



**Fourth Report of  
KSV Kofman Inc.  
as Receiver of  
Quebec Lithium Inc.**

**May 21, 2019**

<b>Contents</b>	<b>Page</b>
1.0 Introduction .....	1
1.1 Purposes of this Report.....	2
1.2 Currency .....	2
2.0 Background .....	2
2.1 RB Energy .....	2
2.2 QLI.....	3
3.0 Secured Creditors .....	3
3.1 Court Ordered Charges.....	3
3.2 Investissement Québec.....	4
4.0 Funding of these Proceedings .....	4
5.0 Receiver's Discharge.....	5
6.0 Overview of the Receiver's Activities .....	5
7.0 Conclusion and Recommendation .....	6

## Appendices

Receivership Order dated May 8, 2015 .....	A
Court Order dated July 4, 2017 .....	B
Corporate Organizational Chart .....	C
Receiver's First Report to Court dated June 13, 2016 (without appendices) .....	D
Statement of Receipts and Disbursements .....	E

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
No: 500-11-049079-151

SUPERIOR COURT  
(Commercial Division)

IN THE MATTER OF THE RECEIVERSHIP  
OF:

QUEBEC LITHIUM INC.

Debtor

-and-

NORTH AMERICAN LITHIUM INC.

Mise-en-cause

FOURTH REPORT OF  
KSV KOFMAN INC.  
AS RECEIVER  
MAY 21, 2019

## 1.0 Introduction

1. This report ("Report") is filed by KSV Kofman Inc. ("KSV") in its capacity as Court-appointed receiver (the "Receiver") of the assets, properties and undertakings of Quebec Lithium Inc. ("QLI"). As detailed below, KSV also previously acted as the receiver of certain affiliates of QLI, QLI Metaux Inc. ("QLIM"), RB Energy Inc. ("RB") and Sirocco Mining Inc. ("Sirocco") (collectively with QLI, the "Company").
2. On October 14, 2014, the Superior Court (Commercial Division) of the Province of Quebec, District of Montreal (the "Court") granted the Company protection pursuant to the *Companies' Creditors Arrangement Act* ("CCAA") pursuant to an Initial Order, as amended and restated (the "Initial Order"). KPMG Inc. was appointed the Monitor in the CCAA proceedings.
3. Pursuant to Court orders made on May 8, 2015, the CCAA proceedings were terminated and Duff & Phelps Canada Restructuring Inc. ("D&P") was appointed Receiver (the "Receivership Order"). A copy of the Receivership Order is attached as Appendix "A".
4. On June 30, 2015, D&P was acquired by KSV. Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) made on July 10, 2015, D&P's ongoing mandates were transferred to KSV. From the date of the Receivership Order, the restructuring professionals overseeing this mandate have remained unchanged.

5. Pursuant to a Court order made on July 4, 2017 (the “Discharge Order”), the receivership proceedings of RB, Sirocco and QLIM were terminated and KSV was discharged as Receiver of those entities. A copy of the Discharge Order is attached as Appendix “B”. QLI’s receivership proceedings were not terminated at that time due to certain outstanding issues which have now been addressed, as summarized in this Report.
6. The primary purpose of these receivership proceedings was to preserve the Company’s assets until a going-concern solution for the Company was identified, as further discussed in this Report.

## **1.1 Purposes of this Report**

1. The purposes of this Report are to:
  - a) provide information about the Company and these receivership proceedings, including the Court-approved transaction (the “Transaction”) with North American Lithium Inc. (the “Purchaser”) that resulted in the sale of substantially all of QLI’s business and assets pursuant to an Asset Purchase Agreement dated June 10, 2016 between the Receiver and the Purchaser;
  - b) provide the Receiver’s rationale for recommending that QLI’s receivership proceedings be terminated and that the Receiver be discharged as Receiver; and
  - c) recommend that the Court issue an order:
    - i. terminating QLI’s receivership proceedings and discharging KSV as Receiver; and
    - ii. approving the Receiver’s activities from the date of its Second Report to Court dated June 20, 2017 (the “Second Report”) to the return of the application, as detailed herein.

## **1.2 Currency**

1. Unless otherwise noted, all currency references in this Report are in Canadian dollars.

## **2.0 Background**

### **2.1 RB Energy**

1. RB was a public company; until November 24, 2014, the common shares of RB traded on the Toronto Stock Exchange and the U.S. OTCQX marketplace, at which time they were delisted.
2. RB was established to acquire, explore, develop and mine mineral resource properties in Canada and internationally. RB had 16 direct and indirect subsidiaries, including QLI, QLIM and Sirocco. A copy of the Company’s corporate chart is attached as Appendix “C”.

3. The three RB subsidiaries in receivership were:
  - a) QLI, whose principal asset was a lithium mine in La Corne, Quebec (the “Lithium Project”), the business and assets of which were sold to the Purchaser pursuant to the Transaction;
  - b) QLIM, which did not carry on business operations, nor did it have any assets or employees. QLIM was a guarantor of certain of QLI’s obligations; and
  - c) Sirocco, being an inactive holding company and an indirect shareholder of Atacama Minerals Chile S.C.M. (“Atacama”), an operational iodine mine located in Aguas Blancas, Chile.

## **2.2 QLI**

1. The Receiver’s First Report to Court dated June 13, 2016 (the “First Report”) provided detailed information on QLI, its Lithium Project and the Transaction and, accordingly, is not repeated herein. A copy of the First Report is attached as Appendix “D”, without appendices.
2. The Transaction was approved by the Court on June 21, 2016 and closed on July 5, 2016. Pursuant to the Transaction, the Receiver and the Purchaser entered into a Transition Services Agreement dated July 5, 2016 (the “TSA”). The purpose of the TSA was for the Receiver to maintain in good standing certain permits and other contracts and agreements until they could be transferred to the Purchaser.
3. The Receiver’s obligations under the TSA precluded the termination of QLI’s receivership pursuant to the Discharge Order issued on July 4, 2017.
4. The TSA expired on January 5, 2018, at which time all outstanding issues were addressed, including the transfer of permits and licenses to the Purchaser.

## **3.0 Secured Creditors**

### **3.1 Court Ordered Charges**

1. The charges created under the Initial Order (the Administration Charge for \$1 million, Interim Lender Charge for \$22 million, Directors’ Charge for \$1.5 million and KERP Charge for \$760,000) have all been discharged pursuant to the CCAA Discharge and Transition Order dated May 8, 2015 and a Court Order issued during these receivership proceedings dated June 21, 2016.
2. The Receivership Order created a Receiver’s Administration Charge to secure the Receiver’s fees and disbursements during these proceedings, including those of its legal counsel. The only outstanding amounts covered by the Receiver’s Administration Charge will be the fees incurred in connection with this motion, which will be funded from the remaining funds in QLI’s receivership account.

### **3.2 Investissement Québec**

1. At the commencement of these proceedings, Bank of Nova Scotia (“BNS”), the Administrative Agent and Lead Arranger on behalf of a lending syndicate comprised of BNS, Caterpillar Financial Services Limited and The Commonwealth Bank of Australia (collectively, the “Senior Lenders”), was owed approximately \$72 million under a senior credit facility dated April 4, 2012, as amended, among RB, QLI and the Senior Lenders (the “Senior Credit Facility”).
2. Pursuant to a Contract of Suretyship dated February 23, 2012 (the “IQ Guarantee”), Investissement Quebec (“IQ”) guaranteed 80% of the net losses incurred by the Senior Lenders on the Senior Credit Facility, up to \$60 million.
3. On May 21, 2015, BNS (as Agent) called the IQ Guarantee. In June, 2015, IQ acquired the obligations to the Senior Lenders pursuant to a Release and Subrogation Agreement and a Debt and Security Assignment Agreement and IQ subrogated to the rights of the Senior Lenders in respect of their rights, title and interest in the Senior Credit Facility.
4. IQ had also advanced \$3 million to QLI on a secured basis in September 2014.
5. At the request of the Receiver, the Receiver’s legal counsel, Osler, Hoskin & Harcourt LLP (“Osler”), provided the Receiver with an opinion on the validity and enforceability of the Senior Credit Facility acquired by IQ. The opinion provides that, subject to customary assumptions and qualifications contained therein, the security granted under the Senior Credit Facility is valid and enforceable against the Company’s assets as described in the security documents.
6. Although the Purchaser assumed as part of the Transaction a portion of the secured debt owing to IQ, IQ incurred a substantial shortfall on its advances to the Company.

### **4.0 Funding of these Proceedings**

1. These proceedings, including the care and maintenance costs of the Lithium Project, were funded from the funds in the Company’s bank accounts at the commencement of the receivership (approximately \$3 million), advances from IQ pursuant to a cost-sharing agreement (approximately \$4 million) and investment tax credit (“ITC”) refunds in the amount of approximately \$17.7 million.
2. The Receiver worked closely with QLI’s management and Ernst & Young LLP (“E&Y”), QLI’s tax advisor, in order to collect the ITC refunds.
3. The proceeds generated during these proceedings were sufficient to repay in full the Company’s obligation of approximately US\$16 million owing to its DIP lender, Hale Capital Partners L.P.
4. A copy of the Receiver’s statement of receipts and disbursements from the commencement of these proceedings to May 13, 2019 (the “R&D”) is attached as Appendix “E”. As reflected on the R&D, there is presently approximately \$18,000 in QLI’s receivership bank account, from which the fees and disbursements incurred by the Receiver and Osler in connection with this motion will be paid.

## 5.0 Receiver's Discharge

1. The Receiver believes that it is appropriate for it to be discharged as Receiver of QLI for the following reasons:
  - a) all of QLI's known assets have been realized and the proceeds realized therefrom have been distributed to its secured creditors in accordance with their respective priorities;
  - b) the Receiver has discharged its duties and obligations in accordance with the Receivership Order and other orders issued in these proceedings;
  - c) the Receiver's administration is complete and there are no outstanding issues at this time, including under the TSA which expired in January, 2018; and
  - d) notwithstanding its discharge, the proposed order contemplates that the Receiver will continue to have the protections afforded to it at law or pursuant to the Receivership Order and other orders issued in these proceedings to the extent required to address any sundry matters that may arise following the termination of these proceedings. This is a standard provision in most discharge orders and the Receiver believes it is appropriate in the circumstances so that it can deal with issues that may arise post-discharge.
2. Based on the foregoing, the Receiver recommends that this Honourable Court terminate the receivership proceedings of QLI and grant the Receiver its discharge.

## 6.0 Overview of the Receiver's Activities

1. The Receiver's activities up to the date of its First Report (June 13, 2016) and Second Report (June 20, 2017) were approved pursuant to Court orders issued on June 21, 2016 and July 4, 2017, respectively. Since that date, the Receiver's activities have included the following:
  - corresponding with the Purchaser and its legal counsel regarding post-closing Transaction matters, including dealing with transfers of permits, vehicles and agreements in accordance with the TSA;
  - drafting the Receiver's Third Report to Court dated March 16, 2018 in connection with a motion brought by Tianjin Products and Energy Resources Development Co. Ltd. ("Tewoo"), in its capacity as creditor of Sirocco;
  - dealing with Tewoo and its legal counsel in accordance with a Court order made on March 23, 2018 in respect of Tewoo's indirect ownership interest in Atacama;
  - dealing with Revenu Quebec in respect of QLI's tax accounts and filings;
  - dealing with cash management issues, including paying post-filing expenses from the receivership account;

- responding to calls and enquiries from various stakeholders;
- filing the Receiver's interim reports with the Office of the Superintendent of Bankruptcy in accordance with Section 246(2) of the *Bankruptcy and Insolvency Act*;
- drafting this Report and reviewing and commenting on all other documents filed in connection with the discharge application; and
- dealing generally with the administration of these proceedings.

## 7.0 Conclusion and Recommendation

1. Based on the foregoing, the Receiver respectfully recommends that this Court make an order granting the relief detailed in Section 1.1(1)(c) of this Report.

\* \* \*

All of which is respectfully submitted,



**KSV KOFMAN INC.,  
IN ITS CAPACITY AS THE COURT-APPOINTED RECEIVER OF  
QUEBEC LITHIUM INC.  
AND NOT IN ITS PERSONAL CAPACITY**



## **Appendix “A”**

# **SUPERIOR COURT**

(Commercial Division)

**CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL**

**No. 500-11-047560-145**

**DATE: May 8, 2015**

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**PRESIDING : THE HONOURABLE MR. JUSTICE MARTIN CASTONGUAY, J.S.C.**

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**IN THE MATTER OF THE RECEIVERSHIP OF:**

**QUÉBEC LITHIUM INC., QLI MÉTAUX INC., RB ENERGY INC. AND SIROCCO MINING INC.**

**Debtors**

**-and-**

**HALE CAPITAL PARTNERS L.P.**

**Petitioner**

**-and-**

**KPMG INC.**

**Monitor**

**-and-**

**DUFF & PHELPS CANADA RESTRUCTURING INC.**

**Receiver**

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**ORDER APPOINTING A RECEIVER**  
**(Section 243 of the *Bankruptcy and Insolvency Act*)**

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- [1] **ON READING** the Petitioner's Motion for the Appointment of a Receiver (the "Motion") pursuant to Article 243 of the *Bankruptcy and Insolvency Act* (the "BIA"), the affidavit and the exhibits in support thereof;
- [2] **SEEING** the service of the Motion;
- [3] **SEEING** the submissions of Petitioner's attorneys;
- [4] **SEEING** that the Petitioner sent the Debtors, the Monitor and creditors of the Debtors' whose rights are published at the appropriate registries a five day Notice of Intention to Enforce a Charge pursuant to the terms of the Second Amended and Restated Initial Order issued by this Court in this matter on October 29, 2014 (the "Second Amended and Restated Initial Order");
- [5] **SEEING** the consent of the Debtors to the issuance of this Order;
- [6] **SEEING** that it is appropriate to appoint a receiver to the Property (such as defined herein) of the Debtors and to terminate the proceedings instituted pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA Proceedings") pursuant to the terms of a Discharge and Transition Order dated May 8, 2015 (the "Discharge and Transition Order");

**WHEREFORE THE COURT:**

- [7] **GRANTS** the Motion;

**SERVICE**

- [8] **ORDERS** that any prior delay for the presentation of this Motion is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof;

**APPOINTMENT**

- [9] **APPOINTS** Duff & Phelps Canada Restructuring Inc., trustee, to act as receiver (the "Receiver") to the Property of Québec Lithium Inc., QLI Métaux Inc., RB Energy Inc. and Sirocco Mining Inc. (collectively, the "Debtors") until one of the following events comes to pass:
  - (a) the sale of all the Property; or
  - (b) the issuance of any order by the Court terminating the mandate of the Receiver;

- [10] **DECLARES** that the order (the "Order") and its effects shall survive the filing by any of the Debtors of a notice of intention to make a proposal or of a proposal pursuant to the terms of the BIA or the bankruptcy of any of the Debtors, unless the Court orders otherwise.
- [11] **DECLARES** the Order and its effects shall survive the termination of the CCAA Proceedings.

**RECEIVER'S POWERS**

- [12] **AUTHORIZES** the Receiver to exercise the following powers:

**A) Powers related to the possession of the Property**

**AUTHORIZES** the Receiver to take possession of all Debtors' present and future assets, rights, undertakings and properties of every nature and kind whatsoever, and wherever situated, including all proceeds thereof but excluding (i) the Retained Amount (as defined in the Discharge and Transition Order); (ii) the QLI Vacation Pay Reserve (as defined in the Discharge and Transition Order), (iii) the monetary retainers paid by the Debtors to the Monitor, the Monitor's counsel, the Debtors' counsel and the Debtors' directors' counsel and (iv) the LC Cash Collateral (as defined below) (collectively, the "Property") and to exercise the following powers listed hereinafter in the place and stead of the Debtors in respect of the Property:

**B) Powers related to the preservation of the Property**

- (a) all the powers necessary for the preservation and for the protection of the Property;
- (b) all the powers necessary to control the Property, the place of business and the premises occupied by the Debtors;
- (c) all the powers necessary to grant the Receiver access, at all times, to the place of business and to the premises of the Debtors, to the Property, and to change the locks and security codes required to grant access to such premises and places of business of the Debtors;
- (d) all the powers necessary to grant the Receiver access to all the accounting records of the Debtors, as well as to any document, contract, register of any nature or kind whatsoever, wherever they may be situated and regardless of the medium on which they may be recorded (the "Records"), as well as the powers necessary to make copies of all the Records necessary or useful to the execution of the Receiver's functions;
- (e) all the powers necessary to undertake an analysis of the Debtors' Records;

**C) Powers related to the Control of Debtors' Receipts and Disbursements**

- (f) except as otherwise provided herein, all the powers necessary to control the Debtors' receipts and disbursements;
- (g) all the powers necessary to collect all the accounts receivable and all the other claims of the Debtors and to transact in respect of same, as well as to sign any document for this purpose;
- (h) all the powers necessary to open any required bank account, pursuant to the terms and conditions the Receiver may determine, with any chartered Canadian bank, or any other financial institution, the whole, in order to cash any item payable to the Debtors, and to issue any payment which, in the opinion of the Receiver, is necessary or useful to the preservation or maintenance of the Debtors' Property;

**[13] ORDERS** the Debtors to remit immediately all cash on hand remaining from advances under the Interim Facility (as defined in the Second Amended and Restated Initial Order) to the Receiver other than the Retained Amount;

**D) Powers related to the disposition or sale of the Property**

- (i) all the powers necessary to interest or solicit one or several potential buyers of all or any part of the Property, including, without limitation, the right to carry out a public call for tenders or private solicitations in order to dispose of the Property;

**[14] ORDERS** the Receiver to petition the Court for authorization to sell all or any part of the Property outside the ordinary course of business, upon finding a purchaser and pursuant to conditions it deems reasonable in the circumstances;

**[15] DECLARES** that, notwithstanding the preceding paragraph, the Receiver shall have the power to sell all or any part of the Property outside the ordinary course of business, without the Court's authorization, provided that the price and value in each case does not exceed \$200,000 or \$4,000,000 in aggregate and subject to the rights of lessors under equipment leases;

**[16] GRANTS** the Receiver all the powers necessary to initiate, prosecute and continue the prosecution of any and all proceedings it considers appropriate, including for the purpose of Sections 34 and 249 of the BIA, within the performance of its duties regarding the Property;

**[17] AUTHORIZES** the Receiver to retain the services of any lawyer, or of any person or business in order to appropriately fulfil its functions;

**[18] DECLARES** that the Receiver may provide creditors and other relevant stakeholders with information in response to requests made by them in writing. A copy of such requests must be sent to the Petitioner's attorney. Where the Receiver has been

advised by the Petitioner that information is confidential, proprietary or competitive, the Receiver shall not provide such information to any person without the consent of the Petitioner unless otherwise directed by this Court.

#### **DEBTORS' DUTIES**

- [19] **ORDERS** the Debtors, their directors, officers, employees, agents and representatives to forthwith provide the Receiver with access to the Property, to the places of business and to the premises of the Debtors, as well as to the Records;
- [20] **ORDERS** the Debtors, their directors, officers, employees, agents and representatives to cooperate with the Receiver in the exercise of the powers that are granted pursuant to the terms of the Order;
- [21] **ORDERS** the Debtors not to dispose, alienate, encumber or otherwise transact in any manner whatsoever, with regard to the Property, other than in the ordinary course of business or with the authorization of the Receiver;

#### **NON-INTERFERENCE WITH THE RECEIVER, THE DEBTORS AND THE PROPERTY**

- [22] **ORDERS** that subject to any other order rendered by the Court, which may only be rendered after a prior notice has been duly sent to the Receiver and to the Petitioner, no proceeding, seizure, revendication, or any other enforcement process shall be commenced or enforced against the Property;
- [23] **ORDERS** that no person shall interrupt, modify, terminate or fail to execute its obligations pursuant to any contract, agreement, license or permit entered into with any of the Debtors without the prior consent of the Receiver or without the authorization of the Court, provided however that The Bank of Nova Scotia ("BNS") may terminate any VISA card issued to any of the Debtors or on behalf of the Debtors to any of their employees or former employees, as the case may be;

#### **CONTINUATION OF SERVICES**

- [24] **ORDERS** that any person having an oral or written agreement with the Debtors, as well as any supplier of goods or services to the Debtors is hereby restrained until further order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services, as may be required by the Receiver and that the Receiver shall be authorized to continue use of the Debtors' current premises, telephone numbers, facsimile numbers, internet addresses, domain names and other services, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Receiver, in accordance with the normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court;

## **EMPLOYEES**

- [25] **AUTHORIZES** the Receiver, on behalf of the Debtors, to continue to engage the services of the employees of the Debtors until the Receiver, acting for and on behalf of the Debtors, terminates the employment of such employees. The Receiver shall not be liable for any employee related liabilities, including any successor-employer liabilities as provided for in sections 14.06(1.2) of the *BIA* other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) and 81.6(3) of the *BIA* or under the *Wage Earner Protection Program Act*;

## **PROTECTION OF PERSONAL INFORMATION**

- [26] **DECLARES** that pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Receiver shall be permitted to disclose personal information on identifiable individuals, which information it has in its possession or under its responsibility, to interested parties or to investors, financiers, prospective purchasers or potential strategic partners, as well as to their advisors, but only to the extent desirable or required, and only upon condition that the persons to whom such personal information is disclosed shall undertake to maintain and protect the privacy of such information and limit the use of such information pursuant to confidentiality agreements entered into with the Receiver;

## **LIMITATION OF LIABILITY**

- [27] **DECLARES** that subject to the powers granted to the Receiver pursuant to the terms of paragraph 12 of the Order, nothing contained herein shall require the Receiver to occupy or to take control, or to otherwise manage all or any part of the Property. The Receiver shall not and shall not be deemed, as a result of this Order, to be in possession or the custodian of any of the Property within the meaning of environmental legislation, the whole pursuant to the terms of the *BIA*;
- [28] **DECLARES** that the Receiver is not subject to any of the obligations contained in sections 232.1 to 232.12 of the *Mining Act*, C.Q.L.R., c. M-13.1 (the "*Mining Act*"), and is not required to comply with any remediation and restoration plan submitted to the Minister of Natural Resources and Wildlife by the Debtors pursuant to section 232.1 of the *Mining Act* nor the supply any guarantee pursuant to section 232.4 of the *Mining Act*. Should the Receiver intend to move, disturb or damage a facility erected under division III of chapter 4 of the *Mining Act*, it shall notify in writing the Minister of Natural Resources and Wildlife.
- [29] **ORDERS** the Receiver to notify in writing the Minister of Natural Resources and Wildlife should it intend to seek from this Court the powers necessary to operate Quebec Lithium Inc.'s mining business.



- [30] **DECLARES** that the powers of the Receiver shall be exercised pursuant to its sole discretion and judgment;
- [31] **DECLARES** that any act or decision made by the Receiver in the exercise of its powers granted by this Order shall be deemed to be made on behalf of the Debtors;
- [32] **DECLARES** that section 215 of the *BIA* applies *mutatis mutandis*, and hence that no action lies against the Receiver by reason of its appointment or the execution of the powers granted by the Court, except by leave of the Court. The entities related to the Receiver or belonging to the same group as the Receiver shall benefit from the protection arising under the present paragraph;

**FEES**

- [33] **DECLARES** that as security for the professional fees and disbursements incurred in relation to these proceedings, both before and after the date of the Order, a charge and security over the Property is hereby constituted in favour of the Receiver, of the Receiver's attorneys and other advisors, to the extent of the aggregate amount of \$500,000 (the "Receiver's Administration Charge");
- [34] **DECLARES** that, other than the Tewoo Security and the BNS Cash Collateral Charge, the Receiver's Administration Charge shall rank in priority to any and all hypothecs, mortgages, liens, security interests, priorities, charges, encumbrances, construction liens or security of whatever nature or kind affecting the Property, including any and all charges created by this Court in the CCAA Proceedings (the "CCAA Charges") (which CCAA Charges shall continue to bind the Property pursuant to the provisions of the Discharge and Transition Order) and all charges created by orders issued by this Court in this matter (collectively, the "Encumbrances") affecting the Property charged by such Encumbrances;
- [35] **DECLARES** that the Receiver's Administration Charge is effective and shall charge, as of 12:01 a.m. (Montreal time) the day of the Order (the "Effective Time"), all the Debtors' Property present and future;
- [36] **DECLARES** that notwithstanding: (i) these proceedings and any declaration of insolvency made herein, (ii) any petition for a bankruptcy order filed pursuant to the *BIA* in respect of the Petitioner and any bankruptcy order granting such petition or any assignment in bankruptcy made or deemed to be made in respect of the Petitioner and (iii) the provisions of any federal or provincial statute, the payments or disposition of Property made by the Receiver pursuant to the Order and the granting of the Receiver's Administration Charges do not and will not constitute settlements, fraudulent preferences, fraudulent conveyances or other challengeable or reviewable transactions or conduct meriting a recourse for abuse under an applicable law, and shall be valid and enforceable as against any person, including any trustee in bankruptcy, and any receiver to the Property of the Debtors;



- [37] **AUTHORIZES** the Receiver to collect the payment of its fees and disbursements and those of its attorneys, with the consent of the Petitioner, the whole subject to taxation in conformity with the BIA, if applicable;
- [38] **DECLARES** that notwithstanding anything to the contrary herein the Receiver's Administration Charge shall be junior and subordinate to the Tewoo Security as against the Pledged Shares (as defined in the Motion).
- [39] **DECLARES** that, in respect of certain pre-filing letters of credit issued by BNS and pre-filing credit card and other cash management services provided to the Debtors and certain persons related to the Debtors, secured by cash collateral (the "LC Cash Collateral") maintained by BNS in an aggregate principal amount of CDN\$4,001,420 (the "LC Exposure"), the Receiver's Administration Charge, as may attach to the LC Cash Collateral, including by operation of law or otherwise, (a) shall rank junior in priority to the BNS Cash Collateral Charge and (b) shall attach to the LC Cash Collateral only to the extent of the rights of the Debtors to the return of any LC Cash Collateral from BNS following (i) the payment and satisfaction of all LC Exposure and (ii) the exercise of any rights in respect of the LC Cash Collateral pursuant to Section 97(3) of the BIA, notwithstanding anything to the contrary contained herein.

#### **RECORDS**

- [40] **DECLARES** that the Receiver shall allow current or former directors of the Debtors or their authorized representatives reasonable access to the Records on reasonable notice to the Receiver and provide at least 7 days' prior written notice to the directors before destroying such Records or transferring such Records to another party;

#### **GENERAL**

- [41] **DECLARES** that the Order, the Motion and the affidavit do not, in and of themselves, constitute a default or failure to comply by the Debtors under any statute, regulation, license, permit, contract, permission, covenant, agreement, undertaking or any other written document or requirement;
- [42] **DECLARES** that the Receiver is at liberty to serve any notice, circular or any other document in connection with these proceedings by forwarding copies by prepaid ordinary mail, courier, personal delivery or electronic transmission to persons or other appropriate parties at their respective given address as last shown in the Records; the documents served in this manner shall be deemed to be received on the date of delivery if by personal delivery or electronic transmission, on the following business day if delivered by courier, or three (3) business days after mailing if delivered by ordinary mail;
- [43] **DECLARES** that the Receiver may serve any court materials in these proceedings on all represented parties, by emailing a PDF or other electronic copy of such

materials to counsels' email addresses, provided that the Receiver shall deliver "hard copies" of such materials upon request to any party as soon as practicable thereafter;

**[44]** **DECLARES** that any party interested in these proceedings may serve any court material in these proceedings by emailing a PDF or other electronic copy of such materials to counsels' email addresses, provided that such party shall deliver a "hard copy" on paper of such PDF or electronic materials to the Debtors' and the Receiver's counsel and to any other party who may request such delivery;

**[45]** **DECLARES** that a copy of all court material served in these proceedings shall be sent to the Receiver, the Receiver's counsel and Hale Capital Partners L.P.'s counsels at the following email addresses:

**If to the Receiver:**

Duff & Phelps Canada Restructuring Inc.  
c/o: Robert Kofman and David Sieradzki  
Bobby.Kofman@duffandphelps.com  
David.Sieradzki@duffandphelps.com

**If to the Receiver's counsel:**

Osler, Hoskin & Harcourt LLP  
c/o: Martin Desrosiers and Tracy Sandler  
mdesrosiers@osler.com  
tsandler@osler.com

**If to Hale Capital Partners L.P.'s counsel:**

Davies Ward Phillips & Vineberg LLP  
c/o: Jay Swartz, Denis Ferland and Gabriel Lavery Lepage  
jswartz@dwpv.com  
dferland@dwpv.com  
glepage@dwpv.com


**[46]** **DECLARES** that, unless otherwise provided herein, ordered by this Court, or provided by the BIA, no document, order or other material need be served on any person in respect of these proceedings, unless such person has served a notice of appearance on the solicitors for the Debtors and the Receiver and has filed such notice with the Court;



**[47]** **DECLARES** that any interested Person may apply to this Court to vary or rescind the Order or seek other relief upon five (5) days notice to the Receiver, the Petitioner and

any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order;

- [48] **DECLARES** that the present Order and all other orders in these proceedings shall have full force and effect in all provinces and territories in Canada;
- [49] **DECLARES** that the Receiver shall be authorized to apply as it may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada, the United States of America or elsewhere, for orders which aid and complement the Order and any subsequent orders of this Court and, without limitation to the foregoing, an order under Chapter 15 of the *U.S. Bankruptcy Code*, for which the Receiver shall be the foreign representative of the Debtors. All courts and administrative bodies of all such jurisdictions are hereby respectively requested to make such orders and to provide such assistance to the Receiver as may be deemed necessary or appropriate for that purpose;
- [50] **REQUESTS** the aid and recognition of any Court or administrative body in any Province of Canada and any Canadian federal court or administrative body and any federal or state court or administrative body in the United States of America and any court or administrative body elsewhere, to act in aid of and to be complementary to this Court in carrying out the terms of the Order;

[51] **ORDERS** the provisional execution of the present Order notwithstanding any appeal and without the requirement to provide any security or provision for costs whatsoever;

  
\_\_\_\_\_

  
  
\_\_\_\_\_  
Clerk adjoint

## **Appendix “B”**

# SUPERIOR COURT

CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL

No: 500-11-049079-151

DATE: July 4, 2017

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BEFORE THE HONOURABLE MARTIN CASTONGUAY, J.S.C.

---

IN THE MATTER OF THE RECEIVERSHIP OF: QUÉBEC LITHIUM INC., QLI MÉTAUX INC., RB ENERGY INC. AND SIROCCO MINING INC.

Debtors

-and-

**KSV KOFMAN INC.**

Receiver/Petitioner

-and-

**NORTH AMERICAN LITHIUM INC.**

-and-

**TIANJIN PRODUCTS AND ENERGY RESOURCES DEVELOPMENT CO., LTD**

-and-

**ATACAMA MINERALS CHILE S.C.M.**

Mises-en-cause

---

## JUDGMENT

---

[1] The Petitioner, KSV Kofman Inc., as receiver (the "**Receiver**") of the Debtors Québec Lithium Inc., QLI Métaux Inc., RB Energy Inc. and Sirocco Mining Inc., presents an *Application for the Termination of the Receivership and for a Discharge Order with respect to QLI Métaux Inc., RB Energy Inc. and Sirocco Mining Inc.* (hereinafter collectively referred to as the "**Corporations**") dated June 20, 2017 (the "**Application**")

pursuant to sections 243 and following of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 (the "**BIA**");

[2] **CONSIDERING** the Application, the affidavit and the exhibits in support thereof as well as the representations of the Receiver's attorney;

[3] **CONSIDERING** the second report of the Receiver dated June 20, 2017 (the "**Receiver's Second Report**");

[4] **CONSIDERING** the provisions of the BIA.

**FOR THESE REASONS, THE COURT:**

[5] **GRANTS** the Application.

[6] **DECLARES** that the service of the Application constitutes good and sufficient service on all persons and further **DECLARES** that the Petitioner is relieved of any other requirements for service of the Application.

[7] **DECLARES** that all capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Application.

**APPROVAL OF RECEIVER'S ACTIONS AND ACTIVITIES**

[8] **ORDERS** and **DECLARES** that the actions and activities of the Receiver as regards the Corporations described in the *Second Report of the Receiver* dated June 20, 2016 are hereby approved.

**Confidentiality**

[9] **ORDERS** that Confidential Appendix "1" to the Receiver's Second Report shall be sealed, kept confidential and not form part of the public record, but rather shall be placed, separate and apart from all other contents of the Court file, in a sealed envelope attached to a notice that sets out the title of these proceedings and a statement that the contents are subject to a sealing order and shall only be opened upon further Order of the Court.

**TERMINATION AND DISCHARGE**

[10] **ORDERS** and **DECLARES** that, except as expressly provided in this Order, the proceedings initiated under the BIA with respect to the Corporations (the "**Receivership Proceedings**") shall be and are hereby terminated.

[11] **ORDERS** and **DECLARES** that, subject to the terms of this Order, the Receiver is hereby discharged as the receiver of all of the Corporations' present and future assets,

rights, undertakings and properties of every nature and kind whatsoever, and wherever situated, including all proceeds thereof.

[12] **ORDERS** that, notwithstanding its discharge herein, (a) the Receiver shall remain Receiver for the performance of such incidental duties as may be required to complete the administration of the receivership herein, and (b) the Receiver shall continue to have the benefit of the provisions of all Orders made in the Receivership Proceedings, including all approvals, protections and stays of proceedings in favour of KSV Kofman Inc. in its capacity as Receiver.

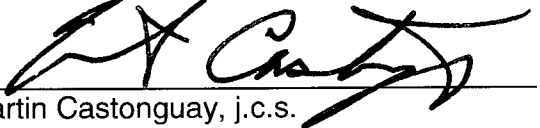
[13] **ORDERS AND DECLARES** that no action, demand, claim, complaint or other proceedings shall be commenced or filed against the Receiver in any way arising out of or related to its capacity, decisions, actions or conduct as Receiver, except with prior leave of this Court and on prior written notice to the Receiver, the whole as provided in the Order appointing the Receiver dated May 8<sup>th</sup> 2015, and such further order securing, as security for costs, the full judicial and reasonable extrajudicial costs of the Receiver in connection with any proposed action or proceedings as the Court hearing such motion for leave to proceed may deem just and appropriate.

[14] **DECLARES** that this Order shall have full force and effect in all provinces and territories in Canada.

[15] **DECLARES** that the Receiver shall be authorized to apply as it may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada or elsewhere, for orders which aid and complement this Order.

[16] **REQUESTS** the aid and recognition of any court or administrative body in any Province of Canada and any Canadian federal court or administrative body and any court or administrative body elsewhere, to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

**THE WHOLE WITHOUT COSTS.**

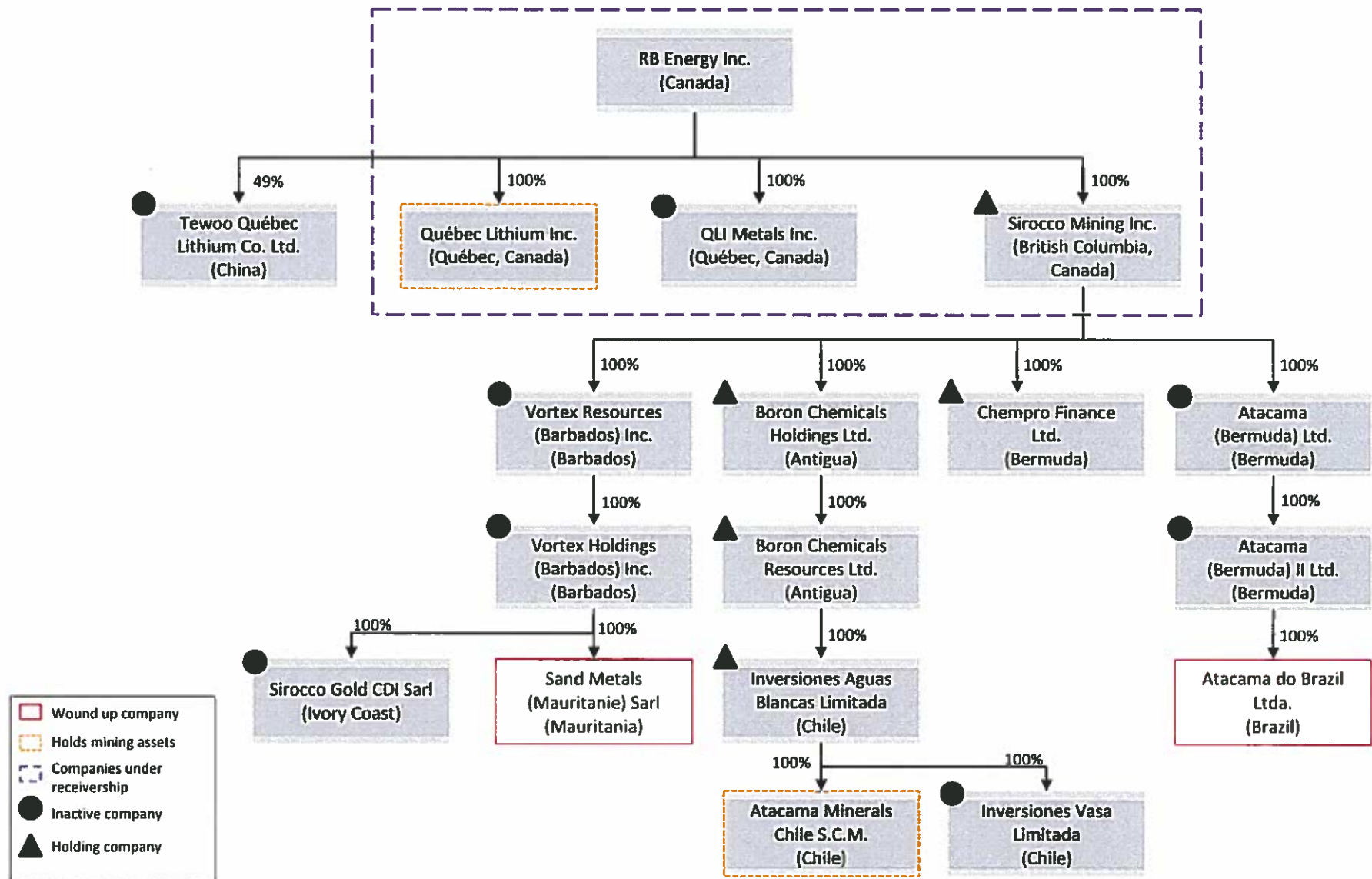
  
Martin Castonguay, j.c.s.

ME ME MARTIN DESROSIERS  
ME JULIEN MORISSETTE  
ME JULIEN HYNES-GAGNÉ  
OSLER, HOSKIN & HARCOURT LLP  
COUNSEL TO PETITIONER  
Hearing date : July 4<sup>th</sup> 2017



## **Appendix “C”**

# Organizational chart



## **Appendix “D”**



**First Report of  
KSV Kofman Inc.  
as Receiver of  
RB Energy Inc., Quebec Lithium Inc.,  
QLI Metaux Inc. and Sirocco Mining Inc.**

**June 13, 2016**

<b>Contents</b>	<b>Page</b>
1.0 Introduction .....	1
1.1 Purposes of this Report .....	2
1.2 Restrictions.....	2
1.3 Currency .....	3
2.0 Executive Summary .....	3
3.0 Background .....	5
3.1 QLI.....	5
3.1.1 Environmental Matters .....	6
3.2 Sirocco .....	8
4.0 Secured Creditors .....	9
4.1 Court Ordered Charges .....	9
4.2 Hale .....	10
4.3 Investissement Quebec .....	11
4.4 Construction Hypothec Claims .....	11
4.5 Tianjin Products and Energy Resources Development Co. Ltd. ....	11
4.6 Other .....	12
5.0 Funding of these Proceedings .....	12
6.0 SISP .....	13
6.1 Results of the SISP .....	14
6.2 Termination of the SISP .....	15
6.3 Monitor's Overview of the SISP .....	15
6.4 Sealing .....	16
7.0 Receivership Sale Efforts.....	16
8.0 Transaction .....	18
8.1 Recommendation .....	20
9.0 Proposed Repayment of Hale Debt .....	22
10.0 Overview of the Receiver's Activities .....	22
11.0 Conclusion and Recommendation .....	24

## Appendices

Appendix	Tab
Receivership Order dated May 8, 2015 .....	A
Corporate Organizational Chart .....	B
Receiver's Certificate re QLI Vacation Pay and Post-Petition Payables .....	C
SISP Termination Notice dated April 15, 2015 .....	D
Letter from KPMG Inc. dated May 18, 2016 .....	E

## Confidential Appendices

Appendix	Tab
Buyer List .....	1
Summary of Letters of Intent .....	2

CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF MONTRÉAL  
No: 500-11-049079-151

SUPERIOR COURT  
(Commercial Division)

IN THE MATTER OF THE RECEIVERSHIP  
OF:

QUEBEC LITHIUM INC., QLI METAUX  
INC., RB ENERGY INC. AND SIROCCO  
MINING INC.

Debtors

-and-  
HALE CAPITAL PARTNERS, L.P.,  
INVESTISSEMENT QUÉBEC *ET AL.*

Mis-en-cause

FIRST REPORT OF  
KSV KOFMAN INC.  
AS RECEIVER  
June 13, 2016

## 1.0 Introduction

1. This report ("Report") is filed by KSV Kofman Inc. ("KSV") in its capacity as Court-appointed receiver (the "Receiver") of the assets, properties and undertakings of Quebec Lithium Inc. ("QLI"), QLI Metaux Inc. ("QLIM"), RB Energy Inc. ("RB") and Sirocco Mining Inc. ("Sirocco") (collectively, the "Company").
2. On October 14, 2014, the Superior Court (Commercial Division) of the Province of Quebec, District of Montreal (the "Court") granted the Company protection pursuant to the *Companies' Creditors Arrangement Act* ("CCAA") pursuant to an Initial Order, as amended and restated (the "Initial Order"). KPMG Inc. ("KPMG") was appointed the Monitor in the CCAA proceedings.
3. Pursuant to Court Orders made on May 8, 2015, the CCAA proceedings were terminated and Duff & Phelps Canada Restructuring Inc. ("D&P") was appointed Receiver (the "Receivership Order"). A copy of the Receivership Order is attached as Appendix "A".
4. On June 30, 2015, D&P was acquired by KSV. Pursuant to an Order of the Ontario Superior Court of Justice (Commercial List) made on July 10, 2015, D&P's ongoing mandates were transferred to KSV. The restructuring professionals overseeing this mandate prior to June 30, 2015 remain unchanged.
5. The primary purpose of these receivership proceedings has been to preserve the Company's assets until a going-concern solution for the Company was identified.

## 1.1 Purposes of this Report

1. The purposes of this Report are to:
  - a) provide information about the Company and these receivership proceedings;
  - b) detail a transaction (the “Transaction”) with 9554661 Canada Inc. (the “Purchaser”), a subsidiary of Jien International Investment Ltd. (“Jien”), that, subject to Court approval, will result in the sale of substantially all of QLI’s business and assets pursuant to an Asset Purchase Agreement dated June 10, 2016 between the Receiver and the Purchaser (the “APA”);
  - c) discuss a Court-approved sale and investor solicitation process (“SISP”) carried out by Rothschild Inc. (“Rothschild”) from November 1, 2014 to April 30, 2015 in the Company’s CCAA proceedings;
  - d) detail interest expressed by various prospective purchasers over the course of the receivership proceedings and how that interest was considered;
  - e) provide the Receiver’s rationale for recommending the Transaction for Court approval; and
  - f) recommend that the Court issue an Order:
    - i. approving the Transaction;
    - ii. vesting title in and to the Purchased Assets (as defined in the APA) in the Purchaser free and clear of all liens, claims and encumbrances, except those set out in the schedule to the draft Vesting Order (the “Permitted Liens”);
    - iii. authorizing and directing the Receiver to repay, by direction or otherwise, the Company’s indebtedness to Hale, which is secured by a Court-ordered charge made in the CCAA proceedings and continued pursuant to the Receivership Order (the “Interim Lender Charge”);
    - iv. discharging those Court-ordered charges created in the CCAA proceedings which were continued in the receivership pursuant to the Receivership Order;
    - v. sealing the Confidential Appendices to this Report until further Court Order; and
    - vi. approving the Receiver’s activities from the commencement of these proceedings, as detailed herein.

## 1.2 Restrictions

1. In preparing this Report, the Receiver has relied upon unaudited financial information prepared by the Company’s management, the Company’s books and records, discussions with the Company’s management and other information, including technical and engineering reports and studies commissioned by the Company.



2. The Receiver has not performed an audit or other verification of such information. An examination of the Company's financial forecasts as outlined in the Chartered Professional Accountant Canada handbook has not been performed. Future-oriented financial information relied upon in this Report is based on assumptions regarding future events provided by management and/or by consultants retained by the Company; actual results achieved may vary from this information and these variations may be material. The Receiver accepts no responsibility for any third party reliance on the financial or other information provided in this Report.

### **1.3 Currency**

1. Unless otherwise noted, all currency references in this Report are in Canadian dollars.

## **2.0 Executive Summary**

1. The Company was granted CCAA protection on October 14, 2014.
2. Pursuant to the Court-approved SISP, Rothschild marketed the Company's business and assets on an en bloc or piecemeal basis.
3. No acceptable offers were received during the SISP and it was duly terminated as declared in the Court Order dated April 17, 2015.
4. On May 8, 2015, the Receivership Order was issued on application of Hale, in its capacity as DIP lender. Hale is presently owed approximately US\$16 million.
5. In June, 2015, Investissement Quebec ("IQ"), which at the time was a subordinate secured lender and guarantor of 80% (up to \$60 million) of the Company's senior credit facility, acquired at a discount the Company's senior lender debt. The senior lenders were owed approximately \$72 million at the time.
6. Hale and IQ have funded the Company's business during these proceedings, including its care and maintenance costs. These costs average approximately \$450,000 per month, before professional fees and capital expenditures necessary to deal with environmental matters at the QLI mine.
7. Because the SISP was unsuccessful, Hale and IQ commissioned at the outset of the receivership engineering and technical studies concerning the viability of QLI's lithium mine and chemical processing plant in La Corne, Quebec (the "Lithium Project"), including the costs and time required to bring it into production.
8. A technical report issued by BBA Inc. ("BBA") in November, 2015 estimates the capital required to bring the Lithium Project into production is between \$150 million and \$200 million. The timeline to bring the mine to production is estimated to be 12 to 18 months.
9. There was no formal sale process during the receivership given the low value of the expressions of interest received during the SISP, and that all expressions of interest during the receivership required IQ to compromise the debt owed to it by the Company or were conditional on diligence and/or financing.

10. Through the end of December, 2015, it appeared a strong possibility that Hale would not be able to recover its loans to the Company.
11. In December, 2015, interest in the Lithium Project increased due to the strengthening of the lithium market. IQ advised at that time that it was prepared to consider a transaction with the Purchaser due in part to its confidence in Jien, an entity with which it has a relationship on another transaction. The Receiver has been advised that IQ is familiar with Jien and therefore is of the view that Jien has the technical expertise and financial capacity required to bring the Lithium Project into production, as well as the operational knowledge to operate it.
12. Throughout the receivership process, and particularly from January, 2016 onward, the Receiver directed all interested parties to IQ because its support was required for any transaction.
13. The Company has no liquidity and there is no funding for another sale process at this time, including from Hale and IQ.
14. There is urgency to complete the Transaction given that there are significant environmental issues that will require funding in the near future, including capital expenditures.
15. QLI's employees familiar with environmental matters and its consultants have estimated that capital expenditures of approximately \$300,000 per month are required to address QLI's ongoing environmental issues at the Lithium Project. These costs need to be funded until an evaporator/crystallizer ("Crystallizer") can be installed, which is to be a permanent fix for the environmental issues. The Crystallizer is estimated to cost \$30 million and will require up to nine months to deliver and install. Until a Crystallizer is operational, there is a risk that the ongoing preventative measures being undertaken by QLI will not adequately address the water level and treatment issues. This risk increases during the winter and, given the lead-time to install the Crystallizer, there is urgency to complete a transaction with a party capable of funding the Crystallizer project. Other capital expenditures may be required if the Crystallizer cannot be installed prior to next winter, including, potentially, raising the berm/dam by approximately 1.5 metres, which, in and of itself, is estimated to cost \$2.5 million.
16. The Transaction will see substantially all of the business and assets of QLI sold to the Purchaser, with the Purchaser having options to acquire certain of the Company's subsidiaries.
17. The Receiver supports the Transaction based on the results of the SISP, the expressions of interest received during the receivership, IQ's support for the Transaction, and the need to address in the short term the environmental concerns at the Lithium Project. IQ is of the view that the acquisition of the Lithium Project by the Purchaser will enhance economic prosperity in the Val D'Or, Quebec region, which has been adversely affected by the downturn in the mining sector.
18. Hale also supports the Transaction.

## 3.0 Background

1. RB is a public company. Until November 24, 2014, the common shares of RB traded on the Toronto Stock Exchange and the U.S. OTCQX marketplace, at which time they were delisted.
2. RB was established to acquire, explore, develop and mine mineral resource properties in Canada and internationally. RB has 16 current and former direct and indirect subsidiaries, including QLI, QLIM and Sirocco. A copy of the Company's corporate chart is attached as Appendix "B".
3. The three RB subsidiaries in receivership are:
  - a) QLI, the principal asset of which is the Lithium Project;
  - b) QLIM, which does not carry on business operations, nor does it have any assets or employees. QLIM is a guarantor of certain of QLI's obligations; and
  - c) Sirocco, being an inactive holding company and the indirect shareholder of Atacama Minerals Chile S.C.M. ("Atacama"), an operational iodine mine located in Aguas Blancas, Chile (the "Aguas Blancas Project").

### 3.1 QLI

1. QLI's primary asset is the Lithium Project, which has been on "care and maintenance" since October, 2014. Although activities have been ongoing to bring the facility into operation, the Lithium Project has never been fully operational.
2. In the three years prior to the commencement of formal insolvency proceedings, RB, through QLI, invested approximately \$350 million in the development of the Lithium Project.
3. QLI currently employs 14 individuals. QLI's workforce is not unionized and QLI does not maintain any pension plans. Since the commencement of the receivership proceedings, QLI's employees have been performing care and maintenance functions, addressing environmental issues, assisting the Receiver with administrative and accounting functions, and assisting with technical studies and assessments of the Lithium Project.
4. The Lithium Project's monthly care and maintenance costs total approximately \$450,000, before professional fees and capital expenditures required to address environmental matters. These are the minimum costs that need to be incurred to keep the mine on care and maintenance. A summary of these costs is provided in the table below.

Description	Monthly Cost (\$000s)
Payroll, including consultants on contract	160
Site maintenance	95
Insurance	80
Energy	50
Municipal and property taxes	35
Security	30
Total	450

5. Based on a detailed engineering and technical study dated November 16, 2015 prepared by BBA, an engineering consulting firm, the capital required to complete the Lithium Project and bring it into production is estimated to range from \$150 million to \$200 million. BBA estimates that the Lithium Project is at least 12 to 18 months from an operational restart.
6. Other than the Lithium Project, QLI's only known material assets are the cash in its receivership bank account (approximately \$14.2 million as at the date of this Report) and a potential refund for investment tax credits in the amount of approximately \$3.6 million related to fiscal 2014, which is presently being audited by Revenu Quebec<sup>1</sup>.
7. QLI's secured debt totals approximately \$100 million, the details of which are set out in Section 4.0 of this Report. According to its books and records, QLI's unsecured obligations total approximately \$21.5 million.

### 3.1.1 Environmental Matters

1. On or about April 27, 2015, Environment Canada ("EC") served the Company and certain representatives with a Notice of Intent to issue a Direction pursuant to the Fisheries Act, R.S.C., 1985, c. F-14 (the "Notice of Intent"), including a draft Direction. The Direction was ultimately not issued.
2. On or about May 8, 2015, immediately following the Receiver's appointment, EC served the Receiver with a revised Notice of Intent, including a further draft Direction. The draft Direction required certain actions, including (i) measures to prevent the potential deposit of deleterious substances from the waste water collection ponds, and (ii) requirements to submit the first study design and perform the first biological monitoring study pursuant to the Metal Mining Effluent Regulations, SOR/2002-222 (the "MMERs") by certain proposed deadlines (the "MMERs Studies").

<sup>1</sup> On April 14, 2016, Revenu Quebec approved and paid approximately \$16.5 million for similar tax refund claims related to QLI's 2012 and 2013 fiscal years.

3. The Receiver and Osler, Hoskin & Harcourt LLP (“Osler”), the Receiver’s legal counsel, have corresponded extensively with EC regarding the Notice of Intent and proposed Direction, and the status of various environmental matters at QLI’s mine site. On the basis of, among other things, a voluntary action plan submitted to EC by the Receiver on or about May 27, 2015, EC confirmed in writing on June 2, 2015 that it would not issue the proposed draft Direction against the Receiver. Subsequently, EC confirmed that its immediate concerns, as outlined in the Notice of Intent and draft Direction, had been addressed and that it did not plan to issue the proposed draft Direction against the Company. The draft Direction was not issued.
4. QLI, the Receiver and Osler have had a frequent and ongoing dialogue with EC and the Quebec Ministry of Sustainable Development, Environment and Fight against Climate Change (“EQ”) regarding environmental matters at QLI’s mine site and QLI’s environmental action plan. The Receiver, through QLI, has been addressing environmental matters as identified by EC, EQ, QLI and third party environmental consultants, as applicable, including engaging third party advisors, contractors and suppliers to deal with collection pond water level management issues, the treatment of waters stored in the collection ponds and the controlled release of those treated waters to the environment through QLI’s final discharge point, toxicity levels in relation to those released waters, certain repairs and the potential construction of an emergency spillway. The Receiver has also caused QLI to invest significantly in capital equipment required to address the immediate environmental concerns raised by EC and EQ, including improvements to increase the capacity of QLI’s water treatment system.
5. As part of this frequent and ongoing dialogue, QLI received two Avertissements from EC, dated December 24, 2015 and February 17, 2016, relating to (i) the toxicity tests QLI conducted to monitor the quality of the water released from QLI’s final discharge point, which in some instances had not passed certain regulatory requirements, and (ii) the submission of the MMERs Studies. In addition, QLI received three Notices of Non-Compliance from EQ, dated November 4, 5 and 9, 2015, relating to point (i) above and also to the water level in the tailings collection pond, which was above its legal operating limit. The Receiver, through QLI, has responded to all of these Notices of Non-Compliance, which are proactively being addressed.
6. Monitoring and addressing environmental matters has been a significant and costly focus of the Receiver and its counsel from the outset of these proceedings. Funding has been requested and allocated, as required, in order for the Receiver to cause QLI to remain in compliance with the applicable environmental legislation and the action plan provided to EC.

## 3.2 Sirocco

1. Sirocco is an inactive holding company. Aside from the amounts owed pursuant to a guarantee in favor of Tewoo referred to in Section 4.5 below, it has no third party debt and its only asset is its indirect shareholdings of Atacama. The three corporate entities<sup>2</sup> between Sirocco and Atacama are inactive holding companies with no known third party liabilities of significance. Atacama is not subject to these receivership proceedings - it is operating in the normal course.
2. RB and its predecessor companies have indirectly invested approximately \$130 million in Atacama's Aguas Blancas Project over the past 20 years.
3. The Aguas Blancas Project has been in operation since 2001 with annual production in the range of 1,000 tons of iodine. Atacama presently employs 246 individuals, of which 144 are unionized<sup>3</sup>.
4. As a result of the decline in the global iodine markets, Atacama's financial performance has deteriorated in recent years. The table below summarizes Atacama's operating results and net equity/(deficit) for its fiscal years ended December 31, 2014 and 2015 and the three month period ended March 31, 2016.

(US\$000s)	2016 (three months) (unaudited)	2015 (audited)	2014 (audited)
Sales	8,001	36,765	50,251
Operating costs	7,279	35,682	52,068
Operating profit/(loss)	722	1,083	(1,817)
Overhead/other expenses <sup>4</sup>	1,610	9,196	3,622
Net profit/(loss) before interest and taxes	(888)	(8,113)	(5,439)
Interest	2,157	8,654	9,107
Income taxes	(892)	(4,273)	(2,154)
Net profit/(loss)	(2,154)	(12,494)	(12,392)
Retained earnings/(Deficit)	(21,493)	(19,340)	(6,846)
Total equity	(4,142)	(1,988)	10,506

5. Atacama's operating losses caused, *inter alia*, a liquidity crisis beginning in 2015 and the erosion of the balance of its equity. The income statement for the three months ended March, 2016 reflect that losses are recurring. Atacama's March, 2016 balance sheet reflects negative retained earnings of approximately US\$21.5 million. Atacama was unable to generate sufficient cash flow to service its bank debt and continue to operate in the normal course.

<sup>2</sup> These entities are Boron Chemicals Holdings Ltd. (incorporated in Antigua), Boron Chemicals Resources Ltd. (incorporated in Antigua) and Inversiones Aguas Blancas Limitada (incorporated in Chile).

<sup>3</sup> The union is Sindicato de Trabajadores de la Empresa Atacama Minerals Chile S.C.M.

<sup>4</sup> In 2015, the equipment used in Atacama's nitrate plant was disposed and written off. The write-off totalled approximately US\$6.4 million, which is included in the "other expenses" line item in the table above.

6. Due to its cash flow issues, Atacama commenced a process in the fourth quarter of 2014 to refinance its bank debt. At that time, Atacama's bank debt totaled approximately US\$30 million owing to Scotiabank Chile, Banco Bilbao Vizcaya Argentaria, S.A., Banco de Crédito e Inversiones S.A., Banco Itau Chile and Banco Del Estado De Chile (collectively, the "Chilean Banks").
7. The refinancing process was completed in February, 2016. The refinancing converted approximately US\$25 million of short term demand loans into a US\$3 million working capital facility and a US\$22 million term loan.
8. The table below provides a summary of Atacama's creditors as at March 31, 2016.

Description	Amount (US\$000s)
Bank debt	24,804
Mine closure costs <sup>5</sup>	3,033
Other liabilities	3,071
Subtotal	30,908
Due to related parties	96,597
Total	127,505

9. In addition to its secured debt, Atacama has third party debt of a further \$6 million, before considering "off-balance sheet" liabilities, including employee, environmental and other obligations.
10. Atacama is also indebted on an unsecured basis in the amount of approximately US\$97 million to Chempro Finance Ltd. ("Chempro"), a wholly-owned subsidiary of Sirocco. These loans have been outstanding since 2013. Chempro is a financing company that was originally created to provide capital to Atacama from Sirocco on a tax efficient basis.

## 4.0 Secured Creditors

### 4.1 Court Ordered Charges

1. Certain of the Court-ordered charges in the Initial Order were continued in the receivership pursuant to the CCAA Discharge and Transition Order made on May 8, 2015 (the "CCAA Discharge Order"). A copy of the CCAA Discharge Order is filed as an exhibit to the Application for approval of an Asset Purchase Agreement and issuance of a Vesting Order (the "Receiver's Application") filed with the Court in conjunction with this Report.

<sup>5</sup> The mine closure costs relate to reclamation and remediation costs that are expected to be incurred near the end of the mine life, which is estimated to be in 2028. The obligation is amortized over the life of the mine.



2. A summary of these charges and the status of each is as follows<sup>6</sup>:
- a. Administration Charge (\$1 million): The CCAA Discharge Order continued the Administration Charge in an amount equal to retainers then held by the Company's counsel (Blake Cassels & Graydon LLP), the Monitor (KPMG) and the Monitor's counsel (Stikeman Elliott LLP). Any amounts owing to these firms have since been paid from the retainers and each firm has paid the remaining retainer to the Receiver. It is the Receiver's understanding that there are no professional fees outstanding under the Administration Charge.
  - b. Interim Lender Charge (\$22 million): Hale was the DIP Lender in the Company's CCAA proceedings and advanced US\$13 million to the Company, which was secured by the Interim Lender Charge. Amounts owing to Hale have continued to accrue during the receivership. Hale is presently owed approximately US\$16 million, with interest and costs continuing to accrue.
  - c. Directors' Charge (\$1.5 million): The CCAA Discharge Order provided a mechanism to protect Directors in the event that the Company failed to pay accrued wages, vacation pay and other priming obligations for which a director may be liable, such as HST and other sales taxes. All such obligations have been paid in accordance with the CCAA Discharge Order. The Company is in a refund position in respect of HST and provincial sales taxes. As contemplated by paragraph 14 of the CCAA Discharge Order, the Receiver filed a certificate with this Court, attached as Appendix "C", certifying that, to the best of the Receiver's knowledge, all of the Post-Petition Payables and the QLI Vacation Pay (as those terms are defined in the CCAA Discharge Order) have been paid. Accordingly, the Receiver is not aware of any claims against the Directors that would be subject to the Directors' Charge.
  - d. KERP Charge (\$760,000): The beneficiaries of the KERP Charge were paid in full during the CCAA proceedings with the exception of 50% of the retention bonuses payable to three senior members of management. These employees are owed a total of \$232,500, subject to the repayment in full of the Company's indebtedness owing to Hale under the DIP facility. Subject to payment of that amount (following repayment in full of the Hale debt), the Receiver is seeking to discharge these charges as any amounts owing thereunder have been, or will have been, paid in full.
3. The November 13<sup>th</sup> Order (as defined below) provided that the payment of all of Rothschild's fees in respect of a transaction or upon the closing of a transaction would, subject to certain exceptions indicated in the November 13<sup>th</sup> Order, rank in priority to the payment of any secured creditor but subordinate to the Administration Charge and the Interim Lender Charge. There is no amount payable to Rothschild in connection with the proposed Transaction.

## 4.2 Hale

1. Hale is presently owed approximately US\$16 million under the DIP facility, including interest and costs which continue to accrue.

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<sup>6</sup> The maximum amount of each charge is provided in parenthesis.



#### **4.3 Investissement Quebec**

1. At the commencement of these proceedings, Bank of Nova Scotia (“BNS”), the Administrative Agent and Lead Arranger on behalf of a lending syndicate comprised of BNS, Caterpillar Financial Services Limited and The Commonwealth Bank of Australia (collectively, the “Senior Lenders”), was owed approximately \$72 million under a senior credit facility dated April 4, 2012, as amended, among RB, QLI and the Senior Lenders (the “Senior Credit Facility”).
2. Pursuant to a Contract of Suretyship dated February 23, 2012 (the “IQ Guarantee”), IQ guaranteed 80% of the net losses incurred by the Senior Lenders on the Senior Credit Facility, up to \$60 million.
3. On May 21, 2015, the Agent called the IQ Guarantee. In June, 2015, IQ acquired the obligations to the Senior Lenders pursuant to a Release and Subrogation Agreement and a Debt and Security Assignment Agreement and IQ subrogated to the rights of the Senior Lenders in respect of their rights, title and interest in the Senior Credit Facility.
4. IQ also advanced \$3 million to QLI on a secured basis in September, 2014.
5. At the request of the Receiver, Osler provided the Receiver with an opinion on the validity and enforceability of the Senior Credit Facility acquired by IQ. The opinion provides that, subject to customary assumptions and qualifications contained therein, the security granted under the Senior Credit Facility is valid and enforceable against QLI’s assets as described in the security documents.

#### **4.4 Construction Hypothec Claims**

1. 16 construction legal hypothecs have been registered against QLI’s property at the Lithium Project (collectively, the “Construction Hypothec Claims”). The estimated amount of these claims is approximately \$5.8 million.
2. The Construction Hypothec Claims have not been reviewed or adjudicated. Nothing in the request made by the Receiver to the Court in this motion is seeking to affect the rights, priorities or entitlements of these claimants, which are set out in the schedule of “Permitted Liens” attached to the draft Vesting Order.
3. Accordingly, the rights of the holders of Construction Hypothec Claims will not be affected by the granting of the Order sought.

#### **4.5 Tianjin Products and Energy Resources Development Co. Ltd.**

1. In August, 2013 and August, 2014, Tianjin Products and Energy Resources Development Co. Ltd. (“Tewoo”) made two advances of US\$5 million to QLI. These obligations are guaranteed by Sirocco and secured by a pledge of Sirocco’s shares of Boron Chemicals Holdings Ltd. (“Boron”). Sirocco, through its interest in Boron, is the indirect shareholder of Atacama.
2. Tewoo is presently owed US\$10 million plus interest and costs, which continue to accrue.

3. The Receiver has had a dialogue with Tewoo and its legal counsel throughout these proceedings. Nothing in this motion is seeking to affect the rights, priorities or entitlements of Tewoo.

#### **4.6 Other**

1. Various equipment lessors have registered security interests in certain of QLI's leased equipment.

### **5.0 Funding of these Proceedings**

1. There was approximately \$3 million in the Company's bank accounts at the commencement of the receivership. These funds were transferred into receivership accounts and were used to fund these proceedings, including the care and maintenance costs of the Lithium Project. These amounts have been exhausted.
2. On August 6, 2015, IQ, Hale and the Receiver entered into a cost sharing agreement (the "Cost Sharing Agreement"), whereby, among other things, IQ agreed to reimburse 50% of the costs funded from the receivership bank account to maintain the property of QLI. IQ's funding commitment was retroactive to the commencement of the receivership proceedings.
3. As at the date of this Report, IQ has provided funding of approximately \$4.3 million.
4. The Cost Sharing Agreement, *inter alia*, provided both a funding framework and a framework under which Hale and IQ agreed to assess the viability of the Lithium Project, including the costs to bring it into production, with a view to potentially restructuring it. BBA was engaged to perform the assessment, including the estimated start-up costs. The Cost Sharing Agreement required that the Receiver not conduct a sale process for the business and assets of the Company until the assessment could be completed. This information was required to assess the likelihood of completing a transaction, including the amount of capital a buyer would need to both fund a transaction and to fund the cost of bringing the Lithium Project into production.
5. As at the date of this Report, there is approximately \$14.2 million in the receivership bank accounts. These funds were principally generated from investment tax credit ("ITC") refunds received on April 14, 2016 in the amount of approximately \$16.5 million.
6. The Receiver worked closely with QLI's management and Ernst & Young LLP ("E&Y"), QLI's tax advisor, in order to collect the ITC refunds. This included responding to information requests from Revenu Quebec as part of its audit process and corresponding extensively with Revenu Quebec in respect thereof. In April, 2016, Revenu Quebec paid in full QLI's \$16.5 million of ITC claims for 2012 and 2013. There is one outstanding ITC claim for 2014 in the amount of approximately \$3.6 million.

## 6.0 SISP<sup>7</sup>

1. On November 13, 2014, the Court made an Order which, *inter alia*, approved the SISP and authorized the engagement of Rothschild by the Company as the sales advisor (the “November 13<sup>th</sup> Order”). Copies of the November 13<sup>th</sup> Order and the SISP are filed as exhibits to the Receiver’s Application.
2. The SISP defined the “SISP Team” as the Company, Rothschild and KPMG, in its capacity as CCAA Monitor.
3. Rothschild is one of the world’s largest independent financial advisory groups, employing approximately 2,800 people in 40 countries. Rothschild provides strategic, M&A, wealth management and fundraising advice and services to governments, companies and individuals worldwide. Rothschild is known for its investment banking experience, including in the mining sector.
4. An overview of the SISP undertaken by Rothschild is as follows:
  - a) The SISP commenced in November, 2014.
  - b) The SISP considered offers for all of the Company’s property, assets and undertaking on an en bloc or piece meal basis.
  - c) Rothschild’s prospective buyer list included parties that may be interested in the Lithium Project and/or the Aguas Blancas Project on both a sale or investment basis. In this regard, the SISP provided that “*the Petitioners will conduct a SISP whereby prospective purchasers and investors will have the opportunity to submit a bid **for some or all of the Sale Assets** (a “Purchase Bid”) or make an investment in the Petitioners’ business or any part thereof (an “Investment Bid”).*” **[Emphasis added.]**
  - d) Rothschild approached 245 parties, which it categorized as follows:

Description	No. of Parties
Industry players	28
Specialty chemicals/metals companies	24
Mining focused specialist investment vehicles	23
Private equity institutions with mining interest	21
Existing partners	2
Japanese/Korean trading houses	13
Chinese players	25
Potential debt capital partners	50
CCAA plan sponsors	59
Total	245

<sup>7</sup> Defined terms in this section of the Report have the meanings provided to them in the SISP.

- e) Rothschild's buyer list is attached as Confidential Appendix "1". The Receiver is proposing to file this list on a confidential basis in order to preserve the confidentiality of the materials used by Rothschild in its mandate as the Court-appointed Sales Advisor.
- f) Rothschild prepared an investment profile summarizing the opportunity, which was distributed to its buyer list.
- g) Interested parties were required to execute a confidentiality agreement ("CA"), following which they were provided access to an online data room and a copy of a confidential information memorandum ("CIM").
- h) Interested parties were provided with the opportunity to attend at the Company's mine sites in Quebec and Chile and to meet with the Company's executives.
- i) The deadline for interested parties to submit a non-binding letter of intent ("LOI") was January 23, 2015.
- j) The SISP established criteria for an LOI to be considered a Qualified Bid. Prospective bidders were to be advised on or before January 31, 2015 whether their LOI was a Qualified Bid.
- k) Qualified Bidders were to be provided with a form of asset purchase agreement in which parties would be required to submit either a binding Purchase Bid or Investment Bid. The deadline to submit binding offers was March 27, 2015.
- l) The SISP provided that the SISP Team would review and evaluate the Qualified Offers and determine the Successful Bid. If the Company determined that there were no Qualified Offers, the Company was to file a motion with the Court with respect to the continuation, modification or termination of the SISP.
- m) The SISP contemplated a target closing date of April 15, 2015.

## 6.1 Results of the SISP

1. The results of the SISP are summarized as follows:
  - a) 24 parties executed a CA and performed diligence;
  - b) Seven parties submitted non-binding LOIs - two were for the Lithium Project, three were for the Aguas Blancas Project and two were for both projects;
  - c) Each LOI was highly conditional and for a value substantially less than the amounts owing by the Company under the Senior Credit Facility;
  - d) The offers for Atacama ascribed either a value below the level of Atacama's debt (i.e. according to the formula provided in this LOI, value was to be paid to the buyer) or nominal value;

- e) Rothschild prepared a summary of the LOIs which is attached as Confidential Appendix “2”. The Receiver is requesting that this summary remain confidential, in order to preserve the identity of the bidders and the terms of their offers; and
  - f) No Binding Offers or Qualified Offers were submitted.
2. Immediately following the offer deadline of March 27, 2015, the Company engaged in what was called the “Amended Sales Process”. In consultation with Hale and BNS, Rothschild was requested to re-engage with parties that expressed an interest in this opportunity, including the parties that submitted LOIs, with the objective of receiving binding offers by April 14, 2015.
  3. In its fifth report to Court dated April 16, 2015 (the “Fifth Report”), the Monitor reported that *“No Binding Offers were submitted by April 14, 2015 and the Monitor is informed that there are no indications that any Binding Offers will be submitted in the near term. As no Qualified Offers have been received as a result of the SISP and the Amended Sales Process and there is no reason to believe that any Binding Offers are forthcoming, the Petitioners are seeking approval from this Honourable Court to terminate the SISP”*.
  4. In its Fifth Report, the Monitor reported that Rothschild attributed the lack of Qualified Offers to a number of factors, including:
    - a) *Market conditions including commodity prices and the mining investment climate;*
    - b) *The time period over which parties were permitted to perform due diligence;*
    - c) *The circumstances of the particular bidders including the inability of certain bidders to obtain acquisition financing; and*
    - d) *The complexity of the assets, particularly restart risks and costs for the Lithium Project.*

## **6.2 Termination of the SISP**

1. On April 15, 2015, the Company delivered a notice to Rothschild terminating Rothschild’s mandate, a copy which is attached as Appendix “D”. Rothschild’s termination became effective on April 30, 2015.
2. On April 17, 2015, the Court issued an order formally terminating the SISP.

## **6.3 Monitor’s Overview of the SISP**

1. On May 18, 2016, KPMG provided the Receiver with a document summarizing the SISP. A copy of KPMG’s summary is attached as Appendix “E”.
2. The Receiver requested that KPMG prepare its document to assist the Court to consider the sale approval motion, including the attributes of the SISP and its outcome.

3. KPMG's document summarizes the SISP and its results and concludes: *"As set out above, management of the Petitioners and the Sales Advisor, under the supervision of the Monitor, conducted a robust sales process for all of the Petitioners assets. A wide galaxy of potential purchasers was contacted. Extensive due diligence was conducted by numerous parties in a process that commenced in mid-November 2014 and was carried out to the end of March 2015. Unfortunately no meaningful binding offers were received for any of the Petitioners assets, and offers that were received were of nominal value."*

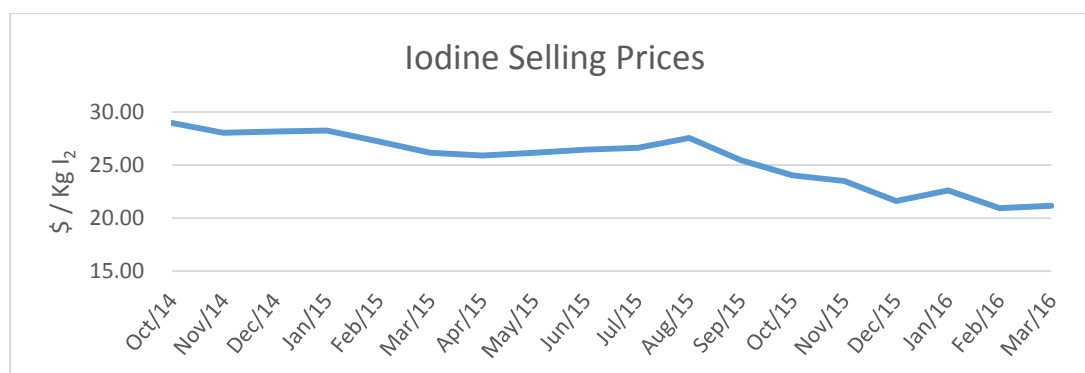
## 6.4 Sealing

1. The Receiver recommends that the LOI summary, the buyer list and the APA be filed with the Court on a confidential basis and remain sealed until further Court Order in order to preserve the confidentiality of these documents and to consider the risk that the availability of this information may negatively impact any future offers if the Transaction does not close for any reason. The Receiver does not believe that any stakeholder will be prejudiced if the information is sealed at this time.

## 7.0 Receivership Sale Efforts

1. The Receiver has worked closely with Hale and IQ throughout these proceedings. The initial focus during the receivership was to secure funding for continuing the care and maintenance costs at the Lithium Project, which was ultimately provided through the Cost Sharing Agreement.
2. Because the SISP did not generate any viable offers, Hale and IQ were not prepared to fund the costs of the Receiver to carry out another SISP immediately following the one carried out in the CCAA proceedings, particularly in light of its expected duration and cost. Market conditions in the mining sector did not warrant another similar effort at that time. Accordingly, based on input from Hale and IQ, the initial focus in the receivership was to assess the viability of the Lithium Project (the BBA report was commissioned for this purpose) and to provide funding for the care and maintenance of QLI's assets, including for environmental issues.
3. Over the course of these proceedings, a large number of parties contacted the Receiver to express an interest in acquiring the Lithium Project. The Receiver either engaged in discussions with these parties or directed them to Hale and IQ. Based on the Receiver's discussions and feedback from Hale and IQ, it was evident to the Receiver that an eventual purchaser would have to negotiate the settlement of the secured amounts owing to IQ. In fact, until late 2015, it was not clear that Hale would fully recover the amounts it advanced to the Company under the DIP facility.
4. Commencing in December, 2015, there was a significant increase in the level of interest in the Lithium Project, largely due to an increase in the price of lithium and forecasted global demand. The price of 99%-pure lithium carbonate imported to China more than doubled by the end of December 2015, to \$13,000 per tonne. According to industry publications, battery applications are expected to be the growth driver for lithium for the foreseeable future. It is anticipated that electric vehicle developments will lead this growth, underpinned by consumption of portable electronics, like smartphones, tablets and power tools.

5. Notwithstanding the increased interest in the Lithium Project, it remains the case that all indications of interest to date require a negotiation with IQ on the settlement of its secured debt or were conditional on financing and/or diligence. Given the complexities of the Lithium Project, a significant period of time would be required to address diligence related to conditions and/or financing.
6. In December, 2015, IQ and Hale advised that they would be prepared to support a transaction with the Purchaser, subject to the Court's approval. The Transaction is discussed in further detail in Section 8.0 below.
7. On the other hand, the iodine markets have continued to decline. The chart below reflects the decrease in Atacama's average monthly selling price of iodine from the commencement of the SISP in October, 2014 through March, 2016.



8. Because the Receiver did not conduct a sale process, the Receiver has had extensive discussions with both Hale and IQ on their respective dealings with prospective purchasers during the receivership, as more fully appears from paragraphs 86 to 104 of the Receiver's Application.
9. The Receiver understands that all proposals submitted to IQ were highly conditional, including on diligence and financing. Many of the interested parties had little or no financial backing and lack the operational expertise to bring the Lithium Project into production.
10. The Receiver is not aware of any unconditional proposals that contemplated a full repayment of amounts owing to IQ or to unsecured creditors.
11. IQ has performed diligence on the parties that contacted it in respect of their operational experience and financial capability to bring the mine into production. IQ had specified criteria to be met by these interested parties and no party other than the Purchaser satisfied IQ's criteria. The Purchaser has the financial capacity to bring the mine into production. IQ believes that the Transaction will improve economic prosperity in the Val D'or, Quebec region, which has suffered due to the downturn in the mining sector.
12. The Purchaser is the only party that has received internal IQ approval. The Transaction was formally approved through a Decree of the Government of Quebec issued on May 25, 2016, permitting IQ to give its formal and final consent. The APA was finalized shortly thereafter.



## 8.0 Transaction<sup>8</sup>

1. A summary of the Transaction is as follows:

- a) **Purchaser:** The Purchaser is a subsidiary of Jien incorporated for the purpose of acquiring the Company's business and assets. Jien's ultimate parent is Jilin Jien Nickel Industry Co., Ltd., a listed company in the A-Share Market<sup>9</sup> of the Shanghai Stock Exchange. The main scope of business of Jien is investment, development, production and sales of mineral resources. Jien presently carries on mining operations in Canada under Canadian Royalties Inc., which operates the Nunavik Nickel project in the far north of Quebec, and Liberty Mines Inc., which operates a nickel mine in Timmins, Ontario. Jien has an existing business relationship with IQ in relation to the operation of the Nunavik Nickel project.
- b) **Purchased Assets:** Substantially all of the assets of QLI, including the assets used in the Lithium Project and tax refunds.
- c) **Purchase Price:** The purchase price is comprised of:
  - Cash consideration sufficient to repay Hale's DIP loan in full, including interest, fees and costs accrued through to the closing date;
  - Assumed liabilities, the largest component of which is the assumption of a portion (but not all) of QLI's secured indebtedness owing to IQ. There are other unquantified obligations being assumed by the Purchaser, including liabilities related to the Remediation Plan, Cure Costs and obligations related to the Transferred Employees; and
  - Vendor Payment, which represents the costs and expenses owed to the Receiver at closing, including professional fees incurred by the Receiver and its legal counsel.
- d) **Permitted Liens:** The Construction Hypothec Claims of up to \$5.8 million.
- e) **Deposit:** \$2 million, which has been funded by the Purchaser and has been deposited in the Receiver's trust account.
- f) **Excluded Assets:** Cash on deposit in the receivership bank accounts (which will be used by the Receiver to complete the payments and distributions contemplated herein) and QLI's corporate records.
- g) **Employees:** The Receiver understands that the Purchaser intends to offer employment to all 14 individuals presently employed by QLI<sup>10</sup>.

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<sup>8</sup> Defined terms in this section of the Report have the meanings provided to them in the APA.

<sup>9</sup> The A-Share Market is comprised of mainland China-based companies that trade on Chinese stock exchanges such as the Shanghai Stock Exchange. A-shares are generally only available for purchase by mainland citizens.

<sup>10</sup> It is anticipated that the number of employees will increase significantly.



- h) **Critical Contract:** The APA provides for the assignment of a *Mining Claim Transfer and Easement Agreement* dated as of February 1, 2010, as amended (the “Schyan Agreement”) between Canada Lithium Corporation (“CLC”)<sup>11</sup> and Schyan Exploration Inc./Exploration Schyan Inc. (“Schyan”). Under the Schyan Agreement, Schyan transferred to CLC certain mining claims (the “Schyan Claims”). In consideration of the transfer, CLC agreed to transfer to Schyan all of its rights in and to any non-lithium minerals comprised within the Schyan Claims, and also granted access rights to Schyan in order to develop and mine the non-lithium materials comprised within the Schyan Claims. Schyan granted to CLC a right of first refusal in the event Schyan wishes to assign, sell or dispose of, or has received an offer which it is willing to accept for the assignment, sale or disposition of all or part of its interest in the non-lithium minerals comprised within the Schyan Claims.

The Schyan Agreement was amended pursuant to an Amendment to Mining Claim Transfer and Easement Agreement registered at the Mining Register on September 24, 2010, thereby transferring the Schyan Claims from CLC to QLI. There are no monetary defaults of RB or QLI under the Schyan Agreement and, accordingly, the Receiver believes the proposed assignment is appropriate.

- i) **QLI Option:** For 150 days following the closing of the Transaction, the Purchaser has the option to subscribe for shares representing all of the shares of QLI for an exercise price to be determined by the Purchaser and the Receiver, acting reasonably. The Receiver understands that the Purchaser is considering exercising the QLI Option in order to take advantage of the tax attributes, if any, of QLI. To effect this, the Purchaser may be required to restructure QLI pursuant to restructuring legislation.
- j) **Aguas Blancas Option:** The APA also provides the Purchaser with an option for 180 days following the closing of the Transaction to acquire RB’s shares of Sirocco for an exercise price of \$10,000. The share transfer would be subject to Sirocco’s share pledge in favour of Tewoo which secures Sirocco’s guarantee of QLI’s US\$10 million debt owing to Tewoo.

If the Purchaser does not exercise the Aguas Blancas Option, the Purchaser is being granted a 12 month right of first refusal to acquire the Sirocco Shares in the event that a subsequent offer is received for these shares.

- k) **Representation and Warranties:** Consistent with the terms of a standard insolvency transaction, i.e., on an “as is, where is” basis, with limited representations and warranties.
- l) **Closing:** Two business days following the satisfaction of all conditions precedent, or such other date as may be agreed to in writing by the Receiver and the Purchaser. The Outside Date is August 15, 2016.

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<sup>11</sup> CLC is a predecessor company of RB.

- m) **Material Conditions:** The material conditions precedent to closing are:
- between the execution of the APA and closing, there shall not have occurred a Material Adverse Effect. The Receiver is not aware of any Material Adverse Effect as at the date of this Report;
  - obtaining the consent or an assignment order to assign to the Purchaser the Critical Contract set out in the APA, being the Schyan Agreement;
  - obtaining regulatory approvals pursuant to the Competition Act and the Investment Canada Act (the “ICA”). In this regard:
    - The Purchaser has submitted an application for an advanced ruling certificate to be issued by the Commissioner of Competition. The Receiver understands that the Purchaser anticipates receiving the requested certificate and/or appropriate clearance in the short term; and
    - In April, 2016, the Purchaser filed a notice under Part III of the ICA. Should a notice under either subsection 25.2(1) or 25.3(2) of the ICA not be received, this condition will have been satisfied. If such a notice is received, the Purchaser will need to provide additional information under the ICA in order to seek: (i) a notice indicating that no order for the review of the Transaction will be made; (ii) a notice indicating that no further action will be taken; or (iii) an order confirming that the Governor in Council authorizes the Transaction;
  - the Court shall have issued a Sale Approval and Vesting Order.
2. **Transition Services Agreement:** The APA requires that the Receiver and the Purchaser enter into a Transition Services Agreement (“TSA”) substantially in the form attached as a schedule to the APA. The purpose of the TSA is for the Receiver to maintain in good standing certain permits and other contracts or agreements until they can be transferred to the Purchaser in accordance with the APA. As part of the TSA, the Purchaser has agreed to fund, in advance, any costs incurred by the Receiver, including professional fees of the Receiver and its legal counsel. The Purchaser has also indemnified the Receiver for any duties performed under the TSA.
3. A copy of the APA is filed under seal as an exhibit to the Receiver’s Application.

## 8.1 Recommendation

1. The Receiver believes the Transaction is appropriate in the circumstances for the following reasons:
  - a) In the Receiver’s view, the SISP was commercially reasonable, including timelines, breadth of the SISP Team’s canvassing of the market, information made available to interested parties, including information in the data room, the CIM and the availability of management for meetings and site visits. The SISP Team canvassed the market for sale or investment bids for all or portions of the Company’s business and assets;

- b) Rothschild is a leading investment banker with a global reputation. It has significant expertise in the mining sector. Notwithstanding its expertise, the SISP did not result in any offers to purchase nor did it identify any viable investment opportunities for the Company;
- c) Hale and IQ had discussions with numerous parties over the course of the receivership proceedings to identify purchasers and/or partners for the Lithium Project. The Receiver understands that each proposal made to IQ was conditional and/or contemplated a significant compromise of IQ's secured debt. The Purchaser is acceptable to IQ based on its operational and technical expertise and on its financial strength;
- d) The Transaction contemplates a full repayment to Hale and a substantial shortfall to IQ. Both Hale and IQ have consented to the Transaction;
- e) The Receiver does not believe that further time spent marketing the Company's business and assets will result in a transaction acceptable to IQ;
- f) Hale has advised that it would not support the use of the cash in the receivership bank account to fund the Lithium Project's care and maintenance expenses and/or a further sale process. These costs total approximately \$450,000 per month before professional fees and capital expenditures;
- g) The Receiver understands that the Purchaser's objective is to provide the necessary capital (estimated to range between \$150 million to \$200 million) to bring the Lithium Project into production. As a result, the Transaction contemplates the continued employment of QLI's 14 existing employees. The Receiver understands that the Lithium Project has the potential to create long term employment for over 230 employees in La Corne, Quebec, which is economically depressed;
- h) The Transaction does not prejudice the Construction Hypothec Claims as these claims are unaffected by the Vesting Order;
- i) There is urgency to complete a transaction, particularly given the ongoing environmental issues described in this Report, including significant capital expenditures as described in Section 2, Paragraph 15 above, and a lack of funding for a further SISP;
- j) In respect of the option on the shares of Sirocco, the SISP did not identify any credible offers for the Aguas Blancas Project. The value of the LOIs submitted were negligible and, in one case, negative. Since that time, the iodine markets and Atacama's financial results have deteriorated further. For there to be value in the Sirocco shares, a transaction for Atacama would need to generate in excess of US\$40 million, being the sum of Atacama's third party obligations (approximately US\$31 million) and Sirocco's guarantee of QLI's US\$10 million indebtedness owing to Tewoo;

- k) The Transaction does not prejudice Tewoo as its secured claim under Sirocco's guarantee is preserved in the event the Purchaser exercises its option to acquire the shares of Sirocco; and
  - l) The Transaction preserves an opportunity for a proposal to be filed by the Purchaser, which may result in recoveries for QLI's unsecured creditors.
2. Based on the foregoing, the Receiver recommends that this Honourable Court approve the Transaction.

## **9.0 Proposed Repayment of Hale Debt**

1. The APA contemplates that a portion of the purchase price is to be paid directly to Hale in satisfaction of the funding advanced by it and secured by the Interim Lender Charge. The Interim Lender Charge was created under the Initial Order and continued in the Receivership Order, subject only to the Receiver's Charge in the amount of \$500,000.
2. The Receiver believes it is appropriate for Hale to be repaid in full at the closing of the Transaction. The Receiver is not aware of any other secured creditors or any claim that ranks or may rank in priority to Hale.
3. Based on QLI's books and records, the Receiver is not aware of any deemed trust or priority claims for vacation pay and/or employee source deductions owing to the Federal or Provincial tax authorities relating to the pre-filing and/or post-filing periods.
4. Based on the foregoing, the Receiver recommends that this Honourable Court issue an order authorizing: (i) the portion of the purchase price attributed to Hale's secured debt be paid directly to Hale by the Purchaser on the closing of the Transaction; and (ii) the Receiver to distribute funds to Hale from the cash in the receivership account in order to repay in full the Company's secured indebtedness owing to Hale.

## **10.0 Overview of the Receiver's Activities**

1. Since the commencement of these proceedings, the Receiver's activities have included the following:
  - Corresponding extensively with Hale, IQ and their respective legal counsel in connection with all material matters, including the environmental, funding, tax and transactional issues detailed in this Report;
  - Dealing with funding matters, including dealing with the Cost Sharing Agreement;
  - Submitting funding requests to IQ throughout these proceedings in accordance with the Cost Sharing Agreement;
  - Reviewing cash flow projections and budget-to-actual analyses and reporting to Hale and IQ thereon;

- Corresponding extensively with Osler regarding environmental issues, including issues involving water levels in the tailings and sodium-sulphate ponds at QLI's site and the costs of addressing these issues, QLI's dealings with EC and EQ and monitoring the toxicity levels in the ponds;
- Engaging in a routine dialogue with EC, including attending two meetings at EC's offices and exchanging various correspondence, action plans and reporting on QLI's progress relative to its action plans submitted to EC and EQ;
- Monitoring the status of environmental issues, including corresponding routinely with Osler and QLI's environmental coordinator;
- Reviewing status updates from QLI on various environmental issues and consulting reports commissioned by QLI in order to address certain environmental matters;
- Pursuing investment tax credits, including corresponding regularly with E&Y, QLI's management and legal counsel in respect thereof;
- Dealing with information requests and other enquiries submitted by Revenu Quebec in the context of its audit of QLI's investment tax credit claims;
- Reviewing multiple versions of the APA, TSA and other Transaction documents;
- Corresponding extensively with Hale, IQ and legal counsel in respect of the Transaction and their respective dealings with interested parties throughout these proceedings;
- Drafting this Report and reviewing and commenting on all Transaction and other documents filed in connection with this motion;
- Facilitating multiple diligence requests for the Purchaser and its legal counsel;
- Responding to numerous calls and enquiries from interested parties regarding the status of a sale process for the Company's business and assets and corresponding with Hale and IQ in respect thereof;
- Reviewing correspondence and legal documents filed in connection with litigation involving SGS Canada Inc. in respect of QLI's lab equipment;
- Reviewing correspondence and legal documents in respect of a settlement of Class Action proceedings involving RB;
- Dealing with cash management issues, including reviewing and issuing payments related to the receivership and assisting the Company to administer its payroll;
- Corresponding on a near daily basis with the Company's controller and other employees at the Company;

- Corresponding regularly with representatives of Atacama, including its management, board members and legal counsel, in connection with its operations and refinancing efforts;
- Monitoring Atacama's operating results, including reviewing monthly management reports detailing the status of financial, employee, health and safety and other operational issues;
- Dealing with issues affecting the various subsidiaries of RB;
- Responding to numerous calls and enquiries from creditors, shareholders and other stakeholders; and
- Dealing generally with the administration of these proceedings, including filing the Receiver's statutory interim reports with the Office of the Superintendent of Bankruptcy (Canada).

## 11.0 Conclusion and Recommendation

1. Based on the foregoing, the Receiver respectfully recommends that this Court make an Order granting the relief detailed in Section 1.1 of this Report.

\* \* \*

All of which is respectfully submitted,

*KSV Kofman Inc.*

**KSV KOFMAN INC.,  
IN ITS CAPACITY AS THE COURT-APPOINTED RECEIVER OF  
QUEBEC LITHIUM INC., QLI METAUX INC., RB ENERGY INC. AND  
SIROCCO MINING INC.  
AND NOT IN ITS PERSONAL CAPACITY**

## **Appendix “E”**

RB Energy Inc., Quebec Lithium Inc., Sirocco Mining Inc. and QLI Métaux Inc.

**Consolidated Interim Statement of Receipts and Disbursements**

For the period May 8, 2015 to May 17, 2019

(\$; unaudited)

	<b>CAD</b>	<b>USD</b>
<b><i>Receipts</i></b>		
Tax refunds	17,693,165	-
Intercompany transfers	(14,631,392)	11,406,725
Funding advanced under Cost Sharing Agreement	3,968,195	-
Cash transferred on date of Receivership Order	2,495,375	458,291
Deposit on sale of assets	2,000,000	-
Miscellaneous	408,032	1,409
	<u>11,933,375</u>	<u>11,866,425</u>
<b><i>Disbursements</i></b>		
Repayment to DIP lender	221,812	11,002,773
Operating, environmental and other expenses	3,497,368	423,934
Legal fees and disbursements	1,762,237	300
Receiver's fees	996,980	-
Tax advisory and environmental consulting fees	477,015	28,370
Payroll costs	2,102,978	-
Sales taxes, property taxes and municipal taxes	1,436,279	42,873
Insurance	1,004,695	-
Independent contractors/consulting fees	415,661	368,175
	<u>11,915,024</u>	<u>11,866,425</u>
<b><i>Balance in Receivership Accounts</i></b>	<u>18,351</u>	<u>-</u>