

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

SIXTEENTH REPORT OF THE MONITOR
SEPTEMBER 27, 2024

INTRODUCTION

1. On March 22, 2019 (the “**Filing Date**”), Rothmans, Benson & Hedges Inc. (“**RBH**”, the “**Company**” or the “**Applicant**”) applied for and obtained an initial order (the “**Initial Order**”) under the *Companies' Creditors Arrangement 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 in relation to certain proceedings, and (ii) appointed EYI as Monitor of the Applicant in this CCAA proceeding (the “**CCAA Proceeding**”).
2. On April 25, 2019, this Court issued a further amended and restated Initial Order (the “**Second Amended and Restated Initial Order**”) that, amongst other things, extended a limited stay of proceedings to the Other Defendants.
3. Pursuant to an Order dated March 25, 2024, the Stay Period was extended to September 30, 2024.

PURPOSE

4. The purpose of this sixteenth report of the Monitor (the “**Sixteenth 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 4, 2024 to September 8, 2024 (the “**Reporting Period**”);
- iii) the Applicant’s updated cash flow forecast for the period from September 9, 2024 to November 3, 2024; and
- iv) the Applicant’s request for an order that the stay of proceedings be extended up to and including March 31, 2025.

TERMS OF REFERENCE

- 5. In preparing this Sixteenth 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 Affidavits (as defined below), and discussions with RBH management (collectively, the “**Information**”). Except as described in this Sixteenth 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 Auditing Standards (“**GAAS**”) pursuant to the Chartered Professional Accountants of 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 Sixteenth Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants of Canada Handbook, has not been performed.
- 6. Future oriented financial information referred to in this Sixteenth 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.

7. Unless otherwise indicated, the Monitor’s understanding of factual matters expressed in this Sixteenth Report concerning the Applicant and its business is based on the Information, and not independent factual determinations made by the Monitor.
8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
9. Capitalized terms used but not defined in this Sixteenth Report are defined in the affidavit of Milena Trentadue sworn September 18, 2024 (the “**Trentadue Affidavit**”) in connection with the stay extension request, as well as the prior affidavits of Mindaugas Trumpaitis and Peter Luongo filed in the CCAA Proceedings (collectively, the “**Affidavits**”), the Monitor’s prior reports (together, the “**Monitor’s Reports**”) and the Second Amended and Restated Initial Order.
10. Copies of the Monitor’s Reports, including a copy of this Sixteenth Report, and all motion records and Orders in the CCAA Proceeding 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

11. 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 and Vaping Products** – the Applicant sells and distributes IQOS and vaping products to consumers via 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. In November 2023, RBH launched a new heated tobacco product, IQOS

ILUMA offering advanced features and technology. The Applicant imports reduced risk products from Europe and Asia for the Canadian duty-paid market.

12. The Applicant provides employment or consultant work to approximately 645 employees and 57 contractors in Canada.¹

STATUS OF THE CCAA PROCEEDING

Update on Mediation

13. The Tobacco Applicants have continued to populate separate data rooms with financial information to continue advancing mediation discussions with key stakeholders. Stakeholder advisors have been admitted to the data rooms after execution of non-disclosure agreements. The Monitor continues to work with the Applicant to update the Applicant's data room with financial and other information, as requested.
14. Since the Fifteenth Report, the Court-Appointed Mediator, with the assistance of the Tobacco Monitors, continues to conduct mediation meetings, facilitate the exchange of information, and engage in discussions with the Tobacco Applicants and key stakeholders. While the mediation negotiations are confidential, significant progress has been made during this time.

Operational Update

15. Since the granting of the Initial Order, the Applicant, with the assistance of the Monitor, has been operating on a business-as-usual basis, subject to the Second Amended and Restated Initial Order, and continues to operate its cash flow positive Business for the benefit of all stakeholders.
16. The Applicant, with the assistance of the Monitor, has responded to suppliers regarding the CCAA Proceeding as needed.

¹ As of August 31, 2024

17. Pursuant to the Professional Fees Disclosure Order dated May 16, 2019, the Monitor continues to disclose, through its counsel, the Monitor's and its counsel's professional fees and disbursements and the Applicant's counsel's professional fees and disbursements to the requesting parties.

ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE PERIOD MARCH 4, 2024 TO SEPTEMBER 8, 2024

18. For the Reporting Period, RBH had total receipts of approximately \$1,597.3 million and total disbursements of approximately \$1,236.3 million for net cash flow of approximately \$361.0 million.
19. Actual net cash flow was unfavourable to forecast by approximately \$76.5 million. Significant items contributing to this overall unfavourable variance were as follows:
 - i) a favourable permanent variance of approximately \$42.3 million in Collection of Accounts Receivable primarily as a result of higher than forecast tax collections of approximately \$66 million, partially offset by lower than expected sales during Reporting Period;
 - ii) a favourable difference in Other Receipts of approximately \$1 million primarily related to:
 - a) a favourable permanent variance of approximately \$9 million related to higher than forecast interest rates; partially offset by
 - b) an unfavourable timing variance of approximately \$8 million related to intercompany risk reduced product reimbursements expected to be received later than originally forecast;
 - iii) an unfavourable variance of approximately \$17.7 million in Net Intercompany Disbursements primarily due to the following variances:
 - a) an unfavourable timing difference of \$14 million primarily related to higher than forecast purchases of finished goods and leaf;

- b) an unfavourable timing difference of approximately \$7 million primarily relating to payment of intercompany shared service fees; partially offset by
 - c) a favourable timing difference of approximately \$2 million related to the purchase of risk reduced products.
- iv) an unfavourable variance of approximately \$88.0 million in Taxes (Excise/Duty/GST/PTT) primarily due to the following variances:
- a) an unfavourable permanent variance of approximately \$58.0 million related to higher than forecast disbursements for customs duties relating to the purchase and import of finished goods from Mexico;
 - b) an unfavourable permanent variance of approximately \$29.0 million related to higher than forecast federal excise duties related to increases in federal excise tax rates that resulted in additional taxes and duties being paid in respect of tax paid inventory on hand;
 - c) an unfavourable permanent variance of approximately \$27.0 million related to increases to the federal excise tax rate;
 - d) an unfavourable permanent variance of approximately \$4.0 million related to higher than forecast VAT; partially offset by
 - e) a favourable permanent variance of approximately \$19.0 million of excise taxes primarily as a result of lower than forecast combustible cigarette production in Canada;
 - f) a favourable permanent variance of approximately \$10.0 million related to the recovery of federal excise taxes due to the return of certain products following the implementation of plain packaging regulations; and
- v) an unfavourable timing variance of approximately \$18.4 million in Third Party Operating Costs due to the timing of payment for certain operating expense payments and purchase of third-party cigarillos.

20. A summary of the Applicant's actual receipts and disbursements as compared to the projection set out in the Fifteenth Report for the Reporting Period, is attached hereto as Appendix "A".

UPDATED CASH FLOW FORECAST

21. The Applicant, with the assistance of the Monitor, has prepared a cash flow forecast (the "**September 2024 Cash Flow Forecast**") for the eight (8) week period from September 9, 2024 to November 3, 2024 (the "**Cash Flow Period**"). A copy of the September 2024 Cash Flow Forecast is attached hereto as Appendix "**B**".
22. As at September 8, 2024, the Applicant had available cash and equivalents of approximately \$5.48 billion.
23. The September 2024 Cash Flow Forecast estimates the Applicant will have total receipts of approximately \$441.9 million and total disbursements of approximately \$328.5 million for net cash flow of approximately \$113.4 million during the Cash Flow Period.
24. The September 2024 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 based on revenue forecasts and historical customer collection;
 - ii) Pre-filing intercompany amounts owing are stayed;
 - iii) 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;
 - iv) 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;

- v) Restructuring Costs have been forecast based on anticipated run rates and includes an estimate of costs associated with the Court-Appointed Mediator and Representative Counsel. All outstanding fees and disbursements of the Assistants retained or employed by the Applicant will be paid;
- vi) Any payment under or in respect of any Trade Program operated by the Applicant will be paid;
- vii) 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;
- viii) 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;
- ix) Corporate income tax installments and payments are made in normal course;
- 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;
- xi) Any payments in respect of the Quebec Class Actions and the Other Pending Litigation (which includes an action brought by the Ontario Flue-Cured Tobacco Growers' Marketing Board) are stayed;

- xii) The ongoing sourcing of a portion of finished goods from RBH's Mexico affiliate have been included in the September 2024 Cash Flow Forecast; and
 - xiii) Certain amounts that have been re-timed from the Reporting Period and are now forecast to be disbursed during the Cash Flow Period.
25. The Monitor's review of the September 2024 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 September 2024 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 September 2024 Cash Flow Forecast.
26. 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 September 2024 Cash Flow Forecast;
 - ii) as at the date of this Sixteenth 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 September 2024 Cash Flow Forecast, given the probable and hypothetical assumptions; or
 - iii) the September 2024 Cash Flow Forecast does not reflect the probable and hypothetical assumptions.
27. As described in the Terms of Reference above, the September 2024 Cash Flow Forecast is based on assumptions regarding future events and actual results will vary from the information presented even if the probable and hypothetical assumptions occur, and such variations may be material. Accordingly, the Monitor expresses no assurance as to whether the September 2024 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 September 2024 Cash Flow Forecast or relied upon by the Monitor in preparing this Sixteenth Report.

28. The September 2024 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

29. The Stay Period is currently set to expire on September 30, 2024. The Applicant is seeking the extension of the Stay Period up to and including March 31, 2025. After discussions, the Monitor, the Applicant and other stakeholders have agreed to extend the Stay Period until October 31, 2024. The Applicant's motion to extend the Stay Period to March 31, 2025 will be adjourned to October 31, 2024.
30. In the Monitor's view, significant progress has been made since the last Stay Period extension hearing on March 25, 2024. The Applicant has actively participated in mediation meetings and exchanged written materials and information from time to time in connection with the mediation as directed by the Mediator. The Applicant has continued to provide the Tobacco Monitors with access to Management and information to populate its data room to advance mediated discussions with key stakeholders. The Applicant has responded to stakeholder questions and requests for additional information.
31. 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. As described above, the Applicant's September 2024 Cash Flow Forecast projects that the Applicant will have sufficient liquidity and generate positive cash flow during the Cash Flow Period. Accordingly, the Monitor recommends an extension of the Stay Period until October 31, 2024.

CONCLUSION AND RECOMMENDATION

32. For the reasons outlined in this Sixteenth Report, the Monitor supports extending the Stay Period for a period of up to and including October 31, 2024.

All of which is respectfully submitted this 27th day of September, 2024.

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

Per:

A handwritten signature in black ink, appearing to be 'MK', written in a cursive style.

Matt Kaplan
Senior Vice President

APPENDIX A

Rothmans, Benson & Hedges Inc. - March 4, 2024 to September 8, 2024

Forecast Cash Flow - Variances

CAD (Millions)

	Forecast	Actuals	Variances
Start of period	04-Mar-24	04-Mar-24	04-Mar-24
End of period	08-Sep-24	08-Sep-24	08-Sep-24

1 . Receipts & Disbursements

Receipts

Collection of Accounts Receivable	1,395.5	1,437.8	42.3
Other Receipts	159.0	159.5	0.5

Total Receipts

1,554.5	1,597.3	42.8
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Disbursements

Payroll (Gross) and Benefits	59.6	60.6	(1.0)
Pension and PRB Contributions	3.9	3.3	0.6
Third Party Operating Costs	100.6	119.0	(18.4)
Leaf Purchases	6.5	6.2	0.3
Net Intercompany Disbursements	84.7	102.4	(17.7)
Capex	1.4	0.7	0.7
Corporate Income Taxes	127.2	125.0	2.2
Taxes (Excise / Duty / GST / PTT)	726.9	814.9	(88.0)
Restructuring Costs	6.2	4.2	2.0

Total Disbursements

1,117.0	1,236.3	(119.3)
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Net Cash Flow

437.5	361.0	(76.5)
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Opening Available Cash Balance

5,119.4	5,119.4	-
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Closing Available Cash Balance

5,556.9	5,480.4	(76.5)
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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

5,814.0	5,737.5	(76.5)
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APPENDIX B

Rothmans, Benson & Hedges Inc.	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Forecast Cash Flow						
CAD (Millions)	9-Sep-24	16-Sep-24	23-Sep-24	30-Sep-24	7-Oct-24	14-Oct-24
	15-Sep-24	22-Sep-24	29-Sep-24	6-Oct-24	13-Oct-24	20-Oct-24
Receipts						
Collection of Accounts Receivable	39.2	56.5	71.2	38.9	48.6	38.9
Other Receipts	0.0	10.7	0.0	2.7	0.0	32.2
Total Receipts	39.2	67.2	71.2	41.6	48.6	71.1
Disbursements						
Payroll (Gross) and Benefits	(2.1)	(1.1)	(2.3)	(1.5)	(0.4)	(2.9)
Pension and PRB Contributions	-	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)
Third Party Operating Costs	(5.6)	(3.8)	(2.7)	(2.9)	(3.6)	(2.9)
Leaf Purchases	-	-	-	-	-	-
Net Intercompany Disbursements	(2.1)	(1.3)	(4.3)	(0.7)	(7.0)	(1.9)
Capex	-	(0.1)	(0.1)	-	-	-
Corporate Income Taxes	-	-	-	(19.6)	-	-
Taxes (Excise / Duty / GST / PTT)	(7.2)	(7.8)	(6.0)	(79.9)	-	(7.3)
Restructuring Costs	(1.5)	(0.3)	(0.5)	(0.4)	(0.4)	(0.4)
Total Disbursements	(18.5)	(14.5)	(16.2)	(105.1)	(11.5)	(15.5)
Net Cash Flow	20.7	52.7	55.0	(63.5)	37.1	55.6
Opening Available Cash Balance	5,480.4	5,501.1	5,553.8	5,608.8	5,545.3	5,582.4
Closing Available Cash Balance	5,501.1	5,553.8	5,608.8	5,545.3	5,582.4	5,638.0
Restricted Cash	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
Total Available, Restricted Cash & Quebec Security Deposits	5,758.2	5,810.9	5,865.9	5,802.4	5,839.5	5,895.1

Rothmans, Benson & Hedges Inc.	Forecast	Forecast	Total
Forecast Cash Flow			
CAD (Millions)	21-Oct-24	28-Oct-24	9-Sep-24
	27-Oct-24	3-Nov-24	3-Nov-24
Receipts			
Collection of Accounts Receivable	48.6	50.8	392.7
Other Receipts	3.4	0.2	49.2
Total Receipts	52.0	51.0	441.9
Disbursements			
Payroll (Gross) and Benefits	(1.1)	(2.3)	(13.7)
Pension and PRB Contributions	(0.1)	(0.3)	(1.1)
Third Party Operating Costs	(3.6)	(2.9)	(28.0)
Leaf Purchases	-	-	-
Net Intercompany Disbursements	(1.2)	(1.1)	(19.6)
Capex	-	-	(0.2)
Corporate Income Taxes	-	(19.6)	(39.2)
Taxes (Excise / Duty / GST / PTT)	(6.8)	(107.4)	(222.4)
Restructuring Costs	(0.4)	(0.4)	(4.3)
Total Disbursements	(13.2)	(134.0)	(328.5)
Net Cash Flow	38.8	(83.0)	113.4
Opening Available Cash Balance	5,638.0	5,676.8	5,480.4
Closing Available Cash Balance	5,676.8	5,593.8	5,593.8
Restricted Cash	31.1	31.1	31.1
Quebec Security Deposit	226.0	226.0	226.0
Total Available, Restricted Cash & Quebec Security Depos	5,933.9	5,850.9	5,850.9

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED
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SIXTEENTH REPORT OF ERNST & YOUNG INC.

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