

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"

**TWELFTH 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 twelfth 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 October 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 ten times.
- 1.2 The previous extension was obtained on September 30, 2020, extending the stay period until October 30, 2020.
- 1.3 Given the reports already issued by the Monitor, this twelfth 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: 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 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 7, 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;
- Receipt and review of revised Bids.

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 Until such time as the Monitor received 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 Consequently, the Monitor advised all bidders, on numerous occasions since March 5, 2020, that it indefinitely extended the time period at paragraph 9.4 of the SISP Procedures. The Monitor also requested, on numerous occasions since March 5, 2020, that all bidders renew their bids. The latest request was made on September 23, 2020 whereas the Monitor requested that all bidders renew their bids and set the expiration date of their bids to October 31, 2020.
- 3.5 On September 23, 2020, the Monitor received certain unsolicited revised bids.
- 3.6 In this context, following discussions with the secured creditors, in order to avoid any ambiguity and in the spirit of providing all interested parties with an equal opportunity to submit a bid or a revised bid, the Monitor has decided, in accordance with Sections 1.5, 9.8 and 13.2 of the SISP Procedures, to reject all existing bids and to provide all parties that have expressed interest in the SISP and executed a confidentiality agreement with an ultimate and limited opportunity to confirm, submit, revise and/or improve a bid. (the “Relaunched SISP”).
- 3.7 The timeline of the Relaunched SISP is to be agreed with the main stakeholders, namely IQ and CATL.

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 4-week period ended October 17, 2020 (since the previous Order) as well as actual cash position for the 73-week period ended October 17, 2020 (since the Initial Order).

NORTH AMERICAN LITHIUM INC.

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

5

North American Lithium Inc.

Actual vs Revised Forecast for the 4-Week period ended October 17, 2020

(Unaudited)

(In thousands of \$)	4-Week period ended October 17, 2020			73-Week period ended
	Actual	Forecast	Variance	October 17, 2020
				Actual
Receipts				
Accounts receivable	-	-	-	7
Interim Financing	500	500	-	7 500
Insurance premium reimbursements	-	-	-	486
GST/QST reimbursement	2	-	2	2 343
Other	70	-	70	70
	572	500	72	10 406
Disbursements				
Salaries and social benefits	126	120	(6)	6 852
Utilities	26	61	35	795
Insurance	95	95	0	2 783
Drilling and excavation costs	-	-	-	800
Maintenance, gas and other operation costs	77	113	36	3 068
Legal and monitor fees	44	59	15	849
	368	448	80	15 147
Increase (decrease) of cash	204	52	152	(4 741)
Cash (beginning)	446	446	-	5 391
Cash (end)	650	497	152	650
Less: GIC	(209)	(209)	-	(209)
Available cash	441	288	152	441

4.3 Main variances can be explained as follows:

- 4.3.1 Other receipts: NAL received \$70,000 following the closure of a savings account for which it did not previously know the existence.
- 4.3.2 Utilities: Utilities expenses were lower than budgeted due to a timing variance.
- 4.3.3 Maintenance, gas and other operation costs: Operation costs were lower than budgeted, i.e. overestimated operational costs and timing variance.

5. CASH FLOW PROJECTIONS

5.1 NAL prepared a cash flow for the period ending on January 31, 2021 (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.
 - 5.3.3 Utilities: based on historical consumption.
 - 5.3.4 Property and other insurance: As per insurance policy terms and conditions.
 - 5.3.5 Maintenance and other operations costs: Includes clean-up and maintenance, water treatment, IT related expenses, CATL management fees, etc.
 - 5.3.6 Professional fees: Based on recent historical fees and considering work required to undertake the Relunched SISP.
 - 5.3.7 No capital or interest payments on IQ's/CATL's loans and interim financing.
 - 5.3.8 Property taxes : The city of La Corne requested from NAL management the immediate payment of its post-filing property taxes (circa \$427,000). Management informed the city of La Corne that the Monitor and NAL management intend to communicate shortly with them in order to negotiate a payment plan. The projections reflect payment of arrears over a 12-month period starting January 2021.
 - 5.3.9 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. NAL is currently undergoing work in order to release the balance of the GIC.
- 5.4 On October 27, 2020, based on the above-mentioned cash-flow projections, IQ advised the Monitor it would increase its Interim Financing facility by an additional amount of \$1,500,000 (for a total of \$9.5 million) to support NAL's additional cash-flow requirements until January 22, 2021, hence covering the sought extension period.
- 5.5 The Interim Financing of \$9.5 million, which \$1,500,000 is subject to the authorization of the Court, should be enough to cover conservatory measures and other expenses until the end of the additional stay period requested in this report, i.e. January 22, 2021.

6. ADDITIONAL INTERIM FINANCING

- 6.1 As mentioned in the previous section of this report, IQ advised the Monitor that it would increase its Interim Financing facility by an additional amount of \$1,500,000 to support NAL's cash-flow requirements until January 22, 2021, under the same terms and conditions as its original interim financing.

-
- 6.2 In view of the cash flow projections, NAL requires Additional Interim Financing for, among other things:
- 6.2.1 conservatory measures.
 - 6.2.2 the Relunched SISP.
 - 6.2.3 other restructuring activities.
- 6.3 Considering, the following, among other things:
- 6.3.1 Secured creditors affected by the security or charge under the proposed interim financing support such financing;
 - 6.3.2 NAL's business and financial affairs will still be managed properly, with the assistance of the Monitor to assist with and supervise operations;
 - 6.3.3 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;
 - 6.3.4 The additional interim financing will enable NAL to cover conservatory expenses to maintain the value of NAL's property;
- 6.4 Finally, no unsecured creditor will be materially prejudiced as a result of the security or charge requested.
- 6.5 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 NAL would have sufficient funds until January 22, 2021;
 - 7.1.3 NAL, CATL and IQ have agreed on the continuation of the SISP and the related procedures (including the Relunched SISP);
 - 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 may benefit from the following:
- 7.2.1 The extension and continuity of the SISP;
 - 1.1.1 The additional stay period requested until January 22, 2021 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 January 31, 2021

(Unaudited)

(In thousands of \$) - Week ending :	2020-10-24	2020-10-31	2020-11-07	2020-11-14	2020-11-21	2020-11-28	2020-12-05	2020-12-12	2020-12-19	2020-12-26	2021-01-02	January 31, 2021	Total	73-Week period ended October 17, 2020	Total
	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>Week</i>	<i>month</i>			
	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>		
Receipts														Actual	
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	7	7
Interim financing	-	500	-	-	-	-	500	-	-	-	-	500	1 500	7 500	9 000
Insurance reimbursements	-	-	-	-	-	-	-	-	-	-	-	-	-	486	486
Sales taxes reimbursements	-	6	-	-	-	10	-	-	-	-	-	-	16	2 343	2 359
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	70	70
	-	506	-	-	-	10	500	-	-	-	-	500	1 516	10 406	11 922
Disbursements															
Salaries and social benefits	68	12	68	28	40	28	52	28	40	28	40	174	606	6 852	7 458
Utilities	2	2	93	2	3	2	10	32	10	2	2	58	216	795	1 010
Insurance	-	95	55	-	-	-	95	-	-	-	95	95	434	2 783	3 217
Maintenance and other operation costs	9	20	42	32	17	21	34	33	17	20	9	92	346	3 868	4 214
Professional fees	10	10	10	25	25	10	10	10	10	10	10	15	155	849	1 004
Property taxes	-	-	-	-	-	-	-	-	-	-	-	33	33	-	33
Other / provision	-	3	-	-	-	2	-	-	-	-	2	20	27	-	27
	89	142	267	86	85	63	201	103	77	59	158	486	1 817	15 147	16 964
Increase (decrease) of cash	(89)	364	(267)	(86)	(85)	(53)	299	(103)	(77)	(59)	(158)	14	(301)	(4 741)	(5 042)
Cash (beginning)	650	560	924	657	571	486	433	732	629	552	493	335	650	5 391	5 391
Cash (end)	560	924	657	571	486	433	732	629	552	493	335	348	348	650	349
GIC	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)
Available cash	351	715	448	362	277	224	523	420	343	284	126	139	139	441	139