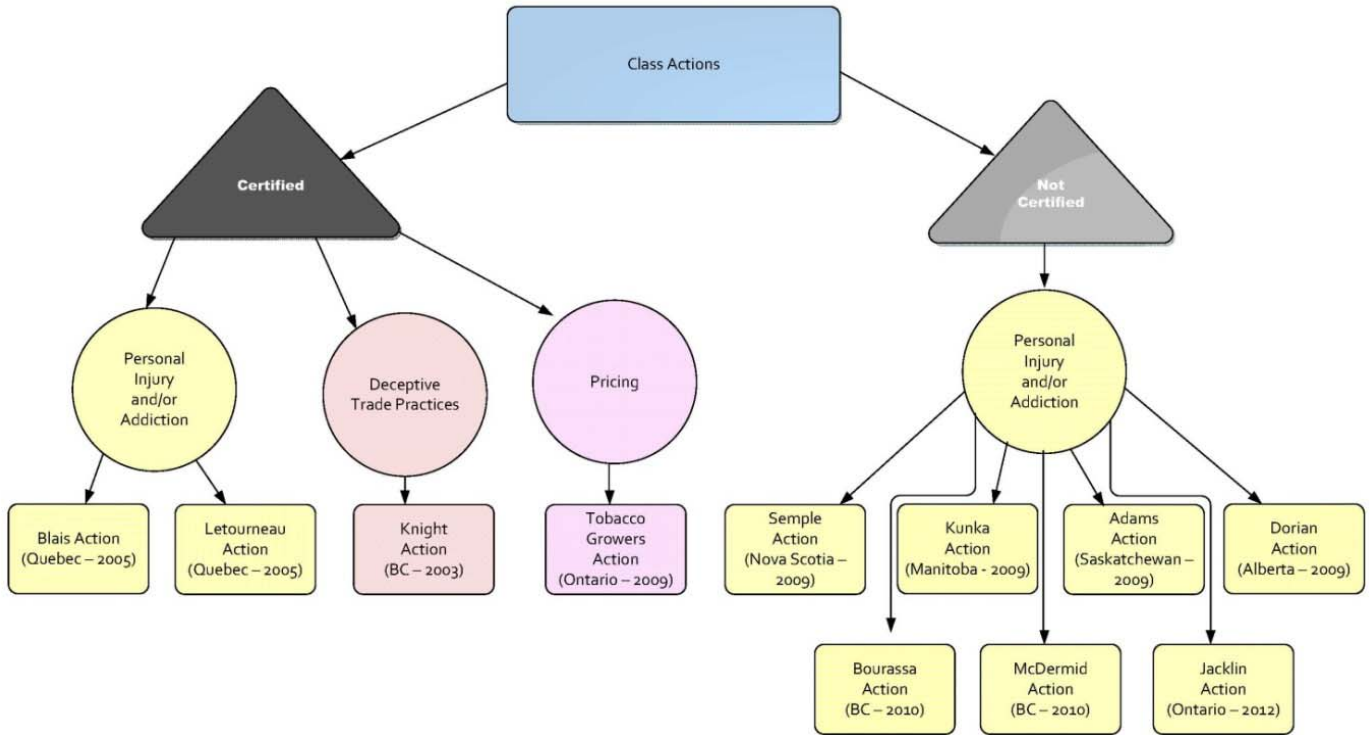
40. The Monitor is supportive of the role of the [Tobacco Claimant Coordinator](#) as set out in the [Initial Order](#). The Monitor understands that at the time of issuing this Report, the nature of the role of the [Tobacco Claimant Coordinator](#), beyond April 30, 2019, has not been agreed to by the [Applicants](#) and other stakeholders. The Monitor will comment on the future role of the [Tobacco Claimant Coordinator](#) when such proposed role becomes more certain.

Tobacco Litigation Facing Imperial

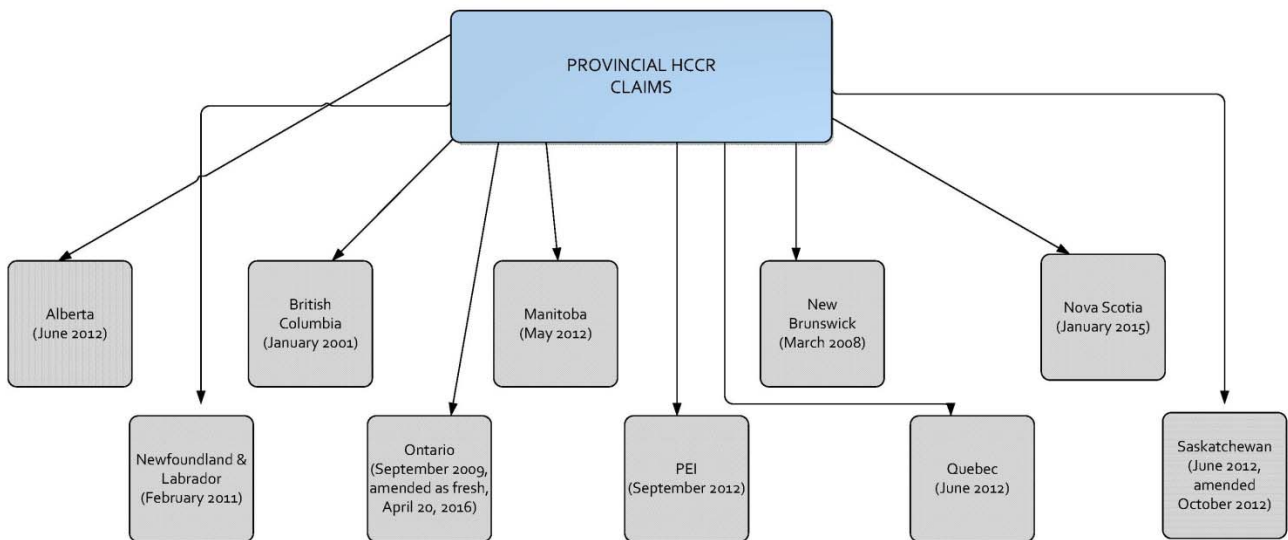
PENDING TOBACCO LITIGATION AGAINST IMPERIAL TOBACCO



CLASS ACTION SUB-CATEGORIES



HCCR CLAIMS



TAXATION OF THE MONITOR'S FEES AND DISBURSEMENTS

41. The [Monitor](#) understands that counsel to the [Quebec Litigation Plaintiffs](#) has requested that the [Monitor](#)'s fees and its counsel's fees be taxed at intervals of no more than 90 days. Currently, the taxation of the [Monitor](#)'s fees and its counsel's fees are governed by paragraph 37 of the [Initial Order](#). Paragraph 37 states that "the [Monitor](#) and its legal counsel shall pass their accounts from *time to time* [emphasis added]". The [Monitor](#) has been and intends to continue to be transparent about its fees and has no objections to scrutiny of its fees. It is the [Monitor](#)'s intention to seek approval of its fees and its counsel's fees, concurrent with a [Court](#) appearance for other matters. The [Monitor](#) submits that enforcing such a strict timeline for the approval of its fees and its counsel fees would be counterproductive for these [CCAA Proceedings](#).

STAY OF PROCEEDINGS

42. The [Monitor](#) has been advised that [Imperial](#) has requested an extension to the [Stay of Proceedings](#) to June 28, 2019. The [Monitor](#) understands that such extension is necessary for [Imperial](#) to operate the business in the ordinary course as it works towards developing a plan of compromise or arrangement for the resolution of the [Tobacco Claims](#).

RELIEF SOUGHT

The Stay of Proceedings

43. The [Monitor](#) supports an extension of the [Stay of Proceedings](#) to and including June 28, 2019 for the following reasons:

- (a) [Imperial](#) is acting in good faith and with due diligence;
- (b) the [Forecast](#) reflects that [Imperial](#) is projected to have sufficient funding to continue to operate in the normal course through the proposed extension to the [Stay of Proceedings](#); and

- (c) no creditor will be materially prejudiced if the extension is granted.

CONCLUSION

44. The [Monitor](#) is of the view that the relief requested by [Imperial](#) is necessary, reasonable and justified. The [Monitor](#) is also of the view that granting the relief requested will provide [Imperial](#) the best opportunity to preserve value and maximize recoveries for [Imperial](#)'s stakeholders.
45. Accordingly, the [Monitor](#) respectfully recommends that [Imperial](#)'s request for the relief sought, as described in paragraph 43, be granted.

The Monitor respectfully submits to the Court this Report.

Dated this 3rd day of April, 2019.

FTI Consulting Canada Inc.

FTI Consulting Canada Inc.

in its capacity as Monitor of Imperial Tobacco Canada Limited and Imperial Tobacco Company Limited

APPENDIX A

GLOSSARY

“**Applicants**” means, collectively, Imperial, JTI and Rothmans.

“**BAT**” means British American Tobacco p.l.c., a public company listed on the London Stock Exchange.

“**BAT MX**” means British American Tobacco Mexico S.A. de C.V.

“**BAT NL**” means British American Tobacco International (Holdings) B.V.

“**BATIF**” means B.A.T. International Finance p.l.c.

“**BIA**” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.

“**Bracewell**” means Bracewell LLP, in its capacity as counsel to the Monitor in the Chapter 15 Proceedings.

“**CCAA**” means the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

“**CCAA Proceedings**” means the insolvency proceedings commenced by Imperial under the CCAA.

“**Chapter 15 Proceedings**” means the proceedings commenced by [ITCAN](#) on March 13, 2019, for relief under Chapter 15 of the [US Bankruptcy Code](#).

“**Comeback Motion**” means the Comeback Motion, as defined in the Initial Order, which is to be heard on April 4 and 5, 2019.

“**Committee**” means a steering committee formed to represent the interests of former officers, executives, and management employees of Genstar.

“**Court**” means the Ontario Superior Court of Justice (Commercial List).

“**Consortium of Provinces**” means, collectively, the Province of British Columbia, Province of Manitoba, Province of New Brunswick, Province of Nova Scotia, Province of Prince Edward Island and Province of Saskatchewan, in each Province’s capacity as a plaintiff in the HCCR Claims.

“**EY**” means Ernst & Young.

“**Forecast**” means the consolidated cash flow projection of Imperial’s receipts and disbursements for the Forecast Period.

“**Forecast Period**” means the 14 week period commencing the week beginning March 25, 2019 through the week beginning June 24, 2019.

“Foreign Recognition Order” means an order of the US Bankruptcy Court recognizing the CCAA Proceedings as the main proceedings and staying proceedings against ITCAN in the United States.

“FTI” means FTI Consulting Canada Inc.

“Genstar” Genstar Corporation, a subsidiary of ITCAN.

“Genstar Plans” means the, collectively, the following pension plans: i) a deferred income plan for approximately 53 individuals who are either former senior management employees of Genstar or their surviving spouses; ii) supplemental executive retirement plan for approximately 14 individuals who were either former Genstar employees or their surviving spouses; and iii) a supplementary pension plan for 3 individuals who were either former Genstar employees or their surviving spouses.

“HCCR Claims” means the claims started by each of the Provinces of Canada under each Province’s health care cost recovery legislation, to recover health care costs associated with smoking and the use of Tobacco Products.

“Imperial” means collectively, Imperial Tobacco Canada Limited and Imperial Tobacco Company Limited.

“Initial Order” means the initial order granted on March 12, 2019, by the Court which authorized, among other things, the Stay of Proceedings and FTI’s appointment as Monitor of Imperial’s CCAA Proceedings.

“Intercompany Arrangements and Agreements” means the various formal and informal arrangements and agreements as between Imperial and certain BAT affiliates relating to the provision of goods and services.

“Interim Sealing Order” means an order of the US Bankruptcy Court granting an interim motion to seal the names and contact information of individual members of ITCAN’s subsidiaries’ retirement and pension plans.

“ITCAN” means Imperial Tobacco Canada Limited.

“ITCO” means Imperial Tobacco Company Limited.

“JTI” means JTI-Macdonald Corp.

“KCC” means Kurtzman Carson Consultants.

“Knight Action” means the class action commenced by Kenneth Knight on May 14, 2013, which alleges that ITCAN and other tobacco distributors engaged in “deceptive trade practices”. The Knight Action is described in more detail in Schedule A of the Thauvette Affidavit.

“PMI” means Phillip Morris International.

“Putative Actions” means the class action proceedings, which have yet to be certified, and are described in more detail in Schedule A of the Thauvette Affidavit.

“Monitor” means FTI Consulting Canada Inc.

“Pre-Filing Report” means the report filed by the Monitor on March 12, 2019, in its capacity as proposed Monitor of Imperial, in connection with Imperial’s initial application to the Court for relief under the CCAA.

“Preliminary Injunction Order” means the order entered by the US Bankruptcy Court on March 25, 2019 in the Chapter 15 Proceedings which provides for an extension of interim injunctive relief through the recognition hearing which will be heard on April 15, 2019.

“Quebec Judgment” means the Quebec Superior Court’s judgment on the “Letourneau action” and the “Blais action” released on May 27, 2015 in which the trial judge found the co-defendants jointly liable for \$15.6 billion, with Imperial’s share being approximately \$10.6 billion.

“Quebec Appeal Judgment” means the Quebec Court of Appeal decision on the appeal of the Quebec Judgment whereby the Court of Appeal substantially upheld the Quebec Judgment with two notable modifications: (i) the total claim amount was reduced by just over \$1 million; and (ii) the interest schedule was adjusted, reducing the interest payable on the total claim amount by approximately \$3 billion. Imperial’s share of the liability stands at \$9,153,565,094.80 with interest and additional indemnity for moral damages and punitive damages.

“Quebec Litigation Plaintiffs” means, collectively, the representative plaintiff and the certified class of plaintiffs in each of the “Letourneau action” and the “Blais action”, as described in the Thauvette Affidavit.

“Responding Thauvette Affidavit” means the affidavit of Eric Thauvette, Vice President and Chief Financial Officer of Imperial, sworn April 2, 2019 and filed in response to the motion materials filed by counsel for the Quebec Litigation Plaintiffs on March 28, 2019.

“Revolving Credit Facility” means the \$30 million committed secured revolving credit facility between BATIF and ITCAN.

“Rothmans” means Rothmans Benson & Hedges Inc.

“Sales Taxes” means GST, HST, PST, and other retail sales taxes collected in connection with the sale of Tobacco Products

“Scheduling Order” means an order of the US Bankruptcy Court made March 14, 2019 (I) Scheduling Recognition Hearing, (II) Specifying Deadline for Filing Objections and (III) Specifying Form and Manner of Notice.

“Second Thauvette Affidavit” means the affidavit of Eric Thauvette, Vice President and Chief Financial Officer of Imperial, sworn March 29, 2019.

“Stay Extension Period” the extension of the Stay of Proceedings to June 28, 2019.

“Stay of Proceedings” the stay of proceedings during the Stay Extension Period in favour of Imperial and their non-applicant subsidiaries, including Liggett & Meyers Tobacco Company of Canada Limited, as well as, a limited stay in favour of BAT and certain BAT affiliates.

“Temporary Restraining Order” means an order to show cause with temporary restraining order of the US Bankruptcy Court made March 14, 2019 staying execution against the assets, business operations and supply chain, inventory management and distribution process of ITCAN on a provisional basis which was in effect until March 28, 2019.

“Thauvette Affidavit” means the affidavit of Eric Thauvette, Vice President and Chief Financial Officer of Imperial, sworn March 12, 2019.

“Tobacco Claimant Coordinator” means Honourable Warren K. Winkler Q.C., acting as a coordinator for the Tobacco Claimants in the context of the CCAA Proceedings.

“Tobacco Claimants” means all persons with any Tobacco Claim, other than the federal, provincial and territorial governments of Canada.

“Tobacco Claims” means all claims brought or that could be brought under applicable law against Imperial in relation to the development, manufacturing, production, marketing, advertising of, any representations made in respect of, the purchase, sale, and use of, or exposure to, the Tobacco Products.

“Tobacco Products” means tobacco or any product made or derived from tobacco or containing nicotine that is intended for human consumption, including any component, part, or accessory of or used in connection with a tobacco product, including cigarettes, cigarette tobacco, roll your own tobacco, smokeless tobacco, electronic cigarettes, vaping liquids and devices, heat-not-burn tobacco, and any other tobacco or nicotine delivery systems and shall include materials, products and by-products derived from or resulting from the use of any tobacco products.

“Tobacco Taxes” means the federal excise taxes, import duties, and provincial tobacco taxes on all tobacco products imported into Canada and sold in a province.

“US” means the United States of America

“US Bankruptcy Code” means title 11 of the United States Code.

“US Bankruptcy Court” means the United States Bankruptcy Court for the Southern District of New York.

APPENDIX B

See attached.

Imperial Tobacco Canada Limited

CCAA Cash Flow Forecast

(CAD\$ in thousands)

Week Beginning (Monday)	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	27-May-19	3-Jun-19	10-Jun-19	17-Jun-19	24-Jun-19	14-Week Total	
Forecast Week	1	2	3	4	5	6	7	8	9	10	11	12	13	14		
RECEIPTS																
Trade Receipts	[2]	88,066	91,012	93,099	96,914	92,009	95,822	98,906	103,566	103,977	109,320	111,331	112,798	132,529	139,475	1,468,823
DISBURSEMENTS																
<i>Operating Disbursements</i>																
Taxes and Levies	[3]	(25,001)	(97,109)	(40,007)	(35,334)	(41,576)	(163,894)	(41,467)	(30,734)	(42,289)	(177,656)	-	(51,216)	(90,643)	(42,973)	(879,899)
Operations	[4]	(35,357)	(16,319)	(21,487)	(7,146)	(42,339)	(12,056)	(12,854)	(4,045)	(11,092)	(31,041)	(9,381)	(12,434)	(6,740)	(40,331)	(262,621)
<i>Total Operating Disbursements</i>		(60,358)	(113,428)	(61,494)	(42,480)	(83,916)	(175,949)	(54,320)	(34,779)	(53,381)	(208,697)	(9,381)	(63,651)	(97,383)	(83,304)	(1,142,520)
OPERATING CASH FLOWS		27,708	(22,416)	31,605	54,434	8,093	(80,127)	44,586	68,787	50,596	(99,377)	101,949	49,147	35,146	56,171	326,303
<i>Financing Disbursements</i>																
Interest and Related Fees	[5]	(21)	144	-	(2)	-	600	-	-	-	700	-	-	-	(21)	1,400
<i>Restructuring Disbursements</i>																
Professional Fees - Canada Related	[6]	(1,390)	(595)	(595)	(595)	(595)	(595)	(580)	(580)	(580)	(580)	(580)	(580)	(580)	(580)	(9,005)
Professional Fees - U.S. Chapter 15 Related	[7]	(460)	(36)	(36)	(36)	(36)	(36)	(42)	(42)	(42)	(42)	(40)	(40)	(40)	(40)	(968)
Tobacco Claimant Coordinator Related Fees	[8]	(300)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(105)	(1,665)
NET CASH FLOWS		25,537	(23,008)	30,869	53,696	7,357	(80,264)	43,859	68,061	49,869	(99,404)	101,224	48,422	34,421	55,425	316,065
CASH																
Beginning Balance		364,010	389,547	366,539	397,408	451,104	458,461	378,197	422,057	490,117	539,987	440,583	541,807	590,229	624,650	364,010
Net Cash Inflows / (Outflows)		25,537	(23,008)	30,869	53,696	7,357	(80,264)	43,859	68,061	49,869	(99,404)	101,224	48,422	34,421	55,425	316,065
Other (FX)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING CASH		389,547	366,539	397,408	451,104	458,461	378,197	422,057	490,117	539,987	440,583	541,807	590,229	624,650	680,075	680,075

Notes to the CCAA Forecast:

- [1] The purpose of this cash flow forecast is to estimate the liquidity requirements of the Company during the forecast period.
- [2] Forecast Trade Receipts include collections from the sale of tobacco-related products, net of returns, and inclusive of sales taxes. The sales forecast is based on historical sales patterns, seasonality, and current management's expectations.
- [3] Forecast Taxes and Levies disbursements reflect the remittance of the federal excise tax, provincial tobacco taxes, sales taxes, and the Company's corporate income taxes.
- [4] Forecast Operations disbursements include employee-related costs, purchase of tobacco-related products, innovation fees, IT-related costs, selling, general, and administrative costs.
- [5] Forecast Interest and Related Fees reflect interest income earned net of any payments relating to existing facilities.
- [6] Forecast Professional Fees - Canada Related include fees for the Company's Counsel, the Monitor, and the Monitor's Counsel.
- [7] Forecast Professional Fees - U.S. Chapter 15 Related include fees for the Company's US Counsel, the Monitor's US Counsel and the US Noticing Agent.
- [8] Forecast Tobacco Claimant Coordinator Related Fees include fees for the Tobacco Claimant Coordinator and his legal counsel.

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 IMPERIAL TOBACCO CANADA LIMITED AND IMPERIAL TOBACCO COMPANY LIMITED

Court File No. CV-19-616077-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**FIRST REPORT OF THE MONITOR
APRIL 3, 2019**

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