

CANADA
DISTRICT OF QUÉBEC
DIVISION NO.: 01-MONTRÉAL
COURT NO.: 500-11-056550-193
OFFICE NO.: 139398-011
IN THE MATTER OF THE PLAN OF
ARRANGEMENT OR COMPROMISE OF:

SUPERIOR COURT
Commercial Division
(*Companies' Creditors Arrangement Act*,
R.S.C., c. C-36, as amended)

NORTH AMERICAN LITHIUM INC.,
Legal person incorporated under the laws of Québec, having
its head office at 2400-1010 Sherbrooke Street West, in the
city of Montreal, in the province of Québec, H4T 1S3.

Hereinafter referred to as "NAL"

-and-

RAYMOND CHABOT INC.,
Benoit Fontaine, CPA, CA, CIRP, LIT

Hereinafter referred to as the "Monitor"

**FIFTH REPORT TO THE COURT SUBMITTED BY THE
MONITOR ON NAL'S BUSINESS AND FINANCIAL AFFAIRS**

PREAMBLE

To one of the Honourable judges of the Superior Court, sitting in commercial division, in and for the judicial district of Montreal, we respectfully submit our fifth report on NAL's business and financial affairs as part of the filing of a request for an order to extend the stay period and request additional interim financing.

Signed in Montreal, on January 28, 2020

RAYMOND CHABOT INC.
Monitor



Benoit Fontaine, CPA, CA, CIRP, LIT

1. INTRODUCTION

- 1.1 On May 28, 2019, an Initial Order under the *Companies' Creditors Arrangement Act* (hereinafter, "CCAA") was granted at the request of NAL. Since, the stay period was extended three times.
- 1.2 The previous extension was obtained on September 12, 2019, extending the stay period until January 31, 2020, authorizing a Sale and Investor Solicitation Process and authorizing \$6 million Interim Financing.
- 1.3 Given the reports already issued by the Monitor, this fifth report discusses:
 - Section 2: Steps undertaken since the September 12, 2019 order;
 - Section 3: Sale and Investor Solicitation Process ("SISP");
 - Section 4: Changes in cash position;
 - Section 5: Cash flow projections;
 - Section 6: Additional Interim financing;
 - Section 7: Extension sought and recommendations.
- 1.4 This report should be read in conjunction with our previous reports.

2. STEPS UNDERTAKEN SINCE THE SEPTEMBER 12, 2019 ORDER

2.1 NAL

- 2.1.1 Care and maintenance, i.e. maintenance and repair work for production equipment as well as for the plant, to preserve its value;
- 2.1.2 Continuity of certain contracts promoting the resumption of operations. In particular, minor drilling activities were maintained;
- 2.1.3 Compliance with environmental requirements;
- 2.1.4 Meetings and discussions with creditors and suppliers;
- 2.1.5 Actively participated in the SISP:
 - Gathering information and documentation to be uploaded in the Monitor's virtual data room;
 - Meetings, discussions and site visits with potential investors;
- 2.1.6 Weekly reporting on cash-flow, i.e. changes in cash position.

2.2 Monitor:

- 2.2.1 Had discussions with NAL, Investissement Québec ("IQ"), Jien International Investment Ltd. ("JIIL") and Contemporary Amperex Technology Co. Limited ("CATL") representatives and legal counsel regarding the SISP, changes in cash position, cash-flow projections, interim financing draws, additional interim financing, etc.;
- 2.2.2 Obtained information produced by NAL related to operations and cash flow;
- 2.2.3 Assisted NAL with the preparation of its cash flow projections;

2.2.4 Implemented the SISP, which included, among others, the following steps:

For the period from September 16 to October 7, 2019, preparation of the following documents:

- A listing of prospective purchasers and investors ("Prospective Bidders") in collaboration with shareholders and secured creditors;
- A Teaser Letter summarizing the potential acquisition / investment opportunity;
- A data room;
- A Confidentiality Agreement and a Written Acknowledgement (confirming receipt of the SISP approval Order and of the SISP Procedures);
- A Template Purchase Agreement (to be used by Prospective Bidders);
- A process letter summarizing the SISP.

For the period from October 14, 2019 to this date:

- Solicitation among the Prospective Bidders (138 Teaser Letters were distributed to strategic and financial Prospective Bidders);
- Qualification of Prospective Bidders. i.e. Review of information/requirements to be qualified as a qualified bidder;
- Assisting Qualified Bidders with their due diligence. i.e. answering questions and providing additional information;
- Meetings, discussions and site visits with potential investors.

3. SALE AND INVESTOR SOLICITATION PROCESS ("SISP")

- 3.1 As mentioned in section 2 of this report, the SISP is currently being carried out by the Monitor, with the assistance of NAL's management, employees and legal advisers.
- 3.2 The Bid Deadline was set to January 21, 2020 at no later than 5:00 pm.
- 3.3 However, on January 9, 2020, following discussions with various Prospective Bidders, IQ requested from the Monitor that the Bid Deadline be extended to February 21, 2020.
- 3.4 The Monitor advised IQ that additional interim financing of circa \$1 million would be required if an extension of the Bid Deadline was granted.
- 3.5 The Monitor also informed CATL and JIIL of IQ's request. CATL agreed with the extension and JIIL did not object.
- 3.6 Following the above, IQ advised the Monitor it would increase its Interim Financing facility by an amount of \$1 million to support NAL's additional cash-flow requirements due to the Bid Deadline extension.
- 3.7 In a view to maximize the chances of success of the SISP, on January 15, 2020, the Monitor, in accordance with subsections 1.5, 7.1 and 9.8 of the court approved Procedures of the SISP, extended the Bid Deadline (as defined in the SISP Procedures) from January 21, 2020 to **February 21, 2020, at no later than 2:00 p.m.**

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Report of the Monitor on NAL's business and financial affairs

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- 3.8 The outstanding components of the SISP, for the period from January 31 to March 13, 2020, comprise:
- 3.8.1 Continuation of due diligence process by Qualified Bidders;
 - 3.8.2 Submission of Qualified Bids;
 - 3.8.3 Assessment of Qualified Bids by the Monitor;
 - 3.8.4 Auction, if deemed necessary or advisable by the Monitor;
 - 3.8.5 Review of restructuring options, including a draft plan of compromise based on the bids submitted;
 - 3.8.6 Preparation and hearing before the court of a motion to move forward in accordance with the SISP and the results in respect thereof. Potential successful bids would be submitted before the court by the Monitor for assessment.

4. CHANGES IN CASH POSITION

- 4.1 In accordance with the CCAA, we monitored the business and financial affairs of NAL and obtained all the necessary collaboration.
- 4.2 The table below shows a comparison of actual and projected changes in cash position for the 20-week period ended January 18, 2020. The reader should refer to our previous reports for a comparison of the actual and projected changes in cash position for the 14-week period ended August 31, 2019.

North American Lithium Inc.

Actual vs forecast - 20-Week period ended January 18, 2020

(Unaudited)

(In thousands of \$)	20-Week period ended January 18, 2020			14-Week period ended
	Actual	Forecast	Variance	August 31, 2019
Receipts				
Accounts receivable	-	-	-	7
Interim Financing	4 500	4 500	-	-
Insurance premium reimbursements	398	465	(67)	-
GST/QST reimbursement	-	-	-	655
QST reimbursement	-	-	-	894
	4 898	4 965	(67)	1 556
Disbursements				
Salaries and social benefits	1 772	2 031	259	3 103
Utilities	255	520	265	322
Insurance	1 434	1 253	(181)	535
Drilling and excavation costs	185	258	73	615
Maintenance, gas and other operation costs	936	432	(504)	957
Legal and monitor fees	441	833	392	91
	5 024	5 327	302	5 623
Increase (decrease) of cash	(126)	(362)	235	(4 067)
Cash (beginning)	1 324	1 324	-	5 391
Cash (end)	1 198	963	235	1 324
Less: GIC	(209)	(793)	584	(793)
Available cash	989	170	819	531

4.3 Main variances can be explained as follows:

- 4.3.1 Salaries and Benefits: Labor costs were lower than budgeted due to resignation of employees, lower group insurance costs and a timing variance, i.e. Deduction at source paid on a monthly basis;
- 4.3.2 Utilities: lower energy requirements. The usage of propane for winterization purposes reduced electricity cost;
- 4.3.3 Insurance: actual insurance premiums were higher than budgeted;
- 4.3.4 Maintenance, gas and other operation costs: Unbudgeted operation costs such as clean-up and maintenance, snow removal, water treatment, plant process optimization, plant winterization, IT related expenses, CATL management fees, etc.;
- 4.3.5 Legal and monitor fees: Professional fees were lower than budgeted, however as at January 18, 2020, there is unpaid invoices and work in progress not billed yet;
- 4.3.6 GIC: On September 9th, via letter, the Ministère des Transport du Québec confirmed the release of an amount of \$584,000 that was pledged for roadwork around NAL's mining site. This amount was received by NAL during the week ended October 12, 2019.

5. CASH FLOW PROJECTIONS

- 5.1 NAL prepared a weekly cash flow for the 13-week period ending on April 18, 2020 (see Appendix I).
- 5.2 These projections were prepared based on assumptions reflecting the general direction that NAL management shall be taking given the financial and economic conditions which, in the opinion of management, are most likely to occur.

Our compilation was limited to presenting, in the form of a projected cash flow statement, information provided by management and evaluating the support for the assumptions or other information underlying the projections.

Given that these projections are based on assumptions regarding future events, actual results will vary from the information presented and the variances may be material.

- 5.3 The projections consider the plant shutdown and are based on specific assumptions:
 - 5.3.1 Interim financing: Based on cash-flow requirements and total current availability of the interim financing;
 - 5.3.2 Salaries and social benefits: Based on 30 full-time employees to ensure maintenance of facilities;
 - 5.3.3 Property and other insurance: As per insurance policy;
 - 5.3.4 Maintenance and other operations costs: Includes clean-up and maintenance, snow removal, water treatment, plant process optimization, plant winterization, IT related expenses, CATL management fees, etc.;
 - 5.3.5 Professional fees: Include amounts payable as at January 18, 2020 and going forward;
 - 5.3.6 No capital or interest payments on IQ's/CATL's loans and interim financing.

- 5.4 The Interim Financing of \$6 million authorized by the court on September 16, 2019 is sufficient to cover fees and expenses until the end of the additional stay period requested in this report, i.e. March 13, 2020.
- 5.5 However, forecasted cash deficit for the period from March 16 to April 18, 2020, is \$668,000. Therefore, additional funding is required beyond the requested stay period to allow the continuation of NAL's restructuring process.

6. ADDITIONAL INTERIM FINANCING

- 6.1 As mentioned in section 3 of this report, IQ requested from the Monitor that the SISP Bid Deadline be extended to February 21, 2020. IQ also advised the Monitor that it would increase its Interim Financing facility by an amount of \$1 million to support NAL's cash-flow requirements, under the same terms and conditions as its original interim financing.
- 6.2 In view of the cash flow projections discussed in the preceding section, NAL requires additional interim financing to cover unforeseen expenses and to cover expenses for the period beyond the additional stay period requested in this report.
- 6.3 NAL requires Additional Interim Financing for, among other things:
- 6.3.1 conservatory measures,
 - 6.3.2 the continuation of the SISP, and
 - 6.3.3 other restructuring activities.
- 6.4 The cash flow projections show an additional funding requirement of approximately \$668,000 for the period ending in April 18, 2020.
- 6.5 Although the additional interim financing is not required during the current requested additional stay period, the Monitor is of the opinion that the additional interim financing amount of \$1 million is needed given the SISP Bid Deadline extension to February 21, 2020 and given the uncertainty of time required to close a transaction, if the case may be.
- 6.6 Considering, the following, among other things:
- 6.6.1 Secured creditors affected by the security or charge under the proposed interim financing support such financing;
 - 6.6.2 NAL's business and financial affairs will still be managed properly, with the assistance of the Monitor to assist with and supervise operations;
 - 6.6.3 The loan will enhance the prospect of a viable compromise being made for the benefit of the creditors and the nature and value of NAL's property would be maintained;
 - 6.6.4 The additional interim financing will enable NAL to cover conservatory expenses to maintain the value of NAL's property;
 - 6.6.5 Finally, no unsecured creditor will be materially prejudiced as a result of the security or charge requested.
- 6.7 The Monitor is of the opinion that stakeholders will benefit from the granting of the Additional Interim Financing.

7. EXTENSION SOUGHT AND RECOMMENDATIONS

7.1 Considering, the following, among other things:

- 7.1.1 As mentioned in the Monitor's previous reports, the bankruptcy of NAL would have negative consequences for all stakeholders (employees, subcontractors, secured and unsecured creditors, shareholders, Ministry of Energy and Natural Resources, etc.);
- 7.1.2 Subject to the court's approval of the Additional Interim Financing, NAL would have sufficient funds until April 18, 2020;
- 7.1.3 NAL, CATL and IQ agreed on the Additional Interim Financing, the continuation of the SISP and the related procedure (including the modified timetable);
- 7.1.4 Stakeholders will not be prejudiced by the requested extension of the stay.

7.2 The Monitor is of the opinion that stakeholders will benefit from the following:

- 7.2.1 The granting of the Additional Interim Financing;
- 7.2.2 The extension and continuity of the SISP;
- 7.2.3 The additional stay period requested until **March 13, 2020** for NAL to complete its SISP and/or to continue to carry out its restructuring plan.

APPENDIX I

North American Lithium Inc.
Cash flow projections for the period ending April 18, 2020
(Unaudited)

(In thousands of \$) - Week ending :	Week 1 Jan. 25		Week 2 Feb. 1		Week 3 Feb. 8		Week 4 Feb. 15		Week 5 Feb. 22		Week 6 Feb. 29		Week 7 Mar. 7		Week 8 Mar. 14		Week 9 Mar. 21		Week 10 Mar. 28		Week 11 Apr. 4		Week 12 Apr. 11		Week 13 Apr. 18		Total		
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Receipts																													
Interim financing	-	-	-	1 000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 500
Insurance reimbursements	87	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87
Sales taxes reimbursements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	87			1 000																									1 587
Disbursements																													
Salaries and social benefits	64	100	88	100	64	100	88	100	64	100	88	100	64	100	88	100	64	100	88	100	64	100	88	100	64	100	88	100	1 120
Utilities	-	-	-	12	46	-	-	58	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	173
Insurance	-	149	-	-	-	149	-	-	-	-	149	-	-	-	-	-	-	149	-	-	-	-	-	-	-	-	-	-	448
Maintenance and other operation costs	110	41	66	33	48	53	141	35	62	78	127	43	51	888															
Professional fees	80	30	30	30	30	30	30	75	30	30	30	30	30	485															
Other / provision	10	10	10	10	10	10	10	10	10	10	10	10	10	130															
	264	330	194	184	198	342	327	220	166	367	313	183	155	3 244															
Increase (decrease) of cash	(177)	(330)	(194)	816	(198)	(342)	(327)	280	(166)	(367)	(313)	(183)	(155)	(1 657)															
Cash (beginning)	1 198	1 021	691	497	1 313	1 115	772	445	725	559	192	(121)	(304)	1 198															
Cash (end)	1 021	691	497	1 313	1 115	772	445	725	559	192	(121)	(304)	(459)																
Less : GIC	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)															
Available cash	812	482	288	1 104	906	563	236	516	350	(17)	(330)	(513)	(668)																