



# Raymond Chabot Inc.

An affiliate of  
Raymond Chabot Grant Thornton LLP

CANADA  
DISTRICT OF QUÉBEC

SUPERIOR COURT  
Commercial Division  
(Sitting as a court designated pursuant to the *Companies'*  
*Creditors Arrangement Act*,  
R.S.C., c. C-36, as amended)

DIVISION NO.: 01-MONTRÉAL  
COURT NO.:  
OFFICE NO.: 139398-011

IN THE MATTER OF THE PLAN OF  
ARRANGEMENT OR COMPROMISE OF:

**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 "Proposed Monitor"

---

**PRE-FILING REPORT TO THE COURT SUBMITTED BY RAYMOND CHABOT INC.  
IN ITS CAPACITY AS PROPOSED MONITOR**

---

PREAMBLE

To one of the Honourable judges of the Superior Court, sitting in commercial division, in and for the  
judicial district of Montréal, we respectfully submit the Pre-filing report of the Proposed Monitor.

Signed in Montreal on May 23, 2019

RAYMOND CHABOT INC.  
Proposed Monitor

Benoit Fontaine, CPA, CA, CIRP, LIT

## **1. INTRODUCTION**

- 1.1 Raymond Chabot Inc. ("RCI") has been informed that North American Lithium Inc. ("NAL") intends to make a petition under the *Companies' Creditors Arrangement Act* ("CCAA") before the Superior Court of Québec, Commercial Division, seeking an Initial Order, granting a stay of proceedings in favour of NAL until June 27, 2019 and appointing RCI as Monitor of NAL's CCAA proceedings.
- 1.2 RCI is a "trustee" within the meaning of Section 2 of the Bankruptcy and Insolvency Act, and is not subject to any of the restrictions set out in subsection 11.7(2) of the CCAA. RCI has provided its consent to act as Monitor, a copy of which is attached hereto as Appendix 1.

## **2. ENGAGEMENT OF RCI AND PREPARATION OF THIS PRE-FILING REPORT**

- 2.1 On March 12, 2019, a *Requête en Faillite* (the "**Bankruptcy Petition**") and a *Requête pour Nomination d'un Séquestre Intérimaire* (the "**Interim Receivership Motion**", and collectively with the Bankruptcy Motion, the "**Bankruptcy Proceedings**") were commenced against NAL by GG Entrepreneur Minier Inc. ("GG").
- 2.2 Pursuant to an engagement letter dated March 14, 2019, RCI was retained by NAL to analyze and report on the financial situation of NAL in the context of the Bankruptcy Proceedings.
- 2.3 Since the date of the engagement, RCI has:
  - 2.3.1 Visited NAL's premises in La Corne Township to gain information and an understanding regarding NAL;
  - 2.3.2 Attended in-person meeting involving NAL, senior management including with the acting Chief Financial Officer and others in order to gain information and an understanding regarding NAL;
  - 2.3.3 Attended in-person and telephone meetings with NAL's legal counsel in order to gain information and an understanding regarding NAL;
  - 2.3.4 Obtained financial and other information produced by NAL relating to operations, cash flow forecasts and current financial situation;
  - 2.3.5 Assisted NAL with the preparation of its cash flow forecast;
  - 2.3.6 Reviewed certain of the books and records of NAL;
  - 2.3.7 Reviewed various other documents and materials relevant to NAL and its business;
  - 2.3.8 Prepared a report in the context of the Bankruptcy Proceedings; and
  - 2.3.9 Prepared this Pre-Filing Report.
- 2.4 Since its engagement, RCI has become familiar with NAL's current state of affairs including the basis on which it is now seeking relief pursuant to the CCAA. As a result, RCI is in position to immediately act as Monitor in the CCAA proceedings, if appointed by this Court.

## **3. OVERVIEW OF NAL**

- 3.1 NAL is a Canadian industrial minerals mining company located in Abitibi, near Val d'Or, Québec. More precisely, the mine is located in the northeast corner of La Corne Township,

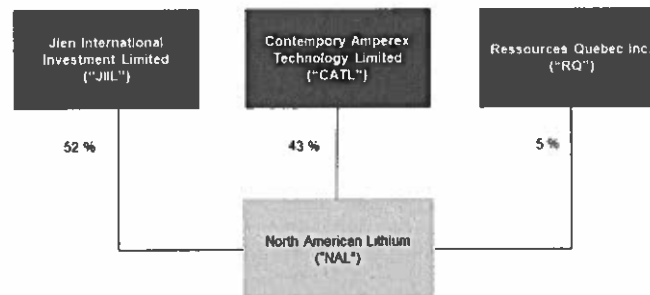
## NORTH AMERICAN LITHIUM INC.

First report of the proposed monitor on NAL's business and financial affairs

3

approximately 38 km southeast of Amos, 15 km west of Barraute and 60 km north of Val d'Or. The corporate headquarters are located at 2400-1010 Sherbrooke Street West, Montréal.

- 3.2 Until recently, NAL operated a spodumene mine under a mining lease (spodumene is either the "ore" in the case of unprocessed raw materials or the finished good). Spodumene is the mineral from which lithium, a chemical element widely used to produce batteries, is extracted.
- 3.3 In addition, NAL operates a spodumene production plant in proximity to the mine.
- 3.4 NAL results from the merger of two companies, i.e. North American Lithium Inc. and 9554548 Canada Inc. The company that results from the corporate restructuring was incorporated on November 24, 2017 under the Canadian Business Corporations Act, although the articles of incorporation were amended on January 10, 2018. NAL has since been continued under Business Corporations Act (Québec).
- 3.5 The shareholders are shown in the chart below:



- 3.6 Dr. Bin Guo and Joseph Zheng Shu are currently acting as directors of NAL. Both reside in China. Global production of lithium batteries is primarily concentrated in China. Hence the company sells all of its production to two customers: Transmine Holdings and Investment Ltd ("Transmine") and CATL (which is also a large shareholder - 43%).
- 3.7 The company employs 127 people directly. Before a recent stoppage of mining operations (i.e. blasting, drilling, management, extraction, transportation), 200 more people were working on NAL's site under a major subcontracting agreement with GG.

## 4. CAUSES OF FINANCIAL DIFFICULTIES

- 4.1 The initial project was expected to produce battery-grade lithium carbonate. Based on the expected production rate, the project for the mine involved the production of lithium carbonate until 2030. However, with the current facilities, NAL is not able yet to produce lithium carbonate, only spodumene is actually produced/sold.
- 4.2 NAL sold its first spodumene shipment in December 2017. Furthermore, for 2018, NAL processed approximately 114,000 tons of spodumene. This represents only 63% of its nameplate capacity of 180,000 tons.
- 4.3 Therefore, significant capital investments are required to optimize the mill operation. In the absence of such investments and given the current market conditions (refer to paragraphs 4.5 and 4.6), the capacity of the business to generate positive net income is jeopardized.
- 4.4 Also, significant investments would be required to build a hydrometallurgical refinery that will be used to produce lithium carbonate from spodumene.

- 
- 4.5 The price of lithium and related derivatives has plummeted by 60% in recent months. This situation is mainly attributable to two factors:
- 4.5.1 Increased supply: Global production capacity has nearly doubled, especially in Australia, which also has the advantage of being in relative proximity to the Chinese market.
- 4.5.2 Pressure on the part of the two main buyers to increase their respective profit margins or to respect contracts.
- 4.6 Consequently, spodumene prices have also plummeted since June 2018.
- 4.7 GG and NAL engaged in a contractual dispute over certain amounts. The negotiations between GG and NAL came to an impasse. In order to resolve this commercial dispute, GG commenced the Bankruptcy Proceedings.
- 4.8 NAL has contested this action and a number of matters alleged by GG have been refuted. The Interim Receivership Motion was withdrawn in such context, although the Bankruptcy Motion is currently pending against NAL.
- 4.9 However, NAL had to halt spodumene production in April 2019 for reasons detailed in subsequent sections.
- 4.10 In the circumstances, a capital injection is also required to operationally and financially restructure NAL's activities. As of the present date, NAL has not been able to obtain additional financing commitments from its shareholders or find any third-party sources of investment.
- 4.11 **In the absence of a capital injection or a positive revenue stream stemming from its operations, NAL does not have sufficient resources or the ability to generate sufficient funds to pay its suppliers/creditors in the normal course of business.**
- 4.12 **Considering the above, given the consequences of a bankruptcy and NAL's foreseen inability to meet its overall obligations, NAL has no choice but to seek protection of the Court through the filing of an Initial Order under the CCAA.**
- 4.13 **The CCAA proceedings will allow NAL to protect its limited cash resources, thereby helping NAL to carry out its restructuring plan for the benefit of all stakeholders.**

## 5. SUMMARY ANALYSIS OF FINANCIAL SITUATION

- 5.1 We have analyzed the latest internal financial statements of NAL (i.e. the balance sheets as at December 31, 2018 and March 31, 2019, along with the statement of earnings for the 12-month period ended December 31, 2018).
- 5.2 Our analysis essentially consisted of enquiry, analytical procedures and discussion related to information supplied by management. This work does not constitute an audit or review of the financial statements in accordance with generally accepted auditing standards established by CPA Canada or by the American Institute of Certified Public Accountants (AICPA). No audit work has been carried out by us and, consequently, we do not express an opinion on these financial statements.
- 5.3 Since NAL is still in a start-up phase, the 2017 and 2018 losses were added to the Capital assets account on the balance sheet. Detailed income statements showing NAL's gross margin and operational loss are not available.

## NORTH AMERICAN LITHIUM INC.

First report of the proposed monitor on NAL's business and financial affairs

5

- 5.4 However, we have produced an estimated income statement (see table below) based on actual sales for the year ended December 31, 2018 and internal cost reports:

(In thousands of \$)	2018
Revenue	122 859
Cost of goods sold	125 929
Gross margin	(3 070)
Other costs	4 648
<b>Loss</b>	<b>(7 718)</b>

- 5.4.1 Based on an average selling price of US\$750 per ton for 2018, NAL's losses would total approximately \$7.7M. Based on the prevailing selling prices (US\$470), 2018 losses would have been close to \$52M.

- 5.5 In order to be profitable, NAL requires investments in its production facilities and/or improved market conditions.

- 5.6 The following table presents NAL's consolidated balance sheet as at March 31, 2019.

(In thousands of \$)	March 31, 2019	Dec 31, 2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	12 369	2 465
GST/QST receivable	3 549	7 530
Accounts receivable and other receivables	1 506	12 572
Spare parts	3 418	3 134
	20 842	25 701
Prepayments and deposits	8 858	8 356
Capital assets	348 513	343 592
Capitalized development costs	28 398	28 398
	406 610	406 046
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	32 295	33 296
Accounts payable to a related company	1 000	1 000
Convertible debt - CATL	57 502	57 256
Current portion of Asset retirement obligations	23 607	23 607
Current portion of long-term debt	11 576	9 783
	125 980	124 941
Asset retirement obligations	2 066	2 066
Long-term debt	68 903	71 378
Deferred tax liability	19 514	19 514
	216 462	217 898
<b>Equity</b>		
Capital stock	102 716	102 716
Contributed surplus	9 365	9 365
Retained earnings	78 067	76 067
	190 148	188 148
	406 610	406 046

- 5.6.1 Working capital as at March 31, 2019 comprises :

- GST/QST receivable (\$3.5M): Filed in January, February and March 2019, of which about \$1M (January amount) have been collected as of today.
- Accounts receivable and other receivables (\$1.5M): Resulting from sales to CATL for which assay results are still to be received. Those results are needed

## NORTH AMERICAN LITHIUM INC.

First report of the proposed monitor on NAL's business and financial affairs

6

before CATL can release their final payment. As of today, \$400,000 is still to be collected.

- Inventory (\$0): No value for inventory was recorded as such on the balance sheet as all costs incurred are capitalized in Capital assets account. However, as at March 31, 2019, NAL had approximately 10,000 tons of spodumene ready to ship, which has a market value of \$6.4M. The inventory was sold to Transamine for this amount on April 30, 2019 and payment was fully collected on May 4, 2019.
- Accounts payable and liabilities (\$32.3M): Refer to paragraph 5.7 for a breakdown. Include a disputed claim from GG in an amount of \$10.5M.
- Convertible debt (\$57.5M): Refer to paragraph 5.7 for explanations.
- Current portion of Asset retirement obligations<sup>1</sup> (\$23.6M): Refer to paragraph 5.7.1 for explanations.

5.7 The following table summarizes the liabilities (excluding Deferred tax liability) as at March 31, 2019:

(in thousands of \$)	Balance sheet	Face value amount
<b>Unsecured creditors</b>		
Convertible Debt 1 - CATL	16 000	16 000
Asset retirement obligations	23 607	23 607
Accounts payable and accrued liabilities		
GG (disputed claim)	10 540	10 540
Galameau Entrepreneur Général	1 011	1 011
Other suppliers (Between \$100K and \$1M)	10 138	10 138
Other suppliers (Under \$100K)	2 840	2 840
Accrued liabilities	7 767	7 767
	<b>32 295</b>	<b>32 295</b>
	<b>71 903</b>	<b>71 903</b>
<b>Secured creditors</b>		
Convertible Debt 2 - CATL	41 502	40 000
Long-term debt 1 - IQ	38 313	36 000
Long-term debt 2 - IQ	42 166	63 000
	<b>121 981</b>	<b>139 000</b>
	<b>193 883</b>	<b>210 903</b>

5.7.1 In a notice dated February 22, 2019, sent by the Ministère de l'Énergie et des Ressources Naturelles (MERN), NAL was put in default of providing financial securities for a value of \$23.6M in order to cover costs of a contingency related to the

<sup>1</sup> As per paragraph 232.1 of the Quebec Mining Act:

The following persons must submit a rehabilitation and restoration plan to the Minister for approval and carry out the work provided for in the plan:

- (1) every holder of mining rights who engages in exploration work determined by regulation or agrees that such work be carried out on the land subject to his mining rights;
- (2) every operator who engages in mining operations determined by regulation in respect of mineral substances listed in the regulations;
- (3) every person who operates a concentration plant in respect of such substances;
- (4) every person who engages in mining operations determined by regulation in respect of tailings.

The obligation shall subsist until the work is completed or until a certificate is issued by the Minister under section 232.10.

## NORTH AMERICAN LITHIUM INC.

First report of the proposed monitor on NAL's business and financial affairs

7

rehabilitation of the mining site. The MERN required an immediate payment of the full amount under the threat of suspension or revocation of NAL's mining lease.

- 5.7.2 As per original agreements, no capital and interest payments until 2021 for Convertible debt 1 – CATL and Convertible debt 2 – CATL.
- 5.7.3 Long-term Debt 1 – IQ required monthly capital payments since 2018. IQ tolerated NAL's default to repay capital and interest owing since February 2018.
- 5.7.4 As per original terms negotiated with IQ, no capital payment is required before 2020 on Long-term debt 2 – IQ. This debt is non-interest bearing.
- 5.7.5 Variances between March 31, 2019 balance sheet amounts and face value amounts are mainly due to:
- Convertible Deb 2 - CATL: Transaction costs have been capitalized, raising the carrying value by \$1.5M.
  - Debt 1 – IQ: Unpaid interest have been capitalized which raised the carrying value by \$2.3M.
  - Debt 2 – IQ: NAL discounts the value of the debt in accordance to Accounting Standards for Private Enterprises (ASPE).
- 5.8 The balance sheets as at December 31, 2018 and March 31, 2019 show equity totalling nearly \$190M. However, in view of the current market context, the required investments and the short-term cash requirements, the market value of NAL assets could be far below carrying amount. **Therefore, the real value of the equity, ceteris paribus (i.e. without a recapitalization and/or changes in market conditions), is negative.**

## 6. PROJECTED CASH-FLOW

- 6.1 NAL's management prepared a projected cash-flow statement. The table shown below comprises a weekly cash flow for the 7-week period ending on June 29.

North American Lithium Inc.  
Weekly cash-flow projections for the period ending June 29, 2019  
(unaudited)

(In thousands of \$) - Week ending :	May 11 (Actual)	Week 1 May 18	Week 2 May 25	Week 3 June 1	Week 4 June 8	Week 5 June 15	Week 6 June 22	Week 7 June 29	Total
<b>Receipts</b>									
Accounts receivable as of May 11, 2019	-	-	-	-	-	399	-	-	399
Sales taxes reimbursements	-	-	-	-	-	399	-	-	399
<b>Disbursements</b>									
Salaries and social benefits	-	542	-	542	-	542	-	-	1 625
Utilities	-	-	80	-	-	-	-	80	160
Administrative costs	15	15	15	15	15	15	15	15	105
Maintenance, gas and other operation costs	150	150	150	150	150	150	150	150	1 050
Legal and monitor fees	-	50	50	50	50	50	50	50	300
Provision for contingencies	30	30	30	30	30	30	30	30	210
	195	787	325	787	245	787	325	3 450	
Increase (decrease) of cash	(195)	(787)	(325)	(787)	154	(787)	(325)	(3 051)	
Cash (beginning)	7 310	7 115	6 328	6 003	5 218	5 370	4 584	7 310	
<b>Cash (end)</b>	<b>7 310</b>	<b>7 115</b>	<b>6 328</b>	<b>6 003</b>	<b>5 218</b>	<b>5 370</b>	<b>4 584</b>	<b>4 259</b>	<b>4 259</b>

- 6.2 These projections have been prepared based on assumptions which reflect the general direction that NAL's management shall be adopting given the financial and economic conditions which, in the opinion of the Group's 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 forecast.

- 
- 6.3 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.
- 6.4 The projections prepared by Management take into consideration a plant shutdown and are based on the following assumptions:
- 6.4.1 Cash inflows of \$399,000 resulting from collection of accounts receivable. **No more sales/inflows are expected unless the mine reopens.**
- 6.4.2 Due to the shortage of qualified employees in the region, plant's workforce (127 employees) would be maintained (notwithstanding the shutdown);
- 6.4.3 Minimum maintenance expenses, such as utilities, gas, and parts, would be maintained;
- 6.4.4 Legal and monitor fees will be paid weekly;
- 6.4.5 An amount of \$30K is forecasted weekly as a contingency to reflect unforeseen expenses;
- 6.4.6 No capital or interest payments to be paid on IQ or CATL debts.
- 6.5 Since the plant will enter into a shutdown period, no risk is related to sales or production levels. However, the minimum maintenance costs during the shutdown period can still vary.
- 6.6 **During the shutdown period, the monthly burn rate is minimum \$2.2M (including payroll for the 127 employees, totaling \$1.1M). Based on management's assumptions for cash flow purposes, NAL will need to reduce its burn rate and/or seek additional financing before the end of August 2019.**
- 6.7 NAL's working capital may not be sufficient to cover the period required to complete a turnaround including the recapitalization, the negotiations for an extracting agreement, the optimization of operations and the filing of an advantageous plan of compromise with its creditors.

## 7. RESTRUCTURING PLAN

- 7.1 NAL plans to put in place the following action plan, which focuses on:
- 7.1.1 Collecting the payments from previous sales (\$399,000);
- 7.1.2 Completing the orderly shutdown and minimum maintenance of the manufacturing plant;
- 7.1.3 Maintaining the value of the assets;
- 7.1.4 Evaluating financing needs to:
- Acquire equipment (production of lithium carbonate);
  - Improve the production capacity of current installations;
  - Cover working capital; and
  - File a plan of arrangement;
- 7.1.5 Discussions with current shareholders/stakeholders and/or with third parties regarding the recapitalization of NAL (see above);
- 7.1.6 Undertaking negotiations with suppliers, subcontractors and employees;



7.1.7 Submitting a plan of arrangement pursuant to the CCAA.

## **8. THE EFFECT OF A BANKRUPTCY**

8.1 Considering that:

8.1.1 CATL and IQ hold *pari passu* first-ranking hypothecs on all of NAL's movable and immovable property;

8.1.2 NAL is operating at a deficit due to current prices on the lithium (and spodumene) market as well as the production capacity of the processing plant;

8.1.3 The current context (market prices, limited number of customers, investments required to improve production capacity/efficiency, etc.) is not conducive to the resumption of operations by a third party;

8.1.4 The cost of conservatory measures is high;

8.2 Revocation or suspension of the mining lease;

8.3 A rapid liquidation in a bankruptcy context might generate minimal sale proceeds.

8.4 In light of the foregoing, among other things, the impacts of NAL's bankruptcy for the various stakeholders would be as follows:

8.4.1 Employees:

- i. nearly all employees would be terminated;
- ii. only certain positions could be maintained in the short term to put plant operations on hold.

8.4.2 Suppliers:

- i. given their rank as unsecured creditors, there is a possibility that the proceeds from the sale of NAL's assets could be insufficient to eventually pay a dividend.

8.4.3 CATL and IQ (in their quality of debtors):

- i. will likely need to take the necessary steps to directly or indirectly realize/sell off the assets held under guarantee in an attempt to seek repayment.

8.4.4 Shareholders:

- i. will lose the entirety of their initial investment.

8.5 Closure of a major employer in the region, with impacts on the sector.

## **9. CONCLUSIONS AND RECOMMENDATIONS**

9.1 NAL will soon be unable to meet its obligations as they become due.

9.2 In a bankruptcy scenario, the value of the assets will be jeopardized, with major negative impacts on stakeholders.

9.3 The shutdown of the mining and manufacturing activities, the orderly shutdown of the plant and a stay of proceedings are key to NAL's ability to recapitalize/refinance and to improve/add production capacity.

## **NORTH AMERICAN LITHIUM INC.**

First report of the proposed monitor on NAL's business and financial affairs

10

---

- 9.4 **NAL's working capital and projected cash flow allow less than 3 months to complete the recapitalization, the negotiations for an extracting agreement, the optimization of the operations and the filing of an advantageous plan of arrangement with its creditors whilst under shutdown.**
- 9.5 **Indeed, NAL does not and would not have sufficient resources or the ability to generate sufficient funds in the situation.**
- 9.6 **The CCAA proceedings will ensure NAL protects its limited cash resources, thereby allowing NAL to carry out its restructuring plan for the benefit of all stakeholders.**
- 9.7 **The proposed Monitor is of the opinion that it is in the interest of all stakeholders that an initial order pursuant to the CCAA be issued to allow NAL to restructure its operations and submit a plan of arrangement.**