

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"

**EIGHTH 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 eighth report on NAL's business and financial affairs as part of the filing of a request for an order to extend the stay period.

Signed in Montreal, on June 22, 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 six times.
- 1.2 The previous extension was obtained on May 15, 2020, extending the stay period until June 30, 2020.
- 1.3 Given the reports already issued by the Monitor, this seventh report discusses:
 - Section 2: Steps undertaken since the September 12, 2019 Sale and Investor Solicitation Process ("SISP") order;
 - Section 3: The Sale and Investor Solicitation Process;
 - Section 4: Changes in cash position;
 - Section 5: Cash flow projections;
 - Section 6: 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 SISP 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. Minor drilling activities were maintained and have now ceased;
- 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 Canada 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:

2.2.4.1 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.

2.2.4.2 For the period from October 14, 2019 to 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;
- Extension of the bid deadline to February 21, 2020;
- Receipt of Qualified Bids;
- Opening and review of the bids by the Monitor;
- Request for clarifications from bidders on their respective bids;
- Submission of the bids to secured creditors (IQ and CATL) for their review and consideration;
- Assisting Qualified Bidders with their additional due diligence requests.

3. SALE AND INVESTOR SOLICITATION PROCESS (“SISP”)

- 3.1 As authorized by the court on September 12, 2019, a SISP is currently being carried out by the Monitor, with the assistance of NAL's management, employees and legal advisers.
- 3.2 As mentioned in our previous reports to the Court, on February 21, 2020, following the bid deadline, the Monitor opened the submitted bids and prepared a summary of the bids received. Following the review of the bids by the Monitor, it appears that all the bids contemplate an assumption or conversion of the debts of either one or both of NAL's secured creditors (IQ/CATL). In these circumstances, the Monitor had submitted the bids to the secured creditors for their review and consideration and awaited to receive their respective positions.
- 3.3 Consequently, until such time as the Monitor receives the position of each of the secured creditors with respect to the bids, the Monitor could not make the determination pursuant to paragraph 9.4 of the SISP Procedures, i.e. apply the bid criteria to determine whether it will be in the best interests of NAL's stakeholders to pursue a transaction on the terms set out in the bids.
- 3.4 On March 5, the Monitor advised all bidders that it indefinitely extended the time period at paragraph 9.4 of the SISP Procedures. The Monitor also requested that all bidders agree to extend the expiration date of their bids to April 10, 2020.
- 3.5 On April 13, the Monitor advised all bidders that the Monitor had not yet received IQ's or CATL's positions on the bids and that it consequently maintains the indefinite extension of the time period at paragraph 9.4 of the SISP Procedures. The Monitor also requested that all bidders agree to extend the expiration date of their bids to May 1, 2020.
- 3.6 On May 9, the Monitor advised all bidders that the Monitor had not yet received IQ's or CATL's positions on the bids and that it consequently maintains the indefinite extension of the time period at paragraph 9.4 of the SISP Procedures. The Monitor also requested that all bidders renew their bids and set the expiration date of their bids to June 15, 2020.
- 3.7 On June 22, the Monitor advised all bidders that the Monitor had not yet received IQ's or CATL's positions on the bids and that it consequently maintains the indefinite extension of the time period at paragraph 9.4 of the SISP Procedures. The Monitor also requested that all bidders renew their bids and set the expiration date of their bids to July 31, 2020.
- 3.8 In a view to maximize the chances of success of the SISP, NAL is seeking an extension of the stay of proceedings until July 31, 2020, in order to, among other things:
 - 3.8.1 Continue reviewing the bids;
 - 3.8.2 Allow IQ and CATL time to discuss/negotiate with bidders;
 - 3.8.3 Obtain IQ's and CATL's respective positions on the submitted bids;
 - 3.8.4 Acceptance of one or more bids, if any;
 - 3.8.5 Review of restructuring options, including a draft plan of compromise based on the bids submitted;

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- 3.8.6 Preparation and hearing before the court of a motion to move forward in accordance with the SISP, the case may be, and the results in respect thereof. Potential successful bids would be submitted to the court for approval.

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 7-week period ended June 13, 2020 (since the previous Order) as well as actual cash position for the 55-week period ended June 13, 2020 (since the Initial Order).

North American Lithium Inc.

Actual vs Revised Forecast for the 7-Week period ended June 13, 2020

(Unaudited)

(In thousands of \$)	7-Week period ended June 13, 2020			55-Week period ended June 13, 2020
	Actual	Forecast	Variance	Actual
Receipts				
Accounts receivable	-	-	-	7
Interim Financing	-	1 000	(1 000)	6 000
Insurance premium reimbursements	-	-	-	486
GST/QST reimbursement	715	-	715	2 265
	715	1 000	(285)	8 758
Disbursements				
Salaries and social benefits	289	288	(1)	6 165
Utilities	56	108	51	671
Insurance	-	10	10	2 148
Drilling and excavation costs	-	-	-	800
Maintenance, gas and other operation costs	70	205	135	2 561
Legal and monitor fees	73	104	31	762
	489	715	226	13 106
Increase (decrease) of cash	226	285	(59)	(4 348)
Cash (beginning)	816	816	-	5 391
Cash (end)	1 042	1 101	(59)	1 042
Less: GIC	(209)	(209)	-	(209)
Available cash	833	892	(59)	833

- 4.3 Main variances can be explained as follows:

- 4.3.1 Interim financing: the projected draw of \$1 million was not required given the GST/QST reimbursement.
- 4.3.2 GST/QST reimbursement represents post-filing sales tax reimbursement. The latter were not budgeted for.
- 4.3.3 Utilities: lower energy requirements, and a timing variance;

- 4.3.4 Maintenance, gas and other operation costs: Operation costs were lower than budgeted, i.e. overestimated operational costs and timing variance;
- 4.3.5 Legal and monitor fees: Professional fees were lower than budgeted;
- 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 7-week period ending on August 1, 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 availability of the interim financing;
 - 5.3.2 Salaries, vacations and social benefits: Based on 16 full-time employees to ensure maintenance of facilities and payment of post-filing vacations due to laid-off employees;
 - 5.3.3 Property and other insurance: the current insurance policy expires on July 31, 2020. NAL is currently in discussions to extend the insurance policy until July 31, 2021. The amount projected in the cashflows are estimates based on discussions between NAL management and the insurance broker;
 - 5.3.4 Maintenance and other operations costs: Includes clean-up and maintenance, water treatment, IT related expenses, CATL management fees, etc.;
 - 5.3.5 Professional fees: Include amounts payable as at June 13, 2020 and going forward;
 - 5.3.6 No capital or interest payments on IQ's/CATL's loans and interim financing.

- 5.4 The Authorized Interim Financing of \$8 million (outstanding amount as at the date of this report is \$6 million) will be enough to cover conservatory measures and other expenses until the end of the additional stay period requested in this report, i.e. July 31, 2020.

6. EXTENSION SOUGHT AND RECOMMENDATIONS

- 6.1 Considering, the following, among other things:

- 6.1.1 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.);
- 6.1.2 NAL would have sufficient funds until July 31, 2020;
- 6.1.3 NAL, CATL and IQ have agreed on the continuation of the SISP and the related procedures (including the modified timetable);
- 6.1.4 Stakeholders will not be prejudiced by the requested extension of the stay.

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

- 6.2.1 The extension and continuity of the SISP;
- 6.2.2 The additional stay period requested until July 31, 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 August 1, 2020

(Unaudited)

(In thousands of \$) - Week ending :	Weekly							Total	55-Week period ended June 13, 2020	Total
	June 20	June 27	July 4	July 11	July 18	July 25	Aug. 1			
	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	Actual	
Receipts										
Accounts receivable	-	-	-	-	-	-	-	-	7	7
Interim financing	-	-	-	-	-	-	-	-	6 000	6 000
Insurance reimbursements	-	-	-	-	-	-	-	-	486	486
Sales taxes reimbursements	-	-	-	-	-	-	-	-	2 265	2 265
	-	-	-	-	-	-	-	-	8 758	8 758
Disbursements										
Salaries and social benefits	35	39	121	74	34	40	34	376	6 165	6 541
Utilities	29	-	-	-	29	5	-	62	671	733
Insurance	-	-	9	9	-	-	-	18	2 148	2 166
Maintenance and other operation costs	23	25	12	33	15	18	106	233	800	1 034
Professional fees	5	25	5	5	35	5	6	86	2 562	2 648
Other / provision	5	5	5	5	5	5	5	35	762	796
	97	94	152	126	118	73	151	811	13 107	13 918
Increase (decrease) of cash	(97)	(94)	(152)	(126)	(118)	(73)	(151)	(811)	(4 349)	(5 160)
Cash (beginning)	1 042	945	851	699	573	455	382	1 042	5 391	5 391
Cash (end)	945	851	699	573	455	382	231	231	1 042	231
GIC	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)
Available cash	736	642	490	364	246	173	22	22	833	22