

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 AND ARRANGEMENT OF
ROTHMANS, BENSON & HEDGES INC.

Applicant

SECOND REPORT OF THE MONITOR
June 24, 2019

INTRODUCTION

1. On March 22, 2019, Rothmans, Benson & Hedges Inc. (“**RBH**”, the “**Company**” or the “**Applicant**”) applied for and obtained an initial order (the “**Initial Order**”) under the *Companies' Creditors Amendment Act* (“**CCAA**”) that, amongst other things, (i) granted a stay of proceedings in favour of the Applicant and a limited stay of proceedings in favour of members of the PMI Group from certain proceedings and Other Pending Litigation until March 22, 2019, and (ii) appointed EYI as Monitor of the Applicant in this CCAA proceeding (the “**CCAA Proceeding**”).
2. On April 4 and 5, 2019, this Court heard a motion brought by the Applicant (the “**Comeback Motion**”) and amended and restated the Initial Order and extended the stay period to June 28, 2019. The Comeback Motion was continued on April 25 and 26, 2019, and this Court issued a further amended and restated Initial Order on April 26, 2019 (the “**Second Amended and Restated Initial Order**”) and amongst other things, extended a limited stay of proceedings to Other Defendants (as further described herein).

PURPOSE

3. The purpose of this second report of the Monitor (the “**Second Report**”) is to provide information to this Court with respect to:
 - i) the status of the CCAA Proceeding;

- ii) the actual receipts and disbursements of the Applicant from March 20, 2019 to June 9, 2019;
- iii) the Applicant's updated cash flow forecast for the period from June 10, 2019 to December 22, 2019;
- iv) the Applicant's request for an order that the stay of proceedings be extended up to and including December 16, 2019;
- v) RBH's Supplementary Retirement Allowance Plan for Executives and Directors effective January 1, 1999 (as amended or amended and restated from time to time, the "SRAP") and the Retirement Compensation Arrangement ("RCA") Trust Agreement made as of December 17, 1999 between RBH and Royal Trust Corporation of Canada (as amended or amended and restated from time to time, the "RCA Trust Agreement"); and
- vi) the Applicant's motion for an order among other things, confirming that the stay of proceedings established by the Second Amended and Restated Initial Order applies to the potential consequences under the SRAP and RCA flowing from RBH's filing for CCAA protection.

TERMS OF REFERENCE

4. In preparing this Second 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 the Applicant, the Luongo Affidavits (as defined below), and discussions with RBH management (collectively, the "**Information**"). Except as described in this Second Report:

- i) 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 such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the *Chartered Professional*

Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

- ii) Some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in *Chartered Professional Accountants Canada Handbook*, has not been performed.
5. Future oriented financial information referred to in this Second Report was prepared based on the Company'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.
 6. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Second Report concerning the Applicant and its business is based on the Information, and not independent factual determinations made by the Monitor.
 7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
 8. Capitalized terms used but not defined in this Second Report are defined in the affidavit of Peter Luongo sworn June 14, 2019 in connection with the stay extension request (the "**Luongo June 2019 Stay Extension Affidavit**"), the affidavit of Peter Luongo sworn June 14, 2019 in connection with the continuation of the SRAP and RCA (as defined below) (the "**Luongo June 2019 SRAP Affidavit**") and his prior affidavits (collectively, the "**Luongo Affidavits**"), the Proposed Monitor's Pre-filing Report dated March 22, 2019 and the Monitor's First Report dated April 3, 2019 (together, "**Monitor's Reports**") and the Second Amended and Restated Initial Order.
 9. Copies of the Monitor's Reports, including a copy of this Second Report, and all motion records and Orders in the CCAA Proceedings are available on the Monitor's website at www.ey.com/ca/rbh. The Monitor has also established a toll-free phone number that is

referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the CCAA Proceeding.

OVERVIEW OF THE APPLICANT

10. The Applicant is a private company with its head office in Toronto, Ontario. The ultimate parent of the Applicant is PMI. The Applicant's two primary business segments include:
 - i) **Traditional Cigarette and Tobacco Product Business** – the Applicant is the second largest supplier of traditional tobacco products in the tax-paid Canadian market. It manufactures and sells cigarettes and fine-cut tobacco, and distributes pipe tobacco and cigar products; and
 - ii) **Reduced Risk Product Business: IQOS** – the Applicant sells and distributes IQOS products to consumers via the Applicant's owned and 3rd party retail outlets, as well as via an online platform. IQOS is an electronic device that generates a nicotine-containing aerosol by heating tobacco products manufactured for use with the IQOS device.
11. The Applicant provides employment or consultant work to approximately 800 employees and 50 contractors in Canada¹.

STATUS OF THE CCAA PROCEEDING

12. Since the granting of the Initial Order, the Applicant, with the assistance of the Monitor, has been working to stabilize its operations and continues to operate its cash flow positive Business for the benefit of all stakeholders. As part of this process, the Applicant has specifically advised stakeholders that the CCAA process is not a bankruptcy and instead provides for business to continue in the usual course, subject to the Second Amended and Restated Initial Order.

¹ As of December 31, 2018

13. The Applicant, with the assistance of the Monitor, has responded to numerous customers and suppliers regarding the CCAA proceedings to ensure minimal disruption to RBH's operations.
14. On April 5, 2019, the Hon. Warren K. Winkler Q.C. (the "Court-Appointed Mediator") was appointed as an officer of the court to act as a neutral third party to mediate a global settlement of the Tobacco Claims. Among other things, the Court-Appointed Mediator is empowered to do the following in carrying out his mandate:
 - i) Adopt processes which, in his discretion, he considers appropriate to facilitate negotiation of a global settlement; and
 - ii) Consult with all Persons with Tobacco Claims, the Monitor, the Applicant, the Co-Defendants, other creditors and stakeholders of the Applicant and/or the Co-Defendants and any other persons the Court-Appointed Mediator considers appropriate.
15. Since the Initial Order on March 22, 2019, numerous objections and motions (the "**Objections**") have been raised and brought in these CCAA Proceedings by various stakeholders. The Objections include:
 - i) the ability of the Applicant to make certain inter-company post-filing payments;
 - ii) the frequency of taxation of accounts of the Monitor, its legal counsel and the Applicant's legal counsel;
 - iii) lifting the stay of proceedings to permit the Quebec Plaintiffs to bring a bankruptcy application as against the Applicant;
 - iv) lifting the stay of proceedings to permit the Quebec Plaintiffs to seek approval of certain insurance settlements;
 - v) the manner in which the Applicant sought to address the issue of leave to appeal to

the Supreme Court from the decision of the Court of Appeal of Quebec; and

vi) lifting the stay of proceedings to permit the Province of Ontario's Health Care Action to proceed.

16. In an effort to resolve the Objections on a consensual basis or to narrow the issues to be brought before this Court, the Monitor and its counsel have had multiple meetings and discussions with:

i) the Court-Appointed Mediator,

ii) the Applicant and its counsel,

iii) JTIM and ITCAN's counsel and their respective monitors and their counsel, and

iv) certain of the Applicant's stakeholders, as applicable.

17. These Objections along with the ensuing discussions, the Comeback Motion and the subsequent motions, have resulted in a number of Court Orders having been issued which reflect a consensual resolution or final determination of some of these Objections. The following provides a summary and a brief description of the Court Orders issued since the First Report. Additional details of the events leading up to the Court Orders are provided in the Luongo June 2019 Stay Extension Affidavit:

i) *First Amended and Restated Initial Order*

i. On April 5, 2019 the Court issued an Amended and Restated Order (the "**First Amended and Restated Order**") which among other things:

- approved a notice protocol to facilitate the efficient conduct of the Applicant's proceeding;
- extended the stay period up to and including June 28, 2019;
- appointed the Hon. Warren K. Winkler Q.C. as Court-Appointed Mediator; and

- granted a Court-Appointed Mediator Charge in the amount of \$1 million.

ii) *Kansa Settlement Order*

- i. On April 5, 2019, the Court issued an order partially lifting the stay of proceedings in the Initial Order to allow the Quebec Class Action Plaintiffs to seek an approval of a settlement agreement they entered into with the Liquidator of Kansa General International Insurance Company in connection to insurance policies issued in favour of RBH. However, not all issues had been resolved and following further arguments before the Court and discussions amongst certain parties, a further order was issued on May 31, 2019.

iii) *Second Amended and Restated Initial Order*

- i. On April 23, 2019, the Court issued the Second Amended and Restated Initial Order which, amongst other things, extended the stay of proceedings:
 - to include, without limitation, any leave to appeal application to the Supreme Court of Canada in the Quebec Class Actions (a “**QCA Leave Application**”); and
 - in respect of the Pending Litigation as against the Other Defendants.

iv) *Order to Amend Ontario’s Claim*

- i. On April 26, 2019, the Court issued an endorsement dismissing the Province of Ontario’s motion seeking a partial lifting of the stay of proceedings to permit the Province of Ontario’s Health Care Actions to proceed.
- ii. On April 29, 2019, the Court issued an Order, on consent of the parties, permitting a partial lifting of the stay of proceedings for the sole purpose of allowing the Province of Ontario to take the steps required to formally effect

certain amendments to its statement of claim and serve the amended claim on all defendants to the Ontario HCCR Action.

v) *Professional Fees Disclosure Order*

- i. On May 14, 2019, the Court issued an order establishing a process by which the fees and disbursements paid to each of the Monitor, the Monitor's counsel, the Applicant's counsel and any financial advisor of the Applicant in connection with this CCAA Proceeding will be provided to certain interested parties on a monthly basis, beginning May 16, 2019 ("**Professional Fees Disclosure Order**"). In accordance with the Professional Fees Disclosure Order, the Monitor has provided the required disclosure to the requesting interested parties for the periods ended April 30, 2019 and May 31, 2019.

vi) *Court-Appointed Mediator Communication and Confidentiality Protocol*

- i. On May 24, 2019, the Court endorsed a communication and confidentiality protocol to facilitate communication between the Court-Appointed Mediator and the Court. The protocol, amongst other things, allows the Court and the Court-Appointed Mediator to communicate directly to discuss, on an on-going basis, the conduct of the Mediation Process and how it will be coordinated with the CCAA Proceeding.

18. A copy of each of these Court Orders can be found on the Monitor's Website.
19. The Monitor has been cooperating fully with the requests from the Court-Appointed Mediator and has sought to follow the process that he considers appropriate to facilitate the resolution of issues in this complex case. The Monitor will continue to work with the Court-Appointed Mediator and the other parties to discuss and resolve the remaining issues and any new issues as they arise in the CCAA Proceeding.
20. The Monitor and its counsel have had discussions with the Court, the CCAA monitors of JTIM and ITCAN and their respective counsel to discuss the procedural coordination of the three CCAA proceedings and address certain procedural concerns raised by this Court. As

a result of these discussions, on June 11, 2019, the respective Monitors advised the Service List that any future written communication between any person and the Court in respect of these CCAA Proceedings is to be coordinated through the respective Monitors and that no person should directly write to Justice McEwen, rather all future written communications with the Court are to be directed to the respective Monitors' counsel.

21. The letter on June 11, 2019 also advised the Service List that, at the request of Justice McEwen, the Monitors in each CCAA proceeding are in the process of creating a consolidated service list and related service protocol as well as a court-to-court communication protocol.

**ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE PERIOD MARCH 20, 2019
TO JUNE 9, 2019**

22. For the period from March 20, 2019 to June 9, 2019, RBH had total receipts of approximately \$736.3 million and total disbursements of approximately \$618.6 million for net cash flow of approximately \$117.7 million.
23. Actual net cash flow was unfavourable to forecast by \$36.2 million. Significant items contributing to this unfavourable variance were as follows:
 - i) an unfavourable permanent variance of \$63.2 million in collections of accounts receivable primarily as a result of lower than forecast sales volume during the period;
 - ii) an unfavourable timing variance of \$6.9 million of Leaf Purchases that was forecast to be made in the second half of 2019 was purchased during the period;
 - iii) a favourable timing variance of \$17.5 million in post-filing intercompany payments as payments have been retimed to be paid in the subsequent periods;
 - iv) a favourable variance of \$5.3 million in Other Receipts primarily as a result of higher than forecast reimbursement of certain costs from a PMI affiliate, and earlier than forecast receipt of interest with respect to the short-term investments held by the Applicant;

- v) a favourable timing variance of \$4.5 million in Third Party Operating Costs primarily as a result of retiming of certain supplier payments to subsequent periods; and
 - vi) a favourable timing variance of \$4.9 million in Restructuring Costs as certain professional fees will be settled later than originally forecast.
24. A summary of the Applicant's actual receipts and disbursements as compared to the projection set out in the Pre-filing Report for period ended March 20 to March 31, 2019, and First Report of the Monitor for the period ended April 1 to June 9, 2019, is attached as Appendix "A" to this Second Report.

UPDATED CASH FLOW FORECAST

25. The Applicant, with the assistance of the Monitor, has prepared a cash flow forecast (the "**June 2019 Cash Flow Forecast**") for the twenty-eight (28) week period from June 10, 2019 to December 22, 2019 (the "**Cash Flow Period**"). A copy of the June 2019 Cash Flow Forecast is attached as Appendix "**B**".
26. On June 10, 2019, the Applicant had available cash and equivalents of approximately \$1.826 billion.
27. The June 2019 Cash Flow Forecast estimates the Applicant will have total receipts of approximately \$1.8 billion and total disbursements of approximately \$1.4 billion for net cash flow of approximately \$415.2 million during the Cash Flow Period.
28. The Cash Flow Forecast has been prepared by the Applicant for the purpose of the CCAA Proceeding, using probable and hypothetical assumptions as set out below:
- i) Accounts receivable collections have been estimated by the Applicant's collection group based on revenue forecasts and customer collection experience;
 - ii) Pre-filing intercompany amounts owing are stayed;

- iii) Pre-filing amounts owing to third party suppliers and service providers will be paid in the ordinary course;
- iv) All post-filing goods and services from suppliers and service providers and all post-filing intercompany goods and services will be settled in the ordinary course;
- v) All outstanding and future wages, salaries, commissions, compensation, vacation pay, bonuses, incentive plan payments, employee and retiree pension and other benefits and related contributions and payments (including, without limitation, expenses related to employee and retiree medical, dental, disability, life insurance and similar benefit plans or arrangements, employee assistance programs and contributions to or any payments in respect of the Registered Pension Plans, the Non-Registered Pension Plans and the RRSP), reimbursement expenses, termination pay, salary continuance and severance pay, all of which is payable to or in respect of employees, independent contractors and other personnel, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements or with Monitor approval will be paid;
- vi) Restructuring Costs have been forecast based on anticipated run rates and includes an estimate of costs associated with the Court-Appointed Mediator. All outstanding fees and disbursements of Assistants retained or employed by the Applicant will be paid;
- vii) Any payment under or in respect of any Trade Program operated by the Applicant will be paid;
- viii) Post-filing expenses and capital expenditures necessary for the preservation of the Property or the business including, payments in respect of insurance (including directors' and officers' insurance), maintenance and security services, as well as certain capital expenditures to replace or supplement the Property or that are otherwise a benefit to the business, will be paid;
- ix) All statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province or other taxing authority that are required to be deducted from

employee wages including, in respect of employee insurance, Canada Pension Plan, Quebec Pension Plan and income taxes will be remitted;

- x) All pre-filing and post-filing Sales & Excise Taxes accrued or collected in connection with the sale of goods and services by the Applicant will be remitted; and
 - xi) Any payments in respect of the Quebec Class Actions and the Other Pending Litigation are stayed.
29. The Monitor understands the Applicant, with the consent of the Monitor, intends to continue paying in the ordinary course the pre-filing claims of third party trade creditors. The Applicant considers such payments to be necessary and desirable for the ongoing operations. The Monitor believes this course of action will preserve the Applicant's operations while it seeks to address the claims asserted against it in the Quebec Class Actions and Other Pending Litigation.
30. On April 24, 2019, Health Canada's *Tobacco Products Regulations (Plain and Standardized Appearance)* came into effect. It is the Monitor's understanding that these regulations mandate, amongst other things, the appearance of tobacco products, their packaging and the format of the packaging. RBH is currently assessing the impact of these regulations on its Business, including any necessary capital requirements to comply with these regulations.
31. The Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to Information supplied to it by the Company. Since the probable and hypothetical 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 Cash Flow Forecast. The Monitor also reviewed the support provided by the Company for the probable and hypothetical assumptions, and the preparation and presentation of the Cash Flow Forecast.
32. Based on the Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:

- i) the probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;
 - ii) as at the date of this Report, the probable and hypothetical assumptions developed by the Company are not suitably supported and consistent with the restructuring plans of the Applicant or do not provide a reasonable basis for the Cash Flow Forecast, given the probable and hypothetical assumptions; or
 - iii) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.
33. As described in the Terms of Reference above, the Cash Flow Forecast is based on assumptions regarding future events and actual results will vary from the information presented even if the hypothetical assumptions occur, and such variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of financial information presented in the Cash Flow Forecast, or relied upon by the Monitor in preparing this Report.
34. The Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

REQUEST FOR AN EXTENSION OF THE STAY PERIOD

35. The Stay Period is currently set to expire 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 continue to operate its business and to address in an orderly manner the claims against it, including the Global Damages Award and all Pending Litigation claims. These claims are complex and involve multiple parties that will require additional time to reach a global resolution and for the Applicant to prepare a CCAA plan of arrangement.
36. On June 21, 2019, the following materials were filed in opposition to the Applicant's motion to extend the Stay Period up to and including December 16, 2019:

- i) Responding Motion Record of the Quebec Plaintiffs' requesting among other things, that the Stay Period only be extended up to and including September 27, 2019 and that a court-to-court protocol be established to permit communications between the Honourable Justice McEwen and Justice Riordan; and
 - ii) a formal letter of notice of opposition on behalf of the provinces of Alberta and Newfoundland & Labrador; the Consortium Provinces and, the province of Quebec requesting that the Stay Period only be extended to the middle of October, 2019.
37. On June 24, 2019, the Canadian Cancer Society also filed a responding motion record in opposition to the Applicant's motion to extend the Stay Period up to and including December 16, 2019.
38. The Monitor recognizes that the objecting parties propose a shorter extension of the Stay Period. The Monitor observes that elements of the mediation process are underway. The continuation of the stay of proceedings contained in the Second Amended and Restated Initial Order and the extension of the Stay Period is required to allow the necessary time for the Court-Appointed Mediator's dispute resolution process to progress towards reaching a global resolution in respect of the Tobacco Claims.
39. The Monitor understands that the Applicant is considering the objecting parties' request for a shorter extension of the Stay Period.
40. As described above, the Applicant's Cash Flow Forecast projects the Applicant will have sufficient liquidity and generate positive cash flow during the Cash Flow Period.
41. It is the Monitor's view that the Applicant has acted in accordance with the Second Amended and Restated Initial Order and is working diligently and in good faith.

SUPPLEMENTARY RETIREMENT ALLOWANCE PLAN AND RCA TRUST AGREEMENT

42. As further described in the Luongo Affidavits, RBH is a sponsor of a number of Registered Pension Plans, including the Executive Pension Plan (defined below), as well as the SRAP, which is a non-registered supplementary plan. The Applicant established the SRAP on

January 1, 1990 to provide supplemental benefits to its executives and directors whose pensions payable under the Rothmans, Benson & Hedges Inc Pension Plan for Executives and Directors (the “Executive Pension Plan”) are limited by certain provisions of the Income Tax Act (Canada). The SRAP is open only to executives and directors of RBH who participate in the Executive Pension Plan. The Executive Pension Plan was closed to new members in 2015 and as such there have been no new members of the SRAP since that time.

43. Pursuant to the terms of the RCA Trust Agreement, RBH has been making contributions to the Retirement Compensation Plan Trust Fund (the “**RCA Trust Fund**”) held by the Royal Trust Corporation of Canada (the “**Trustee**”) to secure SRAP benefits for its plan members.
44. As of December 31, 2018, the SRAP had 69 members:
 - i) 42 retirees who are receiving supplementary pension benefit payments under the SRAP;
 - ii) 11 inactive employees who have been terminated and have deferred their supplementary pension benefit payments, and are not accruing any further benefits; and
 - iii) 16 active employees who are currently enrolled in the Executive Pension Plan and continue to accrue benefits under the SRAP.
45. The commuted value of each member’s benefits under the SRAP is maintained in each member’s individual account (the “**Member Accounts**”). Each year a Member’s Account is credited with funds such that the aggregate balance of an individual’s Member Account equals the “Target Value” of the Member, as determined pursuant to the provisions of the SRAP.
46. Any surplus assets in excess of those allocated to the Member Accounts are allocated to the “Company Account” maintained for RBH.

47. The most recent actuarial valuation of the SRAP dated March 28, 2019 (the “**2019 Actuarial Report**”) was prepared by Mercer (Canada) Limited (the “**Actuary**”). The Actuary, in the 2019 Actuarial Report, made the following conclusions in respect to the SRAP:
- i) as at December 31, 2018, the SRAP’s total assets of approximately \$47.4 million exceeded its accrued liabilities (including a provision for wind-up expenses) of \$43.9 million; and
 - ii) a projection to April 30, 2020, whereby the SRAP is projected to have total assets of approximately \$44.1 million exceeding its projected liabilities (including a provision for wind-up expenses) of \$42.7 million.
48. As result of the projection to April 30, 2020 that assets will exceed liabilities, the Actuary determined that, in accordance with the provisions of the SRAP, RBH is not required to make any funding contributions in 2019.
49. It was further determined, in accordance with the provisions of the SRAP, that RBH is permitted to withdraw up to approximately \$1.3 million as refundable surplus prior to December 31, 2019.

IMPACT OF CCAA PROCEEDINGS ON SRAP AND APPLICANT’S MOTION

50. The Monitor understands that, as a result of the commencement of this CCAA Proceeding, one or more “Financial Defaults” have occurred, with each such Financial Default being an “Event of Default” that is an “Unremedied Event of Default” for the purposes of the SRAP and the RCA Trust Agreement.
51. Upon the occurrence of an Unremedied Event of Default, as outlined in the Luongo June 2019 SRAP Affidavit, no further benefits accrue for active members and the Trustee and the Actuary are obligated to take a number of actions to liquidate the RCA Trust Fund and wind up the SRAP. These are undesirable consequences and would result in additional costs to RBH.

52. The SRAP is an integral part of the overall compensation for certain RBH's executives and directors. RBH does not want unintended and potentially negative financial and tax consequences to occur for itself or its former and active employees.
53. These adverse consequences are avoided if the defaults are or have been waived or suspended.
54. In order to waive an Event of Default under the SRAP, a signed waiver is required from each of the 69 members. Obtaining the requisite waivers would be a time consuming and uncertain process, utilizing Company resources.
55. The Second Amended and Restated Initial Order contains a broad stay of proceedings that suspends all rights and remedies of any person against or in respect of the Applicant or that affects the Business. It also provides that no person shall terminate or cease to perform any contract or agreement in favour of the Applicant.
56. The Applicant is seeking an order to clarify and confirm that all rights, remedies and obligations in respect of the SRAP and RCA continue to operate as usual notwithstanding the commencement of this CCAA Proceeding and that any rights, remedies or obligations under or in respect of the SRAP and RCA that arise directly or indirectly from the commencement of this CCAA Proceeding were stayed and suspended pursuant to the Second Amended and Restated Initial Order.
57. The proposed order also provides protection for the Trustee and Actuary for any actions that they may have taken on the basis that the commencement of this CCAA Proceeding was an Unremedied Event of Default under the SRAP and RCA.
58. The Applicant's initiation of this CCAA Proceeding was not intended to trigger a wind-up of the RCA and SRAP. As discussed in previous Monitor's Reports, the Applicant has advised stakeholders that this CCAA Proceeding is not a bankruptcy and instead provides for business to continue in the normal course, subject to the Second Amended and Restated Initial Order, for the benefit of all stakeholders. The continuation of the SRAP and RCA is consistent with this objective.

59. Accordingly, it is the Monitor's view that the relief requested by the Applicant is reasonable in the circumstances.

CONCLUSION AND RECOMMENDATION

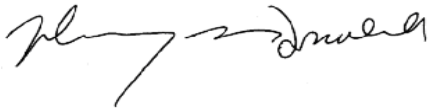
60. For the reasons outlined in this Second Report, the Monitor supports the relief sought by the Applicant in their motions and respectfully recommends that:

- i) this Court grant an order extending the Stay Period to permit the CCAA proceeding, including the Court-Appointed Mediator's dispute resolution process, to progress; and
- ii) this Court grant an order clarifying and confirming that all rights, remedies and obligations in respect of the SRAP and RCA continue to operate as usual notwithstanding the commencement of this CCAA Proceeding and that any rights, remedies or obligations under or in respect of the SRAP and RCA that arise directly or indirectly from the commencement of this CCAA Proceeding are stayed and suspended pursuant to the Second Amended and Restated Initial Order.

All of which is respectfully submitted this 24th day of June, 2019.

ERNST & YOUNG INC.
In its capacity as Monitor of
Rothmans, Benson & Hedges Inc.

Per:



Murray A. McDonald
President

Appendix “A”

Rothmans, Benson & Hedges Inc. - March 20, 2019 to June 9, 2019

CCAA Applicant

Forecast Cash Flow - Variances

CAD (Millions)

	Forecast	Actuals	Variances
Start of period	20-Mar-19	20-Mar-19	20-Mar-19
End of period	09-Jun-19	09-Jun-19	09-Jun-19

1 . Receipts & Disbursements

Receipts

Collection of Accounts Receivable	784.7	721.5	(63.2)
Other Receipts	9.5	14.8	5.3

Total Receipts

	794.2	736.3	(57.9)
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Disbursements

Payroll (Gross) and Benefits	23.9	23.7	0.2
Pension and PRB Contributions	3.8	3.3	0.5
Third Party Operating Costs	50.5	46.0	4.5
Leaf Purchases	8.4	15.3	(6.9)
Net Intercompany Disbursements	18.1	0.6	17.5
Capex	1.0	0.9	0.1
Corporate Income Taxes	60.3	60.4	(0.1)
Taxes (Excise / Duty / GST / PTT)	466.8	465.8	1.0
Restructuring Costs	7.5	2.6	4.9

Total Disbursements

	640.3	618.6	21.7
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Net Cash Flow

	153.9	117.7	(36.2)
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FX Impact	-	(0.1)	(0.1)
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Opening Available Cash Balance

	1,708.4	1,708.4	-
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Closing Available Cash Balance

	1,862.3	1,826.0	(36.3)
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Restricted Cash	31.1	31.1	-
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Quebec Security Deposit	226.0	226.0	-
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Total Cash + Restricted Cash

	2,119.4	2,083.1	(36.3)
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Appendix “B”

Rothmans, Benson & Hedges Inc.	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Forecast Cash Flow								
millions, CAD	10-Jun-19	17-Jun-19	24-Jun-19	1-Jul-19	8-Jul-19	15-Jul-19	22-Jul-19	29-Jul-19
	16-Jun-19	23-Jun-19	30-Jun-19	7-Jul-19	14-Jul-19	21-Jul-19	28-Jul-19	4-Aug-19
Receipts								
Collection of Accounts Receivable	65.6	63.8	71.4	57.6	72.6	72.6	72.0	71.8
Other Receipts	0.7	0.0	0.1	0.0	2.3	3.3	0.4	0.8
Total Receipts	66.3	63.8	71.5	57.6	74.9	75.9	72.4	72.6
Disbursements								
Payroll (Gross) and Benefits	(2.0)	(1.7)	(2.6)	(8.0)	(0.6)	(2.5)	(1.7)	(3.7)
Pension and PRB Contributions	-	(0.2)	(0.8)	(0.2)	(0.1)	(0.2)	(0.5)	(0.4)
Third Party Operating Costs	(5.6)	(5.5)	(8.1)	(6.2)	(5.4)	(4.8)	(2.4)	(4.2)
Leaf Purchases	(0.1)	-	(0.1)	-	-	-	-	-
Net Intercompany Disbursements	(2.6)	(10.7)	(9.6)	(1.5)	(0.2)	(10.3)	(0.2)	(0.1)
Capex	-	-	(0.8)	-	-	-	(0.6)	-
Corporate Income Taxes	-	-	-	(20.1)	-	-	-	(20.1)
Taxes (Excise / Duty / GST / PTT)	(19.6)	(23.9)	(8.7)	(125.8)	(18.3)	(20.7)	(5.0)	(117.0)
Restructuring Costs	(2.4)	(1.4)	(0.5)	(0.5)	(1.4)	(0.5)	(0.5)	(0.5)
Total Disbursements	(32.3)	(43.4)	(31.2)	(162.3)	(26.0)	(39.0)	(10.9)	(146.0)
Net Cash Flow	34.0	20.4	40.3	(104.7)	48.9	36.9	61.5	(73.4)
Opening Available Cash Balance	1,826.0	1,860.0	1,880.4	1,920.7	1,816.0	1,864.9	1,901.8	1,963.3
Closing Available Cash Balance	1,860.0	1,880.4	1,920.7	1,816.0	1,864.9	1,901.8	1,963.3	1,889.9
Restricted Cash	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1
Quebec Security Deposit	226.0	226.0	226.0	226.0	226.0	226.0	226.0	226.0
Total Available, Restricted Cash & Quebec Security Deposit	2,117.1	2,137.5	2,177.8	2,073.1	2,122.0	2,158.9	2,220.4	2,147.0

Rothmans, Benson & Hedges Inc.	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Forecast Cash Flow								
millions, CAD	5-Aug-19	12-Aug-19	19-Aug-19	26-Aug-19	2-Sep-19	9-Sep-19	16-Sep-19	23-Sep-19
	11-Aug-19	18-Aug-19	25-Aug-19	1-Sep-19	8-Sep-19	15-Sep-19	22-Sep-19	29-Sep-19
Receipts								
Collection of Accounts Receivable	71.3	71.3	70.3	64.3	55.0	68.7	68.7	68.7
Other Receipts	0.0	0.0	0.3	2.6	0.8	0.6	0.6	0.6
Total Receipts	71.3	71.3	70.6	66.9	55.8	69.3	69.3	69.3
Disbursements								
Payroll (Gross) and Benefits	(0.6)	(2.1)	(1.5)	(2.6)	(1.8)	(1.9)	(1.5)	(1.2)
Pension and PRB Contributions	-	(0.1)	(0.2)	(0.7)	(0.2)	(0.1)	(0.2)	(0.7)
Third Party Operating Costs	(5.8)	(4.2)	(5.6)	(3.7)	(4.3)	(3.9)	(5.7)	(3.5)
Leaf Purchases	(0.7)	(0.6)	(0.7)	(0.7)	-	-	-	-
Net Intercompany Disbursements	(7.6)	(3.3)	(1.2)	(0.4)	(0.3)	(10.8)	(0.8)	(1.1)
Capex	-	-	-	(0.8)	-	-	-	(0.6)
Corporate Income Taxes	-	-	-	-	(20.1)	-	-	-
Taxes (Excise / Duty / GST / PTT)	(21.1)	(17.5)	(6.4)	(7.4)	(115.4)	(20.4)	(23.0)	(7.2)
Restructuring Costs	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total Disbursements	(36.3)	(28.3)	(16.1)	(16.8)	(142.6)	(37.6)	(31.7)	(14.8)
Net Cash Flow	35.0	43.0	54.5	50.1	(86.8)	31.7	37.6	54.5
Opening Available Cash Balance	1,889.9	1,924.9	1,967.9	2,022.4	2,072.5	1,985.7	2,017.4	2,055.0
Closing Available Cash Balance	1,924.9	1,967.9	2,022.4	2,072.5	1,985.7	2,017.4	2,055.0	2,109.5
Restricted Cash	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1
Quebec Security Deposit	226.0	226.0	226.0	226.0	226.0	226.0	226.0	226.0
Total Available, Restricted Cash & Quebec Security Deposit	2,182.0	2,225.0	2,279.5	2,329.6	2,242.8	2,274.5	2,312.1	2,366.6

Rothmans, Benson & Hedges Inc.	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Forecast Cash Flow								
millions, CAD	30-Sep-19	7-Oct-19	14-Oct-19	21-Oct-19	28-Oct-19	4-Nov-19	11-Nov-19	18-Nov-19
	6-Oct-19	13-Oct-19	20-Oct-19	27-Oct-19	3-Nov-19	10-Nov-19	17-Nov-19	24-Nov-19
Receipts								
Collection of Accounts Receivable	65.8	65.0	52.0	65.0	63.9	59.4	47.5	59.4
Other Receipts	0.9	1.7	0.9	3.6	0.0	0.9	0.9	0.9
Total Receipts	66.7	66.7	52.9	68.6	63.9	60.3	48.4	60.3
Disbursements								
Payroll (Gross) and Benefits	(2.9)	(0.6)	(2.3)	(2.4)	(1.7)	(1.6)	(2.7)	(0.6)
Pension and PRB Contributions	(0.2)	(0.1)	-	(0.2)	(0.7)	(0.2)	(0.1)	(0.2)
Third Party Operating Costs	(4.7)	(2.9)	(2.9)	(1.6)	(1.1)	(4.7)	(4.3)	(4.4)
Leaf Purchases	-	-	-	-	-	-	-	-
Net Intercompany Disbursements	(0.2)	(0.2)	(10.6)	(0.7)	(0.2)	(7.6)	(3.0)	(0.2)
Capex	-	(1.7)	(1.7)	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)
Corporate Income Taxes	(20.1)	-	-	-	(20.1)	-	-	-
Taxes (Excise / Duty / GST / PTT)	(100.9)	(18.5)	(15.3)	(10.6)	(97.5)	(19.2)	(16.1)	(5.8)
Restructuring Costs	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total Disbursements	(129.5)	(24.5)	(33.3)	(17.7)	(123.5)	(35.4)	(28.3)	(13.3)
Net Cash Flow	(62.8)	42.2	19.6	50.9	(59.6)	24.9	20.1	47.0
Opening Available Cash Balance	2,109.5	2,046.7	2,088.9	2,108.5	2,159.4	2,099.8	2,124.7	2,144.8
Closing Available Cash Balance	2,046.7	2,088.9	2,108.5	2,159.4	2,099.8	2,124.7	2,144.8	2,191.8
Restricted Cash	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1
Quebec Security Deposit	226.0	226.0	226.0	226.0	226.0	226.0	226.0	226.0
Total Available, Restricted Cash & Quebec Security Deposit	2,303.8	2,346.0	2,365.6	2,416.5	2,356.9	2,381.8	2,401.9	2,448.9

Rothmans, Benson & Hedges Inc.	Forecast	Forecast	Forecast	Forecast	Forecast
Forecast Cash Flow					
millions, CAD	25-Nov-19 1-Dec-19	2-Dec-19 8-Dec-19	9-Dec-19 15-Dec-19	16-Dec-19 22-Dec-19	10-Jun-19 22-Dec-19
Receipts					
Collection of Accounts Receivable	59.4	62.9	62.9	62.9	1,811.8
Other Receipts	0.9	0.9	0.9	0.9	26.5
Total Receipts	60.3	63.8	63.8	63.8	1,838.3
Disbursements					
Payroll (Gross) and Benefits	(3.8)	(1.8)	(2.7)	(1.7)	(60.8)
Pension and PRB Contributions	(0.7)	(0.2)	(0.1)	(0.3)	(7.6)
Third Party Operating Costs	(4.2)	(3.7)	(5.0)	(5.7)	(124.1)
Leaf Purchases	-	-	-	-	(2.9)
Net Intercompany Disbursements	(0.9)	(0.2)	(11.4)	(1.4)	(97.3)
Capex	(1.6)	(0.6)	(0.6)	(0.6)	(17.8)
Corporate Income Taxes	-	(20.1)	-	-	(120.6)
Taxes (Excise / Duty / GST / PTT)	(6.8)	(94.3)	(16.0)	(15.9)	(974.3)
Restructuring Costs	(0.5)	(0.5)	(0.5)	(0.5)	(17.7)
Total Disbursements	(18.5)	(121.4)	(36.3)	(26.1)	(1,423.1)
Net Cash Flow	41.8	(57.6)	27.5	37.7	415.2
Opening Available Cash Balance	2,191.8	2,233.6	2,176.0	2,203.5	1,826.0
Closing Available Cash Balance	2,233.6	2,176.0	2,203.5	2,241.2	2,241.2
Restricted Cash	31.1	31.1	31.1	31.1	31.1
Quebec Security Deposit	226.0	226.0	226.0	226.0	226.0
Total Available, Restricted Cash & Quebec Security Deposit	2,490.7	2,433.1	2,460.6	2,498.3	2,498.3



June 20, 2019

Ernst & Young Inc.
100 Adelaide Street P.O. Box 1
Toronto, Ontario
M5H 0B3
Attention: Murray McDonald

Dear Sirs

**Re: Proceedings under the *Companies' Creditors Arrangement Act* ("CCAA")
And a Plan of Compromise or Arrangement in the Matter of Rothmans, Benson & Hedges
Inc. (the "Applicant")**

**Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections of
the Applicants**

In connection with the application by the Applicant for the commencement of proceedings under the CCAA in respect of the Applicant, the management of the Applicant ("**Management**") has prepared the attached Cash-Flow Statement and the assumptions on which the Cash-Flow Statement is based.

The Applicant confirms that:

1. the Cash-Flow Statement and the underlying assumptions are the responsibility of the Applicant;
2. all material information relevant to the Cash-Flow Statement and to the underlying assumptions has been made available to Ernst & Young Inc. in its capacity as Monitor; and
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; and
 - b. That the assumptions underlying the Cash-Flow Statement, taken as a whole, are appropriate in the circumstances.
 - c. That all relevant assumptions have been properly presented in the Cash-Flow Statement or in the notes accompanying the Cash-Flow Statement.
4. Management understands and agrees that the determination of what constitutes a material adverse change in the projected cash flow or financial circumstances, for the purposes of our monitoring the on-going activities of the Debtor, is ultimately at your sole discretion, notwithstanding that Management may disagree with such determination.



Rothmans, Benson & Hedges Inc.

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1-800-861-1111

5. Management understands its duties and obligations under the CCAA and that a breach of these duties and obligations could make the Applicant's Management liable to fines and imprisonment in certain circumstances.
6. The cash-flow statement and assumptions have been reviewed and approved by the Applicant's board of directors or Management has been duly authorized by the Applicant's board of directors to prepare and approve the cash-flow assumptions.

Yours Truly, ¹

Name: William Giff
Title: Director of Finance

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 ROTHMANS, BENSON & HEDGES INC.

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

PROCEEDING COMMENCED AT TORONTO

SECOND REPORT OF ERNST & YOUNG INC.

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